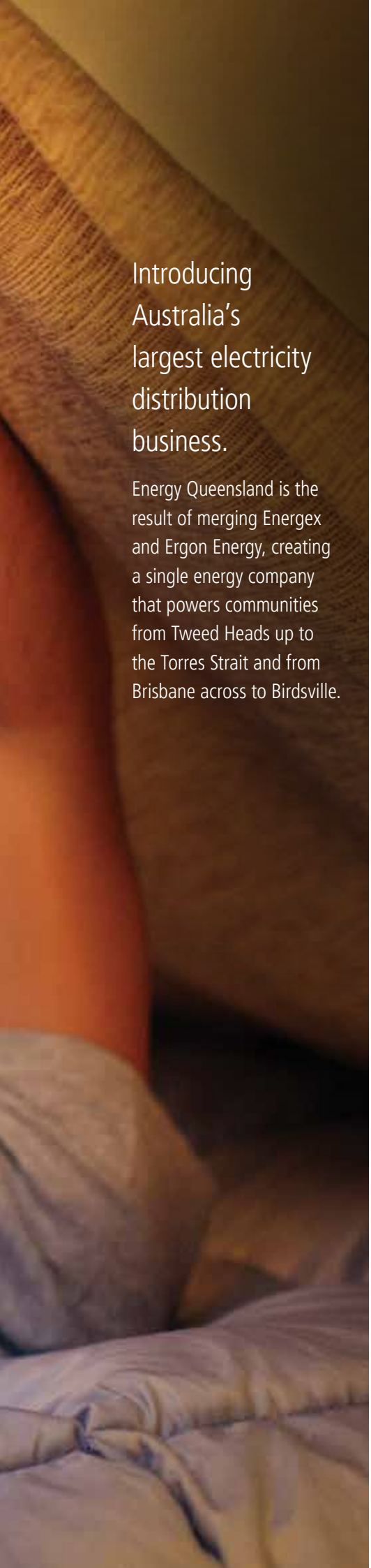





The Energy Queensland Group


Welcome
to Australia's
newest power
company.



Introducing Australia's largest electricity distribution business.

Energy Queensland is the result of merging Energex and Ergon Energy, creating a single energy company that powers communities from Tweed Heads up to the Torres Strait and from Brisbane across to Birdsville.

# Contents

The Energy Queensland Annual Report for the year ended 30 June 2016 consists of the following:




The Energy Queensland Group

ergon.com.au

customerservice@ergon.com.au
13 74 66 (7am to 6:30pm, Monday to Friday)
Telephone interpreter service 13 14 50

Follow us on twitter.com/ergonenergy
Like us on facebook.com/ergonenergy



energyq.com.au

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Townsville QLD 4810
PO Box 1090, Townsville QLD 4810

Energy Queensland Limited
ABN 96 612 535 583



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# Energy Queensland Annual Performance Report **2015/16**

for the year ended 30 June 2016

Further and faster, together

Energy Queensland

# Annual Performance Report 2015/16


Making
Queensland
Brighter.
Together.

# Contents


# About Us

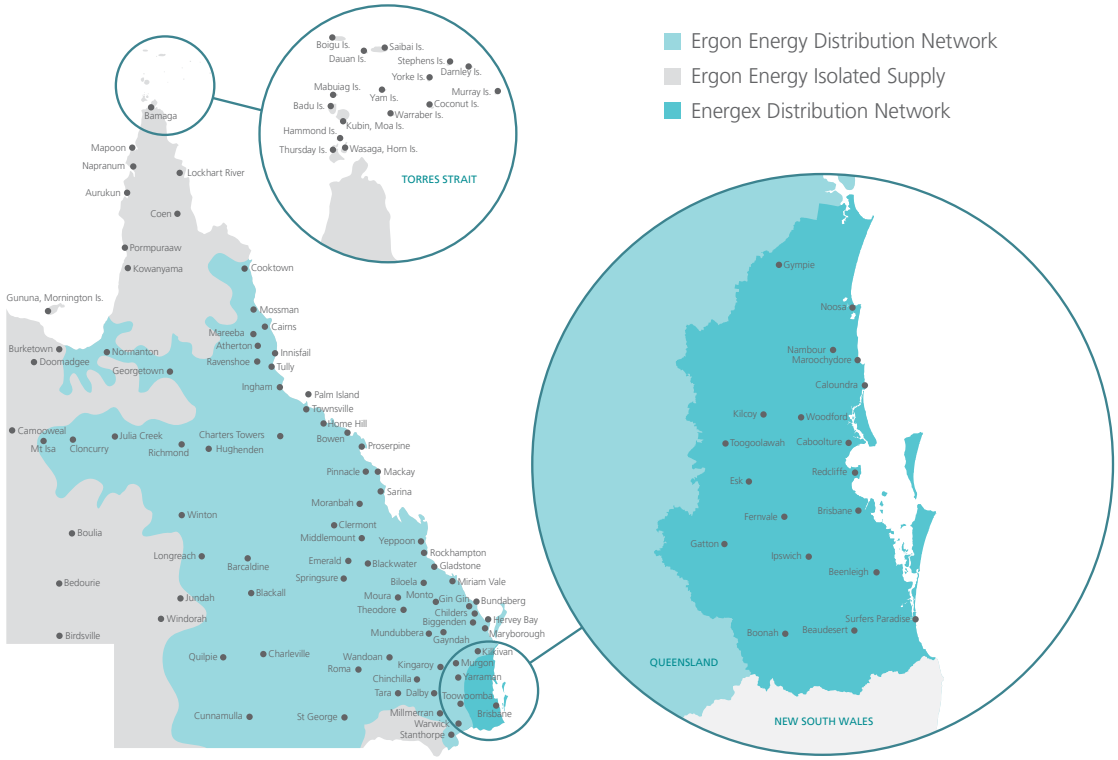
Energy Queensland Limited has been created through the merger of Energex, Ergon Energy and SPARQ Solutions.

Bringing these organisations together is not just about efficiency, but about creating a bright new future for the state's energy system. The driving force behind the merger is to make the electricity sector more efficient and to create an energy business ready for the future.

Energy Queensland creates a single energy company that powers communities from Tweed Heads up to the Torres Strait and from Brisbane across to Birdsville.

Energy Queensland provides an opportunity to deliver better outcomes for customers, employees and all Queenslanders. We will effectively manage Queensland's electricity network and prepare it for the future needs of the energy market.

We are the largest electricity distribution company in Australia, covering the entire state of Queensland with more than $24 billion in assets. Importantly, we will also support the continued growth and development of regional Queensland.



# Our Business

## Energy Queensland has three distinct areas of operation:

### ENERGY SERVICES

The energy services business, established as part of the merger, is key to ensuring that Energy Queensland is able to meet and adapt to changes and developments in the rapidly evolving energy market.

Based in Townsville, and building on Energy Queensland's core strengths, the energy services business will provide a range of products and services to give customers greater control over their energy use and access to new and emerging technologies. The energy services business will build on existing partnerships and establish new partner relationships to deliver products and services to customers.

### NETWORK

We connect and supply electricity to 2.1 million customers across Queensland.

Our network has:

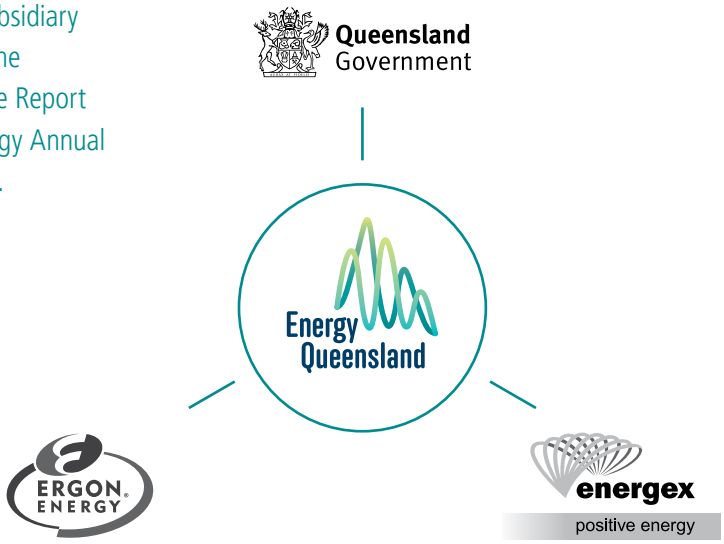
- 33 isolated power stations
- 72 bulk supply points
- 571 zone substations
- 1.7 million km2 geographic area covered
- 205,000 km of electricity network (overhead and underground).

### RETAIL

We sell electricity to more than 700,000 customers in regional Queensland.

## Structure

For further details on our subsidiary companies, please refer to the Energex Annual Performance Report 2015/16 and the Ergon Energy Annual Stakeholder Report 2015/16.



# Key Highlights

## of the Group for the year ending 30 June 2016

**$5.03 billion** in Revenue

**$942 million** in Profit after income tax

**$24.17 billion** in Assets

**$1,480 million** of Capital Works Program delivered prudently and efficiently

**4.8 million** Queenslanders served

**1.7 million km²** Geographic area covered

**37,308GWh** Energy delivered (Network)

**6,996MW** Peak demand*

**189,000km** Overhead lines

**26,000km** Underground cables

**1.7 million** Power poles

**148,000** Distribution transformers

**7,730GWh** Energy delivered (Retail)

**700,000** Retail customers

**2.1 million** Customer connections

**3** Customer Solution Centres (CSC)

**1.68 million** CSC calls

**91%** CSC customer satisfaction

**7,400** Employees

*Network peak demand occurs on days of extreme temperatures, hot and cold. We build our network to address network peak demand.

# Our Vision and Purpose

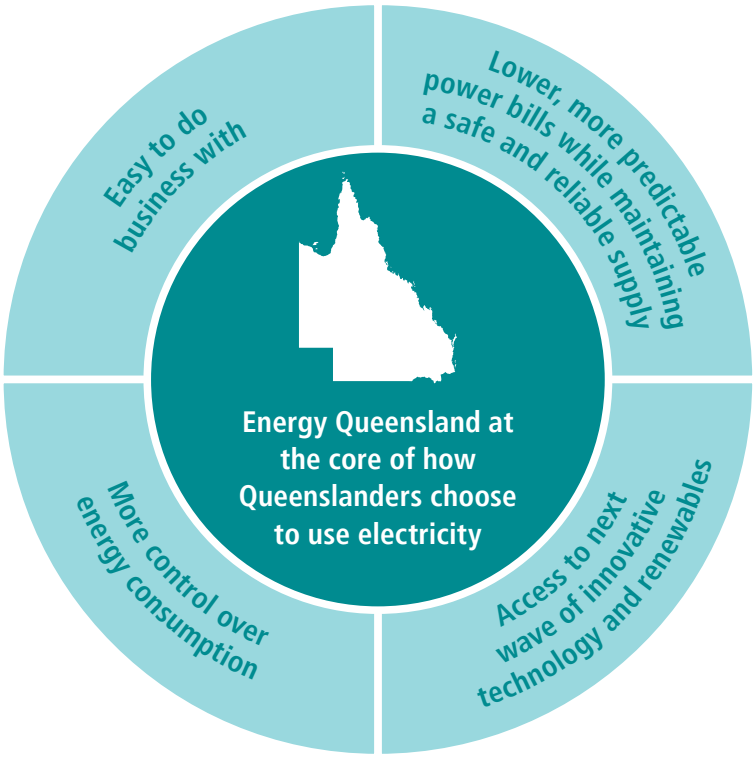
## Energy Queensland's Vision is to remain 'at the core of how Queenslanders choose to use electricity'.

In a rapidly changing technology and market environment, to be 'at the core' means that Energy Queensland's existing assets and relationships remain relevant and critical to the electricity consumption of customers across Queensland.

Increasingly, customers' have choice in the way they have electricity services delivered. New energy technologies in batteries, renewables, and energy management systems introduce customer choice and control over energy consumption that was previously not possible.

Energy Queensland must respond to customers' changing energy needs by providing products and services that customers value so that they continue to actively 'choose' Energy Queensland as part of their energy future. To enable this vision, Energy Queensland's purpose is 'to provide customers the electricity services they value the most'.

Delivering on the vision and purpose will require significant evolution in Energy Queensland's business models. This change is critical to create a flexible and responsive 'intelligent grid' that delivers the future needs of customers. Critical enablers include: the introduction of Energy Services businesses; an organisational culture change program; an increased focus on customer-centricity; and improved business processes that deliver optimisation in the use of assets and efficiency of operations.



# Chairman Review

One of the key drivers for Energy Queensland is customers – we know customers want stable electricity prices, more choice and control over how they have their electricity services delivered, and greater access to new energy technologies and systems as they become available.

Energy Queensland will help deliver these needs and build the network of the future as part of its vision to be at the core of how Queenslanders choose to use electricity.

We will bring this vision to life through the evolution of current capabilities to match future needs, delivering network efficiencies, improving price outcomes and providing products and services that customers value.

The creation of Energy Queensland through the merger of Ergon Energy, Energex and SPARQ Solutions was only possible through the work of the businesses to get us to where we are today.

The Chairs and Boards, the Chief Executives and their leadership teams have all played a critical role in delivering improvements to customer service capability, securing a sustainable cost base and looking at ways of harnessing renewable technology to drive a new wave of economic prosperity for the state. Energy Queensland will continue to strive to achieve the greatest efficiencies possible while delivering high levels of safety and reliability.

Energy Queensland is a company like no other. It covers the entire state, providing safe and reliable electricity supply through 2.1 million customer connections, serving a population base of 4.8 million Queenslanders – from homes and small businesses to the large industries that underpin the Queensland economy. Its scale and scope is immense – not only in the breadth of country that it covers, but in the diversity of skills of its employees, and its potential to help shape the rapidly changing electricity industry in Queensland.

By working alongside our communities, we will ensure we continue to support the growth and development of regional Queensland.

In late 2015, the Queensland Government announced the merger to create a new business that would work to build a strong energy platform for Queensland. The first day of the new business on 30 June 2016 saw the start of delivery towards the five main objectives for the merger:

- Achieving sustainable price outcomes for consumers,
- Providing long term, sustainable returns to Government,
- Positioning the merged business for growth and adaption to changes in the electricity supply sector,
- Supporting local communities in Queensland, and
- Driving cultural change to re-position the merged company as a customer-oriented, efficient business.

A core value that will drive our delivery of these objectives, and the number one value of each of the businesses, is safety. Energy Queensland is committed to creating a positive safety culture for our people and our community, where health and safety is integrated into everything we do. We want to stand with the best when it comes to safety performance in Australia, but acknowledge that the safety journey is a continuous one – it's critical in times of change that we continue to understand and manage risk, and strive for continual improvement.

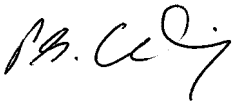
The change we're embarking upon through the merger is not a small undertaking, and will take a number of years to deliver. It will involve working in collaboration with employees and the communities where we live and work throughout the state, to make the journey together. The early years of the transition will focus on driving the customer focussed culture, creating the new organisation structures, capturing early wins in value and efficiency.

The middle period will shift in focus from structural change to embedding best practice through process change and operational improvements. By the end of the five year period, Energy Queensland will be striving to be at the frontier of performance and will offer pricing and choices to customers that meet their needs. We will be heading towards having an intelligent grid to support the increasingly decentralised network and we will pursue global standards of efficiency and effectiveness across operations and support functions.

Energy Queensland will maintain its strong regional presence, with its head office located in Townsville. Frontline staff in both Ergon Energy and Energex will continue to deliver essential network services in their respective regions and unrivalled emergency response.

The existing members of the Boards of Ergon Energy and Energex will continue for an interim period, enabling the Energy Queensland Board to leverage their knowledge of the businesses, and allow a smooth transition to the group-focused governance model.

The creation of Energy Queensland represents a big step forward for the state and I am excited about being part of the journey to build a new energy future for Queenslanders.



**Phil Garling**
Chairman

# Corporate Governance

The merger of Energex Limited and Ergon Energy Corporation Limited with a new parent company was announced by the government on 15 December 2015.

The *Electricity and other Legislation Act 2016*, was passed in June 2016 by the Queensland Parliament to facilitate the merger. Energy Queensland Limited was established as a public company in May 2016 and was declared a Government Owned Corporation under the *Government Owned Corporations Act 1993* effective 30 June 2016 (pursuant to the *Government Owned Corporations (Energy Consolidation) Regulation 2016).*

The *Government Owned Corporations (Energy Consolidation) Regulation 2016* also revoked the status of Ergon Energy Corporation Limited and Energex Limited as government owned corporations and transferred the shares in Ergon and Energex from its shareholding Ministers to Energy Queensland Limited effective on 30 June 2016.

## THE GROUP

It is intended that the companies of which Energy Queensland Limited is the parent company (the Energy Queensland Group) will operate as a consolidated group for accounting and tax purposes. To facilitate this and enable consolidated financial statements, the Energy Queensland Group has fulfilled the requirements of the ASIC Class Order 98/1418 (made pursuant to s341 (1) of the *Corporations Act 2001).*

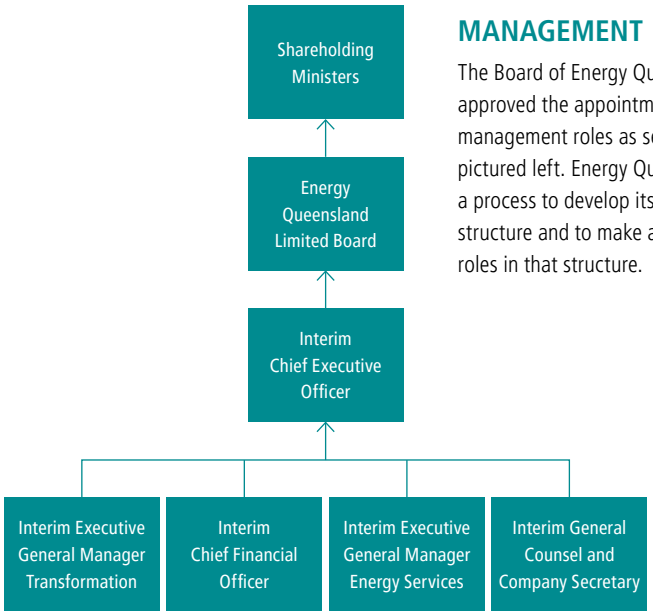
This includes the entry into a deed of cross guarantee by the companies in the Energy Queensland Group that are categorised as large proprietary companies under the *Corporations Act 2001,* except for Ergon Energy Queensland Pty Ltd. Ergon Energy Queensland Pty Ltd has not entered into the Deed because, as the holder of an Australian Financial Services Licence, it is not permitted under the ASIC Class Relief to be a party to the Deed.Further tax and indirect tax sharing and funding agreements have been entered into between the members of the Energy Queensland Group. It is intended that EQL will, over time, provide the corporate management services for all members of the group.

## DIRECTORS

The Governor-in Council appointed three directors effective from 30 June 2016, being Philip Garling as Chairman, and Clive Skarott and Kerryn Newton as directors. Further details about the directors are provided on page 7. The remuneration for the Board is determined by Cabinet. It is envisaged that further directors will be appointed within the first quarter of the 2017 financial year. It is intended that the governance arrangements for the Energy Queensland Group will be reviewed to consider the appropriate composition of boards upon these appointments. Given that there are only three directors, no committees of the Board have yet been established. It is intended that board committees will be established as soon as possible following the appointment of further directors to assist the Board.

## MANAGEMENT

The Board of Energy Queensland Limited has approved the appointment of the interim management roles as set out in the chart pictured left. Energy Queensland is undertaking a process to develop its management structure and to make appointment to the roles in that structure.




## CHARTER

The Board has approved a charter to guide its operations, a copy of which is available on the website of Energy Queensland Limited www.energyq.com.au/__data/assets/pdf_file/0009/351792/Energy-Queensland-Limited-Board-Charter.pdf

The primary role of the Board is to provide effective governance, oversight and strategic direction over the affairs of Energy Queensland Limited as well as those of its subsidiaries, to ensure the interests of the shareholding Ministers are protected whilst having regard for the interests of all stakeholders including customers, employees, suppliers and the community.

The Board sets the framework for the group's long term success, providing oversight and strategic direction to management. The Board carries out its duties in accordance with:

a) the Energy Queensland Limited Constitution;

b) the high standards of ethics and corporate governance; and

c) the interests of its employees and the employees of its subsidiary companies, the shareholding Ministers and other relevant parties who have a stake in the operation of Energy Queensland Limited.

The Board may conduct or direct any investigation considered necessary to fulfil its role, and in doing so may seek independent professional advice at the company's expense. With the prior approval of the Chairman, each Director has the right to seek access to independent professional advice required to fulfil their role.

As a Government Owned Corporation, Energy Queensland Limited is subject to not only the *Corporations Act 2001* and the *Government Owned Corporations Act 1993*, but also various Government Policies, including the Corporate Governance Guidelines for Government Owned Corporations. These guidelines encourage government owned corporations to report their approach to a number of corporate governance matters. Given that Energy Queensland Limited was only established on the last day of the financial year, reporting pursuant to these guidelines will be deferred until the following financial year.

# Board Profiles

## PHIL GARLING

*B. Build, Adv DipAICD, FAIB, FAICD, FIEAust*

**Independent Non-Executive Director**
**Appointment:** 30 June 2016 - 30 June 2019

Philip has over 35 years' experience in the infrastructure, construction, development, utilities and investment sectors.

He was most recently the Global Head of Infrastructure at AMP Capital Investors, a role he held for nine years. Prior to this, he was CEO of Tenix Infrastructure and a long term senior executive at the Lend Lease Group, including five years as CEO of Lend Lease Capital Services.

Phillip is currently a Non-Executive Director of Essential Energy, Endeavour Energy and Ausgrid, the three State owned corporations that own and operate the New South Wales electricity distribution network known collectively as Networks New South Wales. He is further the Chairman of Tellus Holdings Limited, a Non-Executive Director of Charter Hall Limited and Downer EDI, as well as the President of Water Polo Australia Limited and an Advisory Board member of A-HA! | A Human Agency.

Phillip is a former Director of DUET Group, of which he was inaugural Chairman for seven years.

## KERRYN NEWTON

*LLM, MBA, Grad Dip (Applied Finance and investment) FAICD, FAIM , FGIA*

**Independent Non-Executive Director**
**Appointment:** 30 June 2016 - 30 June 2017

Kerryn brings significant experience to the board of EQ. She has served on the Energex Limited board since October 2008. She was appointed Chair of the Energex Limited Board in April 2015, and at the time of her appointment was a member of the Audit and Risk Committee and the People Committee.

Kerryn was admitted as a solicitor of the Supreme Court of Queensland in 1991 and has over 25 years' experience working in various legal, management and commercial roles in the private and public sectors, and as a consultant working across the private, government, publicly-listed, and not-for- profit sectors in an extensive range of industries.

Kerryn has also been a member and Chair of a wide range of boards and committees, and was a member of the former Queensland Liquor and Gaming Commission. Currently Kerryn is Managing Director of a national governance consulting firm and advises a wide range of organisations in the areas of governance, strategy and management.

## CLIVE SKAROTT AM

*FAICD, FAMI*

**Independent Non-Executive Director**
**Appointment:** 30 June 2016 - 30 June 2017

Clive Skarott has had extensive experience developing and managing regional businesses in a variety of industries.

Born in Atherton, North Queensland, he gave 35 years of service to the Electricity Credit Union (ECU), serving as CEO and Company Secretary before retiring in 2008.

He has served on the Ergon Energy Corporation Limited Board since September 2015 and was appointed Chair in September 2015.

Clive was named Cairns' Citizen of the Year in 2011 and in 2012 was made a Member of the Order of Australia for his contributions to export, tourism, banking, sport and education. Clive is the Patron of Advance Cairns, Director of Energy Super and has undertaken board and related roles at James Cook University. He is currently Chairman of JCU Dental and JCU Founders Committee Cairns Campus and President of the Cairns Historical Society and the Cairns Museum.

# Interim Chief Executive Officer

## TERRY EFFENEY

*BE (Hons), BEcon, MEng, FAICD, RPEQ, FIEAust, FAIM*

Terry has more than 30 years' experience in the electricity industry, combining an engineering and economics background with extensive operational and senior management experience. He has held senior roles in Energex and Ergon, with his most recent role as Energex CEO.

Terry also brings an understanding of the challenges of operating from a regional perspective to the position. Terry is taking on the Interim CEO role in Energy Queensland until the appointment of a permanent CEO, who will be based in Townsville.

# Interim Chief Executive Officer Update

The electricity industry across Australia has undergone significant change over the past decade and continues to face rapid transformation. Technology is changing and customers' expectations are also changing, presenting us with challenges and opportunities.

The creation of Energy Queensland will help to address these challenges, by creating tangible and meaningful benefits for our customers, our employees and the Queensland economy.

The merger of Ergon Energy, Energex and SPARQ Solutions to create an integrated portfolio company has provided the catalyst to ensure Energy Queensland remains relevant to its customers, maintains its strong presence in regional Queensland and keeps pace with the rapidly changing industry. It has provided the opportunity to evolve further and faster together, than the businesses could have done alone, as separate entities.

We know our customers' ability and desire to choose and control their energy options is increasing. We want to be 'at the core' of our customers' future energy choices. This means Energy Queensland's existing assets and relationships need to remain relevant and critical to electricity customers across Queensland, regardless of whether they live in a small rural community, or in our towns and cities. By transforming ourselves into a more customer-centric business, we will ensure Queenslanders – wherever they choose to live across the state - see better service, greater choice and control, at a price which represents value.

Transforming our business will involve implementing organisational structure changes that will deliver better decision making and ultimately provide lower costs to consumers. While this involves significant change, we will remain focussed on maintaining strong business foundations. Energy Queensland is committed to safety being the number one value. In every job, in every choice, across the business, every day, employee and community safety will not be compromised in the pursuit of change and efficiency. The business will also continue to deliver reliable and safe electricity supply through the retail and distribution businesses, and respond to the needs of customers.

While the creation of a new business represents the opportunity for renewal and growth, it's important to acknowledge the actions already underway in Ergon Energy, Energex and SPARQ to respond to challenges the Queensland energy industry has been facing for the past few years. There are great opportunities to build on the strengths that already exist as we bring together all employees and subsidiaries in a new, integrated, merged company. We're creating a bright new future by bringing together some of the brightest minds and the most knowledgeable people in the electricity sector. We have a unique opportunity to learn from each other, and to share our skills, with benefits to be found in the combined experience and expertise of the merged businesses.

While the merger came into effect on 30 June, 2016 with the official establishment of Energy Queensland as the parent company, it will take a number of years to fully implement the changes. The successful transformation process can only be achieved with the expert guidance of the Board, the leadership of the Executive, the involvement and commitment of employees, and the support of local communities from the Torres Strait to Tweed Heads – with the united aim of creating an efficient business that delivers excellent service and value to customers over the decades to come.

**Terry Effeney**
Interim CEO

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Energy Queensland

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**Energy Queensland Limited** ABN 96 612 535 583
**Head Office** Level 6, 420 Flinders Street, Townsville QLD 4810  PO Box 1090, Townsville QLD 4810

# Energy Queensland Annual Financial Statements **2015/16**

for the year ended 30 June 2016


# Energy Queensland Limited

**ABN 96 612 535 583**

## Annual Financial Statements

**FOR THE YEAR ENDED 30 JUNE 2016**

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# CONTENTS

# DIRECTORS' REPORT

**FOR THE YEAR ENDED 30 JUNE 2016**

The Board of Directors of Energy Queensland Limited (the Company or Energy Queensland) is pleased to present their report together with the financial report of the Company and of the consolidated entity, being the Company and its controlled entities (the Group) for the year ended 30 June 2016 and the auditor's report thereon.

**Directors**

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

| | Date Appointed | Date Ceased |
|---|---|---|
| • Mary-Anne Curtis (Chair) | 20 May 2016 | 30 June 2016 |
| • John Frazer | 20 May 2016 | 30 June 2016 |
| • Gregory Tonks | 20 May 2016 | 30 June 2016 |
| • Phillip Garling (Chairman) | 30 June 2016 | n/a |
| • Kerryn Newton | 30 June 2016 | n/a |
| • Clive Skarott | 30 June 2016 | n/a |

Please refer to the 'Board profiles' section of the Company's annual report 2015/16 for details of Directors qualifications, experience and special responsibilities.

**COMPANY SECRETARY**

- Richard Somerville appointed 20 May 2016 and resigned 30 June 2016
- Sandie Angus appointed 30 June 2016

Please refer to the 'Board profiles' section of the Company's annual report 2015/16 for details of the Company Secretary's qualifications, experience and special responsibilities.

**REGISTERED OFFICE**

420 Flinders Street
Townsville Queensland 4810

**PRINCIPAL ACTIVITIES**

The principal activities of the Group are the:

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

# DIRECTORS' REPORT

**FOR THE YEAR ENDED 30 JUNE 2016**

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Group was formed through the *Government Owned Corporations (Energy Consolidation) Regulation 2016* (Regulation) on 30 June 2016.

The Group's parent and holding company Energy Queensland Limited (the Company) was incorporated on 20 May 2016. On 30 June 2016, the Company was declared a Government Owned Corporation. Following the transfer of debt balances from Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy) to the State, the shares of Energex and Ergon Energy transferred to the Company. The capital structure of the Company was finalised through the transfer of debt from the Queensland Government to the Company.

The formation of the Group represents a restructuring of the shareholder's current interests in Energex and Ergon Energy and the transactions outlined above occurred between entities under common control. Consequently the transfer of shares to the Company represents an equity transaction with owners. The effects of the transaction are discussed in Note 1(C) to the financial statements.

## OPERATING AND FINANCIAL REVIEW

The Group enjoyed a sound year where it was able to benefit from the Group entities' ongoing focus on achieving business efficiencies as it aligns with reduced operating and capital allowances approved for the distribution businesses by the Australian Energy Regulator (AER). This focus has allowed the business to continue to meet customer and stakeholder expectations, align with trends in energy consumption and demand and deliver more sustainable network pricing outcomes.

The Group delivered a $1,480 million (2015: $1,806 million) capital works program prudently and efficiently, undertaking network augmentation and connection, asset replacement, reliability improvements and customer initiated capital works.

As the Group moves further into the 2015-2020 regulatory control period, the focus remains for Energex and Ergon Energy to operate the networks in a safe and reliable manner for the benefit of the community, to invest prudently for a sustainable future, and to deliver appropriate returns to the Group's shareholder.

The Group aims to grow its service offerings and add value to its customers through enhancements and additions to current distribution, retail and other service offerings.

### Financial Result

Presented as if the entities within the Group had always been members, the Group's consolidated statement of profit after income tax equivalent expense was $942 million for the year (2015: $1,208 million).

This result reflects a combination of a marginal reduction in income ($129 million) and an increase in operating expenditure of $237 million partially offset by the impact of lower income tax expense. The lower revenue is most notably reflective of a slight reduction in Network Use of Systems Revenue (NUOS) of $80 million, retail sales revenue ($91 million), non-refundable capital contributions ($24 million) and movement in the profit on financial instruments at fair value as compared to the prior year ($45 million) partially offset by an increases in revenue earned from services ($114 million).

*Revenue*

Making up the majority of the Group's revenue, NUOS consists mainly of the revenue allowance as determined by the AER. Although the allowed rate of return is significantly lower in the current year (6.01% as opposed to 9.72%), the reduction in the current year revenue allowance is largely negated by the recovery of prior revenue under recoveries ($322 million) and the recovery of solar feed-in-tariff payments made to customers in prior periods under the Queensland Governments Solar Bonus Scheme ($390 million). A further $217 million of revenue under recoveries and $348 million of historical solar feed-in-tariff payments will be recovered in 2016/17 network charges.

The majority of the Ergon Energy NUOS revenue is eliminated against retail expenditure in the consolidated results as the retailer bills and collects NUOS on behalf of the distributor.

*Revenue (continued)*

The reduction in retail sales revenue is predominantly due to a reduction in load which is a consequence of the ongoing uptake of rooftop solar photovoltaic generation and the loss of competitive market customers to other retailers.

The reduction in non-refundable capital contributions occurred predominantly in regional Queensland and is considered indicative of challenging economic conditions, with slower growth and development experienced compared to South East Queensland where capital contributions of assets due to new developments recorded a modest year on year increase.

Financial instruments are maintained as part of a prudent approach to risk management to manage market risk associated with the wholesale electricity market. The fair value movements reflect market conditions and energy spot rates as at 30 June 2016.

The strong increase in service charges relates predominantly to the Energex customer base in South East Queensland; and although partially due to increased demand for infrastructure rearrangements and customer requested meter installations, the majority of the increase reflects a change in the pricing mechanism by the AER in that metering service charges are now charged to specific customers for the utilisation of those services as opposed to the inclusion of these recoveries in the network use of system revenue and allocated across the broader distribution network customer base.

*Expenditure*

The increase in expenditure relates predominantly to the increase in network charges from the transmission network service provider ($80 million) and an increase in electricity purchases ($52 million) which is associated with an increase in wholesale energy costs and the cost of renewable energy certificates. The reduction in allowed revenues in the Ergon Energy business was accompanied by a decrease in the Community Service Obligation (CSO) offset ($55 million). The CSO offset reduced by a further $30 million in the current year compared to 2015 due to Energex receiving a once-off CSO in 2015 to compensate the entity for lower network charges than the regulatory allowance determined by the AER.

Termination benefits of $53 million were incurred in ongoing organisational restructure initiatives.

The Group has embarked on an extensive, targeted review of work practices and organisational structure to continue alignment with demand forecasts and associated operational and maintenance requirements in fulfilment of its responsibilities as network service provider and electricity retailer. It is anticipated that the formation of the Group will further assist overall Group expenditure as discussed below under *Likely Development and Future Results*.

**Financial Position**

The primary asset of the Group's total asset base of $24,177 million consists of the distribution assets (collectively the supply system) which is carried at a valuation performed using an income approach based on a discounted cash flow methodology. The supply system is valued using a discount rate which is higher than the allowed rate of return determined by the AER in their Final Decision. This leads to the valuation of the supply system being lower than the regulated asset base. The higher discount rate is considered to be more reflective of longer term commercial expectations for a weighted average cost of capital. Refer to Note 14 for further disclosures regarding the supply system.

The total Group liabilities of $20,812 million largely reflect the Group's funding strategy, with reasonable levels of long-term borrowings employed as an efficient form of financing. The $16,266 million of Queensland Treasury Corporation loans were transferred from the shareholder under the Regulation and is considered to be a distribution to owners.

**DIVIDENDS**

The Board of the Company did not declare or pay any dividends for the 2016 financial year.

The Board of Energex declared and paid a final dividend of $451 million for the 2016 financial year on 29 June 2016. A final dividend of $1,295 million was declared for the 2015 financial year and paid on 30 November 2015.

The Board of Ergon Energy declared and paid a final dividend of $476 million for the 2016 financial year. A final dividend of $1,925 million was declared for the 2015 financial year and paid on 30 November 2015.

A liability for dividends payable is recognised in the financial year in which the dividend is declared.

**SIGNIFICANT EVENTS AFTER THE REPORTING DATE**

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

# DIRECTORS' REPORT

**FOR THE YEAR ENDED 30 JUNE 2016**

## LIKELY DEVELOPMENTS AND FUTURE RESULTS

It is expected that the creation of the Group (by transferring ownership of the shares in Energex and Ergon Energy to the Company) will provide the opportunity to remove duplication and achieve synergies in the provision of support functions. Economies of scale and alignment of operational practices achieved by combining two leading organisations are expected to deliver operational efficiencies, improvements in our service offerings and ultimately positive pricing outcomes for our customers while contributing to appropriate returns to our shareholder. The Group will continue to operate the electricity network in a safe and reliable manner while increasing choice and affordability to our customers.

The Energex and Ergon Energy brands will be retained and continue to fulfil their responsibilities under their respective Distribution Authorities but the Group will be able to pool and deploy resources and talent more effectively.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's environmental obligations are regulated under State and Federal laws. Based on enquiries made, the Board of the Company is not aware of any significant breaches, non-conformances or incidents reported in the financial year.

During the reporting period all the environmental performance obligations of Energex and its consolidated entities (the Energex Group) were overseen by the Energex Board. The Energex Group has an Environment Council consisting of management representatives and Officers, which regularly reviewed and reported on environmental issues to the Energex Audit and Risk Committee and Board.

During the reporting period all environmental performance obligations of Ergon Energy and its consolidated entities (the Ergon Energy Group) were overseen by the Ergon Energy Board. All environmental matters of the Ergon Energy Group were reported to the Operational Risk Committee (a committee of the Board).

Environmental obligations are subject to government agency, internal and external professional agency audits, as well as an ongoing review to ensure compliance. The Group's certifications to International Standard AS/ISO 14001 have been maintained.

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

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Policies were held throughout the period to insure all Directors and Officers of the Group against liabilities incurred in their capacity as Director or Officer. Insurance premiums paid or agreed to be paid totalled $1,290,345.

From and including 30 June 2016, Energy Queensland indemnifies the Directors and Officers of the Company and its subsidiaries for all liabilities and expenses incurred by the Directors and Officers, arising out of or in connection with their role as a Director or Officer, other than: any liability or expense arising from conduct that was deliberately dishonest, deliberately fraudulent or not in good faith, a liability owed to an Energy Queensland Group Company, or any criminal or pecuniary penalty.

Energex has agreed to indemnify current and former Directors and Officers of Energex its controlled and/or associated entities against all liabilities to another person (other than Energex or a related body corporate) that may arise from their position as a Director or Officer of Energex and its controlled entities, except where the liability arises out of conduct involving a lack of good faith or liability against which Energex is not permitted by law to exempt or indemnify the Director or Officer. The Energex Limited Constitution and relevant deeds of indemnity stipulate that, subject to the terms and the exceptions above, Energex will meet the full amount of any such liabilities, including costs and expenses.

Energex has agreed to indemnify Officers who are nominated by the Energex Board to represent Energex on external boards and committees as follows:

- Indemnities provided to former Energex representative Directors continue following their resignation from that position, in accordance with the terms of the deed of indemnity.
- Other Officers appointed to represent Energex on external boards and committees are indemnified in accordance with the terms of the Energex Directors' and Officers' liability insurance policy.

Ergon Energy indemnifies the Directors and Officers of the Ergon Energy Group for any liability (claim, action, suit, proceeding, investigation, inquiry, damage, loss, cost or expense) incurred by virtue of being a Director or Officer, other than: a liability owed to the Ergon Energy Group; a liability for a pecuniary penalty or compensation order under the *Corporations Act 2001*; and a liability owed to someone other than Ergon Energy that did not arise out of conduct in good faith.

Ergon Energy also indemnifies each Director and Officer against any legal costs incurred in respect of a liability incurred by virtue of being a Director or Officer of the Ergon Energy Group, other than for legal costs incurred: in defending or resisting proceedings in which the Director or Officer could not be indemnified; in defending or resisting criminal proceedings in which the Director or 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.

# DIRECTORS' REPORT

**FOR THE YEAR ENDED 30 JUNE 2016**

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS (CONTINUED)

During or since the end of the financial year, Ergon Energy has not otherwise, 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.

### DIRECTORS' SHAREHOLDING

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

There are no share options in existence at this time.

### DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each Director during the year ended 30 June 2016 are:

| Energy Queensland Meetings | Board | |
|---|---|---|
| | Attended | Held[1,2] |
| Philip Garling (Chairman) | 1 | 1 |
| Clive Skarott | 1 | 1 |
| Kerryn Newton | 1 | 1 |

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

(2) No meetings were held prior to 30 June 2016.

# DIRECTORS' REPORT

**FOR THE YEAR ENDED 30 JUNE 2016**

Information regarding Directors' meetings (including meetings of committees of Directors) of Energex and Ergon Energy are presented for completeness:

| Energex Meetings | Board | | Audit and Risk Committee | | Regulatory Committee | | Network and Technical Committee | | People Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Attended | Held[1] | Attended | Held[1] | Attended | Held[1] | Attended | Held[1] | Attended | Held[1] |
| Gordon Jardine (Chairman)[2] | 15 | 15 | n/a | n/a | 5 | 6 | 3 | 3 | 6 | 6 |
| Kerryn Newton[3] | 15 | 15 | 5 | 5 | n/a | n/a | 1 | 1 | 6 | 6 |
| Peter Arnison[4] | 9 | 9 | n/a | n/a | 5 | 6 | 3 | 3 | 3 | 4 |
| Kenneth Clarke[5] | 4 | 4 | n/a | n/a | 3 | 3 | 1 | 1 | n/a | n/a |
| Mervyn Davies[5] | 4 | 4 | 1 | 1 | 3 | 3 | 1 | 1 | n/a | n/a |
| Sandra Deane[5] | 4 | 4 | 1 | 1 | n/a | n/a | n/a | n/a | 2 | 2 |
| John Geldard | 12 | 15 | 4 | 5 | 4 | 6 | n/a | n/a | n/a | n/a |
| Robert Shead[6,7] | 6 | 11 | 2 | 3 | n/a | n/a | 2 | 3 | n/a | n/a |
| Vanessa Sullivan[6] | 11 | 11 | 2 | 3 | 1 | 1 | n/a | n/a | 2 | 2 |

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

(2) Appointed as Energex Chairman effective 1 October 2015.

(3) Resigned as Energex Chair on 30 September 2015. Appointment to the Energex Limited Board extended to 30 September 2018.

(4) The term of appointment expired on 31 March 2016

(5) The term of appointment expired on 30 September 2015.

(6) Appointed to the Energex Limited Board on 1 October 2015.

(7) On leave of absence from May to June 2016.

# DIRECTORS' REPORT

**FOR THE YEAR ENDED 30 JUNE 2016**

| Ergon Energy Meetings | Board | | Audit & Financial Risk Committee | | Regulatory Committee | | Operational Risk Committee | | Establishment & People Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Attended | Held[1] | Attended | Held[1] | Attended | Held[1] | Attended | Held[1] | Attended | Held[1] |
| Clive Skarott[2] | 12 | 12 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Gary Humphrys | 13 | 14 | 4 | 4 | 4 | 4 | 3 | 3 | 4 | 4 |
| Lorraine Stephenson[2] | 11 | 12 | 2 | 3 | n/a | n/a | 2 | 3 | 2 | 3 |
| Adam Aspinall[2] | 12 | 12 | n/a | n/a | 3 | 3 | 3 | 3 | 3 | 3 |
| Gary Stanford | 14 | 14 | 4 | 4 | 4 | 4 | 3 | 3 | - | - |
| John Gardner[3] | 2 | 2 | 1 | 1 | 1 | 1 | n/a | n/a | 1 | 1 |
| John Love[3] | 2 | 2 | 1 | 1 | 1 | 1 | n/a | n/a | 1 | 1 |

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

(2) Appointed as Directors on 1 October 2015.

(3) Term expired on 30 September 2015.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is on page 81 and forms part of the Directors' report for the year ended 30 June 2016.

## ROUNDING

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

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

Philip Garling
Chairman
Dated at Brisbane this 29th day of August 2016.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

**FOR THE YEAR ENDED 30 JUNE 2016**

| In millions of dollars | Note | 2016 | 2015 Restated * |
|---|---|---|---|
| Revenue | 2 | **4,988** | 5,072 |
| Other income | 2 | **41** | 86 |
| | | | |
| Transmission charges and electricity purchases | 3 | **817** | 600 |
| Solar photovoltaic feed in tariff | | **187** | 204 |
| Employee expenses | | **465** | 438 |
| Termination benefits | | **53** | 40 |
| Materials and services | | **411** | 420 |
| Depreciation, amortisation and impairments | | **930** | 901 |
| Finance costs | 3 | **616** | 636 |
| Other expenses | | **192** | 195 |
| **Profit before income tax equivalent expense** | | **1,358** | 1,724 |
| Income tax equivalent expense | 4 | **416** | 516 |
| **Profit after income tax equivalent expense** | | **942** | 1,208 |

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

** Comparatives have been restated to present consolidated Energex and Ergon Energy Group transactions and balances, as if the Group had always existed. Refer to Note 1. The separate income statements of the Energex and Ergon Energy Groups for the year ended 30 June 2016 and comparatives are contained in Note 25.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 30 JUNE 2016**

| In millions of dollars | 2016 | 2015 Restated * |
|---|---|---|
| **Profit after income tax equivalent expense** | **942** | 1,208 |
| **OTHER COMPREHENSIVE INCOME** | | |
| **Items that will not be reclassified to profit or loss:** | | |
| Revaluation of property, plant and equipment | **181** | (748) |
| Deferred income tax relating to the revaluation of property, plant and equipment | **(56)** | 225 |
| Actuarial gains/(losses) on defined benefit plans recognised directly in equity | **(106)** | 144 |
| Deferred income tax relating to actuarial gains/(losses) on defined benefit plans | **30** | (43) |
| Prior year tax losses adjustment | **-** | 33 |
| **Items that may be reclassified to profit or loss:** | | |
| **Cash flow hedges** | | |
| Effective portion of changes in fair value for the year | **119** | 40 |
| Deferred income tax relating to changes in fair value | **(36)** | (12) |
| **Other comprehensive income for the financial year, net of tax** | **132** | (361) |
| **TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR** | **1,074** | 847 |
| | | |
| **Profit attributable to:** | | |
| Owners of the Company | **942** | 1,208 |
| | | |
| **Total comprehensive income attributable to:** | | |
| Owners of the Company | **1,074** | 847 |

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

**Comparatives have been restated to present consolidated Energex and Ergon Energy Group transactions and balances, as if the Group had always existed. Refer to Note 1. The separate statements of comprehensive income of the Energex and Ergon Energy Groups for the year ended 30 June 2016 and comparatives are contained in Note 25.*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**AS AT 30 JUNE 2016**

| In millions of dollars | Note | 2016 | 2015 Restated* |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 5 | **137** | 663 |
| Trade and other receivables | 6 | **901** | 893 |
| Inventories | | **168** | 163 |
| Financial assets | 7 | **191** | 53 |
| Other assets | | **50** | 40 |
| **Total current assets** | | **1,447** | 1,812 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **22,336** | 21,651 |
| Intangible assets | | **261** | 245 |
| Employee retirement benefits | 15 | **125** | 242 |
| Other assets | | **8** | 6 |
| **Total non-current assets** | | **22,730** | 22,144 |
| **TOTAL ASSETS** | | **24,177** | 23,956 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 8 | **405** | 3,719 |
| Interest bearing liabilities | 9 | **20** | 27 |
| Employee benefits | 17 | **327** | 301 |
| Provisions | | **21** | 22 |
| Current tax liabilities | | **144** | 318 |
| Financial liabilities | 10 | **11** | 32 |
| Other liabilities | | **115** | 97 |
| **Total current liabilities** | | **1,043** | 4,516 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest bearing liabilities | 9 | **16,267** | 12,085 |
| Employee benefits | 17 | **30** | 29 |
| Provisions | | **12** | 18 |
| Net deferred tax equivalent liability | 16 | **3,453** | 3,414 |
| Other liabilities | | **7** | 8 |
| **Total non-current liabilities** | | **19,769** | 15,554 |
| **TOTAL LIABILITIES** | | **20,812** | 20,070 |
| **NET ASSETS** | | **3,365** | 3,886 |
| **EQUITY** | | | |
| Share capital | 18 | **19,643** | 1,689 |
| Other transactions with owners | 19 | **(18,635)** | (11) |
| Reserves | 19 | **2,286** | 2,080 |
| Retained earnings | 19 | **71** | 128 |
| **TOTAL EQUITY** | | **3,365** | 3,886 |

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

**Comparatives have been restated to present consolidated Energex and Ergon Energy Group transactions and balances, as if the Group had always existed. Refer to Note 1.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 30 JUNE 2016**

| In millions of dollars | Share capital | Other transactions with owners | Asset revaluation reserve | Retained earnings | Hedging reserve | Total equity |
|---|---|---|---|---|---|---|
| **Changes in equity for 2015 Restated*** | | | | | | |
| Balance at 1 July 2014 | 1,689 | (11) | 3,992[1] | 589 | - | 6,259 |
| Dividends | - | - | (532) | (2,688) | - | (3,220) |
| Transfer from reserves (refer to Note 19) | - | - | (885) | 885 | - | - |
| Total comprehensive income for the financial year | - | - | (523) | 1,342 | 28 | 847 |
| **Balance at 30 June 2015** | 1,689 | (11) | 2,052 | 128 | 28 | 3,886 |
| | | | | | | |
| **Changes in equity for 2016** | | | | | | |
| Dividends | **-** | **-** | **-** | **(927)** | **-** | **(927)** |
| Transfer from reserves (refer to Note 19) | **-** | **-** | **(3)** | **3** | **-** | **-** |
| Government energy consolidation transfer (refer to Note 1) | **17,954** | **(18,624)** | **-** | **2** | **-** | **(668)** |
| Total comprehensive income for the financial year | **-** | **-** | **125** | **865** | **84** | **1,074** |
| **Balance at 30 June 2016** | **19,643** | **(18,635)** | **2,174** | **71** | **112** | **3,365** |

(1) The opening balance of the asset revaluation reserve has been adjusted as a result of unifying accounting policies for the valuation of property, plant and equipment in the preparation of the consolidated Group accounts. A decrement of $5 million has been made to reflect change from the revaluation model to the cost model for Ergon Energy's other plant and equipment.

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

**Comparatives have been restated to present consolidated Energex and Ergon Energy Group transactions and balances, as if the Group had always existed. Refer to Note 1.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED 30 JUNE 2016**

| In millions of dollars | Note | 2016 | 2015 Restated* |
|---|---|---|---|
| | | | |
| Receipts from customers | | **5,089** | 5,184 |
| Receipts for community service obligations | | **620** | 672 |
| Payments to suppliers and employees | | **(2,900)** | (2,761) |
| Interest paid | | **(690)** | (675) |
| Income tax equivalent payments | | **(609)** | (173) |
| **Net cash from operating activities** | 5 | **1,510** | 2,247 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment | | **19** | 23 |
| Proceeds from sale of business operation | | **-** | 1 |
| Interest received | | **20** | 22 |
| Payment for capitalised interest | | **(7)** | (13) |
| Payments for property, plant and equipment and intangibles | | **(1,367)** | (1,681) |
| **Net cash from investing activities** | | **(1,335)** | (1,648) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | **3,649** | 754 |
| Repayable deposits received | | **1** | 4 |
| Repayment of borrowings | | **(7)** | (250) |
| Dividends paid | | **(4,147)** | (798) |
| Government energy consolidation transfer | | **(197)** | - |
| **Net cash from financing activities** | | **(701)** | (290) |
| | | | |
| **Net increase / (decrease) in cash and cash equivalents** | | **(526)** | 309 |
| Cash and cash equivalents at the beginning of the financial year | | **663** | 354 |
| **Cash and cash equivalents at the end of the financial year** | 5 | **137** | 663 |

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

**Comparatives have been restated to present consolidated Energex and Ergon Energy Group transactions and balances, as if the Group had always been existed. Refer to Note 1.*

## SECTION 1: Basis of Preparation

### NOTE 1: BASIS OF PREPARATION

#### (A) General information

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

The consolidated financial statements of the Company for the year ended 30 June 2016 (including comparatives) comprises the Company from its date of incorporation and its subsidiaries (collectively referred to as the Group) as if the Group had always existed.

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

*Registered Office*

420 Flinders Street
Townsville Queensland 4810

*Principal Place of Business*

420 Flinders Street
Townsville Queensland 4810

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

The Group includes Energex and Ergon Energy and all of their consolidated entities. The Group also contains SPARQ Solutions Pty Ltd (SPARQ Solutions), a joint operation of Energex and Ergon Energy.

The Group is a for-profit entity.

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

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

The financial statements were authorised for issue by the Directors on 29th August 2016.

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

#### (B) Basis of preparation

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

Pursuant to ASIC Class Order 98/1418, relief has been granted to Energex, Ergon Energy and SPARQ Solutions (but not their subsidiaries), from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

**NOTE 1: BASIS OF PREPARATION (CONTINUED)**

**(B) Basis of preparation (Continued)**

*(i) Historical cost convention*

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

(*ii) Presentation*

The Energex and Ergon Energy Groups were both wholly-owned by the state and this ownership was transferred to EQL, also wholly-owned by the state, at 30 June 2016. The entities within the group have been under common control of the state for the whole reporting period.

The financial statements have been presented as if the Energex and Ergon Energy Groups had always been part of the Group, with comparatives restated to provide useful information to readers. The assets and liabilities of Energex and Ergon Energy Groups have been combined using their respective carrying values at 30 June 2016.

**(C) Formation of the Group**

The Group was formed pursuant to the *Government Owned Corporations (Energy Consolidation) Regulation 2016 (*Regulation).

In accordance with the Regulation, all transfers of assets and liabilities to facilitate the transaction were undertaken at the carrying amounts recorded in the transferor's accounts immediately prior to the transfer and recorded as transactions with owners (in equity) in accordance with AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities.*

The following table sets out the assets and liabilities transferred as part of the restructure and the associated impacts recorded in equity:

| In millions of dollars | Energy Queensland Limited Parent | Energex Group | Ergon Energy Group | Energy Queensland Group Consolidated |
|---|---|---|---|---|
| **Transfers Out** | | | | |
| Assets: | | | | |
| Cash | - | (18) | (179) | **(197)** |
| Liabilities: | | | | |
| Working Capital Facilities | - | 1,236 | 1,709 | **2,945** |
| Long-term Borrowings | - | 6,949 | 5,901 | **12,850** |
| Net Increase in transactions with owners | | 8,167 | 7,431 | **15,598** |
| **Transfers In** | | | | |
| Assets: | | | | |
| Investment in Energex and Ergon Energy Groups | 19,643 | - | - | **19,643** |
| Liabilities: | | | | |
| Long-term Borrowings | (16,266) | - | - | **(16,266)** |
| Net increase in transactions with owners | 3,377 | - | - | **3,377** |
| **Net transfers to equity from the State** [1] | **3,377** | **8,167** | **7,431** | **18,975** |
| Elimination of investment in Energex and Ergon Energy on consolidation | - | - | - | **(19,643)** |
| **Net Impact on Group consolidated equity** | | | | **668** |

(1) In accordance with a designation, these transfers were recorded as transactions with owners (issued share capital of $19,643 million, other transactions with owners (distributions to owners) of $16,266 million and $2 million recorded against retained earnings).

Transaction costs associated with the transaction totalling $17 million have been expensed and are included in materials and services in the Consolidated Statement of Profit or Loss.

**NOTE 1: BASIS OF PREPARATION (CONTINUED)**

**(D) Changes in accounting policies**

This year the Australian Accounting Standards Board (AASB) published new accounting standards and interpretations. The Group has adopted all of the new and revised standards and interpretations that are relevant to its operations and effective for the current reporting period. The adoption of these new and revised standards and interpretations has not had a material impact on the result or disclosures of the Group.

Where necessary, adjustments have been made to align accounting policies and presentation between the Energex and Ergon Energy Groups in the preparation of these consolidated financial statements.

**(E) Application of new Accounting Standards and interpretations**

*Early adoption of standards*

To apply uniform accounting policies on consolidation the Group has early adopted the revised AASB 9 (December 2013) *Financial Instruments* and *AASB 2015-2 Amendments to Australian Accounting Standards- Disclosure Initiative* in advance of their effective date, as previously adopted by the Ergon Energy Group.

This unification of policy has had no material effect on the classification and measurement of any financial assets and liabilities, or hedge accounting for the Group.

*New standards and interpretations not yet adopted*

The AASB published new accounting standards and interpretations that are not mandatory for the 30 June 2016 reporting period, which the Group has not early adopted for this period. The Group's assessment of the initial impact of the following Standards and Interpretations on its financial report is outlined below.

(i) A*ASB 16 Leases is effective for financial years on or after 1 January 2019.*

The new standard introduces a single lease accounting model which requires the recognition of all leasing arrangements on the balance sheet. The standard requires a lessee to recognise a right-of-use asset and a financial liability for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The extent of the impact on the Group has not yet been quantified.

(ii) *AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15. AASB 15 is effective for financial years commencing on or after 1 January 2018.*

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

AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments).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. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group is still assessing how revenue recognition will be impacted by the standard.

(iii) *AASB 9 Financial Instruments (December 2014) and AASB2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) effective for financial years commencing on or after 1 January 2018.*

In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. These amendments complete the new financial instruments standard.

The Group has not yet assessed how its impairment provisions would be affected by the new rules.

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

## SECTION 2: Profit or Loss Information

### NOTE 2: REVENUE AND OTHER INCOME

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **Sales revenue** | | |
| Network use of system revenue | **2,663** | 2,743 |
| Retail sales revenue | **1,838** | 1,929 |
| Service charges | **231** | 117 |
| Revenue from sale of goods | **60** | 57 |
| **Other revenue** | | |
| Non-refundable capital contributions | **129** | 153 |
| Interest received | **19** | 22 |
| Gain on disposal of property plant and equipment | **3** | 1 |
| Other operating revenue | **45** | 50 |
| **Total revenue** | **4,988** | 5,072 |

| **OTHER INCOME** | | |
|---|---|---|
| Fair value gains on financial instruments at fair value | **5** | 33 |
| Unwinding of inception value of designated hedges | **28** | 43 |
| Cash flow hedge ineffectiveness | **6** | 1 |
| Fair value gains on energy certificates at fair value | **1** | 7 |
| Other income | **1** | 2 |
| **Total other income** | **41** | 86 |

## NOTE 2: REVENUE AND OTHER INCOME (CONTINUED)

### ACCOUNTING POLICIES

**Revenue recognition**

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

*(i) Network use of system*

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

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

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

Any current period under or over recovery of the revenue cap is recovered from or returned to customers in future periods through an adjustment to prices. Where over recoveries occur they are deducted from revenue in the period in which they are returned to customers. Under recoveries are recognised as revenue in the period in which they are billed to customers.

*(ii) Retail sales revenue*

*Electricity sales revenue to franchise customers*

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

*(iii) Service charges*

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

*(iv) Revenue from sale of goods*

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

*(v) Non-refundable capital contributions*

The Group finances part of its capital works program through non-refundable contributions from customers which are applied to the cost of these works. Contributions towards assets are recognised as revenue at the fair value of the contribution.

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

*(vi) Interest received*

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

### CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

*(i) Unbilled energy sales*

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

*(ii) Unbilled network charges*

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

## NOTE 3: EXPENSES

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **Profit before income tax equivalent expense includes the following significant expenses:** | | |
| **Transmission charges and electricity purchases** | | |
| Transmission use of system charges | **789** | 709 |
| Electricity purchases | **569** | 517 |
| Community service obligation offset | **(541)** | (626) |
| **Total transmission and electricity purchases** | **817** | 600 |
| **Finance Costs** | | |
| Queensland Treasury Corporation | **497** | 561 |
| Competitive Neutrality Fees | **89** | 111 |
| less capitalised financing costs | **(14)** | (25) |
| Other finance costs | **44** | (11) |
| **Total finance costs** | **616** | 636 |

### ACCOUNTING POLICIES

**Expenses**

*(i) Transmission charges and electricity purchases*

Community service obligation (CSO) receipts are recognised as a contra expense against the transmission charges and electricity purchases as part of the cost of sales.

The Group is legally required to charge its retail customers in regional Queensland at notified prices. As a consequence, the tariff revenue collected is below the cost of supplying electricity. A Deed between the Group and the State of Queensland provides for CSO payments to be made by the State of Queensland to the Group.

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

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

Prior to 30 June 2016, the Energex Group recognised CSO claims as revenue. To align presentation on consolidation the Group has reclassified these CSO's from revenue to a contra expense.

*(ii) Finance Costs*

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

Interest costs on the Group's long term borrowings are calculated by QTC, in accordance with its book rate methodology, which equates to amortised cost using the effective interest rate method.

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

## NOTE 4: TAXATION

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **(A) INCOME TAX EQUIVALENT EXPENSE** | | |
| Current tax expense | **440** | 421 |
| Deferred tax expense | **(22)** | 93 |
| Under/(over) provision in prior years | **(2)** | 2 |
| **Income tax equivalent expense** | **416** | 516 |
| **Deferred income tax expense included in income tax expense comprises:** | | |
| Decrease/(increase) in deferred tax assets/liabilities (refer to Note 16) | **(22)** | 64 |
| Under/(over) provision in prior years | **-** | 29 |
| **Deferred income tax expense attributable to profit from continuing operations** | **(22)** | 93 |

| | | |
|---|---|---|
| Net profit before income tax equivalent expense | **1,358** | 1,724 |
| Prima facie income tax equivalent expense on operating profit at 30% (2015: 30%) | **407** | 517 |
| **Decrease in income tax equivalent expense:** | | |
| Other | **-** | (3) |
| **Increase in income tax equivalent expense:** | | |
| Non-deductible expenses | **11** | - |
| | **418** | 514 |
| Under/(over) provision in prior years | **(2)** | 2 |
| **Income tax equivalent expense** | **416** | 516 |

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| Revaluation property, plant and equipment | **56** | (225) |
| Recognition of defined benefit surplus/(deficit) | **(30)** | 43 |
| Hedge accounting of derivatives | **36** | 12 |
| Prior year tax loss adjustments | **-** | (33) |
| **Deferred tax recognised directly in equity** | **62** | (203) |

The National Tax Equivalents Regime (NTER) has confirmed that the transaction to form the Group is a government imposed restructure as described in paragraph 103 of the NTER Manual. As such, the transaction is treated in a tax neutral manner.

Refer to Note 16 for accounting policies related to taxation.

## SECTION 3: Financial assets and liabilities

### NOTE 5: CASH AND CASH EQUIVALENTS

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| Cash at bank and on hand | **113** | 39 |
| Short term deposits | **24** | 624 |
| **Total cash and cash equivalents** | **137** | 663 |

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **RECONCILIATION OF PROFIT AFTER INCOME TAX EQUIVALENT EXPENSES TO THE NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES** | | |
| Profit after income tax equivalent expense | **942** | 1,208 |
| **NON-CASH FLOWS AND OTHER INCOME AND EXPENSE ITEMS IN PROFIT:** | | |
| Depreciation, amortisation and impairment | **928** | 897 |
| Net gain/(loss) on disposal of property, plant and equipment | **2** | 3 |
| Interest income classified as investing activities | **(20)** | (22) |
| Provision for impairment of receivables | **2** | 3 |
| Provision for inventory obsolescence | **-** | (1) |
| Sale of business operations classified as investing activities | **-** | (1) |
| Fair value gain on financial instruments | **(40)** | (84) |
| Other non-cash flow items | **-** | 8 |
| **CHANGES IN ASSETS AND LIABILITIES:** | | |
| Trade and other receivables | **(100)** | (150) |
| Inventory | **(2)** | 4 |
| Other assets | **61** | (35) |
| Trade and other payables | **(12)** | 21 |
| Other liabilities | **(13)** | (26) |
| Provisions and employee benefits | **(23)** | 78 |
| Income tax payable | **(175)** | 299 |
| Deferred income tax liability | **(40)** | 45 |
| Net cash flow provided by operating activities | **1,510** | 2,247 |

**ACCOUNTING POLICIES**

**Cash and cash equivalents**

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

Bank overdrafts in the form of working capital facilities are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## NOTE 6: TRADE AND OTHER RECEIVABLES

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **CURRENT** | | |
| Trade receivables | **790** | 747 |
| Less provision for impairment of receivables | **(30)** | (21) |
| **Total net trade receivables** | **760** | 726 |
| Community service obligations | **87** | 109 |
| Other receivables and prepayments | **54** | 58 |
| **Total current trade and other receivables** | **901** | 893 |

### (A) IMPAIRED TRADE RECEIVABLES

An allowance has been made for estimated unrecoverable trade receivable amounts arising from past sales. This has been determined by referencing past default experience and other relevant evidence such as significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation and payment default or delinquency.

Included in the provision is an individually impaired debtor in the amount of $1 million (2015: $1 million) which has been placed into liquidation. The Group does not hold any collateral over these balances.

| In millions of dollars | Gross 2016 | Impairment 2016 | Gross 2015 Restated | Impairment 2015 Restated |
|---|---|---|---|---|
| Less than one month overdue | **56** | **2** | 26 | 1 |
| One to two months overdue | **33** | **4** | 10 | 1 |
| Two to three months overdue | **10** | **2** | 6 | 2 |
| Over three months overdue | **29** | **22** | 21 | 17 |
| | **128** | **30** | 63 | 21 |

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **MOVEMENTS IN THE PROVISION FOR IMPAIRMENT OF RECEIVABLES ARE AS FOLLOWS:** | | |
| Carrying amount at the beginning of the financial year | **21** | 17 |
| Provision for impairment recognised during the financial year | **20** | 18 |
| Receivables written off during the financial year as uncollectible | **(11)** | (14) |
| **Carrying amount at the end of the financial year** | **30** | 21 |

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

## NOTE 6: TRADE AND OTHER RECEIVABLES (CONTINUED)

### (B) PAST DUE BUT NOT IMPAIRED

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **AGEING OF RECEIVABLES** | | |
| Up to one month overdue | **4** | 4 |
| One to two months overdue | **2** | 4 |
| Over two months overdue | **2** | 2 |
| **Total past due but not impaired** | **8** | 10 |

**ACCOUNTING POLICIES**

**Trade and other receivables**

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

**CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES**

**Impairment of trade receivables**

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

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

## NOTE 7: FINANCIAL ASSETS

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **CURRENT** | | |
| **At fair value through profit or loss** | | |
| Derivative financial instruments - electricity hedges | **28** | 19 |
| **Designated as cash flow hedges** | | |
| Derivative financial instruments - electricity hedges | **161** | 34 |
| **Held for trading** | | |
| Power purchase agreement asset | **2** | - |
| **Total current financial assets** | **191** | 53 |

Relevant accounting policies are outlined in Note 12 Fair values and Note 13 Hedge accounting.

## NOTE 7: FINANCIAL ASSETS (CONTINUED)

### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

**Electricity financial instruments measured at fair value**

The Group enters into electricity related financial instruments and determines the fair value of these instruments, which includes swaps, options (including caps and swaptions), and power purchase agreements (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 8: TRADE AND OTHER PAYABLES

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| Trade payables | **305** | 303 |
| Accrued interest | **2** | 85 |
| Dividends payable | **-** | 3,220 |
| Electricity hedges payable | **8** | 9 |
| Other payables and accruals | **90** | 102 |
| **Total current payables** | **405** | 3,719 |

### ACCOUNTING POLICIES

**Trade and other payables**

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

## NOTE 9: INTEREST BEARING LIABILITIES

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **CURRENT** | | |
| **Unsecured liabilities** | | |
| Customer and other repayable deposits | **20** | 27 |
| Total current interest bearing liabilities | **20** | 27 |
| | | |
| Queensland Treasury Corporation loans | **16,267** | 12,085 |
| Total non-current interest bearing liabilities | **16,267** | 12,085 |

million).

The market value of QTC loans is the price that the notional underlying bonds and instruments funding the loan could be bought for at balance date as advised by the QTC.

The Group does not anticipate it will make loan repayments in the next 12 months (2015: Nil). There is no obligation to make repayments under current loan arrangements with QTC.

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **(B) FINANCING ARRANGEMENTS** | | |
| The Group has access to the following short-term lines of credit: | | |
| **Working capital and credit facilities** | | |
| Facilities used at the end of the reporting period - unsecured loans | **1** | 1 |
| Facilities not utilised at the end of the financial year - unsecured loans | **1,019** | 1,019 |
| Total facilities available | **1,020** | 1,020 |

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

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

Approved borrowings under the State Borrowing Program (SBP) for the newly formed Group were $18,000 million. The amount drawn at the end of the year was $16,267 million with $1,733 million undrawn, including $1,000 million undrawn working capital facilities disclosed above. This amount replaces the existing SBP approvals of the Energex and Ergon Energy Groups. Borrowings drawn under the SBP are funded through the Group's facilities with QTC.

### ACCOUNTING POLICIES

**Borrowings**

Borrowings are initially recognised at fair value net of transaction costs incurred. Interest-bearing borrowings are subsequently measured on an amortised cost basis with any difference between cost and redemption value being recognised in the statements of profit or loss over the period of the borrowings on an effective interest basis.

## NOTE 10: FINANCIAL LIABILITIES

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **At fair value through profit or loss** | | |
| Derivative financial instruments - electricity hedges | **10** | 16 |
| **Designated as cash flow hedges** | | |
| Derivative financial instruments - electricity hedges | **1** | 16 |
| Total current financial liabilities | **11** | 32 |

Relevant accounting policies are outlined in Note 12 Fair values and Note 13 Hedge accounting.

### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

**Electricity financial instruments measured at fair value**

The Group 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 outlined in Note 12 and Note 13. It has taken into account the conditions existing at balance date and has used its judgement in the following areas:

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

## NOTE 11: FINANCIAL RISK MANAGEMENT

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

From 30 June 2016, the financial risks faced by the Group will be managed in accordance with the Energy Queensland Treasury Policy.

Financial risks specific to the Energex and Ergon Energy Groups are managed under policies and procedures of those Groups.

**Financial risk management**

**(A) Credit risk**

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

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

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

The concentration of credit risk related to network customers is the risk of a retailer defaulting on their obligations. The Group operates in accordance with the Credit Support Guidelines issued by the Queensland Competition Authority, which align with the National Energy Customer Framework credit support arrangements. Under these guidelines, the ability to seek credit support is based on an assessment of the retailer's network charge liability compared to their credit allowance and payment history. In the event of significant retailer failure, an application to recoup such losses under general pass through provisions available through the AER would be considered. To further mitigate the risk of retailer default, trade credit insurance is taken out for all qualifying retailers. As at 30 June 2016 the Group had trade receivables of $321 million (2015: $320 million) from retailers. Three network customers represented 87% of these trade receivables (2015: three network customers represented 87% of these trade receivables).

**NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Financial risk management (Continued)**

**(A) Credit risk (Continued)**

Where appropriate, collateral in the form of a cash deposit or pre-payments are obtained from customers (other than limited by provisions outlined above) as a means of mitigating the risk of financial loss from defaults. At the end of the financial year, the Group held collateral of $27 million (2015: $34 million).

Note 22 provides details of guarantees held by the Group. The Group manages its credit settlement risk associated with electricity market hedging by maintaining an Energy Commodity Credit Risk Manual as part of an overarching Energy Commodity Risk Management Policy. Credit settlement risk is managed by maintaining approved counterparty credit limits. The values of counterparty credit limits are determined by reference to each counterparty's credit rating, as determined by a recognised credit rating agency or, if the counterparty does not have a credit rating, by reference to the results of a detailed credit analysis. Where considered appropriate, the Group requires counterparties to provide appropriate letters of credit or bank guarantees. These letters of credit and bank guarantees reduced the Group's exposure to credit risk by $1 million as at 30 June 2016 (2015: $2 million).

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

At 30 June 2016, there were no significant concentrations of credit risk other than those disclosed. The maximum exposure for the Group to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statements of financial position.

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

| Counterparty classification | 2016 | 2015 |
|---|---|---|
| Queensland Government-owned electricity entities | **79%** | 75% |
| Entities with a Standard & Poors credit rating AA | **-** | 2% |
| Entities with a Standard & Poors credit rating A | **1%** | 2% |
| Entities with a Standard & Poors credit rating BBB | **1%** | 1% |
| Other entities | **19%** | 20% |

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

**(B) Interest rate risk**

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

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

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

*Sensitivity analysis*

At 30 June 2016, if interest rates had been 100 basis points higher and all other variables were held constant, the Group's net profit and equity would decrease by $14 million. If interest rates had been 100 basis points lower and all other variables held constant, the Group's net profit and equity would increase $13 million.

The Group's borrowings from QTC have been classified as loans with a fixed interest rate in the following table. This interest rate cash flow risk has been incorporated in the preceding sensitivity analysis.

## NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

### (B) Interest rate risk (Continued)

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

| In millions of dollars | Floating Interest Rate $ | Fixed Interest Rate $ | Weighted Average Interest Rate % |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | **137** | - | **2.90%** |
| Total financial assets | **137** | **-** | |
| **Financial liabilities** | | | |
| Repayable deposits | **20** | **-** | **2.22%** |
| Loans (including interest payable) | **-** | **16,269** | **4.82%** |
| Total financial liabilities | **20** | **16,269** | |
| **2015 Restated** | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | 663 | - | 3.27% |
| Total financial assets | 663 | - | |
| **Financial liabilities** | | | |
| Repayable deposits | 27 | - | 1.75% |
| Loans (including interest payable) | - | 12,170 | Refer below[1] |
| Total financial liabilities | 27 | 12,170 | |

(1) For 2015 the effective average interest rates for the Energex and Ergon Energy Group fixed interest loans as at balance date were 4.36% and 6.20% respectively.

### (C) Price risk

*Electricity*

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

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

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

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

**NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(C) Price risk (Continued)**

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

| | Electricity Pool Price | | | |
|---|---|---|---|---|
| | +10% | +10% | 10% | 10% |
| In millions of dollars | 2016 | 2015 | 2016 | 2015 |
| Profit/(loss) before tax | **10** | 14 | **(11)** | (17) |
| Hedging reserve | **82** | 72 | **(81)** | (68) |
| Equity | **92** | 86 | **(92)** | (85) |

**(D) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available. Available lines of funding are disclosed in Note 9.

Liquidity risk associated with electricity market trading is controlled by the Australian Energy Market Operator (AEMO) whereby all market participants are required to deliver irrevocable bank guarantees as security for timely settlement.

These guarantees are held for and on behalf of all participants thereby limiting exposure to liquidity risk.

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

The tables below disclose the Group's financial liabilities, including derivative financial instruments, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are contractual, undiscounted cash flows. For options contracts, the undiscounted cash flow represents the future premium payable. The maturities of derivative financial instruments are calculated on the basis that derivatives will be settled on a gross basis. The Group's long-term borrowings from QTC have interest only in perpetuity repayment profiles. The principal component of QTC borrowings are included in the over five years' time band with no interest included in respect of this facility for the period over five years.

| In millions of dollars | Less than 1 year | 1 to 5 years | Over 5 years | Total contractual cash flows | Carrying Amount |
|---|---|---|---|---|---|
| **CONSOLIDATED** | | | | | |
| **2016** | | | | | |
| Electricity hedges | **13** | **1** | **-** | **14** | **11** |
| Financial guarantees | **100** | **-** | **-** | **100** | **-** |
| Non-interest bearing | **517** | **1** | **-** | **518** | **518** |
| Variable rate | **20** | **-** | **-** | **20** | **20** |
| Fixed rate (including interest payable) | **784** | **3,139** | **16,359** | **20,282** | **16,269** |
| **Total** | **1,434** | **3,141** | **16,359** | **20,934** | **16,818** |
| **2015 Restated** | | | | | |
| Electricity hedges | 25 | 13 | - | 38 | 32 |
| Power purchase agreements held for trading | 1 | - | - | 1 | - |
| Financial guarantees | 100 | - | - | 100 | - |
| Non-interest bearing | 3,875 | - | - | 3,875 | 3,875 |
| Variable rate | 27 | - | - | 27 | 27 |
| Fixed rate (including interest payable) | 542 | 2,161 | 11,928 | 14,631 | 12,170 |
| **Total** | 4,570 | 2,174 | 11,928 | 18,672 | 16,104 |

## NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

### (D) Liquidity risk (Continued)

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. For further information regarding guarantees refer to Note 22(C).

### (E) Capital management

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

The capital structure of the Group consists of borrowings disclosed in Note 9 and equity comprising issued capital, owners' contributions, reserves and retained earnings.

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

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

Operating cash flows are used to maintain and expand the Group's operating assets, as well as to make the routine outflows of interest and competitive neutrality fee payments on debt. The Group's policy is to borrow centrally to meet anticipated funding requirements.

The Group monitors capital on the basis of key financial ratios for debt to equity, interest cover and return on equity. At 30 June 2016 and 30 June 2015 these key financial ratios were as follows:

| | 2016 | 2015 Restated |
|---|---|---|
| Debt to debt plus equity ratio | **82.86%** | 75.67% |
| EBITDA to Interest cover (times) | **4.63** | 4.97 |
| Return on equity | **25.98%** | 23.81% |

## NOTE 12: FAIR VALUES

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

The carrying amounts of financial assets and liabilities are not materially different from their estimated fair values at the end of the financial year, unless otherwise stated.

Financial assets and liabilities not carried at fair value and classified as non-current are discounted to determine the fair value using a risk free interest rate where the impact of discounting is considered material.

*1) Fair value measurements*

The Group uses the following fair value measurement hierarchy:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

**NOTE 12: FAIR VALUES (CONTINUED)**

The following table presents the Group's financial assets and liabilities measured and recognised at fair value. Refer to Note 14 for non-financial assets carried at fair value.

| In millions of dollars | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2016** | | | | |
| **Assets** | | | | |
| Power purchase agreements held for trading | **-** | **-** | **2** | **2** |
| Electricity hedges | **60** | **129** | **-** | **189** |
| Large-scale generation certificates held for trading | **-** | **36** | **-** | **36** |
| Small-scale technology certificates held for trading | **-** | **1** | **-** | **1** |
| | **60** | **166** | **2** | **228** |
| **Liabilities** | | | | |
| Electricity hedges | **7** | **4** | **-** | **11** |
| | **7** | **4** | **-** | **11** |
| **2015 Restated** | | | | |
| **Assets** | | | | |
| Electricity hedges | 3 | 50 | - | 53 |
| Large-scale generation certificates held for trading | - | 29 | - | 29 |
| Small-scale technology certificates held for trading | - | 4 | - | 4 |
| | 3 | 83 | - | 86 |
| **Liabilities** | | | | |
| Electricity hedges | 3 | 29 | - | 32 |
| | 3 | 29 | - | 32 |

2) *Reconciliation of level 3 fair value measurements*

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

| In millions of dollars | Electricity hedges | PPAs held for trading | Total |
|---|---|---|---|
| **2016** | | | |
| **Assets** | | | |
| Opening balance | **-** | **-** | **-** |
| Unrealised gains/(losses) recognised in statement of profit or loss | **-** | **2** | **2** |
| Closing balance | **-** | **2** | **2** |
| **2015 Restated** | | | |
| **Assets** | | | |
| Opening balance | 4 | - | 4 |
| Transfers out of level 3 | (4) | - | (4) |
| Closing balance | - | - | - |
| **Liabilities** | | | |
| Opening balance | (6) | (4) | (10) |
| Transfers out of level 3 | 6 | - | 6 |
| Settlements | - | 4 | 4 |
| Closing balance | - | - | - |

**NOTE 12: FAIR VALUES (CONTINUED)**

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

Transfers between hierarchy levels are expected to occur when there is a change in the observability of a pricing input, or a change in valuation technique. The Group recognises transfers between levels of the fair value hierarchy as of the beginning of the reporting period during which the transfer has occurred. During 2016 there were no transfers of electricity derivatives between level 2 and level 3 (2015: electricity derivatives valued at $2 million were transferred from a level 3 into level 2 due to an increase in market liquidity and the instrument became readily tradeable).

*4) Valuation policies and procedures*

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

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

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

*(A) Swaps*

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

(i) Swaps over the counter – TFS quarterly peak and off peak is shaped into half hourly intervals using May 2015 to April 2016 pool prices and seasonality factors.

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

*(B) Options*

(i) $300 Caps Exchange Traded

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

(ii) Caps over the counter

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

(iii) Swaptions

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

*(C) Power purchase agreements*

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

*(D) Large-scale generation certificates*

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

*(E) Small-scale technology certificates*

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

**NOTE 12: FAIR VALUES (CONTINUED)**

*Fair value valuation techniques and significant unobservable inputs*

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

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

**Master netting or similar agreements**

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

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

**NOTE 12: FAIR VALUES (CONTINUED)**

**Master netting or similar agreements (Continued)**

| In millions of dollars | Note | Gross amounts of financial instruments in the statement of financial position | Related financial instruments that are not offset | Net amount |
|---|---|---|---|---|
| **2016** | | | | |
| **Financial assets** | | | | |
| Electricity hedges | 7 | **191** | **(9)** | **182** |
| **Financial liabilities** | | | | |
| Electricity hedges | 10 | **(11)** | **9** | **(2)** |
| | | | | |
| **2015 Restated** | | | | |
| **Financial assets** | | | | |
| Electricity hedges | 7 | 53 | (53) | - |
| **Financial liabilities** | | | | |
| Electricity hedges | 10 | (32) | 53 | 21 |

**ACCOUNTING POLICIES**

**Financial instruments**

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

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

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

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

2) *Power purchase agreements*

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

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

3) *Embedded derivatives*

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

## NOTE 13: HEDGE ACCOUNTING

*Cash flow hedges*

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

The Ergon Energy Group principally uses energy swaps, and options (including caps and swaptions) to protect against price and volume fluctuations. The effective hedge contracts are valued at fair value through other comprehensive income with hedge accounting employed only for swaps and the intrinsic value of options. Ineffective hedge contracts are valued at fair value through profit or loss.

The Group undertakes derivative transactions to hedge the price of expected electricity it purchases over a three-year period within a set of Gross Margin at Risk limits.

Changes in hedge effectiveness are predominantly driven by changes in energy load forecasts.

The inherent variability in the volume of electricity purchased by customers and dispatched from generators means that actual purchase requirements and sales volume can vary from the forecasts. The forecasts are updated for significant changes in underlying conditions and where this leads to a reduction in the forecast below the aggregate notional volume of hedge instruments in the relevant periods impacted the affected hedging instruments are de-designated and the accumulated gain or loss which has been recognised in the hedge reserve is recognised directly in the statement of profit or loss as the underlying forecast purchase or sale transactions are no longer expected to occur. During the year ended to 30 June 2016 no hedges (2015: Nil) were de-designated and all underlying forecast transactions remain highly probable to occur as originally forecast.

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

(i) *Nominal amount of electricity hedges outstanding*

The average notional amount of electricity hedges outstanding over the next 2 years from the 2016/17 to 2017/18 financial year is approximately 6,238,000 MWh (Megawatt hours) at an average contracted price ranging between $54 and $57 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 in Note 12:

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| Financial Assets: Cash flow hedges - electricity derivatives | **161** | 34 |
| Financial Liabilities: Cash flow hedges - electricity derivatives | **(1)** | (16) |

(iii) *The impact of hedging instruments designated in hedge relationships as at 30 June 2016 is as follows*:

| In millions of dollars | Note | 2016 | 2015 Restated |
|---|---|---|---|
| *Statement of profit or loss* | | | |
| Gain on unwinding of inception value of designated hedges | 2 | **28** | 43 |
| Ineffectiveness gains recognised in other income | 2 | **6** | 1 |

**NOTE 13: HEDGE ACCOUNTING (CONTINUED)**

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| *Statement of comprehensive income* | | |
| *Cash flow hedge reserve (CFHR)* | | |
| Opening balance | **40** | **-** |
| The effective portion recognised in CFHR (pre-tax) | **147** | **148** |
| Transfer from CFHR to electricity purchases | **(28)** | **(108)** |
| Closing balance (pre-tax) | **159** | **40** |

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

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

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| *Electricity Price Risk* | | |
| Changes in value of hedge instrument | **165** | 42 |
| Changes in value of hedge item | **164** | 25 |
| Cash flow hedge reserve | **159** | 40 |

**ACCOUNTING POLICIES**

**Derivative financial instruments and hedge accounting**

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 12. Movements of the hedging reserve in shareholders' equity are shown in the statement of other comprehensive income.

The fair value of hedging derivatives is classified as either current or non-current based on the timing of the underlying cash flows of the instrument. Cash flows due within 12 months of the reporting date are classified as current and cash flows due after 12 months of the reporting date are classified as non-current.

*Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit 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 criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss and other comprehensive income. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

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

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

## SECTION 4: Operating assets and liabilities

### NOTE 14: PROPERTY, PLANT AND EQUIPMENT

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **SUPPLY SYSTEMS**[1] | | |
| At valuation | **33,476** | 31,902 |
| Less accumulated depreciation | **(12,550)** | (11,925) |
| Net carrying value | **20,926** | 19,977 |
| | | |
| At valuation | **480** | 456 |
| Less accumulated depreciation | **(233)** | (212) |
| Net carrying value | **247** | 244 |
| | | |
| At valuation | **25** | 23 |
| Net carrying value | **25** | 23 |

**NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **BUILDINGS- regulated non-system[1]** | | |
| At valuation | **142** | 112 |
| Less accumulated depreciation | **(59)** | (56) |
| Net carrying value | **83** | 56 |
| **OTHER PLANT AND EQUIPMENT[2]** | | |
| At cost | **1,060** | 1,090 |
| Less accumulated depreciation | **(552)** | (582) |
| Less accumulated impairment losses | **(10)** | (10) |
| Net carrying value | **498** | 498 |
| **WORK IN PROGRESS** | | |
| Work In Progress | **557** | 853 |
| **TOTAL PROPERTY, PLANT AND EQUIPMENT** | **22,336** | 21,651 |

(1) Supply systems include land and building assets which are utilised for warehousing and logistics purposes, training and pole depot facilities and field response activities. These land and building assets are integral to supporting the operation of the electricity network and form a part of the regulated asset portfolio.
To unify classification of assets in the preparation of the consolidated Group accounts certain Ergon Energy Group assets have been transferred from land, buildings and other property, plant and equipment to supply systems.

(2) To unify accounting policies for the valuation of property, plant and equipment in the preparation of the consolidated Group accounts, adjustments have been made to the other plant and equipment of the Ergon Energy Group.

*Measurement of fair value*

The fair value measurement for supply system, land and building assets of $21,281 million (2015: $20,300 million) has been categorised as a level 3 fair value based on the inputs to the valuation technique applied (refer accounting policies below).

The discount rate used by the Group to discount future cash flows is higher than the allowed rate of return as established by the regulator in its Final Decision for the regulatory control period 2015-2020 (which is the rate applied to the regulated asset base (RAB) to determine future cash flows). The use of a discount rate higher than the regulated rate of return leads to an estimated fair value below the value of the RAB as determined by the regulator.

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

## NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| If property, plant and equipment were stated on a historical basis, the carrying amount would have been: | | |
| Supply Systems | **16,600** | 15,550 |
| Power stations | **212** | 203 |
| Land | **11** | 6 |
| Buildings | **77** | 50 |
| **RECONCILIATIONS** | | |
| Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below: | | |
| **SUPPLY SYSTEMS** | | |
| Gross carrying amount at the beginning of the financial year | **31,901** | 31,648 |
| Accumulated depreciation and impairment at the beginning of the financial year | **(11,924)** | (11,701) |
| Carrying amount at the beginning of the financial year | **19,977** | 19,947 |
| Transfers of assets between categories | **(11)** | (8) |
| Transfer from work in progress | **824** | 739 |
| Transfer to non-current assets held for sale | **(6)** | (5) |
| Additions | **700** | 782 |
| Disposals | **(7)** | (4) |
| Revaluation increments/(decrements) | **178** | (765) |
| Depreciation expense | **(727)** | (695) |
| Impairment losses | **(2)** | (14) |
| Carrying amount at the end of the financial year | **20,926** | 19,977 |
| | | |
| Gross carrying amount at the beginning of the financial year | **456** | 407 |
| Accumulated depreciation and impairment at the beginning of the financial year | **(212)** | (182) |
| Carrying amount at the beginning of the financial year | **244** | 225 |
| Transfers of assets between categories | **11** | - |
| Additions | **12** | 19 |
| Revaluation increments/(decrements) | **1** | 19 |
| Depreciation expense | **(21)** | (19) |
| Carrying amount at the end of the financial year | **247** | 244 |
| **LAND** | | |
| Carrying amount at the beginning of the financial year | **23** | 14 |
| Transfers of assets between categories | **-** | 9 |
| Additions | **5** | - |
| Disposals | **-** | - |
| Impairments | **(3)** | - |
| Carrying amount at the end of the financial year | **25** | 23 |

## NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **BUILDINGS** | | |
| Gross carrying amount at the beginning of the financial year | **112** | 112 |
| Accumulated depreciation and impairment at the beginning of the financial year | **(56)** | (53) |
| Carrying amount at the beginning of the financial year | **56** | 59 |
| Transfers of assets between categories | **-** | - |
| Additions | **30** | 1 |
| Disposals | **-** | - |
| Revaluation increments/(decrements) | **2** | - |
| Depreciation expense | **(5)** | (4) |
| Carrying amount at the end of the financial year | **83** | 56 |
| | | |
| Gross carrying amount at the beginning of the financial year | **1,062** | 1,052 |
| Accumulated depreciation and impairment at the beginning of the financial year | **(564)** | (546) |
| Carrying amount at the beginning of the financial year | **498** | 506 |
| Transfers of assets between categories | **-** | - |
| Transfers from work in progress | **49** | 50 |
| Transfers to intangible assets | **(2)** | - |
| Additions | **79** | 71 |
| Disposals | **(13)** | (13) |
| Depreciation expense | **(113)** | (115) |
| Impairment | **-** | (1) |
| Carrying amount at the end of the financial year | **498** | 498 |
| | | |
| **WORK IN PROGRESS** | | |
| Carrying amount at the beginning of the financial year | **853** | 665 |
| Transfers to property, plant and equipment and intangible assets | **(1,641)** | (1,472) |
| Additions | **1,330** | 1,632 |
| Capitalised interest | **15** | 28 |
| Carrying amount at the end of the financial year | **557** | 853 |
| **TOTAL PROPERTY, PLANT AND EQUIPMENT** | **22,336** | 21,651 |

**NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

**Valuation of the Group's regulated Supply System assets**

The majority of the Group's property, plant and equipment are employed in the distribution of electricity and subject to regulation via a revenue allowance (revenue cap). The fair value valuation of the Group's property, plant and equipment is determined via independent and directors valuations using a discounted cash flow (DCF) methodology.

The nature of the Group's property, plant and equipment is assessed on the key assumption that it has an indefinite life.

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

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

Thus, the key assumptions considered in the DCF methodology for the valuation of the Group's Supply System assets are:

- The quantification and assessment of the cash flow forecasts generated by the Group's property, plant and equipment during the forecast period;
- The inclusion of estimated annual capital expenditure during the forecast period to ensure the ongoing security and reliability of the network;
- Application of terminal value (in the case of the regulated property, plant and equipment) reflecting a 1.0 times multiple (2015:1.0 times) of terminal year RAB; and
- Determination of a discount rate which is used to convert the future cash flows into a present day value. The discount rate of between 7.26% and 7.27% (2015: 6.00% and 7.04%) reflects both the time value of money and the risks inherent in the projected cash flows.

It has been noted in assessing the fair value of property, plant and equipment that regulatory changes may also impact the Group.

Consistent with historical valuation techniques, prior period regulated under recoveries have been excluded from the cash flows for valuation purposes and no allowance has been made for future period under or over recoveries.

**NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

**Valuation policies and procedures**

The Group has established control frameworks with respect to the measurement of fair values. The fair value of the Group's regulated assets was determined using the DCF methodology, which reflects the present value of an investment's future cash flows in order to arrive at a current fair value estimate for an investment. As this valuation uses inputs not based on observable market data (i.e. unobservable inputs) this resulted in a level 3 fair value. Transfers between hierarchy levels occur when there is a change in the observability of a pricing input, or a change in valuation technique. The Group recognises transfers between levels of the fair value hierarchy as of the beginning of the reporting period during which the transfer has occurred. There has been no change to the valuation technique during the year.

**Valuation inputs and relationships to fair value**

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

| Fair value at 30 June 2016 $M | Unobservable inputs | Nature and range of inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|
| 21,281 | Revenue cash flows | Revenue cash flows have been determined based on the AER's Final Decision (2015-2020). | A higher allowed rate of return increases the fair value. |
| | Operating Expenditure | Operating expenditures for the distribution network have been determined based on the AER's Final Decision (2015-2020). | A lower operating expenditure increases the fair value. |
| | Capital Expenditure | Future capital expenditure required to ensure the security and reliability of the distribution network have been determined based on the AER's Final Decision (2015-2020). | A lower future capital expenditure increases the fair value. |
| | Terminal value | Terminal value has been determined based the AER's Final Decision (2015-2020) regulatory asset base (RAB) value as at year 2020 and a terminal value multiple of 1.00 . | A higher terminal value and multiple increases the fair value. |
| | Weighted Average Cost of Capital (WACC) discount rate | A nominal WACC of 7.27% (2015: 7.04%) with a range of 6.77% to 7.70% for the Energex asset base and 7.26% (2015: 6.00%) with a range of 6.95% to 7.58% for the Ergon Energy asset base has been employed in the valuation. The WACC discount rate has been determined in consultation with independent experts based on a long-term view of the market cost of capital. | The higher the nominal WACC, the lower the fair value. |

**NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

**ACCOUNTING POLICIES**
**Property, plant and equipment**

*(i) Recognition and measurement*

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

Supply system, land and building assets are measured at fair value less any subsequent depreciation. The fair value of these assets was determined as at 30 June 2016 using an income approach as there was no market based evidence of fair value due to the specialised nature of the regulated assets, and the items are rarely sold, except as part of a continuing business.

Power station assets comprising isolated generation and distribution systems were subject to an independent valuation undertaken by experts using the Depreciated Optimised Replacement Cost methodology as at 30 June 2014. These values were rolled forward to 30 June 2016 and then uplifted using a basket of representative indices which estimate the fair value.

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

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

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

*(ii) Depreciation*

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

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

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

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

Major depreciation periods are:

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

*(iv) Disposal of items of property, plant and equipment*

The gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds of disposals with the carrying amounts of the items. The net gains and losses on disposals are included in the statement of profit or loss.

*(v) Maintenance and repairs*

Maintenance costs are charged as an expense as incurred. Other routine repair and minor renewal costs are also charged as expenses as incurred.

(v) *Contributed Assets*

Contributed Assets are those that are funded by customers and either constructed by the Group or constructed by an external party and then gifted to the Group. Contributed assets are recognised at fair value on the date when control passes to the Group and the assets are ready for use.

*(vii) Finance and related costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

## NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

**Impairment of assets**

All assets which are depreciated or amortised are reviewed for events or changes in circumstances that may indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Dismantled supply system assets, assets held for sale or property assets decommissioned for remediation are removed from the relevant cash generating unit and impaired once the decision is made to dismantle, sell or decommission and remediate.

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

An impairment loss is recognised for the amount by which the carrying amount of the asset (or cash generating unit) exceeds its recoverable amount. An impairment loss is recognised immediately in the statements of profit or loss, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent a prior revaluation increments are available.

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

## NOTE 15: EMPLOYEE RETIREMENT BENEFITS

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| Retirement benefit asset | **125** | 242 |
| Total non-current employee retirement benefit asset | **125** | 242 |

**(A) DEFINED BENEFIT OBLIGATION**

The Group contributes to an industry multiple employer superannuation fund, Energy Super. After serving a qualifying period, members are entitled to benefits from this fund on retirement, resignation, retrenchment, disability or death.

The defined benefit account of this fund provides defined lump sum benefits based upon years of service and final average salary. Employee contributions to the fund are based on various percentages of their gross salaries.

Energy Super is managed by a trustee company, Electricity Supply Industry Superannuation (Qld) Ltd. The Trustee is responsible for managing Energy Super for the benefit of all members, in accordance with the trust deed and relevant legislation. At 30 June 2016, the Trustee Board consisted of four member representative directors, four employer representative directors and one independent director.

Energy Super is regulated by the Australian Prudential Regulation Authority under the Superannuation Industry (Supervision) Act 1993.

The Trust Deed of the Fund states that, if the Fund winds up, after the payment of all costs and the payment of all member benefits in respect of the period up to the date of termination, any remaining Defined Benefit assets may be distributed by the Trustee of the Fund to the participating employees, acting on the advice of an actuary, unless directed otherwise by the employer in accordance with the Trust Deed.

The Group may at any time, by notice to the Trustee, terminate its contributions. The employer has a liability to pay the monthly contributions due prior to the effective date of the notice, but there is no requirement for an employer to pay any further contributions, irrespective of the financial condition of the Fund. The Group voluntarily makes additional contributions in relation to the Defined Benefit Fund.

The Group may benefit from any surplus in the Fund in the form of a contribution reduction or contribution holiday. Any reduction in contributions would normally be implemented only after advice from the Fund's actuary.

## NOTE 15: EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

**Reconciliation of movements in the net defined benefit asset/(liability)**

| In millions of dollars | Defined benefit obligation | Fair value of plan assets | Net defined benefit asset/ (liability) |
|---|---|---|---|
| **Year ended 30 June 2016** | | | |
| Carrying amount at start of year | (790) | 1,032 | 242 |
| **Included in profit or loss** | | | |
| Current service cost | (28) | - | (28) |
| Interest income/(cost) | (30) | 40 | 10 |
| | (58) | 40 | (18) |
| **Included in other comprehensive income** | | | |
| Remeasurement gain/(loss): | | | |
| Actuarial gain/(loss) arising from: | | | |
| Changes in financial assumptions | (77) | - | (77) |
| Experience adjustments[1] | (35) | 6 | (29) |
| Return on plan assets excluding interest income | - | - | - |
| | (112) | 6 | (106) |
| **Other** | | | |
| Contributions by the employer | - | 7 | 7 |
| Contributions by Fund participants | (8) | 8 | - |
| Benefit payments and tax | 103 | (103) | - |
| | 95 | (88) | 7 |
| **Carrying amount as at 30 June 2016** | **(865)** | **990** | **125** |
| | | | |
| **Year ended 30 June 2015** | | | |
| Carrying amount at start of year | (893) | 1,014 | 121 |
| **Included in profit or loss** | | | |
| Current service cost | (34) | - | (34) |
| Interest income/(cost) | (29) | 32 | 3 |
| | (63) | 32 | (31) |
| **Included in other comprehensive income** | | | |
| Remeasurement gain/(loss): | | | |
| Actuarial gain/(loss) arising from: | | | |
| Changes in financial assumptions | 78 | - | 78 |
| Experience adjustments[1] | 7 | - | 7 |
| Return on plan assets excluding interest income | - | 59 | 59 |
| | 85 | 59 | 144 |
| **Other** | | | |
| Contributions by the employer | - | 8 | 8 |
| Contributions by Fund participants | (9) | 9 | - |
| Benefits payments and tax | 90 | (90) | - |
| | 81 | (73) | 8 |
| **Carrying amount as at 30 June 2015** | (790) | 1,032 | 242 |

(1) Experience adjustments are the effects of differences between previous actuarial assumptions and what has actually occurred.

## NOTE 15: EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

**The major categories of plan assets are as follows:**

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| Cash | **86** | 125 |
| Fixed interest | **58** | 69 |
| Australian shares | **250** | 260 |
| International shares | **269** | 279 |
| Alternatives- growth | **28** | 148 |
| Alternatives- defensive | **130** | 47 |
| Property and infrastructure | **169** | 104 |
| **Total fair value of plan assets** | **990** | 1,032 |

This portfolio exposes the Fund to market risk. All shares and fixed interest plan assets have quoted prices in active markets. The actual return on plan assets for 2016 was a profit of $46 million (2015: $92 million).

The defined benefit assets are invested in a balanced investment portfolio, to match the weighted average duration of the defined benefit obligation of 9 years (2015: 9 years).

**Key actuarial assumptions used at the reporting date are as follows:**

| | 2016 % | 2015 Restated % |
|---|---|---|
| Expected rate of return on plan assets for one year | **3.0** | 4.0 |
| Pre-tax discount rate | **3.3** | 4.4 |
| Post-tax discount rate | **2.8** | 3.6 |
| Future salary increases | **3.0** | 3.0 |

**The expected maturity of undiscounted defined benefit obligations is as follows:**

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| Not later than one year | **64** | 63 |
| Later than one year and not later than five years | **271** | 262 |
| Later than five years | **1,287** | 1,345 |
| **Total undiscounted defined benefit obligations** | **1,622** | 1,670 |

## NOTE 15: EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

**Sensitivity analysis:**

The sensitivity of the defined benefit obligation to changes in the significant assumptions, holding other assumptions constant were as follows:

| | | 2016 % | 2015 Restated % |
|---|---|---|---|
| Discount rate | | | |
| | 0.5% increase | (4.75) | (4.70) |
| | 0.5% decrease | 5.10 | 5.00 |
| Future salary increases | | | |
| | 0.5% increase | 5.25 | 5.35 |
| | 0.5% decrease | (4.90) | (4.90) |

**Net financial position of plan**

The superannuation plan computes its obligations in accordance with AAS 25 *Financial Reporting by Superannuation Plans* (AAS 25) which prescribes a different measurement basis to that applied in this financial report pursuant to AASB 119 *Employee Benefits*. Under AAS 25, and in accordance with the Occupational Superannuation Standards Regulation, the Energy Super Fund is required to undertake actuarial investigations at least every three years. The last reporting period for the Energy Super Fund Actuarial Report for the Group was 30 June 2013. The next Actuarial Report as at 30 June 2016 will be completed in the 2016/17 financial year.

The following is a summary of the most recent financial position of the Energy Super Fund (with respect to both defined benefit and accumulation members for the Group's participation in the Fund) calculated in accordance with AAS 25:

| In millions of dollars | Last reporting period | |
|---|---|---|
| Accrued benefits | 30/06/2013 | (1,480) |
| Net market value of plan assets | 30/06/2013 | 1,546 |
| **Net surplus** | | 66 |

**Employer contributions**

The Group contributes to both defined contribution and defined benefit superannuation plans.

For the financial year ended 30 June 2016, the Group contributed in a range of 4-5% (2015: 4-5%) of defined benefit members' salaries. The Group expects to retain a contribution rate in the range of 4-5% during the next financial year. Accordingly, the Group expects to contribute $8 million (2015/16: $8 million) to its defined benefit plan in 2016/17. Funding recommendations are made by the actuary based on their forecast of various matters including future plan asset performance, interest rates and salary increases. The Group will assess this contribution rate in the future to ensure it remains appropriate.

## NOTE 15: EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

### (B) DEFINED CONTRIBUTION PLANS

The Group makes contributions to defined contribution schemes in various superannuation funds. The amount recognised as an expense was $59 million for the year ended 30 June 2016 (2015: $56 million).

### ACCOUNTING POLICIES

**Employee retirement benefits**

A defined contribution plan is a superannuation plan under which the Group pays fixed contributions. The Group has no legal or constructive obligations to pay further contributions and are typically limited to prior contributions.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

A defined benefit plan is a superannuation plan that defines the amount of the benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and final salary. The asset or liability recognised in the statement of financial position in respect of defined benefit superannuation plans is the difference between the present value of the defined benefit obligation at the reporting date and the fair value of the plan assets, together with adjustments for past service costs.

The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, being Australian dollars and that have terms to maturity that approximate the terms of the related superannuation liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in equity.

## NOTE 16: NET DEFERRED TAX EQUIVALENT LIABILITY

| | 2016 $M | 2015 $M Restated |
|---|---|---|
| **(A) DEFERRED TAX EQUIVALENT ASSETS** | | |
| The balance comprises temporary differences attributable to: | | |
| **Amounts recognised in statements of profit or loss** | | |
| Provisions | **139** | 118 |
| Tax losses | **22** | 18 |
| Derivatives | **3** | 8 |
| Unearned revenue | **14** | 13 |
| Other | **4** | 5 |
| | **182** | 162 |
| Tax losses utilised by wholly-owned entities | **-** | - |
| **Amounts recognised directly in equity** | | |
| Hedge accounting of derivatives | **-** | 1 |
| Deferred tax equivalent asset | **182** | 163 |
| **(B) DEFERRED TAX EQUIVALENT LIABILITIES** | | |
| The balance comprises temporary differences attributable to: | | |
| **Amounts recognised in statements of profit or loss** | | |
| Property, plant and equipment | **1,955** | 1,966 |
| Derivatives | **10** | 3 |
| Other | **27** | 26 |
| | **1,992** | 1,995 |
| **Amounts recognised directly in equity** | | |
| Recognition of defined benefit surplus | **38** | 68 |
| Revaluation of property, plant and equipment | **1,557** | 1,501 |
| Hedge accounting of derivatives | **48** | 13 |
| Deferred tax equivalent liabilities | **3,635** | 3,577 |
| **(C) TOTAL NET DEFERRED TAX EQUIVALENT LIABILITY** | | |
| Deferred tax equivalent asset | **182** | 163 |
| Deferred tax equivalent liabilities | **(3,635)** | (3,577) |
| Net deferred tax equivalent liability | **(3,453)** | (3,414) |

The Group has a closing current tax liability of $144 million at 30 June 2016. At 30 June 2015 the current tax liabilities were held by Energex on behalf of the Energex Group of $184 million, and Ergon Energy on behalf of the Ergon Energy Group of $134 million.

## NOTE 16: NET DEFERRED TAX EQUIVALENT LIABILITY (CONTINUED)

### ACCOUNTING POLICIES

**Income taxes**

*(i) Tax equivalents*

The Group is liable to make tax equivalent payments on its taxable income to the Queensland Government. Any taxation payments that it is required to make will be made pursuant to Section 129(4) of the *Government Owned Corporations Act 1993*.

The National Tax Equivalents Regime (NTER) broadly utilises the provisions of the *Income Tax Assessment Act 1936*, the *Income Tax Assessment Act 1997* and associated legislation, the NTER Manual as well as Rulings and other pronouncements by the Australian Taxation Office (ATO), in order to determine the tax payable by the Group.

*(ii) Current tax equivalents payable*

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the financial year and any adjustment to tax payable in respect of previous years.

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

*(iii) Deferred tax equivalent assets and liabilities*

Deferred tax equivalent assets (DTA) and liabilities (DTL) are recognised on deductible or taxable temporary differences and unused tax losses and tax credits, which are recognised using the tax rates enacted or substantively enacted at the reporting date.

Temporary differences are differences between the carrying amount of an asset and liability for financial reporting purposes and their tax bases. Tax bases are determined based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Movements in DTA and DTL balances are recognised as deferred tax equivalent expenses, except to the extent they relate to items recognised directly in equity, in which case that portion is recognised in equity;

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

*(iv) Income tax equivalent expense*

Income tax equivalent expense for the reporting period consists of current tax expense and deferred tax expense. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity.

*(v) Tax consolidation*

Energy Queensland and its wholly-owned subsidiaries elected to form a tax-consolidated group with effect from 30 June 2016 and are therefore taxed as a single entity. The head entity within the tax-consolidated group will be Energy Queensland Limited.

Up to the date of the formation of the new tax-consolidated group:

- Energex and its wholly-owned subsidiaries were a tax-consolidated group and were therefore taxed as a single entity. The head entity of the Group was Energex;
- Ergon Energy and its wholly-owned subsidiaries were a tax-consolidated group and were therefore taxed as a single entity. The head entity of the Group was Ergon Energy; and
- SPARQ Solutions was a standalone entity.

Due to the formation of the Energy Queensland Limited tax consolidated group on 30 June 2016, the Energex and Ergon Energy tax-consolidated Groups ceased to exist. The new formed tax-consolidated group includes Energex and Ergon Energy and all their wholly-owned subsidiaries, as well as SPARQ Solutions; a joint arrangement between Energex and Ergon Energy.

Current tax expense/income, DTAs and DTLs arising from temporary differences of the members of a tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the standalone basis as specified in the tax funding deed.

The tax funding deed requires a notional current and deferred tax equivalents calculation for each entity as if it were a taxpayer in its own right, with the exception of distributions made and received within the tax-consolidated group (e.g. intra-group dividends) which are treated as having no tax consequences.

The head entity recognises DTAs arising from unused tax losses and tax credits of the members of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. The recognised tax losses are available indefinitely for offsetting against the future taxable profits subject to the satisfaction of certain loss recoupment rules.

**NOTE 16: NET DEFERRED TAX EQUIVALENT LIABILITY (CONTINUED)**

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

The members of the Energy Queensland tax-consolidated group have entered into a tax funding deed which sets out the tax funding obligations for each member. The tax funding deed allows for an intercompany payable/receivable between the head entity and subsidiary equal to the current tax liability or asset assumed by the head entity. Any tax loss or deferred tax equivalent asset assumed by the head entity, results in the recognition of an inter-entity receivable/payable in the separate financial statements of the members of the tax-consolidated group equal in amount to the tax liability/asset assumed. Such tax funding arrangements were in place also for the Energex and Ergon Energy tax-consolidated groups, up to 30 June 2016.

The head entity recognises the assumed current tax amounts as current tax liabilities/assets (only after the formation of the tax-consolidated group), adding to its own current tax amounts (if any), since they are also due to or from the same taxation authority. The current tax liabilities/assets are equivalent to the tax balances generated by external transactions entered into by the tax-consolidated group.

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

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

*(vii) Tax on the formation of the Group*

The formation of the Energy Queensland Group was undertaken in a tax neutral manner for NTER purposes in accordance with Paragraphs 103, 103A and103B of the Manual for the NTER issued in April 2016, Version 10 (the NTER Manual).

The group has received a letter of comfort dated 15 August 2016 from the NTER Administrator confirming the tax neutral treatment of the Queensland State Government imposed restructure under paragraph 103 of the NTER Manual.

As such no taxable gain or loss arose in relation to transfers of assets and liabilities as set out in Note 1C. The Group has inherited the historical NTER tax cost bases and tax characteristics of the Energex Group and Ergon Energy Groups' assets and liabilities (and the historical NTER tax cost bases and tax characteristics of assets and liabilities of each entity's respective subsidiaries and associates including SPARQ Solutions) on acquisition.

**Goods and services tax**

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

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

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

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

## NOTE 17: EMPLOYEE BENEFITS

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Employee benefits | **291** | 286 |
| Termination benefits | **36** | 15 |
| Total current employee benefits liability | **327** | 301 |
| **NON-CURRENT LIABILITIES** | | |
| Employee Benefits | **30** | 29 |
| Total non-current employee benefits liability | **30** | 29 |

### ACCOUNTING POLICIES

**Employee benefits**

*(i) Wages and salaries, annual leave, long service leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities expected to be settled more than 12 months after the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

For long service leave, consideration is also given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments relating to such liabilities are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, to the estimated future cash outflows.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Annual leave, vested long service leave and on-cost entitlements accrued but not expected to be taken within 12 months have been included as part of current liabilities as the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

*(ii) Termination benefits*

Liabilities for termination benefits are recognised for the obligation to provide termination payments to employees where there is a valid expectation in those affected that the Group will progress with a restructuring and associated terminations.

### CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

**Employee benefits**

Management has applied judgement in determining the following key assumptions used in calculating long service leave at balance date:

- Future increases in wages and salaries;
- Employee departures; and
- Periods of service.

## SECTION 5: Capital structure

### NOTE 18: SHARE CAPITAL

| | 2016 | 2016 |
|---|---|---|
| **SHARE CAPITAL** | **Shares** | **$M** |
| Fully paid ordinary shares | 100 | 19,643 |
| **Total share capital** | **100** | **19,643** |

The first issue of shares were allotted by Energy Queensland to shareholding Ministers on establishment of the Company on 20 May 2016 at nominal value. On 30 June 2016, a further 98 shares were issued for $19,643 million as part of the establishment of the EQL Group.

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

The share capital of Energex (122,600,006 A class ordinary voting shares carried at $123 million by Energex and 752,932,768 B class non-voting shares carried at $624 million by Energex) and Ergon Energy (26 A class shares of nominal carrying amount and 1,172,151,523 B class shares carried at $942 million in Ergon Energy) were transferred from the shareholding Ministers to Energy Queensland by Regulation on 30 June 2016.

There were no other changes in share capital during the period.

### NOTE 19: OTHER TRANSACTIONS WITH OWNERS, RESERVES AND RETAINED EARNINGS

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| Other transactions with owners[1] | **(18,635)** | (11) |
| Asset revaluation reserve | **2,174** | 2,052 |
| Hedging reserve | **112** | 28 |
| Retained earnings[1] | **71** | 128 |

(1) On 30 June 2016, to facilitate the formation of the Group, the share capital of the Energex and Ergon Energy and borrowings from QTC were transferred via Regulation and recorded as transactions with owners in their capacity as owners. Refer to Note 1(C).

#### ACCOUNTING POLICIES

**Other transactions with owners**

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

#### NATURE AND PURPOSE OF RESERVES

**Asset revaluation reserve**

The asset revaluation reserve relates to property, plant and equipment measured at fair value in accordance with applicable Australian Accounting Standards.

**Hedging reserve**

The hedging reserve is used to record the effective portion of the gains or losses on hedging instruments in cash flow hedges that have not settled. Amounts are recognised in profit or loss when the associated hedged transactions affect the profit or loss statement or as part of the cost of an asset if non-monetary.

## SECTION 6: Other notes

### NOTE 20: LEASES

### OPERATING LEASES

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| Not later than one year | **36** | 42 |
| Later than one year but not later than five years | **145** | 143 |
| Later than five years | **194** | 231 |
| Non-cancellable operating lease commitments | **375** | 416 |

The Group leases various office, workshop and storage space under non-cancellable operating leases expiring within 1 to 13 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are re-negotiated.

The Group sub-leases various corporate premises to tenants. The total future minimum sub-lease payments expected to be received under non-cancellable subleases at the end of the reporting period is $10 million.

The Group has five significant leasing arrangements. The Ergon Energy Ann St Brisbane office has a remaining term of 7 years with two five year options. The escalation is set at 3.5% per annum. The Ergon Energy Flinders St Townsville office has a remaining term of 12 years with one five year option. The escalation is set at 4.0% per annum. The Energex Newstead office has a remaining term of 9 years with two five year options and one two year option. The escalation is at the greater of CPI and 3.75%. The Energex Northern Metro Office at Nundah has a remaining term of 11 years with an option for 8 years plus an additional 5 years. The escalation is set at 3.5%. The Energex Southern Metro Office at Mt Gravatt has a remaining lease term of 4 years with a three year option. The escalation is set at 3.75%.

### ACCOUNTING POLICIES

**Lease commitments**

*(i) Operating leases*

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statements of profit or loss on a straight-line basis over the period of the lease unless an alternative basis is more representative of the time pattern of benefits to be obtained from the leased property.

*(ii) Lease incentives*

Where an entity in the Group is a lessee under an operating lease, the aggregate benefit of any incentive provided by the lessor for a new or renewed lease is recognised as an adjustment to rent expense over the lease term of the lease on a straight-line basis unless another systematic basis is more representative of the time pattern of benefit from the use of the leased asset.

### NOTE 21: COMMITMENTS

| In millions of dollars | 2016 | 2015 Restated |
|---|---|---|
| **CAPITAL EXPENDITURE COMMITMENTS** | | |
| Estimated capital expenditure contracted for at the end of the financial year but not recognised as liabilities[1] | **78** | 182 |

(1) These commitments consist of executed contracts and/or open purchase orders and are valued at price levels and foreign currency exchange rates as at the end of the reporting period.

## NOTE 22: CONTINGENCIES

### (A) Legal claims

A number of common law claims are pending against the Group and liability is not admitted. The amount of claims due to litigation and associated legal fees is $4 million (2015: $3 million).These claims are disclosed on a gross basis and exclude possible reimbursement through insurance recoveries.

### (B) Other possible claims

From time to time the Group receives formal notifications from third parties which might indicate intention to lodge formal claims against the Group. The Group investigates these matters and responds appropriately to such communications in order to minimise potential future claims.

There are no significant claims that are expected to have an impact on the Group's future financial position.

### (C) Guarantees

*(i) Third Parties*

In order to participate in the electricity market, entities within the Group were required to deliver acceptable security as collateral for their obligations arising as a consequence of normal trading. Security, in the form of payment guarantees totalling $100 million (2015: $100 million), has been issued by QTC to the AEMO. These guarantees are supported by counter indemnities to QTC from the Group totalling $352 million (2015: $350 million).

Energex also has in place a bank guarantee facility of $1 million for non-regulated business.

*(ii) Subsidiaries*

In 2011/12 Energex issued an unlimited indemnity to Energy Impact Pty Ltd. Energex also issued limited indemnities of $15 million for general claims and unlimited indemnities for specific claims to both Varnsdorf Pty Ltd and VH Operations Pty Ltd. Energex warrants that sufficient financial support up to a limit of $10,000 will be provided to Metering Dynamics Business Support Pty Ltd to ensure that the business is able to pay its debts as and when they fall due.

Ergon Energy provides an unqualified undertaking to pay to Ergon Energy Queensland Pty Ltd (EEQ) an unlimited amount in cash to enable EEQ to meet its financial requirements pursuant to its Australian Financial Services Licence and in accordance with ASIC Regulatory Guide 166.

Energex and Ergon Energy had agreed to cover their share of obligations of SPARQ Solutions Pty Ltd (SPARQ Solutions) to protect against insolvency.

From 30 June 2016, pursuant to Class Order 98/1418 Energy Queensland the parent of the Group has guaranteed to pay any deficiency in the event of winding up of Energex, Ergon Energy and SPARQ Solutions. These controlled entities have also given a similar guarantee in the event that Energy Queensland or any of the entities are wound up or does not meet their obligations. Refer to Note 23.

### (D) Guarantees held

The Group holds bank guarantees from customers totalling $97 million (2015: $147 million) relating to the construction of capital assets.

The Group also holds bank guarantees from trading counterparties totalling $1 million (2015: $2 million) as security to cover their obligations arising from the trading of electricity.

### (E) Environmental remediation

The Group provides for all known environmental liabilities. The Group estimates that current provisions for environmental remediation are adequate based on current information. However, there can be no assurance that new material provisions will not be required as a result of new information or regulatory requirements with respect to known sites or identification of new remedial obligations at other sites.

## ACCOUNTING POLICIES

### Contingent assets and liabilities

Contingent assets are not recognised in the financial statements. Other than when required on acquisition of a business, contingent liabilities are not recognised in the financial statements. They are, however, disclosed in the notes to the financial statements, where appropriate.

## NOTE 23: CONSOLIDATED ENTITIES

| | | COUNTRY OF INCORPORATION | PERCENTAGE INTEREST HELD BY THE GROUP[1] 2016 |
|---|---|---|---|
| | **THE COMPANY** | | |
| | **Energy Queensland Limited** | **Australia** | |
| | **CONTROLLED ENTITIES** | | |
| **Energex Group** | **Energex Limited** | Australia | 100% |
| | Energy Impact Pty Ltd | Australia | 100% |
| | Metering Dynamics Business Support Pty Ltd | Australia | 100% |
| | Varnsdorf Pty Ltd | Australia | 100% |
| | VH Operations Pty Ltd | Australia | 100% |
| **Ergon Energy Group** | **Ergon Energy Corporation Limited** | Australia | 100% |
| | Ergon Energy Queensland Pty Ltd | Australia | 100% |
| | Ergon Energy Telecommunications Pty Ltd | Australia | 100% |
| | **SPARQ Solutions Pty Ltd** | Australia | 100% |

(1) The proportion of ownership interest is equal to the proportion of voting power held. During 2015 and up to 30 June 2016: Energex Limited held 100% of the interest in members of the Energex Group; and Ergon Energy Corporation Limited held a 100% interest in members of the Ergon Energy Group. During these periods both Energex and Ergon Energy held a 50% interest in a joint operation SPARQ Solutions.

### ACCOUNTING POLICIES

**Basis of consolidation**

A subsidiary is an entity over which the Company has control. The Company controls an entity when the Company has power over the investee, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by of the parent of the Group.

Investments in controlled entities are carried in the financial statements of the Company at the lower of cost and recoverable amount.

Where an acquisition has commercial substance, the cost of an acquisition is measured as the fair value of the assets given, liabilities incurred or assumed and equity instruments issued at the date of exchange. Where such transactions result from the restructuring of entities wholly-owned by the State of Queensland and are designated as transactions with owners, assets acquired and liabilities assumed are recognised at the current carrying amounts recorded by the transferor with any difference between consideration and the carrying amount at the date of exchange recorded in contributed equity.

## NOTE 23: CONSOLIDATED ENTITIES (CONTINUED)

### CLOSED GROUP CLASS ORDER

Pursuant to Class Order 98/1418, relief has been granted to the following controlled entitles from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports:

- Energex Limited
- Ergon Energy Corporation Limited
- SPARQ Solutions Pty Ltd

As a condition of the Class Order Energy Queensland and the above consolidated entities entered into a Deed of Cross Guarantee. The effect of the Deed is that Energy Queensland the Parent has guaranteed to pay any deficiency in the event of winding up of the above controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. These controlled entities have also given a similar guarantee in the event that any other entity in the Closed Group is wound up or if it does not meet its obligations under the terms of the overdrafts, loans, leases or other liabilities under the guarantee.

The consolidated profit or loss and statement of financial position of the entities that are members of the Closed Group are provided in note 25(A).

Further information regarding guarantees is provided in Note 22.

## NOTE 24: ENERGY QUEENSLAND LIMITED (THE PARENT)

As at 30 June 2016, the parent entity of the Group was Energy Queensland Limited (Energy Queensland). Prior to this date, Energex and Ergon Energy were two separate sub Groups controlled by the State of Queensland, with the parents of the Group being Energex Limited and Ergon Energy Corporation Limited respectively.

| | 2016 |
|---|---|
| | $'000 |
| Current Assets | 676 |
| Non-Current Assets | 19,664,138 |
| **Total Assets** | **19,664,814** |
| Current liabilities | 23,602 |
| Non-Current Liabilities | 16,266,819 |
| **Total Liabilities** | **16,290,421** |
| | |
| Issued Capital | 19,642,789 |
| Other transactions with owners (Refer to Note 1(C)) | (16,266,818) |
| Retained Earnings | (1,577) |
| **Total Equity** | **3,374,393** |
| | |
| Loss of the Parent entity | (1,577) |
| Total comprehensive income of the Parent entity | **(1,577)** |

## NOTE 25: CLOSED GROUP AND ENERGEX AND ERGON ENERGY GROUP INFORMATION

### (A) Closed Group Information

As discussed in Note 23, pursuant to Class Order 98/1418, relief has been granted to wholly-owned large proprietary limited entities of the Group from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

The consolidated profit or loss and balance sheet of the entities that are members of the Closed Group are as follows:

**Consolidated Closed Group Profit or Loss**

| In millions of dollars | 2016 |
|---|---|
| Profit or loss before income tax | **1,306** |
| Income tax expense | **(360)** |
| **Profit after tax** | **946** |
| Retained earnings at the beginning of the period | **6** |
| Dividends provided for or paid | **(927)** |
| Transfers to reserves | **31** |
| Retained earnings at the end of the period | **56** |

## NOTE 25: CLOSED GROUP AND ENERGEX AND ERGON ENERGY GROUP INFORMATION (CONTINUED)

### (A) Closed Group Information

**Consolidated Closed Group Statement of Financial Position**

| In millions of dollars | 2016 |
|---|---|
| **CURRENT ASSETS** | |
| Cash and cash equivalents | **99** |
| Trade and other receivables | **863** |
| Inventories | **168** |
| Other assets | **2** |
| **Total current assets** | **1,132** |
| **NON-CURRENT ASSETS** | |
| Property, plant and equipment | **22,373** |
| Intangible assets | **194** |
| Investments in subsidiaries | **126** |
| Employee retirement benefits | **125** |
| Other assets | **8** |
| **Total non-current assets** | **22,826** |
| **TOTAL ASSETS** | **23,958** |
| **CURRENT LIABILITIES** | |
| Trade and other payables (including dividends payable) | **288** |
| Employee benefits | **294** |
| Provisions | **53** |
| Current tax liabilities | **144** |
| Other liabilities | **59** |
| **Total current liabilities** | **838** |
| **NON-CURRENT LIABILITIES** | |
| Interest bearing liabilities | **16,263** |
| Employee benefits | **31** |
| Provisions | **10** |
| Net deferred tax equivalent liability | **3,443** |
| Other liabilities | **8** |
| **Total non-current liabilities** | **19,755** |
| **TOTAL LIABILITIES** | **20,593** |
| **NET ASSETS** | **3,365** |
| **EQUITY** | |
| Share capital | **19,643** |
| Other transactions with owners | **(18,508)** |
| Reserves | **2,174** |
| Retained earnings | **56** |
| **TOTAL EQUITY** | **3,365** |

## NOTE 25: CLOSED GROUP AND ENERGEX AND ERGON ENERGY GROUP INFORMATION (CONTINUED)

### (B) Energex Group and Ergon Energy Group Information

| | Energex Group[1] | | Energex Parent[1] | | Ergon Energy Group[1] | | Ergon Energy Parent[1] | |
|---|---|---|---|---|---|---|---|---|
| In millions of dollars | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Revenue** | **2,572** | **2,545** | **2,575** | **2,553** | **2,542** | **2,657** | **2,402** | **2,610** |
| **Other Income** | **-** | **-** | **-** | **-** | **41** | **86** | **2** | **2** |
| | | | | | | | | |
| **Expenses** | | | | | | | | |
| Transmission charges and electricity purchases | (434) | (358) | (434) | (358) | (396) | (252) | (357) | (324) |
| Solar photovoltaic feed in tariff | (187) | (204) | (187) | (204) | (109) | (116) | (109) | (115) |
| Employee expenses | (220) | (205) | (215) | (202) | (245) | (233) | (218) | (204) |
| Termination benefits | (10) | (26) | (10) | (26) | (43) | (15) | (43) | (15) |
| Materials and services | (199) | (198) | (233) | (230) | (211) | (224) | (218) | (254) |
| Depreciation, amortisation and impairments | (437) | (447) | (419) | (430) | (493) | (453) | (446) | (412) |
| Finance costs | (314) | (326) | (314) | (326) | (300) | (309) | (297) | (307) |
| Fair value losses | - | - | - | - | - | - | - | - |
| Other expenses | (50) | (48) | (42) | (45) | (146) | (150) | (161) | (137) |
| **Profit before income tax equivalent expense** | **721** | **733** | **721** | **732** | **640** | **991** | **555** | **844** |
| Income tax equivalent expense | (220) | (221) | (220) | (221) | (197) | (295) | (140) | (207) |
| **Profit after income tax equivalent expense** | **501** | **512** | **501** | **511** | **443** | **696** | **415** | **637** |

## NOTE 25: CLOSED GROUP AND ENERGEX AND ERGON ENERGY GROUP INFORMATION (CONTINUED)

### (C) Energex Group and Ergon Energy Group Information (Continued)

| | Energex Group[1] | | Energex Parent[1] | | Ergon Energy Group[1] | | Ergon Energy Parent[1] | |
|---|---|---|---|---|---|---|---|---|
| In millions of dollars | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Profit after income tax equivalent expense** | **501** | 512 | **501** | 511 | **443** | 696 | **415** | 637 |
| **OTHER COMPREHENSIVE INCOME** | | | | | | | | |
| **Other comprehensive income for the financial year, net of tax** | **2** | (337) | **5** | (338) | **130** | (24) | 51 | (60) |
| **TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR** | **503** | 175 | **506** | 173 | **573** | 672 | 466 | 577 |
| **Profit attributable to:** | | | | | | | | |
| Owners of the Company | **501** | 512 | **501** | 511 | **443** | 696 | **415** | 637 |
| **Total comprehensive income attributable to:** | | | | | | | | |
| Owners of the Company | **503** | 175 | **506** | 173 | **573** | 672 | **466** | 577 |

(1) In presenting this information adjustments have been made to align accounting policies and presentation with the Energy Queensland Consolidated financial statements.

## NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES

### (A) Details of Directors

| Directors of Energy Queensland as at 30 June 2016: | | Term of appointment | |
|---|---|---|---|
| **Directors of Energy Queensland as at 30 June 2016:** | | **Term of appointment** | **Appointment expiry date** |
| **Philip Garling** | Chairman | 3 years | 30 June 2019 |
| **Clive Skarott** | Non-Executive Director | 1 year | 30 June 2017 |
| **Kerryn Newton** | Non-Executive Director | 1 year | 30 June 2017 |
| **Directors of Energex as at 30 June 2016:** | | **Term of appointment** | **Appointment expiry date** |
| **Gordon Jardine** | Chairman | 3 years | 30 September 2018 |
| **Kerryn Newton** | Non-Executive Director | 3 years | 30 September 2018 |
| **John Geldard** | Non-Executive Director | 6 months | 30 September 2016 |
| **Robert Shead** | Non-Executive Director | 3 years | 30 September 2018 |
| **Vanessa Sullivan** | Non-Executive Director | 3 years | 30 September 2018 |
| **Directors of Ergon Energy as at 30 June 2016:** | | **Term of appointment** | **Appointment expiry date** |
| **Clive Skarott** | Chairman | 3 years | 30 September 2018 |
| **Gary Humphrys** | Non-Executive Director | 3 years | 30 September 2018 |
| **Lorraine Stephenson** | Non-Executive Director | 3 years | 30 September 2018 |
| **Adam Aspinall** | Non-Executive Director | 3 years | 30 September 2018 |
| **Gary Stanford** | Non-Executive Director | 2 years 9 months | 30 September 2017 |

### (B) Compensation - Directors

Directors' remuneration is set pursuant to the *Government Owned Corporations Act* 1993 by Shareholding Ministers, with other fees and allowances determined on the basis of meetings attended and expenditure incurred in performing their roles as Directors of entities forming part of the Group.

The non-executive Directors of the Company do not participate in any variable reward or 'at-risk' incentive scheme.

Amounts disclosed for remuneration of key management personnel exclude insurance premiums paid by the Company in respect of Directors' and Officers' liability insurance contracts.

**NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)**

**(B) Compensation – Directors (Continued)**

In accordance with Ministerial Guidelines, details of compensation provided to Directors in office during the financial period ended 30 June 2016 by the Group are as follows:

| DIRECTORS' REMUNERATION | SHORT TERM BENEFITS | | | | POST EMPLOYMENT BENEFITS | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | Directors' fees | | Non monetary | | Superannuation | | | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Energy Queensland** | | | | | | | | |
| Philip Garling [1] | **-** | - | **-** | - | **-** | - | **-** | - |
| Clive Skarott[1] | **-** | - | **-** | - | **-** | - | **-** | - |
| Kerryn Newton[1] | **-** | - | **-** | - | **-** | - | **-** | - |
| **Total** | **-** | - | **-** | - | **-** | - | **-** | - |
| **Energex** | | | | | | | | |
| Gordon Jardine | **98** | 6 | **3** | - | **9** | 1 | **110** | 7 |
| Kerryn Newton | **70** | 59 | **3** | 3 | **7** | 6 | **80** | 68 |
| Peter Arnison | **45** | 52 | **2** | 3 | **4** | 5 | **51** | 60 |
| Kenneth Clarke | **13** | 51 | **1** | 3 | **1** | 5 | **15** | 59 |
| Mervyn Davies | **15** | 54 | **-** | - | **1** | 5 | **16** | 59 |
| Sandra Deane | **14** | 55 | **1** | 3 | **1** | 5 | **16** | 63 |
| John Geldard | **56** | 49 | **3** | 3 | **5** | 5 | **64** | 57 |
| Robert Shead | **40** | - | **3** | - | **4** | - | **47** | - |
| Vanessa Sullivan | **41** | - | **3** | - | **4** | - | **48** | - |
| Shane Stone | **-** | 63 | **-** | 2 | **-** | 6 | **-** | 71 |
| **Total** | **392** | 389 | **19** | 17 | **36** | 38 | **447** | 444 |
| **Ergon Energy** | | | | | | | | |
| Clive Skarott | **89** | - | **-** | - | **8** | - | **97** | - |
| Gary Humphrys[2] | **74** | 59 | **-** | - | **7** | 6 | **81** | 65 |
| Lorraine Stephenson | **45** | - | **-** | - | **4** | - | **49** | - |
| Adam Aspinall[2] | **45** | - | **-** | - | **4** | - | **49** | - |
| Gary Stanford[2] | **58** | 28 | **-** | - | **6** | 3 | **64** | 31 |
| John Gardner[2] | **17** | 58 | **-** | - | **2** | 5 | **19** | 63 |
| John Love | **14** | 52 | **-** | - | **1** | 5 | **15** | 57 |
| Malcolm Hall-Brown | **-** | 79 | **-** | - | **-** | 7 | **-** | 86 |
| Annabel Dolphin | **-** | 13 | **-** | - | **-** | 1 | **-** | 14 |
| Rowena McNally | **-** | 13 | **-** | - | **-** | 1 | **-** | 14 |
| Helen Stanton | **-** | 13 | **-** | - | **-** | 1 | **-** | 14 |
| **Total** | **342** | 315 | **-** | - | **32** | 29 | **374** | 344 |

(1) Philip Garling, Clive Skarott and Kerryn Newton were appointed as Directors on 30 June 2016. No remuneration was paid for this day.

(2) Adam Aspinall, Gary Stanford, Gary Humphrys and John Gardner were paid further fees for acting as Directors of Ergon Energy Queensland Pty Ltd and SPARQ Solutions Pty Ltd.

No further fees were paid to Directors, other than the amounts disclosed in the table and the foot note above.

**NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)**

**(C) Compensation - Executives**

Remuneration and other terms of employment of executives are formalised in executive employment contracts.

Each of these employment contracts makes a provision for fixed remuneration and an 'at risk' performance incentive.

Interim executives (excluding Legal Counsel and Company Secretary) of the newly established Energy Queensland have been seconded to the Company from 30 June 2016 to 31 December 2016. The term of these arrangements may be extended. Under the terms of the arrangements these executives remain employed by their existing employers under their existing executive employment contracts. The Company has agreed to reimburse their current employers for an amount equal to the actual cost of the employee, including all wages, benefits and on-costs, such as taxes or duties, compulsory employer's superannuation contributions, workers compensation contributions and insurance premiums.

All remuneration amounts of Energex and Ergon Energy executives are reviewed annually, by the People Committee and the Establishment & People Committee respectively, which recommend executive remuneration to the respective company Boards. Final approval is required from the Boards, ensuring that remuneration arrangements for the executives are appropriate. The shareholding Ministers are notified of the details.

A Total Fixed Remuneration (TFR) concept for the structure of executive remuneration is utilised. While the total cost of an executive's remuneration package is capped, the executive then has the flexibility to decide the composition of the total fixed remuneration, which could include cash salary, motor vehicle, car park and additional superannuation, plus any fringe benefits tax incurred.

No other non-cash benefits are provided to executives as the TFR concept captures various benefits structured within a total cost rather than a base salary plus benefits approach.

Non-cash benefits in the form of car parking are provided to Energex executives. No other non-cash benefits are provided.

Executive staff members are eligible for an 'at risk' or variable component that is directly linked to both the overall performance of their respective employer Group and their individual efforts against a range of key indicators and targets as contained in the annual Statements of Corporate Intent and the executives' performance agreement. Any 'at risk' payment is contingent upon the respective Board's assessment of the respective company's overall performance and shareholder expectations.

Performance payments may not exceed a maximum of 15% of the individual's TFR figure.

Performance payments to all employees, including executive staff, are disclosed in Note 26(E).

Most executives are engaged on tenured contractual arrangements in accordance with *The Policy for Government Owned Corporations Chief and Senior Executive Employment Arrangements* (Policy).

Separation entitlements for all executives are subject to the normal terms and conditions of their contracts with the Group.

*(i) Energex Executives*

Where the Chief Executive Officer's employment is terminated on the termination date the executive is entitled to payment in lieu of the executive's entitlement to annual leave and long service leave, calculated with reference to the executive's total fixed remuneration up to the date on which the termination takes effect. If the employment of the executive is terminated by Energex except in the event of serious misconduct or incapacity, the executive is entitled to salary for the balance of the notice period and a termination payment of six months superannuable salary.

Where the employment of the Executive General Manager Service Delivery is terminated by the employer due to the employer's operational requirement and no other suitable position for redeployment is able to be identified, the executive is entitled to a severance payment of three weeks per year of service, together with a proportionate amount for an incomplete year of service. The minimum and maximum payment will be three weeks and 75 weeks respectively. An early separation incentive payment of 13 weeks may be paid where applicable, as well as a long service leave payment of 1.3 weeks for each completed year of service and pro-rata for an incomplete year of service up to the date of termination. Accumulated annual leave as well as any pro-rata balance of annual leave to the date of termination is also payable.

Upon termination other executives are entitled to pay in lieu of the executive's entitlements to annual and long service leave, calculated with reference the executive's total fixed remuneration up to the date on which termination takes effect. If the employment of the executive is terminated by Energex, except in the event of serious misconduct of incapacity, the executive is entitled to the salary for the balance of the notice period and a termination payment of three months superannuable salary.

**NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)**

**(C) Compensation – Executives (Continued)**

(ii) *Ergon Energy Executives*

Where the Chief Executive's employment is terminated on the termination date the executive is entitled to severance equal to thirteen weeks salary. Where employment is terminated by the Company due to operational requirements, notice or payment in lieu, and an early separation incentive payment may be paid. In case of redundancy notice or payment in lieu, two weeks salary per year of continuous service will be paid.

With the exception of serious misconduct and incapacity, executives engaged on a tenured contract will be entitled termination entitlements of one months' notice and six months' severance for chief executive or one months' notice and three months' severance for other executives. Presently there is an acting chief executive arrangement and as such termination entitlements of the acting executive will not reflect standard severance terms for chief executive..

One executive is engaged on an outer limit contract. Where the executive's employment terminates on the termination date the executive is entitled to a payment equal to the greater of 13 weeks salary or two weeks salary per year of continuous service up to a maximum of 52 weeks salary.

Where the executive terminates prior to their termination date, they will be eligible for a separation payment equal to the greater of four weeks salary; or two weeks salary per year of continuous service up to a maximum of 52 weeks, and a sum equal to 20% of the TFR that the executive would have earned had the employment continued from the day after the notice period ceased until the termination date.

| EXECUTIVE REMUNERATION | Short term benefits[1] | Performance payment[2] | Non monetary benefits[3] | Post employment benefits[4] | Other long term benefits[5] | Termination benefits | Total |
|---|---|---|---|---|---|---|---|
| **2016** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Energy Queensland**[6] | - | - | - | - | - | - | - |

## NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (C) Compensation – Executives (Continued)

| EXECUTIVE REMUNERATION | Short term benefits[1] | Performance payment[2] | Non monetary benefits[3] | Post employment benefits[4] | Other long term benefits[5] | Termination benefits | Total |
|---|---|---|---|---|---|---|---|
| **2016** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Energex** | | | | | | | |
| Terence Effeney - Chief Executive Officer | 651 | 96 | 3 | 70 | 75 | - | 895 |
| Peter Price - Executive General Manager Asset Management | 356 | 54 | 3 | 42 | 45 | - | 500 |
| Peter Weaver - Executive General Manager Service Delivery | 339 | 55 | 3 | 41 | 44 | - | 482 |
| Christopher Arnold - Executive General Manager Procurement, People and Services[8] | 203 | 55 | 2 | 23 | 25 | - | 308 |
| Peter Scott - Chief Financial Officer[9] | 380 | 38 | 3 | 19 | 41 | - | 481 |
| Kevin Kehl - Executive General Manager Strategy, Regulation and Governance[10] | 194 | 58 | 2 | 22 | 24 | - | 300 |
| Dayle Grant - Executive General Manager Customer and Corporate Relations/ Procurement Services[7] | 361 | 47 | 3 | 20 | 43 | - | 474 |
| Andrew Hager/ Carly Irving - Acting Executive General Manager Customer and Corporate Relations[11,12] | 121 | - | 2 | 8 | 13 | - | 144 |
| Jennifer Hocking - Acting Executive General Manager Strategy, Regulation and Governance[13] | 149 | - | 2 | 8 | 16 | - | 175 |
| Armand Mahne - Acting Chief Financial Officer[14] | 17 | - | - | 1 | 2 | - | 20 |
| **Total** | **2,771** | **403** | **23** | **254** | **328** | **-** | **3,779** |

The financial year ended 30 June 2016 contained 27 fortnightly pay periods instead of the usual 26. As a result, short-term benefits and post-employment benefits are higher than the prior year.

## NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (C) Compensation – Executives (Continued)

| EXECUTIVE REMUNERATION | Short term benefits[1] | Performance payment[2] | Non monetary benefits[3] | Post employment benefits[4] | Other long term benefits[5] | Termination benefits | Total |
|---|---|---|---|---|---|---|---|
| **2016** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Ergon Energy** | | | | | | | |
| Roslyn Baker – Executive General Manager – Retail/ Acting Chief Executive[15] | 488 | 47 | - | 20 | 44 | - | 599 |
| Ian McLeod- Chief Executive[16] | 353 | 62 | - | 14 | 225 | 190 | 844 |
| Mike Hutchens– Chief Financial Officer[17] | 158 | 40 | - | 11 | 44 | - | 253 |
| Rod Williams – Acting Chief Financial Officer [18] | 91 | - | - | 6 | 2 | - | 99 |
| Belinda Watton – Acting Executive General Manager People and Shared Services/ Acting Executive General Manager People and Culture[19] | 279 | - | - | 20 | 28 | - | 327 |
| Bev Rose – Acting Executive General Manager People & Shared Services[20] | 197 | - | - | 14 | 22 | - | 233 |
| Paul Jordon – Acting Executive General Manager Customer Service[21] | 149 | - | - | 11 | 4 | - | 164 |
| Peter Billing – Executive General Manager Customer Service/ Acting Executive General Manager – Network Optimisation[22] | 402 | 52 | - | 20 | 46 | - | 520 |
| David Edmunds – EGM Network Optimisation | 374 | 43 | - | 20 | 41 | - | 478 |
| Tony Pfeiffer – Acting Executive General Manager Retail[23] | 119 | - | - | 7 | 4 | - | 130 |
| **Total** | **2,610** | **244** | **-** | **143** | **460** | **190** | **3,647** |

The financial year ended 30 June 2016 contained 27 fortnightly pay periods instead of the usual 26. As a result, short-term benefits and post-employment benefits are higher than the prior year.

## NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (C) Compensation – Executives (Continued)

| EXECUTIVE REMUNERATION | Short term benefits[1] | Performance payment[2] | Non monetary benefits[3] | Post employment benefits[4] | Other long term benefits[5] | Termination benefits | Total |
|---|---|---|---|---|---|---|---|
| **2015** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Energex** | | | | | | | |
| Terence Effeney - Chief Executive Officer | 592 | 92 | 3 | 65 | 73 | - | 825 |
| Peter Price - Executive General Manager Asset Management | 345 | 51 | 3 | 39 | 44 | - | 482 |
| Peter Weaver - Executive General Manager Service Delivery | 335 | 53 | 3 | 38 | 43 | - | 472 |
| Christopher Arnold - Executive General Manager Procurement, People and Services | 354 | 50 | 3 | 39 | 44 | - | 490 |
| Peter Scott - Chief Financial Officer[9] | 269 | - | 3 | 13 | 31 | - | 316 |
| Darryl Rowell - Acting Chief Financial Officer[24] | 99 | - | 1 | 6 | 9 | - | 115 |
| Kevin Kehl - Executive General Manager Strategy, Regulation and Governance | 335 | 52 | 3 | 38 | 42 | - | 470 |
| Dayle Grant - Executive General Manager Customer and Corporate Relations | 299 | 38 | 3 | 16 | 39 | - | 395 |
| **Total** | **2,628** | **336** | **22** | **254** | **325** | **-** | **3,565** |

## NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (C) Compensation – Executives (Continued)

| EXECUTIVE REMUNERATION | Short term benefits[1] | Performance payment[2] | Non monetary benefits[3] | Post employment benefits[4] | Other long term benefits[5] | Termination benefits | Total |
|---|---|---|---|---|---|---|---|
| **2015** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Ergon Energy** | | | | | | | |
| Ian McLeod–Chief Executive[25] | 704 | 23 | - | 19 | 83 | - | 829 |
| Mike Hutchens – Chief Finance Officer[26] | 295 | 28 | - | 19 | 25 | - | 367 |
| Mal Leech – Executive General Manager People and Shared Services[27] | 282 | 41 | - | 19 | 38 | - | 380 |
| Peter Billing – Acting Executive General Manager Customer Service | 331 | 52 | - | 19 | 43 | - | 445 |
| David Edmunds – Executive General Manager Network Optimisation[28] | 341 | 9 | - | 19 | 37 | - | 406 |
| Roslyn Baker– Executive General Manager Retail | 328 | 41 | - | 19 | 43 | - | 431 |
| Gordon Taylor - Executive General Manager Strategy and revenue Transformation[29] | 553 | 101 | - | 19 | 58 | 191 | 922 |
| **Total** | **2,834** | **295** | **-** | **133** | **327** | **191** | **3,780** |

(1) Short-term benefits include all payments made to the Officer during the year excluding at-risk performance payments (disclosed separately), less payments for annual leave and long-service leave taken. To align presentation in the consolidated accounts an adjustment has been made between short-term and long-term benefits of Ergon Energy Executive remuneration $289 thousand (2015: $171 thousand) to reflect leave taken in the period as an adjustment to long-term benefits.

(2) At risk performance payments are physically paid in the current financial year for performance for the prior financial year.

(3) Non-monetary benefits represent the value of car parking provided to the Executive.

(4) Post employment benefits represent superannuation contributions made by the employer to the superannuation fund at the rates prescribed in the executives' employment contracts (which range from 9.5% of the maximum contribution base to 10% as part of the fixed remuneration base). Some executives are members of the defined benefit superannuation fund. Refer to Note 15 for further information regarding the defined benefit obligations of the Group.

(5) Other long-term benefits represent annual and long service leave benefits accrued and during the year.

(6) The interim executive of Energy Queensland were appointed 30 June 2016. No remuneration was paid during the year. Terence Effeney (Interim Chief Executive Officer), Peter Scott (Interim Chief Financial Officer) and Kevin Kehl (Interim Executive General Manager Energy Services) are seconded from Energex. Scott Turner (Executive General Manager Transformation) is seconded from QTC. Sandie Angus (Interim General Counsel and Company Secretary) is contracted on a daily rate.

(7) Dayle Grant was appointed to the position of Executive General Manager Customer and Corporate Relations effective 7 July 2014. On 18 January 2016, she commenced acting in the position of Executive General Manager Procurement, People and Services. The amounts disclosed include additional benefits received whilst acting in this role.

(8) Christopher Arnold was seconded to the Energy Consolidation project with QTC on 18 January 2016. The amounts disclosed do not include earnings whilst on the project.

(9) Peter Scott commenced in the position of Chief Financial Officer on 13 October 2014. He remained in that role until 5 June 2016 when he was seconded to the Energy Consolidation project with QTC. The amounts disclosed do not include earnings whilst on the project.

(10) Kevin Kehl was seconded to the Energy Consolidation project with QTC on 18 January 2016. The amounts disclosed do not include earnings whilst on the Project.

(11) Andrew Hager was acting in the position of Executive General Manager Customer and Corporate Relations from 11 January 2016 to 20 March 2016. The amounts disclosed are only those earned by the individual during the period acting in this role.

## NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (C) Compensation – Executives (Continued)

(12) Carly Irving commenced acting in the position of Executive General Manager Customer and Corporate Relations on 29 March 2016. The amounts disclosed are only those earned by the individual during the period acting in this role.

(13) Jennifer Hocking commenced acting in the position Executive General Manager Strategy, Regulation and Governance on 18 January 2016. The amounts disclosed are only those earned by the individual during the period acting in this role.

(14) Armand Mahne commenced acting in the position of Chief Financial Officer on 6 June 2016. The amounts disclosed are only those earned by the individual during the period acting in this role.

(15) Roslyn Baker commenced acting as Chief Executive on 8 February 2016.

(16) Ian McLeod occupied this position until 5 February 2016.

(17) Mike Hutchens was appointed to this role 1 July 2015. The incumbent was seconded to the Energy Consolidation project.

(18) Rod Williams commenced in this position on 7 March 2016.

(19) Belinda Watton jointly acted in this position from 2 July 2015 to 6 March 2016. Officer commenced in new position from 7 March 2016.

(20) Bev Rose jointly acted in this position from 2 July 2015 to 6 March 2016.

(21) Paul Jordan commenced in this position on 18 January 2016.

(22) Peter Billing is the incumbent Executive General Manager Customer Service and commenced Acting EGM Network Optimisation 7 March while incumbent was working on special projects.

(23) Tony Pfeiffer commenced in this position on 11 February 2016.

(24) Darryl Rowell was acting in the position of Chief Financial Officer from 1 July 2014 to 12 October 2014. The amounts disclosed are only those earned by the individual during the period acting in this role.

(25) From 23 February 2013 to 21 February 2014 Ian McLeod did not have a contractual entitlement to an at risk payment.

(26) Mike Hutchens was permanently appointed to this position on 1 July 2015.

(27) Mal Leech occupied this position until 1 July 2015.

(28) David Edmunds was appointed to this position on 14 April 2014. A pro-rata performance payment of $9 thousand was paid.

(29) Gordon Taylor occupied this position until 5 June 2015. As part of his termination agreement, a pro rata performance payment of $84 thousand was paid.

## NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (C) Compensation – Executives (Continued)

The following executive was appointed on 30 June 2016.

| Total Fixed Remuneration Package[1] | | 2016 | 2015 Restated |
|---|---|---|---|
| | | $'000 | $'000 |
| **Energy Queensland[2]** | | | |
| | Interim Chief Executive Officer | **812** | - |
| | Interim Chief Financial Officer | **432** | - |
| | Interim Executive General Manager Energy Services | **428** | - |
| | Interim Executive General Manager Transformation | **437** | - |
| | **Total** | **2,109** | - |

(1) The TFR package differs from the executive remuneration disclosures on the previous page, as the executive remuneration disclosures reflect the cost to the Group. Adjustments include leave and superannuation accruals and pro-rata payments for part-year entitlements. The fixed remuneration note has been adjusted to reflect the current organisational structure.

(2) The table provides the annual TFR package for interim Energy Queensland Executives. As discussed above the General Counsel and Company Secretary is contracted on a daily rate.

## NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (C) Compensation – Executives (Continued)

The Group is undertaking a staged approach to transition to a single executive, replacing the existing executive of the Energex and Ergon Energy Groups. The existing executive of these Groups is as follows.

| Total Fixed Remuneration Package[1] | | 2016 | 2015 Restated |
|---|---|---|---|
| | | $'000 | $'000 |
| **Energex** | | | |
| | Chief Executive Officer | **738** | 718 |
| | Chief Financial Officer | **432** | 420 |
| | Executive General Manager Asset Management | **441** | 428 |
| | Executive General Manager Service Delivery | **433** | 422 |
| | Executive General Manager Procurement, People and Services | **441** | 428 |
| | Executive General Manager Strategy, Regulation and Governance | **428** | 415 |
| | Executive General Manager Customer and Corporate Relations | **396** | 384 |
| | **Total** | **3,309** | 3,215 |
| **Ergon Energy** | | | |
| | Chief Executive Officer | **738** | 738 |
| | Chief Financial Officer | **344** | 335 |
| | Executive General Manager People and Culture | **315** | - |
| | Executive General Manager People and Shared Services | **-** | 350 |
| | Executive General Manager Customer Service | **406** | 395 |
| | Executive General Manager Network Optimisation | **384** | 376 |
| | Executive General Manager Retail | **357** | 366 |
| | Executive General Manager Strategy, Revenue and Transformation | **-** | 600 |
| | **Total** | **2,544** | 3,160 |

(1) The TFR package differs from the executive remuneration disclosures on the previous page, as the executive remuneration disclosures reflect the cost to the Group. Adjustments include leave and superannuation accruals and pro-rata payments for part-year entitlements. The fixed remuneration note has been adjusted to reflect the current organisational structure.

## NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (D) Compensation disclosures by category:

| | 2016 | 2015 Restated |
|---|---|---|
| | $'000 | $'000 |
| Short-term benefits | **6,891** | 6,798 |
| Post-employment benefits | **228** | 201 |
| Other long-term benefits | **750** | 618 |
| Termination benefits | **518** | 516 |
| **Total** | **8,387** | 8,133 |

This table includes Directors and Executives remuneration.
Note: The financial year ended 30 June 2016 contained 27 fortnightly pay periods instead of the usual 26. As a result, short-term benefits and post-employment benefits are higher than the prior year.

### (E) Performance payments to employees

**EMPLOYEES RECEIVING PERFORMANCE PAYMENTS**

| Financial year | Aggregate at-risk performance remuneration[1] | Total fixed salaries and wages payments[2] | Employees receiving performance payments |
|---|---|---|---|
| | $'000 | $'000 | Number |
| **2016** | **19,256** | **427,889** | **3,330** |
| 2015 Restated | 19,529 | 413,688 | 3,433 |

(1) The aggregate at-risk performance remuneration represents the annual actual payment granted in September for prior year's performance award, non-executive contract. Individual employment agreements, executive contract and senior executive contract employees.
(2) Amounts shown above include capitalised employee benefits not shown in the income statement. The amounts exclude termination payments.

Full and part-time employees of Energex are eligible to participate in an 'at-risk' performance scheme. Participation in the scheme is voluntary. To be eligible for payment the employee must agree targets with their manager which must be documented.

Permanent Ergon Energy non-executive employees in targeted positions may be offered a contract which enables eligibility in the 'at-risk' performance scheme. The grant date for each employee is based on the employment contract.

Any 'at-risk' payment is contingent upon the respective Board's assessment of the Company's overall performance and shareholder expectations.

**NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)**

**(F) Transactions with related parties of key management personnel**

Key management personnel and their closely related parties conduct transactions with the Group on an arm's length basis and on terms and conditions no more favourable than those available to non-related parties.

All transactions with key management personnel or related parties that occurred during the financial year are trivial or domestic in nature, apart from those noted below.

The following executives of the Group were Directors of controlled entities. They did not receive any remuneration for their positions as Directors of these entities.

- Ian McLeod
- Roslyn Baker
- Terrence Effeney
- Peter Scott
- Christopher Arnold
- Kevin Kehl
- Peter Weaver

John Geldard and Clive Skarott are Directors of Energy Super. The Group contributed to the Energy Super Fund based on actuarial advice and the total payments for the year were $80,934 thousand (2015: $76,015 thousand).

A Director is also a Director of organisations that are franchise customers of Ergon Energy Queensland Pty Ltd.

**(G) Loans to key management personnel**

The Group has not made any loans to key management personnel in either the current or the prior financial year.

## NOTE 27: RELATED PARTY TRANSACTIONS

### Entities subject to common control

The Company is a Queensland Government Owned Corporation, with all shares held by shareholding Ministers on behalf of the State of Queensland. All State of Queensland controlled entities meet the definition of other related parties of the Group.

### Transactions with State of Queensland controlled entities

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

| | 2016 $'000 | 2015 Restated $'000 |
|---|---|---|
| Revenue from State of Queensland controlled entities | **246,299** | 217,939 |
| Pensioner rebate revenue from Department of Communities | **52,049** | 49,544 |
| Interest received on deposits with QTC | **17,536** | 19,908 |
| **EXPENSES** | | |
| Expenses incurred to State of Queensland controlled entities | **811,526** | 731,076 |
| Interest on QTC borrowings (includes administration fees) | **529,969** | 565,748 |
| Community service obligations offset | **(541,385)** | (625,941) |
| Competitive neutrality fee paid to Queensland Treasury | **88,605** | 111,296 |
| Electricity trading with State of Queensland controlled entities | **220,746** | 144,085 |
| NTER, Payroll Tax and Land Tax paid to Queensland Treasury | **455,741** | 563,568 |
| **ASSETS** | | |
| Deposits held with QTC | **21,668** | 621,955 |
| Community service obligations amounts receivable | **87,028** | 115,136 |
| Trade and other receivables from State of Queensland controlled entities | **17,370** | 10,350 |
| Other assets | **4,082** | 850 |
| **LIABILITIES** | | |
| Accrued interest and fees payable to QTC | **2,132** | 85,368 |
| Trade payables to State of Queensland controlled entities | **58,858** | 46,343 |
| Current tax payable | **143,561** | 317,505 |
| Dividends payable to Queensland Treasury | **-** | 3,219,732 |
| Borrowings from QTC | **16,266,818** | 12,084,593 |
| Accrued competitive neutrality fee payable to Queensland Treasury | **24,018** | 28,487 |
| Electricity trading with State of Queensland controlled entities | **22,576** | 16,282 |
| Unearned grant revenue | **1,173** | 1,301 |
| **EQUITY** | | |
| Dividends | **927,300** | 3,219,732 |
| Government consolidation transfers | **667,753** | - |

## NOTE 27: RELATED PARTY TRANSACTIONS (CONTINUED)

No provision for impairment of receivables was raised for any outstanding balances and no expense was recognised for bad or impaired debts due from State owned entities.

Transactions with State-owned electricity entities were made in accordance with the National Electricity Rules for transmission use of system charges. Other transactions are based on normal commercial terms and conditions and at market rates.

**Transactions with other related parties**

Disclosures relating to key management personnel are set out in Note 26

**Ultimate parent entity**

The ultimate parent entity within the Group is Energy Queensland Limited.

**Ownership interests in related parties**

Interests in consolidated entities are set out in Note 23.

## NOTE 28: AUDITOR'S REMUNERATION

| | 2016 | 2015 Restated |
|---|---|---|
| | **$'000** | **$'000** |
| Remuneration for audit and review of the financial reports of the Group and the Company: | | |
| Auditor-General of Queensland | | |
| **Audit services** | | |
| Audit and review of financial reports | **1,351** | 1,249 |
| Audit and review of regulatory reports | **490** | 545 |
| **Other** | | |
| Non-financial review of regulatory reports | **67** | 72 |
| Employee hotline services - paid to KPMG[1] | **7** | 11 |
| Property advisory services- paid to KPMG[1] | **15** | - |
| | **1,930** | 1,877 |

(1) The audit of the 2015 /16 financial statements of the Energex Group was conducted by KPMG as Delegate of the Auditor-General of Queensland. Amounts include payments to the Auditor-General of Queensland (for audit services) and to KPMG by Energex directly for (non-audit services). While assigned as the contract auditor for the Energex Group, engagement of KPMG for non-audit services is at the discretion of the Auditor-General of Queensland.

## NOTE 29: EVENTS AFTER REPORTING DATE

No events of a material nature have occurred since the end of the financial year that significantly affected or may significantly affect the operations of the Group or the Company.

# DIRECTORS' DECLARATION

In the Directors' opinion:

1. The financial statements and associated notes, set out on pages 10 to 77
   (i) Comply with the Australian Accounting Standards and Interpretations;
   (ii) Are in accordance with the *Corporations Act 2001*; and
   (iii) Give a true and fair view of the financial position of the Group as at 30 June 2016 and of its performance for the year ended on that date.

2. As at the date of this declaration there are reasonable grounds to believe:
   (i) that the Company will be able to pay its debts as and when they become due and payable; and
   (ii) the members of the Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Made in accordance with a resolution, made in Brisbane, by the Directors.

**P. Garling**
Chairman
29th August 2016

# INDEPENDENT AUDITOR'S REPORT

To the Members of Energy Queensland Limited

**Report on the Financial Report**

I have audited the accompanying financial report of Energy Queensland Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

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

*Auditor's Responsibility*

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

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

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

*Independence*

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

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

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

*Opinion*

In my opinion –

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

  (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2016 and of their performance for the year ended on that date; and

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

# INDEPENDENT AUDITOR'S REPORT

**Other Matters - Electronic Presentation of the Audited Financial Report**

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

A M GREAVES FCA FCPA
Auditor-General of Queensland


Queensland Audit Office
Brisbane

# AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Energy Queensland Limited

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

*Independence Declaration*

As lead auditor for the audit of Energy Queensland Limited and its controlled entities for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

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

R VAGG CPA
(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office
Brisbane

## AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Energy Queensland Limited

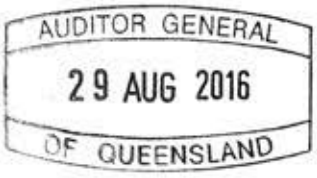
This auditor's independence declaration has been provided pursuant to s.307C of the *Corporations Act 2001*.

*Independence Declaration*

As lead auditor for the audit of Energy Queensland Limited and its controlled entities for the year ended 30 June 2016, 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.

A M GREAVES FCA FCPA
Auditor-General of Queensland)



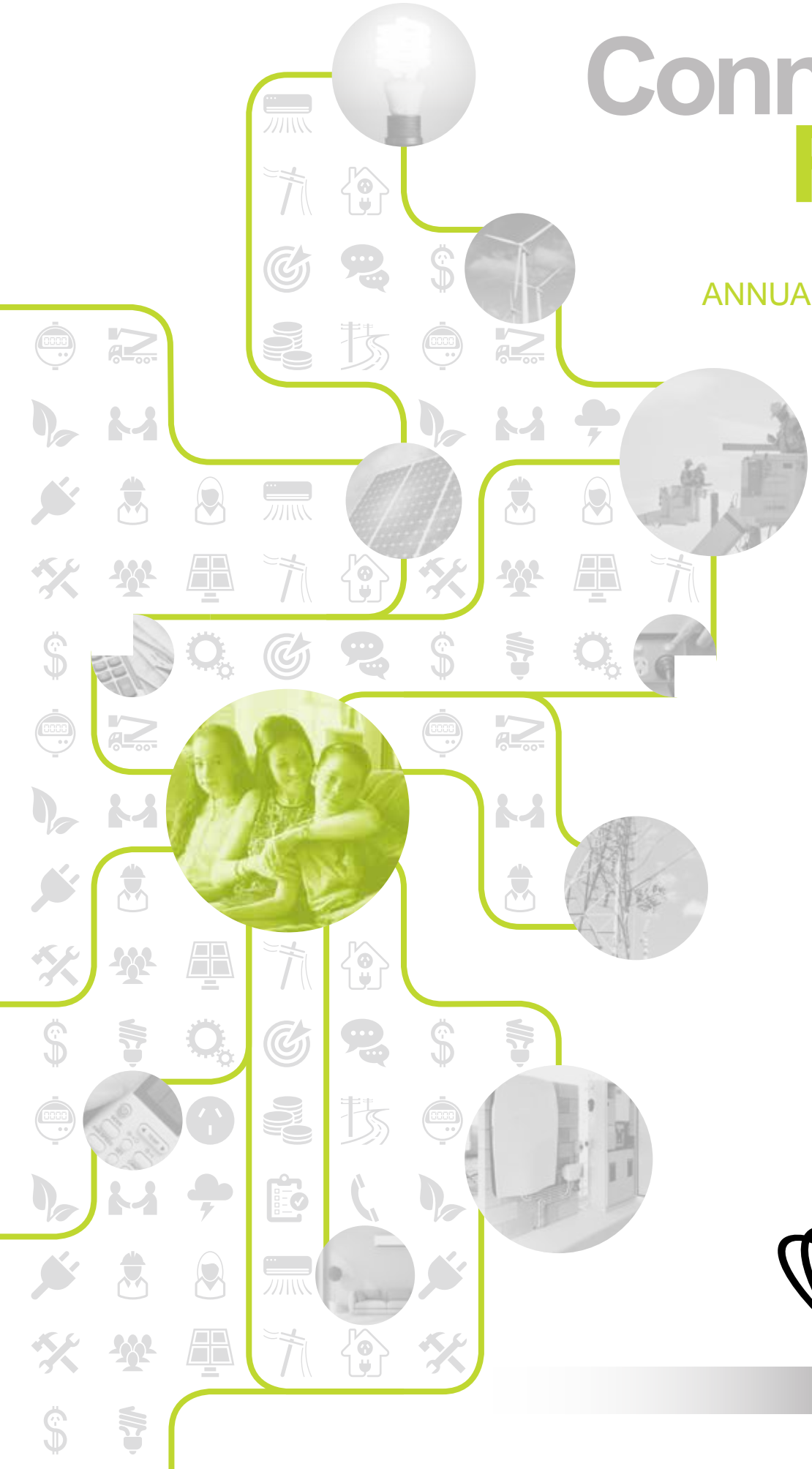

Queensland Audit Office
Brisbane

# Energex
# Annual Performance Report
# **2015/16**

for the year ended 30 June 2016

# Our Connected Future

ANNUAL PERFORMANCE REPORT 2015/16



energex

positive energy

FOR MORE THAN 100 YEARS ENERGEX AND ITS PREDECESSORS HAVE PROVIDED A SAFE AND RELIABLE ELECTRICITY SUPPLY TO SOUTH EAST QUEENSLAND.

**1997**

SEQEB changes its trading name to 'Energex.' Industry reforms split network and retail businesses.

Energex's vision is to be Asia Pacific's first choice in energy.

**1998**

Allgas Energy Ltd is acquired by Energex.

**1999**

Energex's operations include Victoria, New Zealand, Hong Kong and significant progress in China, Indonesia and Malaysia.

Energex launches a new 'internet' site which offers comprehensive safety, energy efficiency, environmental and employment opportunities information.

**2000**

Energex is the first company to recommit to Federal Government's Greenhouse Challenge 2000-2005.

The first Australian company to develop a specific program to enact the regulations stemming from the *Federal Government's Renewal Energy (Electricity) Act 2000* with Solar Certificates Program.

**2001**

Energex modernises the network operations and data capture system with enhancements to Distribution Management System (DMS).

**2002**

Energex's network assets are now available on a geographic information system, 'EnerGISe,' and is available to all staff.

**2003**

Service Essentials Pty Ltd is established, a joint venture between Energex and Ergon Energy, delivering cost effective transaction services for retail operations.

Network hit hard with five severe storms in seven consecutive days during January and another in March. Projects 'January' and '369' are implemented to achieve fast recovery of the brand and network. Somerville Inquiry established following the severe network disruption.

SPARQ Solutions formed to provide information technology services to Energex and Ergon Energy.

Preliminary work begins in July for the CityGrid Project the largest single capital works project to date. In partnership with Powerlink Queensland, the project is a combination of new and upgrade work on Energex's substations and high voltage electricity network, supplying the CBD. Works are complete by late 2006.

**2004**

**2005**

Energex introduces the tagline 'Positive Energy.'

**2006**

More than 150 staff, along with 52 trucks and 16 large mobile generators, are sent to assist with power restoration following Cyclone Larry.

## OUR VISION

BE THE PREFERRED SUPPLIER OF CONNECTED ELECTRICITY SERVICES.

## OUR PURPOSE

DELIVER CHOICE AND AFFORDABILITY TO MEET OUR CUSTOMERS' EVOLVING ENERGY NEEDS.

## OUR VALUES

### PUT SAFETY FIRST

Think safe, work safe, home safe. We are committed to achieving an injury free workplace.

### DELIVER ON OUR CUSTOMER PROMISE

We are clear in what we promise customers and we deliver on our promise.

### BE A TEAM PLAYER

We operate as a team and leverage and learn from each other.

### DELIVER BALANCED RESULTS

We are passionate and disciplined about achieving our performance targets. We deliver sustainable performance.

### RESPECT AND SUPPORT EACH OTHER

We value each other's views. Together, we create success.

### SET A GREAT EXAMPLE

We live our corporate values every day, encourage people to grow and make changes for the better.

Our values are the foundation for our everyday success

THE MERGER BETWEEN ENERGEX AND ERGON ENERGY IS THE NEXT STAGE OF AN EXCITING NEW FUTURE FOR QUEENSLAND'S ELECTRICITY NETWORK AND CUSTOMERS.


**2007**

State Government sells Energex's electricity and gas retail businesses and the natural gas distribution network to Origin Energy, AGL and APA.

Energex's Cool Change Project begins and is one of a number of coordinated initiatives developed in a bid to reduce peak electricity demand across South East Queensland.

**2008**

State Government announces Solar Bonus Scheme which pays households for generating and contributing solar power to the grid. A record number of new connections is made in February with over 300 connections in one day and more than 74,000 additions for the year.

Joint Workings Program established with Ergon Energy, creating efficiencies and reduce investment duplication.

November storms affect more than 230,000 customers. Ninety per cent of customers have supply restored within 24 hours.

**2009**

Flash flooding in May leaves 75,000 homes and businesses without power. Crews work through the night to restore power. A week later more than 32 Energex crews help New South Wales electricity network owner, Country Energy, with storm damage repairs in Northern New South Wales.

**2010**

Official opening of Energex's head office at Newstead.

Energex and Ergon Energy trial Reward Based Tariffs involving approximately 3,500 participants across Queensland, seeking to identify customer understanding and behaviour towards tariffs and pricing structures.

**2011**

Major floods in South East Queensland. Brisbane city power supply shut down until waters recede.

The Community and Sustainability Fund is launched, generated from recycled materials. More than 250 groups benefit and $600,000 of funds distributed.

Energex provides assistance to Ergon Energy in the aftermath of tropical Cyclone Yasi.

**2012**

State Government releases Independent Review Panel (IRP) Report into electricity network costs.

**2013**

Ex-tropical Cyclone Oswald impacts 40 per cent of the network. Energex and Ergon Energy crews work shoulder to shoulder restoring power.

**2014**

Bushfires sweep across North Stradbroke Island, causing significant damage to power supplies.

**2015**

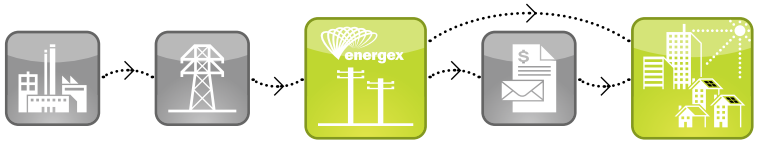
300,000th Solar PV system connected to the Energex network.

Energex, Ergon Energy and Powerlink Queensland partner to support the State Emergency Service.

**2016**

Battery Energy Storage System trial begins at Energex Esitrain, Rocklea.

## ELECTRICTY NETWORK IN SOUTH EAST QUEENSLAND




Generation | Transmission | Distribution **'us'** | Retail / Billing | Connected customer **'you'**

Our core role is to provide the necessary infrastructure to safely deliver a reliable electricity supply to almost 1.4 million homes and businesses.

We provide a service for more than 310,000 solar photovoltaic (PV) connections which allows customers to sell electricity to the market. We also deliver electricity to a population base of around 3.4 million people via more than 53,000km of overhead and underground power supplies with assets worth more than $12 billion.

ENERGEX NETWORK


Our network spans approximately 25,000 square kilometres across South East Queensland

# CONTENTS

# 2015/16 HIGHLIGHTS

Developed a new Customer Strategy based on customer principles that recognises the customer driven nature of our business

Launched a battery trial at our Esitrain Facility to better understand the connection of battery storage to our network and provide our customers with choice in their energy consumption decisions

Welcomed 59 new apprentices into our apprenticeship program to complete technical training at our Esitrain Facility at Rocklea

Established our Joint Market Transaction Centre bringing together Energex and Ergon's market data, metering and billing services

Achieved a Community Regard Index of 67.3 and Service Performance Index of 85.4

We planted more than 35,300 trees as part of our Environmental Offset Strategy

The expansion of Energex's underground network continued with 17,867km of cable now in place, meaning more than a third of our network is underground

During 2015/16 the 300,000th solar PV system was connected to our network – the highest of any supplier in Australia. A total of 20,071 systems connected during 2015/16

We launched our first state wide community support partnership of the State Emergency Service (SES) in conjunction with Ergon Energy and Powerlink

The 2020 Safety Strategy was launched, while approximately 1,500 staff attended the Leading Safety Program

Joined other Australian electricity businesses in supporting the Fiji Electricity Authority with vital equipment following Tropical Cyclone Winston

34,489 new customers were connected to the South East Queensland electricity grid – one of the highest increases on record

# FIVE YEAR SUMMARY

| AS AT 30 JUNE | 2012[1] | 2013[1] | 2014[1] | 2015 | 2016 |
|---|---|---|---|---|---|
| **Profit and Loss ($M)** | | | | | |
| **Total revenue** | **1,739** | **1,951** | **2,248** | **2,575** | **2,572** |
| Materials and consumables | (48) | (50) | (51) | (63) | (64) |
| Solar photovoltaic feed-in tariff expense | (74) | (167) | (227) | (204) | (187) |
| Transmission use of system charges | (390) | (394) | (404) | (388) | (434) |
| Employee expenses | (198) | (203) | (199) | (205) | (220) |
| Termination benefits | (10) | (51) | (18) | (26) | (10) |
| Depreciation, amortisation and impairment | (329) | (365) | (385) | (444) | (435) |
| Contractors and consultants | (183) | (119) | (135) | (136) | (135) |
| Borrowing costs | (323) | (366) | (400) | (326) | (314) |
| Other operating expenses | (42) | (57) | (52) | (50) | (52) |
| **Total operating expenses** | **(1,597)** | **(1,772)** | **(1,871)** | **(1,842)** | **(1,851)** |
| **Operating profit before income tax** | **142** | **179** | **377** | **733** | **721** |
| Income tax equivalent | (42) | (54) | (111) | (221) | (220) |
| **Operating profit after tax (OPAT)** | **100** | **125** | **266** | **512** | **501** |
| **Earnings before interest and tax (EBIT)** | **465** | **545** | **777** | **1,059** | **1,035** |
| **Earnings before interest and tax and depreciation adjusted (EBITDA)[2]** | **794** | **910** | **1,162** | **1,503** | **1,470** |
| Capitalised interest | 29 | 26 | 21 | 13 | 7 |
| **Balance Sheet ($M)** | | | | | |
| Total assets | 10,787 | 11,359 | 12,388 | 12,475 | 12,452 |
| Total debt[3] | 5,465 | 6,001 | 6,465 | 6,811 | - |
| Total shareholders' equity | 2,954 | 2,946 | 3,193 | 2,073 | 10,291 |
| **Capital Expenditure ($M)** | | | | | |
| Corporate initiated augmentation | 422 | 340 | 277 | 184 | 148 |
| Asset replacement | 191 | 245 | 257 | 277 | 276 |
| Customer initiated capital works | 184 | 184 | 160 | 181 | 145 |
| Other | 198 | 226 | 135 | 181 | 137 |
| **Total Capital Expenditure** | **995** | **995** | **829** | **823** | **706** |
| **Share Information** | | | | | |
| Dividends ($M)[4] | 226 | 294 | 406 | 1,295 | 451 |
| Dividends per share (¢) | 25.8 | 33.6 | 46.4 | 147.9 | 51.5 |
| Dividends/Net profit (%) | 226.0 | 235.2 | 152.6 | 252.9 | 90.0 |
| **Ratios** | | | | | |
| Earnings per share (¢) | 11.4 | 14.3 | 30.3 | 58.5 | 57.2 |
| Return on average shareholders' equity (%)[5] | 3.4 | 4.2 | 8.7 | 19.4 | 8.1 |
| Debt/(Debt + Equity) (%)[3] | 64.9 | 67.1 | 66.9 | 76.7 | - |
| Return on average total assets (%)[6] | 4.5 | 4.9 | 6.5 | 8.5 | 8.3 |
| Current ratio (%)[7] | 112.1 | 64.2 | 65.0 | 42.0 | 124.6 |
| EBITDA interest cover (times)[8] | 2.3 | 2.3 | 2.8 | 4.4 | 4.6 |

[1] Historical results and ratios were restated to reflect a change in the revenue recognition policy related to regulated revenue. OPAT as published in the respective years under the historical revenue recognition policy was 2012 - $282 million; 2013 - $351 million; 2014 - $508 million.
[2] Adjusted for total Depreciation, Amortisation and Impairment
[3] Pursuant to the Government Owned Corporations (Energy Consolidation) Regulation 2016, company debt was transferred to the State
[4] The 2015 dividend includes an additional $783 million declared from retained earnings and reserves
[5] OPAT / Average of Opening and Closing Shareholders' Equity
[6] EBIT / Average of Opening and Closing Total Assets
[7] Current Ratio = Current Assets / Current Liabilities
[8] EBITDA / (Borrowing Costs + Capitalised Interest)

# STATEMENT OF CORPORATE INTENT (SCI) REPORT

## Performance targets and outcomes for 2015/16

| KEY RESULT AREA (KRA) | KEY PERFORMANCE INDICATOR (KPI) | ACTUAL PERFORMANCE | TARGET PERFORMANCE |
|---|---|---|---|
| **Safety** | | | |
| Achieve top quartile safety performance against peers and an injury free workplace | Lost Time Injury Frequency Rate (LTIFR) | 4.59 | <2.00 |
| | Total Recordable Injury Frequency Rate (TRIFR) | 22.58 | <20 |
| | Potential High Consequence Events Actioned (People) | 100% | >95% |
| **Financial Performance** | | | |
| Deliver a sustainable financial position | Operating Profit after Tax (OPAT) | $500.7M | >$421.2M |
| | Return on Assets (ROA)[1] | 8.3% | >7.4% |
| | SCS OPEX[2] | $327.2M | <$346.0M |
| | SCS CAPEX[3] | $552.9M | $591.3M (± 5%) |
| **Operational Performance** | | | |
| Deliver the Program of Work (PoW) cost effectively and optimise programs to meet customer and business requirements | Operating Efficiency Index[4] | 29.1 | <30.6 |
| | PoW Delivery Index | 98% | >90% |
| **Network Performance** | | | |
| Operate the network effectively to meet required performance standards | Minimum Service Standards (MSS) | Favourable Performance | Favourable Performance |
| **People** | | | |
| Be an employer committed to performance leadership providing a safe workplace and an engaged workforce | Employee Engagement Index[5] | Achieved | Achieved targeted staff survey results |
| **Customer and Community** | | | |
| Deliver quality services to our customers and positively engage with our community | Service Performance Index[6] | 85% | >80% |
| | Community Regard Index[7] | 67% | >63% |
| **Environment** | | | |
| Deliver a sustainable environment position | Environment Operations Plan | 100% | 100% |

[1] Return on Assets (RoA) reflects EBIT divided by the average closing balance of total assets.
[2] SCS OPEX includes operating expenditure related to the program of work, levies and support costs related to Standard Control Services (SCS). It excludes debt raising costs which are included in the regulatory allowance.
[3] The SCS CAPEX target is a range of 5% reflecting the natural variance in timing of expenditure for multi-year projects.
[4] This measures total SCS expenditure relative to both Energex's regulated asset base and customer density i.e. Efficiency Index = (SCS Totex ÷ SCS RAB) x 10,000 (No. customers ÷ Network line length).
[5] Reflects workforce alignment to business direction.
[6] Based on an independent and random telephone customer survey on recent service interactions with Energex which measures service performance standards (Initial Contact and Delivery of Service). Represented as an index score out of 100.
[7] Based on an independent survey of customers' perceptions on whether Energex plays a sustainable part in the community e.g. ethical business dealings, public confidence, community education, environmentally.

# CHAIRMAN'S REVIEW

THE 2015/16 YEAR, ENERGEX'S LAST AS A STANDALONE GOVERNMENT OWNED CORPORATION (GOC) PRIOR TO THE MERGER WITH ERGON ENERGY TO FORM ENERGY QUEENSLAND, WAS MARKED BY THE DELIVERY OF OUTSTANDING FINANCIAL AND NETWORK PERFORMANCE RESULTS.

Today's challenge for electricity network businesses is to continue delivering the basics of safe, reliable, cost-effective services, whilst at the same time transforming the business to be able to sustainably provide the flexible connectivity which underpins the emerging environment of new technology, customer-focused energy solutions. Our company has performed very well on both those fronts.

The growing population of homes and businesses in South East Queensland has continued to benefit from the highly reliable network which results from Energex meeting or exceeding the stringent targets for network performance. Our performance against the national incentive-based network targets was notably strong.

And whilst this year was free of high consequence safety incidents and we met almost all of our key safety targets, the whole of year performance against one measure unfortunately drifted above target at the very end of the financial year. Better safety performance is a priority, front-of-mind improvement opportunity for the coming years.

The well above-target financial performance enabled Energex to pay a higher than expected dividend to the Queensland Government, whilst maintaining the underlying financial strength of the business.

The continuing high levels of adoption of rooftop solar PV systems by South East Queensland households and businesses – now totalling some 310,000 connections in our region alone – together with the imminent arrival of economic battery storage systems is re-defining the future role of the distribution network. And we have been transforming our business accordingly.

Whilst proactive demand management has long been an important tool in our management of summer peak demands on our network, the scale and market penetration of our solutions has been growing solidly – with 730,000 customers participating in one or more of our technically innovative solutions.

We have commenced an extensive trial into home energy storage, utilising batteries and technologically advanced control systems from a number of highly regarded international suppliers.

At the centre of all these achievements is a very capable, dedicated and engaged workforce – the people of Energex continue to deliver both the traditional customer expectations of a highly reliable and safe electricity supply ( including the safe and timely restoration of that supply following storm events and the like), and meet the challenges of the transformation to providing the connectedness and new solutions which provide the foundation for customer-focussed energy distribution.

The Energex Board is very proud of your achievements, and very confident of your ability to succeed in the new merged corporate structure of Energy Queensland.

I would like to acknowledge the significant contributions of our directors and the very capable executive management team in providing the strong governance and insightful leadership upon which our business success depends. In a year of considerable change, I especially thank our long-standing directors John Geldard, Peter Arnison, and Kerryn Newton for their valuable guidance, and deep commitment to Energex's success over the past decade.

Finally, on behalf of the Board, I acknowledge the outstanding contribution of CEO Terry Effeney over the past 10 years. Terry will be leaving Energex after his current short secondment as Interim CEO at Energy Queensland. Energex is a much better and more highly regarded business after 10 years of Terry's leadership. It is indeed fitting that Terry's final year at Energex is marked for posterity by the outstanding business results.

**Gordon Jardine**
**Chairman, Energex Limited**

JOHN GELDARD KERRYN NEWTON GORDON JARDINE

THE ENERGEX BOARD PROVIDES STRATEGIC DIRECTION AND ENCOURAGES OUR PEOPLE TO PERFORM THEIR DUTIES IN AN ETHICAL AND RESPONSIBLE MANNER.

VANESSA SULLIVAN ROBERT (BOB) SHEAD

# BOARD PROFILES

## Directors

**Gordon Jardine – Chairman**

*BE (Hons), B.Com, M.Sc (Environmental), FAICD, FAIM, FIEAust, FTSE*

Gordon Jardine was appointed to the Energex Board in May 2015 and was appointed Chairman of the Board, effective 1 October 2015. He is Chairman of the Network and Technical Committee and a member of the People Committee and the Regulatory Committee.

He is also the independent Chairman of ElectraNet Pty Limited, the private company which owns and operates the high voltage electricity transmission grid in South Australia, a position held since 2011. He has been an ElectraNet director almost continuously since 2000.

From 1995 to 2011, he was CEO of Powerlink Queensland, which owns and operates the high voltage electricity transmission grid in Queensland. During this period, he was seconded to Energex as CEO for 9 months in 2004/05.

Gordon spent his early career in the computer software industry, where he held a number of national and international roles, and in the mining industry in Queensland and Western Australia.

**John Geldard – Director**

*B.Com, BE, CPA, FAICD*

John Geldard was first appointed a non-executive Director of the Energex Limited Board in July 2005. He is Chairman of the Audit and Risk Committee and Chairman of the Regulatory Committee.

John has extensive experience within the private and public sectors in the manufacturing, mining and energy industries and has been involved with electricity industry reform in Queensland and Western Australia.

Previously, John has held executive positions at Energex, including Chief Executive Officer between March and December 2000, and Chief Financial Officer from July 1997 to April 2001. Prior to this, John served as the Chief Financial Officer for the Queensland Transmission and Supply Corporation.

John is a Director of Energy Super (formerly ESI Super), Gardior Ltd and is a previous Deputy Member of the Queensland Treasury Corporation Board.

**Kerryn Newton – Director**

*LLM, MBA, MA, Grad Dip (Applied Finance and Investment), FAICD, FAIM, FGIA*

Kerryn Newton first joined the Energex Limited Board in October 2008 and since that time has been a member of, and chaired, several of the Board Committees and has served as Chair of the Board. She is currently Chair of the People Committee, a member of the Audit and Risk Committee and a member of the Network and Technical Committee.

Kerryn was admitted as a solicitor of the Supreme Court of Queensland in 1991 and has over 25 years experience working in various legal, management and commercial roles in the private and public sectors, and as a consultant working across the private, government, publicly-listed, and not-for-profit sectors in an extensive range of industries.

Kerryn has also been a member, and Chair, of a wide range of boards and committees, and was a member of the former Queensland Liquor and Gaming Commission. Currently, Kerryn is Managing Director of a national governance consulting firm and advises a wide range of organisations in the areas of governance, strategy and management.

Further details of current directors and secretaries, with their qualifications and experience, can be found on the Energex website at www.energex.com.au/about-us/company-information/who-we-are/board-members

**Robert (Bob) Shead – Director**

*BBus (Acctcy), MBA (Hons), FCPA*

Bob Shead was appointed as a non-executive Director of the Energex Limited Board on 1 October 2015. He is a member of the Network and Technical Committee and the Audit and Risk Committee.

Bob is a consultant specialising in public financial management and governance. He has 40 years' experience in the public and private sectors in Australia and across the Asia-Pacific region. Bob is a retired partner at BDO (Qld), and an Asian Development Bank advisor to the People's Republic of China.

Previously, he has been a World Bank and United Nations Development Program advisor, and chair of Forestry Plantations Queensland. Prior to 2000, Bob had a number of roles in the Queensland public sector, including at Queensland Treasury and the Queensland Audit Office.

**Vanessa Sullivan – Director**

*BEc (Hons), Grad. Dip. Finance and Investment (SIA)*

Vanessa Sullivan was appointed as a non-executive Director of the Energex Limited Board on 1 October 2015. She is a member of the Audit and Risk Committee, the People Committee and the Regulatory Committee. Vanessa is a qualified economist with significant knowledge of the energy, carbon and water sectors and has been a senior member of water and energy reform teams.

Vanessa is currently a Partner at Lyon Infrastructure and her previous roles include Executive Director, Ernst & Young, where she was responsible for undertaking energy market analysis for both network and generation businesses, and financial and strategic assessment of climate change. Vanessa has valuable experience in the development of utility solar and energy storage projects, including the development of the Cook Shire Solar/Storage Project in Far North Queensland.

## Chief Executive Officers

**Terry Effeney – Chief Executive Officer (8 January 2007 - 29 June 2016)**

*BE (Hons), BEcon, MEng, FAICD, RPEQ, FIE Aust, FAIM*

Terry Effeney was appointed Chief Executive Officer of Energex in January 2007. Possessing extensive electricity industry experience, Terry held senior engineering and management roles within Ergon Energy and its predecessors prior to his Energex appointment.

**Peter Weaver – Acting Chief Executive Officer (Appointed 30 June 2016)**

*BCom, MBA, FAICD*

Peter was announced as Acting Chief Executive Officer of Energex in June 2016. He joined Energex in 1998 with a key role of consolidating the Call Centre, Customer Accounts and Service Delivery sections in preparation for the opening of the commercial electricity market. His most recent role was as EGM Service Delivery in Energex, which he held since 2013. Prior to his career in the electricity industry, Peter spent 14 years at Ansett.

## Company Secretaries

**Michael Russell – Director Corporate Governance and Company Secretary**

*BE, MBA, Grad Dip AppCorpGov, GAICD, AGIA, MIEAust, CPEng*

Michael Russell joined the organisation when it was operating as SEQEB in 1984, and has held various engineering and management positions. His expertise in corporate governance has been developed through responsibilities that included the management of significant Energex investments in a listed telecommunications company and in a listed ceramic fuel cell development company.

**Marnie White – Corporate Governance Manager and Company Secretary**

*LLB, BA, Grad Dip LP, Grad Dip App Corp Gov, AGIA, GAICD*

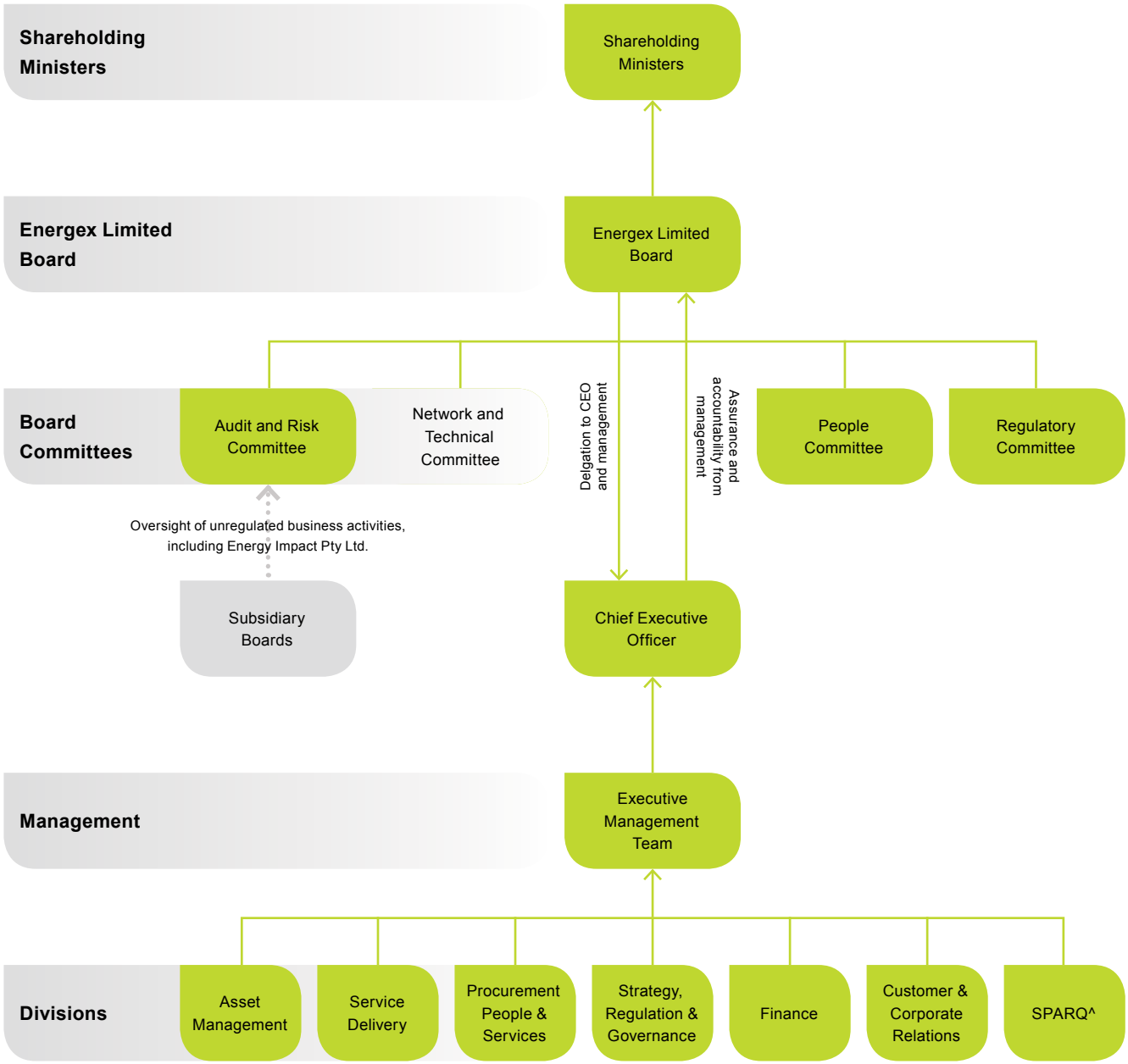
Marnie White was admitted as a solicitor in July 2000 and practiced in a national law firm before joining Energex as Legal Counsel Network in 2005. She was appointed as Secretariat and Governance Manager (Company Secretary) in December 2007 and became Corporate Governance Manager in 2011.

In 2009, Marnie completed the Graduate Diploma in Applied Corporate Governance through the Governance Institute of Australia (formerly Chartered Secretaries Australia). In 2015, she also completed the Company Directors' Course through the Australian Institute of Company Directors.

# CORPORATE GOVERNANCE

## FRAMEWORK AND ORGANISATIONAL STRUCTURE

### Framework and organisational structure*




* This structure was in place until 30 June 2016 when the shares in Energex Limited were transferred to Energy Queensland Limited (EQL). EQL became a Government Owned Corporation with the two Shareholding Ministers listed on page 11. Energex Limited became a GOC subsidiary.
^ SPARQ Solutions Pty Ltd is a joint venture company, providing IT services to Energex and Ergon Energy Corporation Limited (Ergon).

# CORPORATE GOVERNANCE PRINCIPLES

ENERGEX REPORTS AGAINST THE CORPORATE GOVERNANCE GUIDELINES FOR GOVERNMENT OWNED CORPORATIONS (THE GUIDELINES) ISSUED BY THE QUEENSLAND GOVERNMENT. THE GUIDELINES PROVIDE THE FRAMEWORK FOR ALL GOCs AND THEIR SUBSIDIARIES TO DEVELOP, IMPLEMENT, REVIEW AND REPORT ON THEIR CORPORATE GOVERNANCE ARRANGEMENTS UNDER EIGHT PRINCIPLES.

## Principle 1 - Foundations of management and oversight

### Shareholders

Until 30 June 2016, Energex was a GOC, with two shareholding Ministers who held the shares on behalf of the State of Queensland. Our shareholding Ministers were:

- The Hon. Curtis Pitt MP, Treasurer, Minister for Aboriginal and Torres Strait Islander Partnerships and Minister for Sport, holding 50 per cent of the A class voting shares and 100 per cent of the B class non-voting shares; and
- The Hon. Mark Bailey MP, Minister for Main Roads, Road Safety and Ports and Minister for Energy, Biofuels and Water Supply, holding the remaining 50 per cent of the voting shares.

On 30 June 2016, the shares in Energex Limited, which were held by the above shareholding Ministers, were transferred to the newly created GOC, Energy Queensland Limited. From 30 June 2016, Energex became a GOC subsidiary.

### Board Charter

Our Board Charter and Delegation of Authority Policy provide a clear delineation between the roles and responsibilities of the Board and individual Directors and the matters which are delegated to management. Management's responsibilities are well defined through job profiles, performance agreements and the Board-approved Delegation of Authority framework.

The Board has delegated certain aspects of its authority to the Chief Executive Officer (CEO), through a control framework which includes financial authority limitations, to operate the business on a day-to-day basis. The CEO and Executive General Managers (EGM) from each division comprise the Executive Management Team (EMT). The EMT implements the Board's strategies and policies through the Delegation of Authority Framework and Business Plan.

The Board Charter is reviewed every two years and the last review was in early 2016. The review ensures that the Charter continues to remain effective and current. A copy of our Board Charter is available at www.energex.com.au/about-us/company-information/right-to-information/publication-scheme

### Board Committees

The Board has established four committees to assist the Board in the performance of its functions in key areas:

- Audit and Risk Committee – provides oversight of financial integrity, risk management, effectiveness of the control framework, integrity, assurance over business operations and work place health and safety.
- Network and Technical Committee – provides oversight of technical and network standards for the delivery of electricity in a manner that meets the reasonable expectations of the community and complies with our legal and regulatory obligations. The Committee also has oversight of workplace health and safety related to network and technical matters.
- People Committee – provides oversight of remuneration and employment policies, workforce planning, diversity, staff establishment and company structure matters.
- Regulatory Committee – provides oversight of significant regulatory issues and related corporate projects.

### Board Handbook

Our Directors' and Officers' Handbook is distributed to Energex Directors and EMT and is used as an integral part of their induction process. The Handbook defines the Board governance systems and supports Directors in their governance responsibilities. The Handbook is regularly reviewed and updated.

### Directors' induction

New Directors attend a structured induction session to provide them with an overview of our operations and information on the Board and committee functions. The induction assists Directors to understand their role and responsibilities, our business, and corporate expectations.

**Assessing senior management performance**

TEAM Success is the comprehensive and formal performance management program for all employees including senior management. The program includes individual executive performance agreements based on the achievement of well-defined Key Result Areas (KRAs) and Key Performance Indicators (KPIs) involving corporate, commercial and personal goals.

During the year, the Board, through the People Committee, assesses the performance of the CEO and has oversight of the performance assessments of senior executives undertaken by the CEO.

## Principle 2 – Structure the Board to add value

**Our Directors**

Our Board of Directors, including the Chairman, are all independent, non-executive Directors. Our Directors are appointed by the Governor-in-Council in accordance with the *Government Owned Corporations Act 1993 (Qld)*. As such, the Board does not play a formal role in selecting Directors or the size of the Board.

Our Directors assess their independence, with reference to the "factors relevant to assessing the independence of a director" in the ASX Corporate Governance Principles and Recommendations (3rd edition).

Where a Director has an interest or a material personal interest in a matter being considered by the Board, the Director will declare that interest in accordance with directors' obligations under the *Corporations Act 2001*, the Energex Conflict of Interest Policy and the Energex Limited Constitution.

The Constitution provides that a Director must absent themselves from a meeting, including all deliberations and voting on a matter where they have declared a material personal interest in the matter.

Details of Directors' skills, experience and expertise relevant to their position are included in this report (pages 8-9).

The terms of office and date of expiry held by each Director at the date of this report, as well as Directors' attendances at Board and committee meetings, are set out in the 2015/16 Energy Queensland Annual Financial Statements.

A performance evaluation of the Board was last held in June 2015, via a self assessment process through the use of a survey of Directors. The results showed that Energex has in place strong corporate governance practices.

However, the evaluation prompted a number of agreed actions relating to governance refinements, which were implemented during 2015/16. In accordance with the Guidelines, the Board wrote to the shareholding Ministers regarding the results of the evaluation.

**Directors' access to advice and training**

The Board Charter provides that Directors may seek independent professional advice, at the company's expense, to assist them to carry out their duties as a Director. The Board also has access to continuing education and training to maintain, update and enhance their skills, knowledge and experience.

## Principle 3 – Promote ethical and responsible decision making

**Key governance policies**

We are committed to ethical and responsible decision making and have in place a suite of governance policies to establish this framework.

These include the Code of Conduct, Compliance Policy, Fraud and Corruption Control Policy, Delegation of Authority Policy, Conflict of Interest Policy, Public Interest Disclosure Policy, Lobbying Policy, Reportable Gifts Policy, Procurement Policy and the Energex Purchasing Manual.

The Energex Code of Conduct applies to Energex Directors, management, staff and contractors. New employees receive induction training on ethical business practices including the Code of Conduct. A copy of the Code of Conduct is provided to new employees and is readily available on the staff intranet.

Our advisers, consultants and contractors are expected to comply with high ethical standards aligned with the Code of Conduct. Our contracts with suppliers outline the expectations of the Code of Conduct. A copy of the Code of Conduct is available at www.energex.com.au/about-us/company-information/right-to-information.

Directors have additional obligations and Directors' duties under law. These are set out in the Energex Board Charter (which includes a Directors' Code of Conduct) and the Directors' and Officers' Handbook.

**Trading policy**

As our company was government owned, no Director or employee holds or trades securities in any Energex Group Company. Our Conflict of Interest Policy includes a Share Trading Policy, which supplements the legal duties that apply to directors, officers and employees relating to the misuse of information or position and insider trading laws.

A summary of this policy is available on our publication scheme website under 'Our Policies' at www.energex.com.au/about-us/company-information/right-to-information/publication-scheme.

## Principle 4 – Safeguard integrity in financial reporting

**Audit and Risk Committee**

The role of the Audit and Risk Committee, comprised of independent Directors, is to oversee matters of financial integrity, risk management, effectiveness of the control framework, integrity and assurance over business operations.

The Committee's duties and responsibilities are set out in its Charter, a summary of which is available on our website at www.energex.com.au/about-us/company-information/right-to-information/publication-scheme.

The role of Chairman of the Audit and Risk Committee is not held by the Board Chairman.

Details of members' qualifications are included in this report (pages 8-9).

Attendance at meetings is disclosed in the 2015/16 Energy Queensland Annual Financial Statements.

## Principle 5 – Make timely and balanced disclosure

The Board has reporting and continuous disclosure obligations to the shareholding Ministers under the *GOC Act* and *Corporations Act 2001 (Cth)*.

We adopt a broad approach to disclosure to our shareholders. We take into consideration the obligations set out in legislation and relevant policies in order to ensure accountability to the shareholding Ministers, who are in turn accountable to Parliament. The shareholding Ministers[1] have access to material information concerning our company including our operations, financial performance, financial position and governance of our company and its subsidiaries.

[1] As of 30 June 2016, the shareholding Ministers are now the shareholders of Energex's parent company, Energy Queensland Limited

This requirement is similar to the continuous disclosure obligations which apply to listed companies under the ASX Listing Rules. In addition to submissions on specific matters, including regular briefing notes, a quarterly report is provided to the shareholding Ministers.

A summary of our Government and Shareholder Disclosure Policy is available at www.energex.com.au/about-us/company-information/right-to-information/publication-scheme.

## Principle 6 – Respect the rights of shareholders

**Reporting to our shareholders**

We report to the shareholding Ministers in a timely manner on all issues likely to have a significant financial, operational, social or environmental impact in accordance with our obligations under legislation and government guidelines.

We work cooperatively with the shareholding Ministers on these issues.

The Chairman is the principal liaison officer with the shareholding Ministers, both on a formal and informal basis.

The CEO and certain managers and employees liaise with representatives of shareholder departments on a regular basis.

**Our dividend policy**

Between 1 and 16 May each financial year, our Board has made a dividend recommendation to the shareholding Ministers in accordance with section 131 of the *GOC Act.* On 9 June 2016, the shareholding Ministers issued a direction to Energex under section 131 of the *Government Owned Corporations Act 1993* to declare and pay a dividend for 2015/16 of $451 million.

## Principle 7 – Recognise and manage risk

Energex operates an Enterprise Risk Management (ERM) Framework that applies the principles of AS/NZS ISO 31000:2009 Risk management– Principles and guidelines for managing risk.

Energex's ERM Framework comprises the language, accountabilities, principles, practices, systems, tools and reporting processes used to manage risks in our business. Our risk management practices identify and manage risks in the delivery of Energex's balanced commercial outcomes.

The Board articulates its risk appetite through approved Risk Appetite Statements. Following a review with the Board in 2015/16, risk appetites have now been identified against three categories of business activity – Operational Compliance, Operational Performance and Strategic Performance.

Corporate Risk Plans have been developed and maintained for both long term strategic risks and those with a more operational focus.

Risk management activities are integrated with strategic and business planning processes to ensure that they support informed business decision-making.

The ERM Framework has been adopted throughout the organisation to ensure risks and compliance obligations are consistently identified and appropriately managed. The risks we manage include: safety, network, financial, operational, people, compliance and strategic. Details of these risks and mitigation strategies and controls are captured in risk registers managed by each division and at a corporate level.

Responsibilities within the ERM Framework include:

- Board oversight of the ERM Framework's effectiveness through the Audit and Risk Committee.
- Board oversight of the internal control framework within Energex, which is designed to provide reasonable assurance regarding the achievement of the organisation's objectives.
- The internal control framework is comprised of policies and procedures, including compliance training and assurance processes, to ensure the affairs of the organisation are being conducted in accordance with relevant legislation, regulations and codes of practice. These procedures enable the Board and the Executive Management Team (EMT) to monitor, in a timely manner, any material matters affecting our operations.
- EMT responsibilities to ensure material business risks and compliance matters, and the effectiveness of risk management processes, are continuously monitored and reported to the Board on a monthly basis.

Risk management involves not only making certain that the distribution network is managed in an efficient and cost-effective manner but also ensuring that our systems and processes operate effectively, including during times of stress or crisis. We continually monitor our formal Business Continuity Management (BCM) Framework, with a focus on the currency of Business Continuity Plans (BCPs) for core functions where continued operation in times of disruption is regarded as critical. Business areas also maintained strong compliance practices and processes to ensure no significant non-compliance matters arose over the year.

**Fraud Risk Management**

We are committed to the prevention of fraud including corruption. To provide an effective fraud control framework that is closely integrated with the overarching ERM Framework, a suite of strategies and initiatives has been established comprising:

- the Code of Conduct deployment and relevant policy which actively discourages fraudulent activity and drives an ethical culture,
- fraud registers to identify and document all fraud-related risks and the internal controls that currently exist to mitigate each identified fraud risk,
- internal control measures embedded into business practices and processes,
- fraud investigation capabilities, standards and protocols,
- the independently operated 24-hour Disclosure Line,
- fraud risk management plan,
- fraud awareness training.

## Principle 8 – Remunerate fairly and responsibly

**People Committee**

The People Committee oversees employee remuneration and performance policies. Membership of the Committee is disclosed in the 2015/16 Energy Queensland Annual Financial Statements.

The Committee's Charter sets out the roles and responsibilities of Committee members. A summary is available on our publication scheme website at www.energex.com.au/about-us/company-information/right-to-information/publication-scheme.

**Remuneration policy**

Our remuneration strategy and practices are aimed at ensuring we attract, retain and motivate highly competent and capable employees at all levels by providing an appropriate combination of competitive, fixed and variable remuneration components. We comply with government guidelines in relation to remuneration for executives to achieve a balance between public accountability and transparency and our need to attract and retain staff from competitive labour markets.

**Assessing performance**

To reinforce our performance-based culture, we offer an annual performance pay scheme which is linked to our KRAs and KPIs. During 2015/16, we measured progress towards the achievement of our vision and purpose through success against our KRAs and KPIs as set out in the SCI.

Our performance management program, TEAM Success, which incorporates the performance pay scheme, aims to improve performance management processes and practices across our business and strives towards a performance-focused culture which is critical to our people and safety strategy.

The framework promotes continual performance and developmental conversations between the employee and their leader.

# ACTING CHIEF EXECUTIVE OFFICER'S REPORT

ENERGEX IS AT THE FOREFRONT OF A RAPIDLY CHANGING INDUSTRY. THE BUSINESS HAS EXPERIENCED THE DEREGULATION OF THE RETAIL ELECTRICITY MARKET, IMPACTS OF THE GLOBAL FINANCIAL CRISIS, THE RAPID UPTAKE OF RENEWABLE ENERGY, AND MASSIVE RESTORATION EFFORTS AFTER SIGNIFICANT WEATHER EVENTS SUCH AS 2008'S GAP STORMS, THE 2011 FLOODS, 2013'S EX TROPICAL CYCLONE OSWALD AND THE NOVEMBER 2014 SUPERCELL STORM.

During all of this, the one mainstay has been our people who have not only adapted to these changing conditions, but continued to provide quality interaction with our customers.

This has also been achieved while safely and promptly providing electricity supply on a daily basis in all weather – mild or severe. I wish to thank Energex staff for their dedication and commitment.

In an overall sense, 2015/16 has been a very successful year for Energex with strong financial, operational and customer outcomes on top of a significant uplift in staff survey and safety survey results.

## Safety

There is no greater priority than the safety of our people and it remains our key value. Our staff should be commended for achieving our Lead Safety Measures and ensuring no high consequence incidents during 2015/16.

This year we reached two years without a Lost Time Injury which is a considerable achievement for all our staff to be proud of considering the inherently dangerous nature of the business and our primary product of high voltage electricity. Our contractors who represent us also recorded an outstanding result with no Lost Time Injuries this year compared with six in 2014/15.

We continue to embed our safety principles of Care, Ownership, Trust and Learning within our workplace. A key highlight this year has been our people embracing 'Ownership' by sharing their own positive stories about how they manage distraction, complacency and fatigue at work and at home, to stay safe. These authentic stories reinforce the safety message and resonate due to their honesty.

Our Safety Roadmap 2020 has been launched and we undertook a Safety Culture Survey in May as a 'temperature check' for our staff. Our response rate was 67 per cent compared to 64 per cent in 2013. There have been positive increases across all areas of the Safety Culture Survey. Our staff understanding of the corporate safety policy and vision improved by 10 per cent. Personal ownership and leadership of corporate safety remain strong with both at 79 per cent. Our results are benchmarked against 27 other companies in the oil, construction and utilities industries and we are placed in the top 25th percentile of performance.

Our safety journey is ongoing and we will always consider a single injury one too many, and safety to be of the utmost importance in everything we do.

## Our workplace

We are very proud of being the first Queensland business to hold a Queensland Government Gold Rated Wellness Program for three years as part of the Government's 'Healthier, Happier Workplace' initiative.

The program is just one of a number of corporate initiatives that enable us to maintain an engaged and active workforce. Our staff survey results in 2015/16 further show the commitment of our staff and their high level of engagement as they carry out their jobs. We achieved an 87 per cent response rate. Our lead measure of employee alignment to business direction improved 10 per cent from the previous year to 57 per cent. These results demonstrate even in a time of change staff are engaged and ready to take on any challenge.

We seek to build a flexible and diverse workforce which will be best placed to operate in a dynamic and changing environment. During 2015/16 we launched several programs as part of our Diversity and Inclusion framework including our Indigenous Engagement Strategy and assistance for expecting parents in navigating their career.

I am proud of these programs as they support better business outcomes through valuing diversity of life and cultural experience.

## Service delivery and our customers

Being a distributor of an essential service, maintaining a safe and high performing electricity network is paramount. We continue to prudently invest in our network and focus on reliability programs. During 2015/16 we invested $325 million in upgrading network assets and $168 million in operating the network.

This year our Program of Work progressed smoothly and we delivered all our projects on time and within budget. We achieved a progressive outcome from the Australian Energy Regulator's re-assessment of our capital expenditure programs and approval of our submitted operating expenditure program. This compares positively with other Australian electricity distributors.

We delivered a strong after tax profit of $500.7 million for our shareholders, the people of Queensland, which is then used to provide essential services and support across the state.

With the uptake of solar PV and the emergence of battery storage systems, our electricity network is transforming. Our customers are increasingly looking to exercise choice and control and we are responding by exploring technology solutions. We are undertaking trials with battery manufacturers to understand how commercial and residential battery energy storage systems can be configured and used safely within our electricity network. We are also gaining an enhanced understanding of how battery storage will assist us with managing future network peaks.

With this emerging technology, our customer strategy allows us to engage with and listen to our customers while providing them targeted products and services. We have established a Customer and Community Council and Commerce and Industry Panel which will provide a customer voice for strategic decisions in the future.

## Looking forward

The merger of Energex and Ergon Energy is an evolution of Queensland's energy industry.

It allows us to address the fast-paced changes and challenges of our industry and provides the opportunity for our business to evolve further to improve network efficiency and deliver sustainable prices for our customers.

Energex contributed to the Merger Project Team with two of our Executive Management team and several of our senior leadership team providing strategic advice.

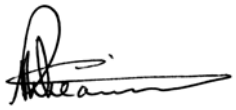
I want to thank all Energex staff for their patience and understanding as we managed these staff movements and subsequent changes.

I would like to congratulate Energex's former Chief Executive Officer Terry Effeney on his appointment as the Interim CEO of the new parent company Energy Queensland.

Terry's tenure of nearly a decade as Energex CEO will be invaluable as we transition into this new era.

On behalf of the Executive Management team and all Energex staff I want to thank Terry for his steadfast leadership during his time with the company.

With the advent of Energy Queensland we enter a time of change and opportunity which I embrace wholeheartedly. I encourage all our staff to do the same as we transform from South East Queensland's supplier to servicing Queensland from the Torres Strait to the Tweed through our parent company Energy Queensland.



**Peter Weaver**
**Acting Chief Executive Officer**

# FUTURE OPPORTUNITIES AND CHALLENGES

## Statewide business merger

In December 2015, the Queensland Government announced the distribution businesses of Energex and Ergon Energy and Sparq Solutions will be merged under a new parent company.

The merged group will consolidate the corporate functions for each business, while retaining the established frontline businesses of Ergon and Energex. In addition a new energy services business will be established to provide a range of products and services to give customers greater control over their energy use and access to new and emerging technologies. In June 2016, the new parent company, Energy Queensland, was announced along with its inaugural Chairman Phil Garling, two Board members and an Interim Chief Executive Officer.

The Queensland Government's plan to merge is expected to see positive outcomes for Queensland through improved network efficiencies, economies of scale to invest in new technologies and most importantly better customer outcomes such as reducing the pressure on electricity network prices for Queenslanders.

## Our Roadmap

We hosted a national forum in July 2015 to launch the Electricity Network Transformation Roadmap which provides a blueprint for transitioning Australia's electricity industry to enable better customer outcomes.

The Roadmap represents a partnership with Energy Networks Australia (ENA) and the national science agency, CSIRO and details how power utilities such as Energex can work better to shape the future of the energy market. We are active participants in this program and our 2020 Transition Roadmap document aligns with the ENA and CSIRO's work.

We developed our business strategy in response to the dynamic energy market. Our strategy reflects a transformation from a traditional network typified by 'poles and wires' to a connected customer-centric, multi-directional network. Our strategy acknowledges the Queensland Government's A Solar Future policy and its aspiration of having solar PV installed on one million rooftops in Queensland or the equivalent of 3,000 megawatts by 2020.

In our roadmap we define strategies for the next five years across our focus areas of safety and people, customers, financial position, technology and network and market reform. Over the next five years, we plan a staged transition to a connected network that delivers choice and affordability to our customers, encompasses new technology and enables the connection of low carbon/renewable energy.

These strategies aim to strengthen our business platform to enable us to leverage technology, data and customer relationships to provide valued service into the future.

## Emerging business opportunities

We have leveraged our expertise and knowledge of the National Electricity Market (NEM) in new ways in 2015/16. Metering Dynamics is a registered business of Energex Limited and has long provided a range of innovative metering and information solutions to our business as well as to commercial and industrial customers across Australia.

We increased our number of contestable metering points by 10 per cent during 2015/16, servicing approximately 70,000 metering points across both NEM and non-NEM markets, while also contributing to company earnings through the achievement of our financial targets. As we move forward into 2016/17 our focus will be to cost effectively meet the new customer energy requirements in the residential metering market in preparation for Power of Choice market reforms in December 2017.

Our Joint Market Transaction Centre established in 2015/16 brought together Energex's Energy Market Services Group and Ergon Energy's Meter Data Agency into one specialised business unit. We are now able to provide market data, metering and billing services for the network functions of these two organisations

## Evolving Technology

We vigilantly monitor technologies including solar, battery storage, energy management systems and electric vehicles. Rapid uptake of these technologies continues as our customers embrace the flexibility and choice they provide.

Through industry scanning, creating relationships with manufacturers and undertaking trials and pilots we are focused on being able to integrate these technologies safely with our electricity network. These technologies are assisting us in transforming our traditional network from a one-way delivery of energy into a connected and intelligent network that allows energy to flow in a number of ways.

A more intelligent network will facilitate customer choice and leverage technology and data to provide reliable and valued services for a connected future.

## Power of Choice

The Australian Energy Market Commission's (AEMC) Power of Choice program is a significant market reform for the national electricity industry which will begin in December 2017.

The market reform introduces a number of changes to the provision of metering services to customers designed to provide more choice and options for how consumers use their energy such as the deployment of advanced meters and promoting innovation in investment and advanced metering services.

To be ready, we have been working with Ergon Energy and retailers to identify the changes to our systems, processes and workforce for a smooth transition to these new market conditions to ensure we maintain safe and effective network operations for our staff, customers and the community.

# PERFORMANCE

## SAFETY

PUT SAFETY FIRST IS ENERGEX'S CORE VALUE AND ENERGEX'S PRIMARY FOCUS FOR ITS EMPLOYEES, CONTRACTORS AND THE COMMUNITY.

Put safety FIRST

| WHAT WE SET OUT TO ACHIEVE THIS YEAR | HOW WE PERFORMED? |
|---|---|
| Progress the Safety Strategy through deployment of the 2013-2016 Safety Roadmap | ✓ On track through delivery of 90 day plans |
| Development of Our Safety Strategy 2020 | ✓ Achieved |
| Development and deployment of a revised Safety Assurance Program | ✓ Achieved |
| Completed the organisation-wide roll out of the Leading Safety Program | ✓ Achieved |

### Outlook for 2016/17

- Develop and deploy the Safety Strategy 2020 Roadmap
- Continue to enhance Energex's safety risk management sub-framework and risk maturity
- Deploy the Learning and Assurance Program across the organisation and develop plans to deploy across our contract works
- Continue to embed the Leading Safety Program learnings and build our culture leveraging our Safety Principles – Care, Ownership, Trust and Learning

### Performance

A key focus for the year was to prevent high consequence incidents amongst Energex staff. A positive result has been achieved with no high consequence injuries. Whilst Total Recordable Injury Frequency Rate (TRIFR) performance is slightly higher than last year, there has been a reduction in the severity of injuries from 2014/15.

We recorded an outstanding achievement regarding our contractor safety with no Lost Time Injuries (LTI) recorded in 2015/16 compared to six in the 2014/15. We will continue our ongoing focus on lead measures to drive a positive safety culture for our workforce and the community.

### Our Safety Strategy and Roadmap

Through the commitment of our people, Energex has made significant progress on our safety journey, guided by our Safety Principles of Care, Ownership, Trust and Learning and through delivery of rolling 90 day action plans.

**Table 1 – Key Safety Performance Trends**

| Performance Trends | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| Lead Measures Achieved | - | - | Achieved | Achieved | Achieved |
| Total Recordable Injury Frequency Rate (TRIFR) | 35.6 | 32.08 | 22.49 | 20.24 | 22.58 |
| Lost Time Injury Frequency Rate (LTIFR) | 5.17 | 4.97 | 3.67 | 4.38 | 4.59 |
| Number of High Consequence Incidents | - | - | - | 0 | 0 |

Note: In 2015/16, LTIs were no longer reported.

## Internal Safety Campaigns

### Leading Safety Program Embedding

We achieved full deployment of the Leading Safety Program (LSP) across all available staff and locations in 2015/16 and commenced our strategy to embed and sustain learnings. New initiatives within the LSP Embedding Strategy include six monthly Senior Leader Safety Forums, the commencement of a Safety Champions Group comprising employees across the organisation who provide voluntary advocacy for safety, and an Adopt-a-Workgroup Program where senior leaders work with high risk work groups to embed key safety processes. The LSP Embedding Strategy will continue in 2016/17.

### Shared Learnings

The Shared Learnings initiative has been successfully entrenched in the business as a way to improve understanding and communication of learnings from incidents for all employees. A suite of materials is utilised to make the process open and informative and depending upon the complexity of the learning can include conversations with staff involved, face to face deployment to teams, videos, photographs, and support provided by our Incident Analysis team. This initiative provides employees with knowledge on how we are making improvements after safety events aimed at reducing a repeat of the same incident.

### Learning and Assurance Program

This program introduces a Behaviour Based Process, underpinned by listening and coaching, which involves two way learning conversations about safety risk between employees and leaders. We also incorporated a new framework for planned assurance activities that ensures independent and objective audits of our safe system of work, including critical controls of our high risk work activities, and focuses on identifying continuous improvement opportunities. After a successful pilot and strong endorsement by employees, leaders and Energex's Board, we will deploy this program fully in 2016/17.

### Safety Communications

Throughout 2015/16 Energex has progressively implemented the findings from its Best Practice Safety Communications research. A key recommendation has involved changing Energex's approach to the development of safety campaigns to involve data analysis and employee involvement, and ensuring that campaigns create the opportunity for sustained behavioural change. In this regard, Energex launched a six month campaign in February 2016 focusing on Distraction, Complacency and Fatigue. Energex will continue to implement remaining recommendations through 2016/17.

### Engaging our Contractors

We continue to collaborate with our network service providers to work safely. We agree and discuss performance against key safety performance measures with our providers to ensure everyone stays focussed on safety and work commitments. We believe these discussions around safety have resulted in decreasing the Lost Time Injury for contractors from six in 2014/15 to none in 2015/16.

## Energex's Safe Future

Energex's Safety Strategy 2020 provides direction for continuing to progress Energex's safety journey and sustain improvements in safety performance. We have sought leading practice thought and guidance from best practice safety organisations to inform our strategy, which will focus on three themes:

1. People are the Solution – Leveraging the collective experience of the people who are doing the work so they have greater involvement in delivering work safely.
2. Learning from the Positives – Learning about safety from the positive adaptations that our people make to work every day
3. Humanistic Leadership – Leading with care, trust and respect for everyone.

Listening, involving, empowering and making it easy for employees to deliver their work will be a key focus for Energex through the strategy, which will continue to be governed through rolling 90 day action plans.

## Electrical safety awareness in the community

Our 2015/16 Community Safety Plan outlined strategies to increase electrical safety awareness and understanding in the South East Queensland community and minimise the occurrence of electrical injuries through safety initiatives and programs aimed at identifying, monitoring and managing risks around the electricity network.

It's important that we stay connected with the community to ensure we are meeting their community safety needs. The community's perception has been consistently high with an average score of 7.65 on a scale of 10 (where 10 is excellent).

The number of asset related shock incidents for the 2015/16 was 163 compared to 208 events recorded in the 2014/15 period. Energex continues to actively deploy programs to reduce public exposure to future shocks.

### Public communications

We place a high priority on providing timely and accurate communications to the community, the media and our primary stakeholders during times of significant network events, especially during storm season, extreme heat days and natural disasters.

During these events we use mainstream media, website, social media channels and other methods of mass information distribution to inform customers of areas affected, safety messages, approximate restoration times and, where possible, the cause of the outage.

### Safety advertising

We conduct a number of public safety advertising campaigns to highlight important safety issues and address community misconceptions. Throughout the year, we ran a suite of safety advertisements using the tagline, 'if you could see the dangers, you'd stop yourself', encouraging the community to stop and think about unsafe actions around fallen powerlines during severe weather events and when working near overhead powerlines.

Research results by global market research company TNS show an extremely high community recall (>65 per cent) of our current safety advertising campaigns – Fallen powerline safety and Look up and Live. The importance of Energex undertaking safety advertising was also measured with 67 percent of respondents rating it an eight out of 10 (where 10 is very important).

These campaigns complement our other targeted messages of severe weather safety, power outage safety, seasonal safety, safety at home, safety around the network, safety at work and kids' safety. We continue to promote our messages through mainstream television, radio, newspaper and digital media channels.

### Digital marketing campaigns

In 2014/15 Energex started to integrate traditional and digital marketing, resulting in our first digital media campaign "When the power goes out", a series of animations designed to educate customers and allow them to share with family and friends via their own social networks. This year we used cutting edge 360° filming technology to create a unique campaign called "Spot the Dangers". The campaign supports the new wave of digital consumerism by providing our audiences with interactive content allowing them to take part in our safety message using their smartphones and tablet devices.

### Working together

We continue to drive positive community safety outcomes through long-standing, collaborative partnerships with the Electrical Safety Office, Division of Workplace Health and Safety, the Department of Energy and Water Supply, Dial Before You Dig, and Ergon Energy. In 2015/16, we attended more than 40 community safety events, providing targeted messages to the trucking, farming and DIY industry.

Energex continues to be a key stakeholder in providing support to a range of emergency services groups such as Emergency Management Queensland (EMQ), Queensland Fire and Emergency Services (QFES), State Emergency Services (SES), Queensland Police, Queensland Ambulance Service and Local Councils. These partnerships are a fundamental component of our safety campaigns and will continue to be a key element through collaborative promotions and events.

# FINANCIAL PERFORMANCE

WE CONTINUE TO FOCUS ON THE DELIVERY OF SAFE, RELIABLE ELECTRICITY SERVICES TO OUR CUSTOMERS, WITH A CLEAR FOCUS ON BUSINESS EFFICIENCIES WHICH ENABLE SUSTAINABLE ELECTRICITY PRICES AND APPROPRIATE RETURNS TO OUR SHAREHOLDERS.

Deliver balanced results

| WHAT WE SET OUT TO ACHIEVE THIS YEAR | HOW WE PERFORMED? |
|---|---|
| Deliver business efficiency initiatives | ✓ Our efficiency program achieved improved productivity and efficiencies in the delivery of our services. |
| Assess and agree balance sheet management strategies to meet shareholders' objectives | ✓ We worked with our shareholders to achieve a successful transformation to a revised capital structure as part of the Energy Queensland merged entity. |
| Implement Energex's 2015-20 Regulatory Determination to achieve optimal outcomes | ✓ Reshaped the capital program to manage our obligations within the overall 2015-20 Regulatory Determination |

## Outlook for 2016/17

Maintain efficient working capital and allocate capital prudently to deliver appropriate returns to shareholders and contribute to the minimisation of group debt levels.

Continue to align indirect expenditure with industry benchmarks through group synergies in support functions.

Continue to pursue unregulated growth opportunities within the regulatory framework.

Support the Government's objectives with the merger of Energex and Ergon Energy.

2015/16 was the first year of the Regulatory Control Period 2015-20 and our focus was on implementing the 2015-20 Regulatory Determination, delivering ongoing business efficiencies, maintaining sustainable network performance, enhancing customer engagement and influencing market and tariff reform.

The long-term goal to reduce the network component of electricity prices to a level below the rate of inflation was achieved in 2015/16 and is expected to be maintained for the remainder of the current regulatory period.

On 30 June 2016, all Energex shares were transferred to the newly formed Government Owned Corporation, Energy Queensland Limited, in line with the Queensland Government's policy to effect the merger of Queensland Electricity Distribution Networks. Under the enabling legislation, all long term borrowings, totalling $8,160 million were transferred to the state government and Energex will be funded on an ongoing basis by its new shareholder.

**Our results**

Throughout the year we maintained a focus on business efficiencies to ensure delivery within reduced allowances established by the 2015-20 Regulatory Determination. Program of Work spend during the period has been set at a level which will deliver sustainable network benefits to customers with no compromise to safety or legislative obligations.

Within these constraints, financial performance for 2015-16 remained strong with OPAT of $500.7 million. Revenue, and hence a portion of the current year profits for the 2015/16 year, included recoveries of solar feed in tariffs related to prior years under the Queensland Government's solar bonus scheme.

The focus on cost reductions to levels appropriate to support a reduced Program of Work enabled a reduction in the planned borrowing during the year with associated cost savings through lower borrowing costs.

**Revenue**

Total revenue of $2,572 million is largely reflective of distribution revenue billed to customers. Distribution Revenue comprises the Annual Revenue Requirement (ARR) to recover efficient costs incurred to provide standard control services and other revenue recoveries such as pass through amounts, jurisdictional scheme amounts and other carryovers. The ARR is derived in accordance with the building block approach outlined in the National Electricity Rules. The allowed ARR is determined by the AER for the five year regulatory period 2015-20.

Steady growth in commercially sourced revenue remains a focus as Energex prepares for future regulatory reforms. The AER continues to encourage competition with the transition of services from regulated (ie. under a revenue or price control mechanism) to unregulated service classifications. Non regulated revenue contributed approximately 5 per cent of total revenue during the year.

**Operating Expenditure**

Total expenditure of $1,851 million represents a real decrease compared to 2014/15 reflecting favourable borrowing costs as a result of lower debt requirements supplemented by ongoing strong cost control. The reduced expenditure is reflective of a reduction in maintenance and operational expenditure aligning with the 2015-20 Regulatory Determination resulting from a robust network with low levels of defects supplemented by strong cost control, efficiencies and a benign storm season.

Total operating expenditure on the network for 2015/16 was 5.5 per cent lower than the expenditure allowed through our current regulatory determination.

**Returns to shareholder**

Energex remains committed to maintaining a sustainable financial position consistent with shareholder expectations, while maintaining customer and regulatory obligations. In 2015/16 we returned a dividend to our shareholder on 29 June 2016, the Queensland Government of $451 million from current year profits. This payment was in addition to the payment of the dividend of $1,295 million following a declaration in the 2014/15 financial year.

# OPERATIONAL EXCELLENCE

WE WILL CONTINUE TO INVEST PRUDENTLY IN THE SOUTH EAST QUEENSLAND ELECTRICITY NETWORK TO MAINTAIN A SAFE, RELIABLE AND AFFORDABLE POWER SUPPLY TO CUSTOMERS.

Set a great example

| WHAT WE SET OUT TO ACHIEVE THIS YEAR | HOW WE PERFORMED? |
|---|---|
| PoW Delivery Index | ✓ Achieved 98 per cent against a stretch target of 95 per cent |
| Key Projects Delivered | ✓ Nineteen key projects were planned for delivery in 2015/16. These projects were all successfully completed by March 2016, well in advance of the end of the financial year. |
| Standard Control Services System Capital Expenditure (SCS System CAPEX) | ✓ Delivered under target spending due to lower levels of customer driven work, less requirement for pole replacements and lower unit rates due to efficiency and productivity improvements. |
| Standard Control Services System Operating Expenditure (SCS System OPEX) | ✓ Delivered under target spending due to a lower level of defects identified by inspections, less emergency/storm response costs and better integration of customer requested vegetation management. |

## Outlook for 2016/17

New scoping (planning and designing stage of infrastructure construction) training development is underway to ensure effective and consistent scoping methods are applied to field work

Work is underway to streamline how we issue work to the field, by replacing the existing Work Scheduling Tool

A focus on leveraging digital technology to enable improved mobility and connecting with field staff

Upgrade to Energex Program of Work (PoW) planning and tracking tool (Primavera)

Drive efficiency and improvements in the delivery of our Program of Work

## Major Projects

Throughout 2015/16 we continued to support major infrastructure projects across South East Queensland including the Moreton Bay Rail Link, Sunshine Coast University Hospital and Port of Brisbane Expansion which are all progressing towards operation.

Our support will also be required in the coming years for the ongoing development of the Gold Coast 2018 Commonwealth Games infrastructure, stage two of the Gold Coast Light Rail project, Toowoomba second range crossing and the Gateway Motorway Upgrade.

## Field efficiency initiatives

We continue to work on the Field Services Improvement Initiative Program which targets efficiencies in the way we do work and prudent expenditure.

In 2015/16 initiatives included:

- *The Distribution Review Project* – delivering action plans for each field service regional hub area to enable improvements to safety, contractor management, works management and delivery, leading to improved unit rates.
- *Digital Communication in the field* – focusing on improving the way we communicate with our field staff.
- *Introduction of 33kV and 11kV composite fibre cross-arms* – a lighter and easier to handle cross-arm, saving time on the installation and providing a safer option than timber.

**Table 2 – A selection of Major Projects completed in 2015/16**

| Project description | Spend $M | Customers benefitting |
|---|---|---|
| Victoria Park (Bowen Hills) Substation upgrade and local network enhancements | 62.9 | 3,300 (including Royal Brisbane Hospital) |
| Springfield Central Substation establishment | 51.8 | 4,600 |
| Coorparoo Substation upgrade | 15.1 | 9,121 |
| Wacol substation upgrade and local network enhancements (two projects at this substation) | 13.8 | 1,071 |
| Network enhancement between Nudgee and Hendra Substations | 13.1 | 20,100 |
| Archerfield Substation upgrade | 11.0 | 560 |
| Lockrose Substation upgrade | 10.9 | 2,602 |
| Cleveland Substation upgrade | 9.1 | 7,183 |
| Jindalee Substation upgrade | 7.3 | 3,250 |
| Samford Substation upgrade and local network enhancements | 7.0 | 4,486 |
| Moggill Substation upgrade and local network enhancements | 4.2 | 4,884 |
| North Stradbroke Island Substation upgrade | 3.8 | 2,203 |
| Network enhancement between Raby Bay and Capalaba Substations | 2.8 | 10,662 |

- *New pole extractors* – capable of extracting wood, nailed wood, steel and concrete pole. This mitigates lifter borer damage from attempting to extract poles and is a more cost effective option than vacuum extraction.
- *New High Voltage and Low Voltage Applicant Training courses* – improving the consistency and quality of field work applications for switching.
- *Advanced Distribution Management System (ADMS) using the General Electric (GE) Digital Energy PowerOnTM Fusion product* – improving resiliency for changing data, automation of prepared switching applications to deliver construction works and changes to enhance the user experience and functionality.
- *Field Force Automation (FFA)* – incorporating legislative and regulatory appointment timeframes for field crews to better manage resources and forecasting of work.

## Progressing our Property Strategy

Our Corporate Property Strategy focuses on reducing future operating costs, minimising safety risks and improving environmental performance within the existing property portfolio to position Energex for the future.

Key projects for 2015/16:

- A new depot opened at Berrinba, centrally positioned in our southern metropolitan area to improve efficiencies and response time in this growing region,
- Relocation of Cleveland depot to a newly constructed and owned facility to consolidate operations on to a single property,
- Significant upgrades to existing depot facilities at Burleigh, Geebung, Yandina and Southport,
- Extensive refurbishment of the Victoria Park Control Centre and Data Centre,
- Acquired a property at Stafford that will be redeveloped into a new depot to replace the leased facilities at Kelvin Grove.

## Impacts of Severe Weather

Severe weather can impact our network especially during our summer season. We carry out a comprehensive preparation and planning program for our operational response which is included in our Summer Preparedness Plan. Also detailed in this Plan are works carried out for summer 2015/16 to minimise power supply interruptions during extreme weather conditions. In addition, we routinely review our Bushfire Risk Management Plan and Flood Risk Management Plan to ensure bushfire and flood risks are identified and mitigated. All three Plans are available on our website https://www.energex.com.au/about-us/company-information/company-policies-and-reports.

In addition to our planning, we utilise advanced numerical weather forecasting from Weatherzone and Weatherwatch which draws on professional meteorologists' advice to inform our operational response during severe weather. We are currently working with Weatherwatch to evaluate the use of three dimensional radar functionality which could provide further improvements to our weather response tasks.

### Supporting South East Queensland

In the 2015/16, we responded to eight severe weather events in South East Queensland, most of these occurring in the first months of the storm season.

Among the most severe weather events that occurred in early December 2015; nearly 150 Energex crews worked over a number of days responding to the largest event for the season. This weather event impacted the localities of Logan City and Southern Moreton Bay Islands, recording 62,000 lightning strikes and wind gusts up to 102 km/h. We actioned the Major Repair Process due to the extent of localised damage, mostly attributed to falling trees and branches contacting overhead powerlines. Our crews restored power to more than 42,300 customers during the event.

Above average hot weather conditions were experienced on several occasions during January/February 2016. Temperatures exceeding 35C were recorded in many locations around South East Queensland and minimal impact to customers was experienced.

Two further severe weather events impacted the network in June 2016. In the first weekend of June, an East Coast Low brought heavy rain and winds of more than 80 km/h. During this event, more than 120 fallen powerlines were reported and crews restored power to more than 67,000 customers during the morning of Sunday 5 June 2016. Another significant event occurred on Friday 24 June, where South East Queensland was impacted by strong westerly winds (>90 km/hr). These gusty conditions impacted more than 43,300 customers, with some customers experiencing an outage of 30 hours. More than 130 crews were involved with this repair effort.

### Supporting Ergon's Christmas Storm Response

On Christmas Day 2015, more than 30 field services staff deployed to assist Ergon Energy to rebuild the power network and safely restore power supplies in the Toowoomba area.

Wild storms on Wednesday 23 December 2015 caused significant network damage with more than 80 poles reported down and difficult conditions due to extensive mud and water.

In addition to our crew support, we contributed a number of borer lifters, excavators and the Forward Command Mobile Communication Centre to support the rebuilding effort. All crews returned safely home on Tuesday 29 December 2015 after a four day deployment.

### Fiji Recovery Effort

In 2015/16 our support extended to the Fiji Electricity Authority in partnership with the Australian Government's Department of Foreign Affairs and Trade. Tropical Cyclone Winston devastated Fiji's electricity network with more than 4,500 power poles down or damaged.

We donated three heavy vehicles as part of a consortium of energy networks including ActewAGL, Ausgrid, AusNet Services, Energex, Ergon Energy, Essential Energy, Jemena, SA Power Networks, TasNetworks and Zinfra Group. Two Energex staff also went to Fiji to provide maintenance and safe use training to Fijian mechanics and operators. In total, the consortium provided seven heavy vehicles – crane borers, elevated work platforms and a service truck – and more than $270,000 of specialised tools and equipment including electrical test equipment, hydraulic cutting tools, drills and pole saws which will accelerate the safe restoration of power to Fiji.

**Highlights of Energex's Capital Program include:**

# $325 MILLION
INTO THE NETWORK SYSTEM CAPITAL PROGRAM

REPLACEMENT OF MORE THAN
**4,500**
AGED/UNSERVICEABLE POLES AND
**6,500**
CROSS ARMS

**CONSTRUCTION** AND AUGMENTATION OF OVER
**300KM**
OF **MAJOR** POWERLINES AND CONDUCTORS

INSTALLATION AND RETROFIT OF
**3,680**
**TRANSFORMERS**
(POLE AND PADMOUNT)
TO MAINTAIN RELIABILITY AND NETWORK INTEGRITY

REPLACEMENT OF MORE THAN
**600**
**AIR BREAK SWITCHES**
ACROSS THE NETWORK TO MEET SERVICE TARGETS

# $168 MILLION
WAS INVESTED INTO THE PLANNED MAINTENANCE PROGRAM WHICH INCLUDED:

**77,395**
**POLE INSPECTIONS**
TO ENSURE SAFETY AND RELIABILITY OF ELECTRICITY SUPPLY

**$63 MILLION**
TO MAINTAIN A SAFE CLEARANCE BETWEEN TREES AND POWERLINES

**638** **HELICOPTER PATROLS**
TO THE OVERHEAD NETWORK

# NETWORK PERFORMANCE

WE WILL BE RECOGNISED AS A LEADING UTILITY PROVIDING CONTEMPORARY NETWORK CAPABILITY AND SERVICE LEVELS THAT KEEP PACE WITH CUSTOMER VALUES, LIFESTYLE AND TECHNOLOGY CHOICES.

Deliver on our customer promise

| WHAT WE SET OUT TO ACHIEVE THIS YEAR | HOW WE PERFORMED? |
|---|---|
| Meet our Minimum Service Standards (MSS) for network reliability and security | ✓ Met our MSS across all areas |
| Service Target Performance Incentive Scheme (STPIS) | ✓ Manage performance for unplanned incidents |
| Identify ways to integrate emerging technology into our network | ✓ Embedded demand management programs and trials of battery energy storage system |

## Outlook for 2016/17

Achieve our target for Minimum Services Standards (MSS) for network reliability and security

Continue to monitor emerging technology and ways it can be integrated with our network

## Ensuring a reliable network

**Minimum Service Standards**

In 2015/16 we met our Minimum Service Standards (MSS) across all areas. Table 3 highlights our reliability performance across System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) since 2011/12 and compares our 2015/16 network performance with our MSS targets. CBD SAIDI compared less favourably to previous year's results due to a higher incidence of planned works, however these were well managed and a clear outcome of our cost / service trade-off strategy.

Urban SAIDI returned a more favourable result in 2015/16. Rural SAIDI was marginally less favourable to 2014/15 results due to a higher incidence of severe storms that did not meet the threshold for declaration as Major Event Days.

Table 3 shows our SAIDI and SAIFI performance since 2011/12 and compares our 2015/16 performance against the MSS targets.

**Table 3 – Reliability Performance**

| Normalised Reliability Performance MSS (Total of Planned & Unplanned) | | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Actual | 2015/16 Actual | 2015/16 MSS |
|---|---|---|---|---|---|---|---|
| **SAIDI (mins)** | CBD | 8.030 | 1.690 | 3.560 | 3.699 | 4.680 | **15.000** |
| | Urban | 64.700 | 72.700 | 74.864 | 90.851 | 76.680 | **106.000** |
| | Short rural | 198.000 | 160.500 | 173.392 | 178.790 | 180.840 | **218.000** |
| **SAIFI (events)** | CBD | 0.035 | 0.015 | 0.058 | 0.158 | 0.032 | **0.150** |
| | Urban | 0.747 | 0.820 | 0.804 | 0.786 | 0.726 | **1.260** |
| | Short rural | 1.730 | 1.611 | 1.556 | 1.547 | 1.514 | **2.460** |

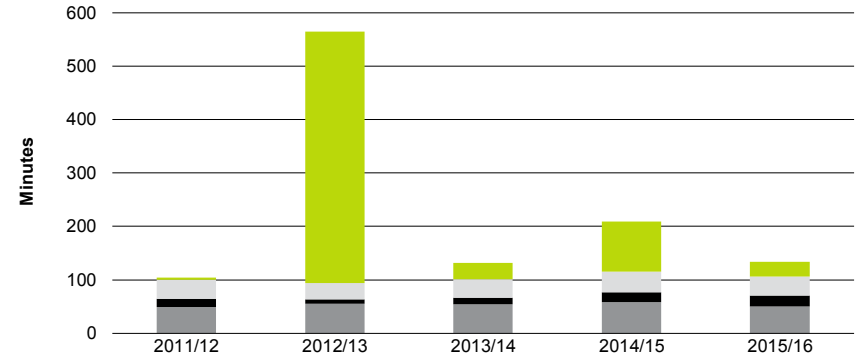
## Service Performance

In 2015/16 we commenced the first year of the AER Service Target Performance Incentive Scheme (STPIS) for 2015-20 regulatory period. This follows five years operation under the scheme for the 2010-15 regulatory period. The new performance targets were approved by the AER based on the previous five years performance. We exceeded our targets and achieved the maximum incentive reward ($28 million) for the year.

We achieved this by proactively investigating high impact network incidents to identify and address any common issues across the network. Further improvements will be deployed in 2016/17 through the Protection System Performance strategy project which follows the completion of a major review of secondary system performance.

### Graph 1 – System SAIDI (12 month)

Graph 1 displays our system SAIDI since 2011/12 and demonstrates the significant impact of Major Event Days on our 2012/13 results which were impacted by the January 2013 Australia Day long weekend weather event.




| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| Exclusions | 3.8 | 471.3 | 30.6 | 94.0 | 28.24 |
| Planned | 36.3 | 29.6 | 34.1 | 38.0 | 34.84 |
| Storm | 14.6 | 8.9 | 12.5 | 18.4 | 20.97 |
| Non-Storm | 49.4 | 55.0 | 54.4 | 58.8 | 50.11 |

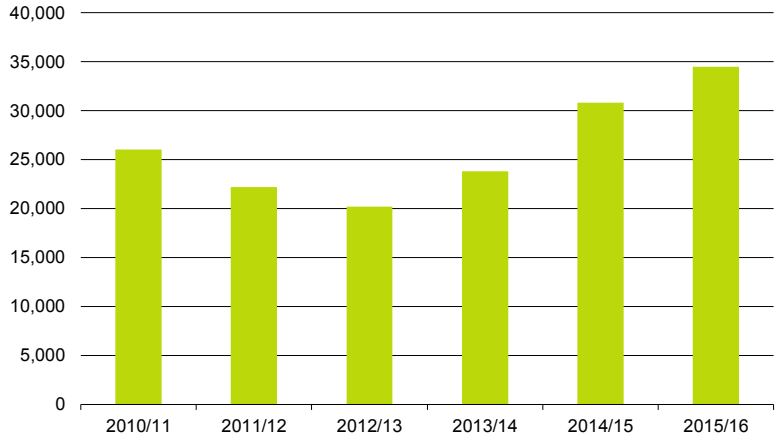
## Managing the network

Our annual Distribution Annual Planning Report (DAPR) outlines our five year plan to safely and efficiently manage the electricity distribution network for customers across South East Queensland. In accordance with National Electricity Rules, the DAPR outlines our network objectives in relation to load forecasting, demand management, new capacity investments, asset replacement and refurbishments, reliability and supply power quality and input into the future development of the network.

In 2015/16 we progressed upgrades to software and IT applications. We entered the second phase of the Distribution Monitoring Analytics (DMA) project with enhancements to improve our planning, design, engineering and maintenance of our electricity network and refining processes to make prudent network investment decisions. An upgrade of our Geographic Information System (GIS) is also underway and once complete will provide our staff with better-quality visuals and mapping of our network and assets.

To efficiently and safely manage the SEQ electricity network, it is critical to rigorously analyse data to identify emerging community and industry trends. In the 2015/16 year a total of 34,489 new customers were connected to the Energex network – one of the highest figures in the company's history.

**Graph 2 – New connections to Energex Electricity Network**




This increase of almost 100 additional connections every day is in stark contrast to the 20,224 connections which occurred just four years ago, and up more than 10 per cent on the 2014/15 number. Almost 40 per cent of these new 2015/16 connections were for multi-tenancy buildings, highlighting the surge in new apartment complex developments especially in central and greater Brisbane and on the Gold and Sunshine Coasts.

## Providing network solutions

Our programs seek to manage peak demand for our network, facilitate choice and lifestyle and build an understanding of new technology and its impact on our network.

Our long established Positive Payback program provides financial incentives to homes and businesses that connect to economy tariffs or install technology to reduce energy use during peak periods. In 2015/16 more than sixty builders and developers increased their participation in our program and we removed 24MVA of network demand with more than 16,400 PeakSmart products installed during the 2015/16 period.

**PeakSmart**

We activated our PeakSmart air-conditioner technology on 1 and 2 February 2016. On these two days South East Queensland experienced 40 degree temperatures. More than 50,000 air-conditioners were signalled to reduce their demand by approximately 25 per cent between 4.30pm and 5.30pm. More than 25,000 air-conditioners were active at the time and reduced peak demand on our network by 11.2 MW on 1 February and 16.4MW on 2 February.

These load reductions are the equivalent of more than 7,200 homes on our network. Surveys completed with participants after the event indicated no impact on comfort. This result demonstrates our PeakSmart technology is a valuable tool to manage demand on our network.

**Solar PV**

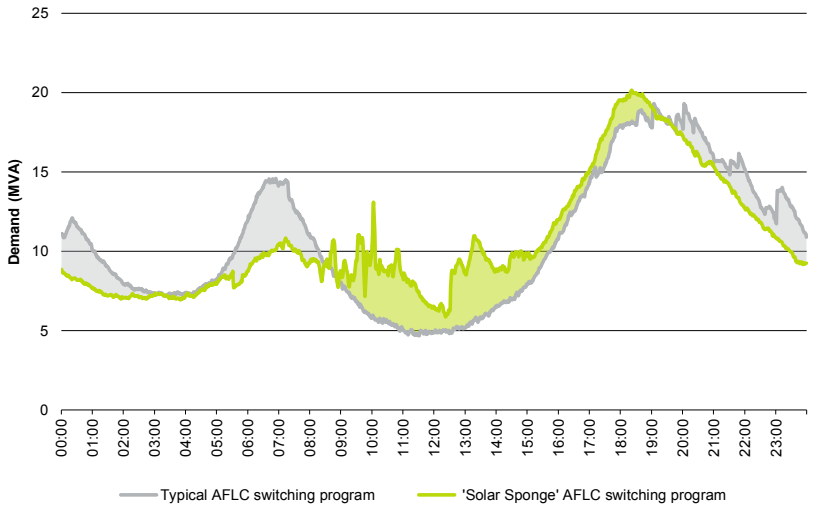
Solar PV is now steadily increasing at average of 1,673 connections per month with 20,071 systems connected in 2015/16. As at 30 June 2016 there were 310,077 solar PV systems connected across South East Queensland with nameplate installed capacity of more than 1,086 megawatts.

- An additional 970 distribution transformers now have penetration levels greater than 25 per cent (the threshold likely to cause network voltage impacts), which is a 13 per cent increase from 2014/15.
- There are now 70 additional 11 kV feeders with more than 1MW of installed inverter capacity, an increase of 19 per cent from 2014/15.
- Energex is currently conducting voltage investigations for an average of more than 34 solar related issues per month and remediating these issues with a number of measures including balancing the PV generation, changing transformer taps and installing new transformers.

We are looking at innovative solutions to managing output or excess solar power from customers to offset peak demand on our network. During the year we trialled the ability of our network to 'switch' the hot water load off our network to better coincide with the solar power generated at residences.

Our pilot trial identified an area of 6,000 residences with controlled hot water (hot water is generated for a specific amount of hours) and solar PV. This dynamic switching trial was successful and provides another option for our network to address peak demand and provide better customer service outcomes.

**Graph 3 – Comparing a traditional switching day with dynamic switching trial**



**Battery Energy Storage Systems**

Over the past five years as solar PV increased we adapted our network to integrate solar PV and, with this experience, we are well placed to accommodate the uptake of Battery Energy Storage Systems (BESS) across our network.

We have partnered with battery storage manufacturers SolarEdge, Sunverge, Tesla, Reposit, and Redback with systems installed at our EsiTrain Centre. We are trialling battery systems to better understand how BESS connections can be safely integrated into our network and also how we can provide our customers with choices in their energy consumption decisions.

We are creating a Smart Energy Education House which simulates a small residence with solar, battery and home energy management system. This facility will provide our customers with a working demonstration that better reflects their lifestyles. We are launching this mobile educational facility at the Royal Queensland Show in August 2016 to demonstrate to the Queensland community the positives of a safe and reliable BESS within Energex's distribution framework.

We are also working on understanding how we can use BESS for network support purposes. We are looking at ways to remotely control BESS at peak times – as we do with our PeakSmart program so we can reduce the need for network expansion to address future peak demand. The uptake of battery energy storage systems is predicted to continue to grow over the next five years. We are conducting trials to better understand how the technology works and its impacts on customers in South East Queensland.

Battery Energy Storage Trial located at Rocklea

FORECASTS ESTIMATE UP TO

**55,000**

**BATTERY ENERGY STORAGE SYSTEMS**

COULD BE INSTALLED IN SOUTH EAST QUEENSLAND **BY 2021**

# PEOPLE

AT ENERGEX, WE SUPPORT THE DELIVERY OF STRONG BUSINESS RESULTS THROUGH AN ADAPTIVE, ENGAGED, PRODUCTIVE AND DIVERSE WORKFORCE RESPONSIVE TO CHANGING BUSINESS NEEDS.

Respect and support each other

| WHAT WE SET OUT TO ACHIEVE THIS YEAR | HOW WE PERFORMED? |
|---|---|
| Maintain workforce safety, alignment, engagement and productivity | ✓ 87 per cent response rate to our 2015/16 Staff Survey, with a significant increase in both the Alignment to Business Direction and Engagement scores |
| Align workforce capacity and capability with future business requirements | ✓ Investment in training and development of key employee groups continues and includes apprenticeships, graduates, as well as developing the skills of our leaders and supporting employee development across the business |
| Implement People Plan Initiatives | ✓ Key initiatives were delivered as per the People Plan. Highlights include progress on our leadership capability, outcomes of the Energex Union Collective Agreement 2015, aligning our workforce to the Program of Work and promoting a diverse and inclusive workforce. |

## Outlook for 2016/17

Continue to deliver on our people strategy through our People Plan to support an adaptable, diverse, inclusive, productive and engaged workforce capable of delivering strong business results

Continue to develop our diversity strategy focusing on better business through diversity of thought and inclusiveness

Continue to support our people through change by offering development programs such as 'Change Awareness,' 'Managing Resilience through Change' and 'Leading and Supporting through Change'

## Building a workforce for the future

We are a significant employer in the South East Queensland region, employing 3,004 people as at 30 June 2016. As we enter into a period of considerable change, it is important that we continue to support our people and maintain the right balance of knowledge, experience and skills.

This will ensure our workforce capability and flexibility align with changing business and customer requirements.

## Energex People Plan

The 2015/16 Energex People Plan continued to support our people strategy and is the overarching document that consolidates key people activities related to four key organisational initiatives:

- Develop our leadership capability for the future
- Align and engage our workforce to respond to Energex's business needs
- Match the size and skill of our workforce to our Program of Work and future work
- Improve the diversity and inclusion thinking of our workforce

The following initiatives outline the achievements of our 2015/16 People Plan:

**Building effective leaders**

Leadership skills development continues to be a focus of our development programs. This year's programs included:

- Certificate IV in Frontline Leadership which aims to equip new and emerging first line leaders with the knowledge and skills to succeed in their roles. This program continues to be well received by staff and managers with 19 frontline leaders graduating in 2015/16.
- Employee in Charge Program aims to develop the frontline leadership skills of field-based staff by addressing day to day challenges and providing important leadership insights. Between July 2015 and June 2016, 30 Employees in Charge completed this program.
- The Conscious Leadership Program has been a flagship program again in 2015/16, this year providing 19 established frontline and department leaders the opportunity to further enhance their leadership skills.
- Short courses in Leadership and Management Fundamentals (LMF) have also been offered allowing flexibility in meeting changing business requirements. The number of LMF program participants for 2015/16 was 344.

This year has also seen the introduction of the Executive Leadership Programs – Executive Conscious Leadership and Accelerate Leadership Programs; which are due for completion later in 2016. This program has 20 participants and the Accelerate program has 16.

All corporate programs are supported by other development activities including job rotations, secondments and project roles to expand the knowledge and skills of our leaders.

## Listening to our staff

The annual Energex Staff Survey was conducted throughout March and April 2016, with an 87 per cent response rate, providing excellent feedback on a broad range of issues of importance to our employees. Our lead measure for the staff survey is Employee Alignment to Business Direction. It measures employees' understanding of the relationship between their roles, the role of their teams, and achieving business outcomes. We achieved a result of 57 per cent (of employees agreeing and strongly agreeing with the statements). This result has improved by 10 per cent from the previous year and is considered a significant improvement.

In 2015/16 we developed three corporate staff survey initiatives based on our 2014/15 Staff Survey results:

**TEAM Success**
**– Together Energex Achieves More**

We replaced our performance planning, review and reward framework for all employees covered by the Energex Union Collective Agreement (EUCA) 2015, which is pivotal to our commitment to building and maintaining a culture that is underpinned by a shared set of corporate values.

TEAM Success enables staff to be recognised for their contribution and, based on the achievement of specific eligibility criteria and corporate performance outcomes, the potential to be rewarded for team effort in achieving performance targets through the proportionate sharing of a performance pay pool. Performance conversations are now more forward looking and concentrate on areas of improvement and development.

*Together Energex Achieves More*

**Translating Energex's Vision**

A need to strengthen employee understanding of our business' strategic direction was identified as a key area of focus from our 2014/15 staff results.

We developed 'Our Connected Future' animation videos that showcased our employees working on innovative projects supporting our strategic direction. This was accompanied by group activities and discussion guides for leaders to raise awareness and understanding of Energex's vision and purpose.

**EnergexConnect**
**– Create, Innovate and Collaborate**

EnergexConnect provides our staff with the opportunity to problem solve and influence the progress and achievement of our business priorities. It is a framework developed in response to 2014/15 Staff Survey data that indicated employees want to be heard and have their ideas contribute to making our business more efficient and a better place to work. The EnergexConnect framework provides staff with the opportunity to get involved through focus groups, input into key initiatives that support business performance, as well as submit their own ideas through an online Innovation Form. EnergexConnect fosters the need to create, innovate and collaborate, recognising the diversity of thought that exists within our business.

More than 26 initiatives have been registered across the business with more than 140 employees engaged through focus groups to improve the way we do business and deliver on business plan related outcomes.

create innovate collaborate
ENERGEXCONNECT

## Wellness Program

We continue to provide our employees with a range of initiatives including the Employee Assistance Program, Employee Resilience Training, Quit Smoking, Flu Vaccination, Global Corporate Fitness Challenge, Skin check rebate and a Wellness Blog.

In 2015/16 we became the first Queensland business to hold a Queensland Government Gold Rated Wellness Program for three years as part of the Queensland Government Healthier, Happier Workplace initiative. To achieve this, we undertake an annual reaccreditation with an independent professional panel reviewing our achievements in workplace health.

A key focus of our 2015/16 program has been psychological risks and the development of a mental health strategy known as 'MindFit' designed to mitigate mental health risks and support employee mental health. The Mindfit program uses the evidence based framework developed for the National Mental Health Commission and the Mentally Healthy Workplace Alliance. A key focus of the program is raising awareness, reducing stigma and facilitating early help seeking.

In addition, Energex and other parties involved in the Energex Union Collective Agreement (EUCA) 2015 Agreement have successfully implemented a Domestic and Family Violence Leave Policy for our employees. This policy includes access to leave, facilitation of access to support services in the workplace and outside of the workplace as well as maintenance of confidentiality.

"ENERGEX MANAGEMENT CONTINUES TO DEMONSTRATE STRONG LEADERSHIP TO WORKPLACE HEALTH AND WELLBEING AND SETS A GREAT EXAMPLE FOR OTHER WORKPLACES TO FOLLOW"

## Fostering Diversity and Inclusion

Our diversity and inclusion program is underpinned by our policy and our strategic framework 'A Diverse Energex'. The Council for Diversity and Inclusion, chaired by our CEO, progresses diversity initiatives and develops strategies. Three working parties have been created and include a variety of volunteers from across the business who are interested in diversity, as well as managing and implementing initiatives to support the Diversity Strategy. The three working parties are Gender, Indigenous and Communication, Education and Awareness.

The two current focus areas support gender and indigenous initiatives. Work has commenced on understanding barriers to flexible working arrangements and diversity of thought in recruitment practices. We have published an Indigenous Engagement Strategy and will continue to work collaboratively with various community groups.

A range of activities have been developed to embed diversity of thought throughout the business. We have introduced Diversity of Thought – Unconscious Bias training (527 employees have attended since the program commenced in September 2015) which is being deployed across the business to raise general awareness of diversity and inclusion issues.

A 'Diversity Dialogue' blog provides an opportunity for our employees to share their diverse stories. Various events have also been held throughout the year to celebrate diversity and inclusion, such as International Women's Day, White Ribbon Day and World Day for Cultural Diversity.

## Developing our technical capability

We operate a Registered Training Organisation (RTO), EsiTrain, which provides the trade and post-trade technical training required to work on our network for both internal and external participants. Throughout 2015/16 we held 1,047 training courses with 23,994 participants trained face to face and on-line.

## Developing the next generation

### Engineering

We have a comprehensive Graduate Engineer Development Program which aims to develop individuals, providing technical as well as business and leadership skills to meet the organisation's ongoing professional engineering requirements.

Key features of the Graduate Program include:

- Our Professional Development Committee comprised of senior managers, senior engineers and human resource specialists, develops and oversees the work experience program to ensure our graduates gain valuable career and personal development opportunities.
- Graduates undertake a four year program which includes six month rotations to gain an insight into the organisation's business operations and challenges, as well as future career plan.
- Each Graduate in the program is assigned a mentor (typically a senior manager), who adopts the role of adviser. The mentor, in conjunction with the Professional Development Committee, is responsible for coordinating the developmental interests of the Graduate with the broader requirements of the organisation.

**Queensland Premier Annastacia Palaszczuk visits our newest apprentices in January 2016**

### Apprenticeships

Our apprentice program continues to attract strong interest. In 2015/16 we welcomed 59 new apprentices with a particular focus on attracting females and indigenous Australians.

These new recruits will spend the first six months undertaking the required technical training before they transition to their practical phase and gain first-hand experience with the latest technology and trade skills for the energy network of the future.

Investing in our next generation of electrical workers and attracting a diverse range of candidates is an important part of preparing our business for the future. By the time these candidates graduate in 2020, our energy network will be transforming into a more connected network that will require more varied skill sets.

# CUSTOMERS

WE CONTINUE TO WORK WITH OUR CUSTOMERS TO FORM POSITIVE RELATIONSHIPS THAT WILL ENSURE OUR ACTIVITIES, SERVICES AND INTERACTIONS MEET OUR CUSTOMERS' NEEDS AND EXPECTATIONS.

Deliver on our customer promise

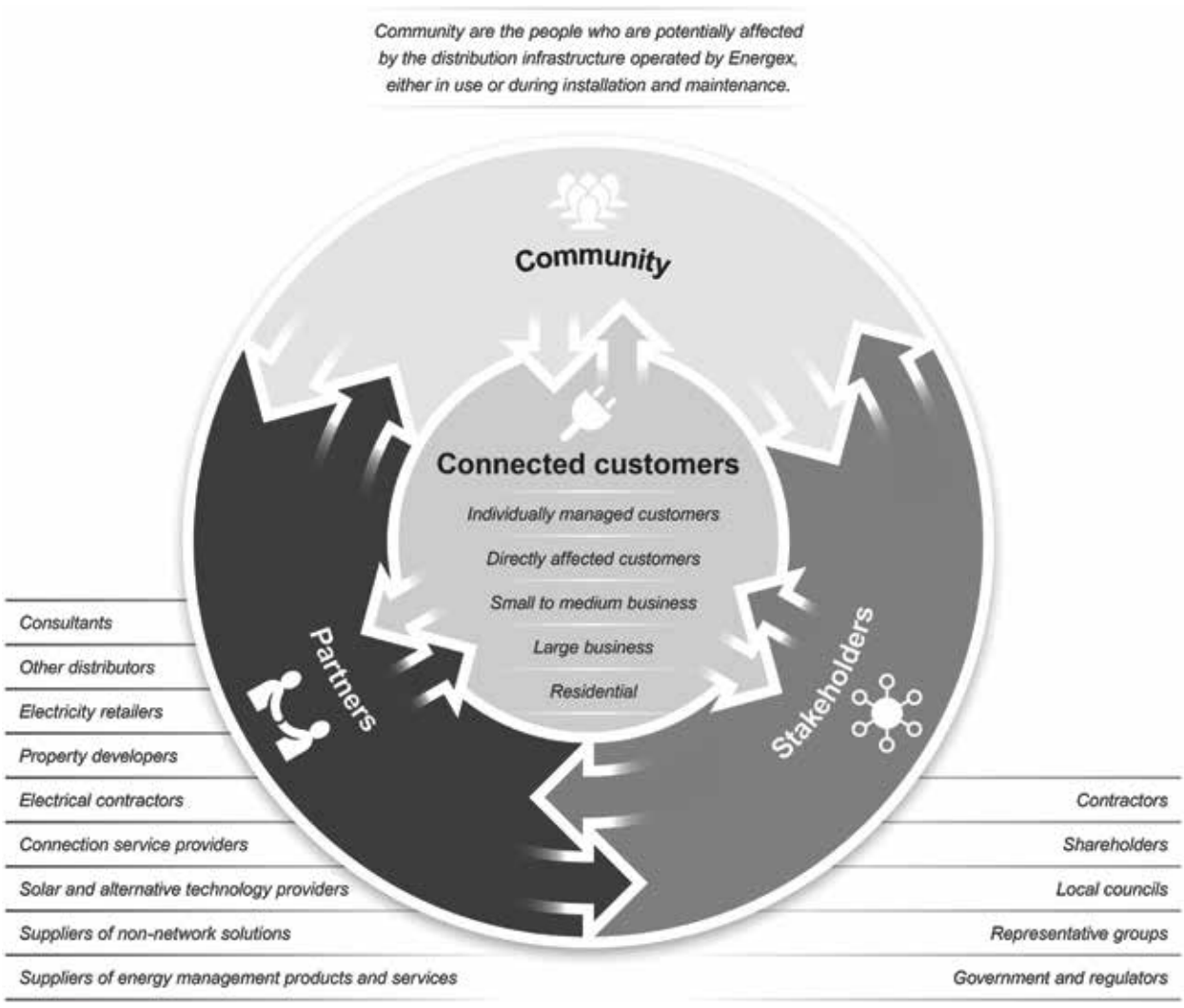
| WHAT WE SET OUT TO ACHIEVE THIS YEAR | HOW WE PERFORMED? |
|---|---|
| Achieve a Service Performance Index (SPI) greater than 80 per cent | ✓ Achieved a SPI score of 85 per cent |
| Seek opportunities to work with our customers on key projects | ✓ We are working with our customer representative groups, partners and key stakeholders to explore and develop strategies to respond to issues affecting our customers |
| Redesign the Customer Service Standards Program to ensure we are working with our customers in an open and transparent manner | ✓ We have instigated a review of our customer standards and made changes where necessary, such as our Planned Power Outage standard, to reflect the need for greater choice in decision making. We are currently developing communications for our customers on customer standards to increase understanding and accessibility regarding our services. |
| Involve and work with customers to deliver tariff reform in 2015/16 | ✓ We worked with customers to develop our Regulatory Proposal, draft Tariff Structure Statement and Customer Impact Statement for submission to the AER. We are proactively working with our customers to undertake a study and research into consumer education, awareness and understanding of tariffs to support these regulatory requirements. |

## Outlook for 2016/17

- Continue to deliver positive Service Performance Index results, and look at ways we can improve our approach to customer metrics
- Continue to seek opportunities to work with our customers on key projects
- Work with customers on the implementation of tariff reform for 2016-2020
- Commit to openness and transparency of our Customer Standards Program and work with our customers to enhance their customer experience
- Continue to enable strategic input from our customers through our Customer and Community Council and Commerce and Industry Panel

AT ENERGEX WE BELIEVE IT IS IMPORTANT TO UNDERSTAND OUR CUSTOMERS' NEEDS AND EXPECTATIONS THROUGH BUILDING POSITIVE RELATIONSHIPS AND EFFECTIVE ENGAGEMENT.

## Our Customers




In 2015/16, we prepared for the establishment of our Customer and Community Council and Commerce and Industry Panel to help us make informed strategic decisions around our regulatory submissions, projects and initiatives. The Council and Panel will have their first meetings in 2016/17.

## Our Customer Principles

Central to our Customer Strategy are our Customer Principles – ***Safety, Trust, Efficiency, Simplicity*** and ***Choice.*** These principles set out how we have recognised the customer-driven nature of our business and put our customers at the centre of everything we do.

| | |
|---|---|
| Safety | **Deliver safe and secure products and services** |
| Trust | **Form strong relationships and partnerships based on trust** |
| Efficiency | **Supply products and services at a competitive, affordable and sustainable price** |
| Simplicity | **Communicate, engage, design and deliver products and services that are easily accessed and understood** |
| Choice | **Provide choice through innovative products and services** |




## Digital Strategy

Our Digital Strategy incorporates information technology digital solutions and the accompanying cultural change, policies and procedures. We continue to improve our communication and interaction channels to meet all our customer segments' expectations.

Throughout 2015/16, we commenced our website redesign, with a goal for our website to be the first point of contact for all our customers and to meet expectations of immediate satisfaction of information, services and conversations. Stage one of the Energex "Power On" Application (app) was released.

The app provides customers with greater choice and options, and has evolved to meet customers' emerging technology needs and behaviours and makes interacting with us easier.

**Table 4 – Guaranteed Service Levels (GSLs) claims by category and entity source**

| GSL Event | Total GSL Claims Paid | | Energex Related | | Retailer Related | |
|---|---|---|---|---|---|---|
| | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 |
| **Reliability** | | | | | | |
| Reliability - interruption duration | 3,897 | 6,110 | 3,897 | 6,110 | 0 | 0 |
| Reliability - interruption frequency | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Reliability** | **3,897** | **6,110** | **3,897** | **6,110** | **0** | **0** |
| **Customer Service** | | | | | | |
| New Connection | 32 | 36 | 31 | 36 | 1 | 0 |
| Wrongful disconnection | 179 | 109 | 90 | 79 | 89 | 30 |
| Failure to reconnect | 312 | 138 | 63 | 44 | 249 | 94 |
| Hot water complaint - failure to attend | 0 | 1 | 0 | 1 | 0 | 0 |
| Missed scheduled appointment | 238 | 252 | 225 | 244 | 13 | 8 |
| Planned interruptions - business | 171 | 144 | 171 | 144 | 0 | 0 |
| Planned interruptions - residential | 1,621 | 1,448 | 1,621 | 1,448 | 0 | 0 |
| **Total Customer Service** | **2,553** | **2,128** | **2,201** | **1,996** | **352** | **132** |
| **GSL Total** | **6,450** | **8,238** | **6,098** | **8,106** | **352** | **132** |

## Connected Customer Services

IN 2015/16 WE RESPONDED TO MORE THAN 666,700 CUSTOMER ENQUIRIES INCLUDING CALLS, LETTERS AND EMAILS. CALL VOLUMES TO THE GENERAL ENQUIRIES LINE WERE SIMILAR TO THOSE RECEIVED IN 2014/15 AND WE ANSWERED 77 PER CENT OF THESE CALLS WITHIN 20 SECONDS.

Major storm activity on 10 December 2015 resulted in large volumes of calls and due to the extensive damage to the Energex network 4,374 GSL payments were made. This increased the overall volume of Reliability Duration GSLs compared to 2014/15.

Overall the storm season was mild and call volumes to the loss and emergency lines were lower than those seen in the prior year.

### National Energy Customer Framework (NECF)

We facilitated the changes necessary to be compliant with the National Energy Customer Framework (NECF) by July 2015. Mandated by the Queensland Government, NECF compliance required both manual and system changes to processes such as our planned interruptions, new connections, alterations and additions, and compliance reporting. We undertook change management and training with our employees, staff and electrical contractors to ensure all changes were communicated before July 2015.

As part of our NECF compliance activities, we developed a new service operating model which amalgamated three of our customer touchpoint groups to form the Connected Services team. The Connected Services team ensures a seamless one touch end-to-end customer experience as well as increasing business efficiencies.

## Understanding our customers

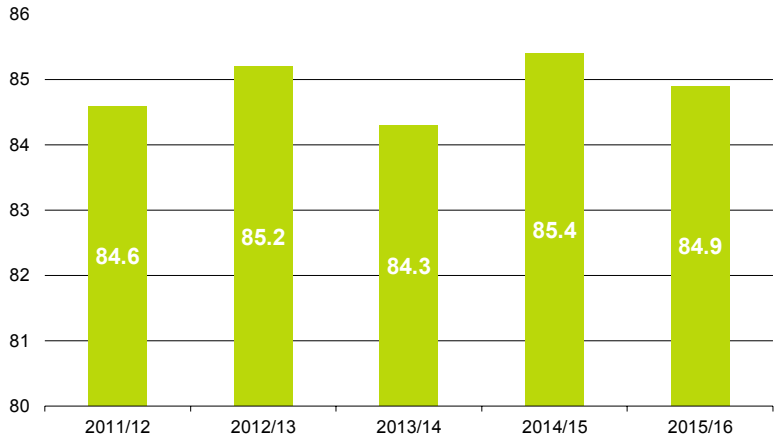
**Service Performance Index**

We engage an independent research company to assess perceptions regarding our service delivery to our customers. The results are used to create a key customer service benchmark – the Service Performance Index (SPI).

Understanding what our customers expect now and in the future assists us to both understand and improve our performance and service delivery and inform our strategic planning process.

**Graph 4 – Service Performance Index**

Graph 4 compares our service performance measure over the past five years.




## Tariffs and Pricing

By engaging our customers in our tariff reform program, "Your Network, Your Choices" we have been able to devise a Tariff Structure Statement for 2017-2020 that considers and addresses impacts on our connected customers.

This engagement provided us with valuable insights into what customers expect from their electricity prices and how we, as an electricity distributor, need to better meet our customer needs and promote more efficient use of the network.

The engagement process also provided us with important insights in our engagement practice that has helped shaped ongoing engagement work across our business.

Central to tariff reform, engagement has been the goal of working with customer and community groups to develop mutually beneficial relationships. As our tariff reform program progresses, the scope and focus was greatly influenced by the input and feedback from customers across all of our customer segments.

A critical outcome from the engagement process was the redesign of the tariff reform program to create a 'whole of market' response. Through engagement, we were able to recognise that reform would not deliver if we weren't working closely with the market, energy retailers, Government, technology providers and both residential and business connected customers. We have developed this concept further and are working with electricity retailers in 2016/17 to implement partnerships to deliver market wide tariff reform.

We are committed to proactive, meaningful and mutually beneficial relationship and engagement practices. We acknowledge the considerable time and effort our customers have contributed to tariff reform. As tariff reform implementation continues, we aim to progress the strong foundation created through the "Your Network, Your Choices" program.

## Supporting industry review

In 2015 the Queensland Productivity Commission (QPC) commenced two inquiries – one into Electricity Pricing in Queensland and one into Solar Feed-In Pricing in Queensland. The objective of the Electricity Pricing Inquiry was to examine electricity pricing in Queensland and to provide the Government with future options that improve outcomes for consumers. The objective of the Solar Feed-In Inquiry was to determine the best way of achieving a fair price for solar power produced by homes and small businesses.

We actively participated in both inquiries by providing responses on the QPC issues papers and draft reports in line with the key themes of ensuring efficient costs for customers; providing choice and control for customers; promotion of economic development for Queensland by acting in the long term interests of consumers; and the facilitation and integration of low carbon energy options. The QPC has delivered the final reports to Government. The reports are expected to be released publicly in late 2016.


## Queensland Household Energy Survey

THE QUEENSLAND HOUSEHOLD ENERGY SURVEY (QHES) IS AN ANNUAL SURVEY WE RUN IN CONJUNCTION WITH ERGON ENERGY AND POWERLINK. THE QHES COVERS SEVERAL BEHAVIOURAL TOPICS AROUND ENERGY EFFICIENCY, APPLIANCE SATURATION AND ELECTRICITY USE FOR RESIDENTIAL CUSTOMERS.

We strive to consider customer views and expectations gained from the QHES and other channels in our decision making.

**Three Key Findings**

1. Customers are replacing appliances with newer technology and owning fewer of the same appliances. In the last five years the biggest ownership increases have been in LED or LED/LCD televisions, LED light bulbs, tablet computers, 3D televisions and instantaneous hot water systems. Over the same period the largest decreases in ownership have been in tablets, computers, stereos, compact fluorescent light bulbs, LCD televisions and electric heaters.
2. Changes in the way our customers use entertainment devices may shift electricity consumption away from the lounge room. Ownership of multiple tablet computers has increased four per cent since 2014 (to 37 per cent) while ownership of at least one television has decreased by six per cent (to 91 per cent).
3. Air-conditioner penetration has remained stable at 75 per cent. This is forecast to increase slightly to 76 per cent and remain at this level for the next few years. Popularity of split system air-conditioners in newer homes (less than five years old) is declining, although still remains high overall (74 per cent) offset by increases in ducted air conditioning systems. The number of people purchasing portable systems has increased slightly from two per cent to three per cent in 2015.

**New technologies**

Based on responses to the QHES, customer knowledge and understanding of battery storage has increased significantly across South East Queensland, with approximately 46 per cent of respondents indicating awareness (which increases to 64 per cent among solar PV owners). The greatest motivation for the adoption of this new technology is the desire for self-sufficiency, which is closely followed by the storage of electricity for use in peak times. However, the upfront costs of battery storage are still prohibitive for many customers, with 35 per cent of respondents indicating the purchase price is too expensive.

Purchase intent is likely to increase when the technology is more affordable, such as when battery storage costs are more in line with solar PV. According to responses received through the QHES, customers become increasingly interested in battery storage systems at a hypothetical price point of $4,621. However current market prices remain substantially higher than this.

**Concerns in relation to rising electricity prices**

The QHES findings show high level concerns about rising electricity costs have decreased in South East Queensland over the past twelve months, with only 38 per cent of customers stating a high concern. Whilst bill concern is still relevant for many people, the findings also show that fewer customers, 75 per cent compared to 81 per cent (2014), are taking steps to reduce their energy consumption and mitigate high bill concern.

As customers are responding less to price concerns, electricity demand is expected to increase. Fifteen per cent of South East Queensland respondents recorded an intention to install solar PV during the next two years. This rate of uptake may change once battery storage becomes more widely available. As we progress with our program of work over the next year, we will utilise information from the QHES to develop more targeted engagement programs to ensure customer feedback is incorporated into our decisions in this area.

# COMMUNITY

WE STRIVE TO BE A TRUSTED COMMUNITY PARTNER WHO POSITIVELY ENGAGES WITH THE COMMUNITY.

Deliver on our customer promise

| WHAT WE SET OUT TO ACHIEVE THIS YEAR | HOW WE PERFORMED? |
|---|---|
| Achieve a Community Regard Index (CRI) greater than 63 per cent | ✓ Achieved a CRI score of 67 per cent |
| Continue community engagement for our Program of Work | ✓ Achieved |
| Provide support to South East Queensland through our Community Support Program | ✓ Continued to provide $927,500 to the South East Queensland community |

## Outlook for 2016/17

- Continue to deliver positive Community Regard Index results
- Continue community engagement programs for our Program of Work activities
- Maintain and identify new partnership opportunities for our Community Support Program which support the community in which we operate

## Maintaining a community focus

We actively measure our corporate responsibility using an independently developed index – the Community Regard Index (CRI). The CRI focuses on public perceptions of Energex, our role as an electricity distribution service provider and associated media stories and events that have a wide community impact or recognition.

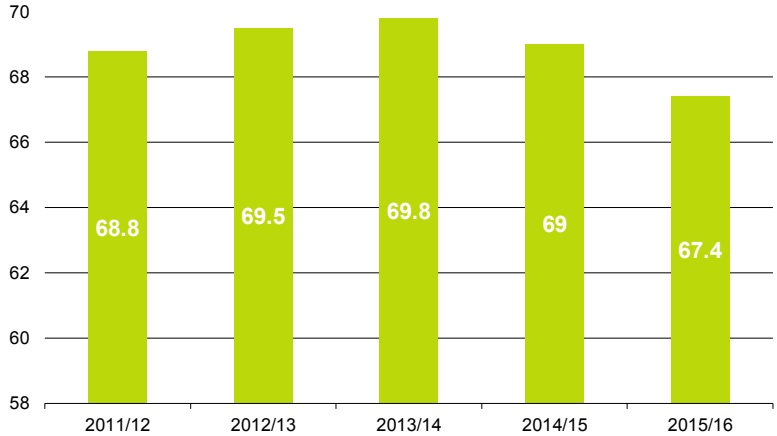
Our CRI exceeded our overall target by more than four points, achieving 67.4 for 2015/16. This score is marginally lower than previous years which can be attributed to less significant storm activity during the 2015/16 period. Our score continues to position us as one of the top performing Australian utilities.

## Informing the community

During the 2015/16 period, we provided timely information for the community regarding thousands of small localised network upgrades and more than sixty major capital works projects. Our communications included flyers, stakeholder letters, advertising, media and stakeholder meetings.

**Graph 5 – Community Regard Index**

Graph 5 compares our performance in community regard since 2011/12.



## Providing community support

IN 2015/16 WE INVESTED MORE THAN $927,500 ACROSS THE FOUR THEMES OF OUR COMMUNITY SUPPORT – SAFETY, COMMUNITY, EDUCATION AND ENVIRONMENT.

Energex has a proud history of support for emergency response groups, such as our long standing partnerships with the Queensland Rural Fire Service and Volunteer Marine Rescue. In 2015/16 we built on this legacy with the launch of our first ever state-wide community support partnership with the State Emergency Service (SES) in conjunction with Ergon Energy and Powerlink Queensland.

The partnership will provide $200,000 worth of vital equipment to enhance emergency response capacity of more than 5,900 volunteers across Queensland.

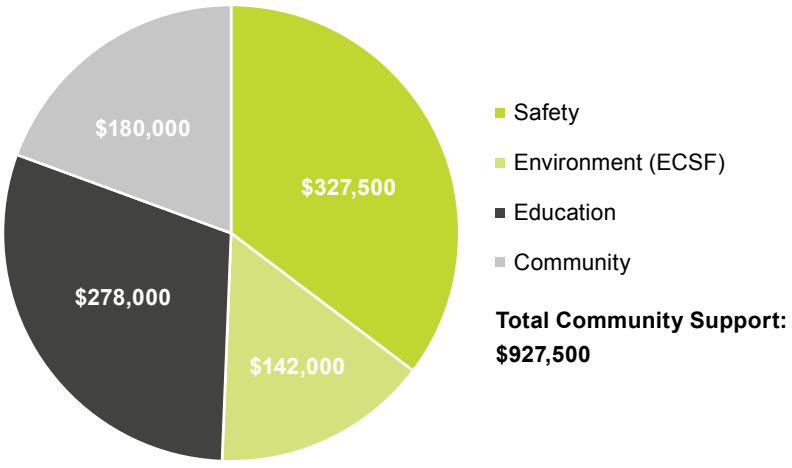
Community Support partnership highlights for 2015/16 included:

- *PA Research Foundation* – our third year of partnership involves funding and field staff (approximately 50 staff to date) involvement to improve the early detection of skin cancer,
- *Royal National Association of Queensland* – our longest running community support partnership which provides us with an opportunity to promote electrical safety awareness and educate primary school children about rural and regional Queensland,
- *Queensland Ballet* – the arts is important to the community and our partnership supports five emerging dancers and high-quality local productions,
- *University engineering scholarships* – across two universities we provide support to attract and retain emerging and diverse talent to the power and distribution engineering discipline,
- *Queensland Theatre Company* – our partnership supports indigenous storytelling and the nurturing of the next generation of Queensland acting talent,
- *Energex Community and Sustainability Fund* – more than $100,000 in grants has been provided to more than 80 local community groups including Beenleigh PCYC, Bulimba Seniors and Community Centre, Jimboomba Community Garden, and The Gap State High School.

Our Community Support Committee comprising of our Chief Executive Officer and senior managers across the business is responsible for the Community Support Strategy and monitoring and evaluating new and existing partnerships.

**Graph 6 – Distribution of our community support funds 2015/16**

A snapshot of the distribution of our community support funds within the key community support areas




**Total Community Support: $927,500**

# ENVIRONMENT

WE ARE COMMITTED TO RESPONSIBLE ENVIRONMENTAL MANAGEMENT AND CONTINUOUS IMPROVEMENT AS PART OF OUR CORPORATE SOCIAL RESPONSIBILITY AND MEETING STAKEHOLDER AND COMMUNITY EXPECTATIONS.

Deliver balanced results

| WHAT WE SET OUT TO ACHIEVE THIS YEAR | HOW WE PERFORMED? |
|---|---|
| Maintain current performance during a period of significant change | ✓ Maintained performance |
| Deliver a sustainable environmental position | ✓ Delivered balanced sustainable outcomes |
| Exceed Environmental Management Systems requirements | ✓ Continued to comply with our Environmental Management System (ISO 14001) |

## Outlook for 2016/17

Continue to identify ways to reduce our environmental impact within our property portfolio

Develop programs and strategies to improve waste management and recycling across our organisation

Identify partnership opportunities with Councils and community groups to fulfil our environment offset policy obligations

## Offsetting our impact

Through our environmental off-set policy, we seek to balance the unavoidable impacts to native plants, wildlife habitats and regional ecosystems when we construct new infrastructure.

We aim to replace every native tree unavoidably removed for network infrastructure with three saplings. To achieve this, we partner with several local Councils and community groups to meet our offset obligations. Over the past five years we have planted more than 290,000 trees on 178 hectares of land across South East Queensland.

In 2015/16 more than 35,300 trees were planted as part of our offset strategy.

Major projects included:

- The second year of a four year project with the Oxley Creek Catchment Association and Brisbane City Council to rehabilitate more than five hectares of Granard Wetland in the Oxley and Rocklea area,
- A new four year restoration program with Tamborine Mountain Landcare and Scenic Rim Regional Council to revegetate approximately 11 hectares of cleared rainforest on Tamborine Mountain,
- The completion of an ecological restoration of our 279 hectare environmental offset property at Undullah in the Logan area. Extensive restoration activities have been completed on the property including new koala habitats, restoring waterways, wetlands and endangered regional ecosystems,
- The final stages of a more than 90,000 tree planting project to create a koala and wildlife habitat at the Pimpama Conservation Reserve in conjunction with SEQ Catchments and Gold Coast City Council.

## Improving our waste reduction and recycling

We educate our staff to promote waste avoidance and conserve resources by avoiding landfill disposal of waste.

Our Waste Reduction and Recycling Strategy is based on the internationally recognised waste management hierarchy which describes the preferred order for managing waste to conserve resources. The hierarchy places waste reduction as the preferred management option, followed by re-use, through recycling and recovery options to disposal as the least preferred approach.

To improve our waste reduction and recycling behaviours, the Energex Best Bin Competition, which was launched in 2014, continues to encourage our field staff to recycle our equipment where possible and reduce the amount of waste sent to landfill. The competition allocates funds from the sale of scrap metal to be used for the winning depot's nominated charity.

In 2015/16 greater than two thirds of all waste generated across Energex was recycled including 2,890 tonnes of scrap metal, 2,540 tonnes of timber and 673,673 litres of oil.

## Sunshine Coast Solar Farm

We worked with Sunshine Coast Council to progress a 15 megawatt solar farm at Valdora on the Sunshine Coast. The solar farm is well-located near our existing network and construction is now underway. Once complete, more than 57,800 panels will be installed with the potential to generate enough electricity to power the equivalent of 5,000 homes, thereby reducing Council's electricity running costs. The farm is expected to be the largest utility scale facility of its type built by a local government in Australia.

**Graph 7 – Waste Reduction and Recycling Standard**

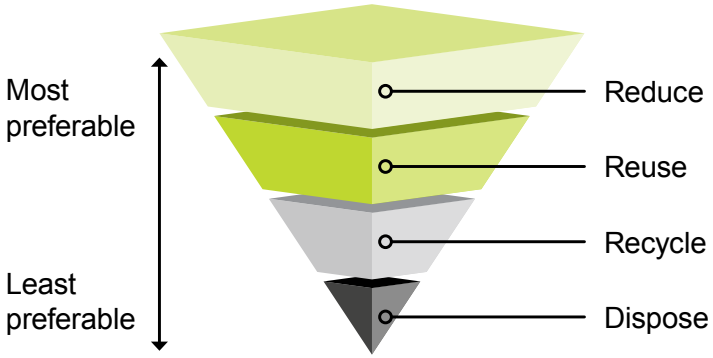



**Table 5 – Comparison to previous years including benchmark 2005/06 year**

We continue to focus on managing greenhouse gas emissions. The organisation has a robust measurement and reporting framework in place and a suite of initiatives in place to reduce emissions. We also recognise that climate change may pose an elevated risk to electricity security and are a participant in the Queensland Climate Adaptation Strategy.

| **kWh TOTAL – Year-on-Year Comparison** | | | | | | |
|---|---|---|---|---|---|---|
| Measure | 2005/06 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
| kWh Total | 17,073,981 | 15,910,239 | 17,184,439 | 16,486,763 | 14,792,105 | 15,171,121 |
| % change prev year | - | -4.4% | 8.0% | -4.0% | -10.3% | 2.4% |
| % change to 05/06 | - | -6.8% | 0.6% | -3.4% | -13.4% | -11.1% |
| **Energy efficiency comparison – kWh per m²** | | | | | | |
| Portfolio m² | 119,780.3 | 151,222.3 | 157,999.5 | 160,187.6 | 155,622.9 | 154,540.6 |
| kW per m² | 142.54 | 105.21 | 108.76 | 102.92 | 95.05 | 98.17 |
| % change | - | **-26.2%** | **-23.7%** | **-27.8%** | **-33.3%** | **-31.1%** |

# ADDITIONAL CORPORATE REPORTING

## Directions

On 12 November 2015, the Government issued a Direction to Energex under section 299 of the *Electricity Act 1994* for Energex to not apply for a review of the Australian Energy Regulator's "Final Decision Energex Determination 2015-16 to 2019-20" which was released on 29 October 2015. This decision was taken in order to ensure there was no additional financial burden with electricity cost pressures to Queensland households, the agricultural sector or to businesses as a result of seeking a review of the Final Determination.

On 9 June 2016, the shareholding Ministers issued a Direction to Energex under section 131(3)(b) of the *Government Owned Corporations Act 1993* to pay a dividend for 2015/16 of $451 million, to be declared and paid on 29 June 2016.

On 24 June 2016, the shareholding Ministers issued a Direction to Energex under section 86 (1) of the *Government Owned Corporations Act 1993* to make amendment to Energex's subsidiary company constitutions, required as part of the electricity industry restructuring on 30 June 2016.

## Ministerial Notifications

In 2015/16, there were no Ministerial Notifications issued to Energex under section 114 of the GOC Act.

### Table 6 – International Travel Expenditure 2015/16

Summarised below is the international travel expenditure costs for 2015/16.

| Region | Country | Purpose | No. of visits | Subtotal ($) |
|---|---|---|---|---|
| Europe | United Kingdom, Germany, Belarus, Netherlands | Visit to leading European utilities. The purpose of this visit was to better understand the learnings/challenges from their smart grid pilot and trials as well as experience in transitioning into new unregulated areas of business. It also soughtto identify scope for Australian utilities to leverage these European utilities' past learnings, visions and strategic directions. | 2 | $12,194 |
| Europe | London, United Kingdom | Due to the merger of Energex and Ergon Energy, new Directors' and Officers (and supporting policies) and public liability insurance policies were required. To ensure efficient and effective policies were obtained, face-to-face meetings were held with existing and potential new insurers to discuss key risks associated with our business. | 1 | $12,011 |
| **Total** | | | | **$24,205** |

### Table 7 – Corporate entertainment and hospitality events 2015/16

Summarised below are the corporate entertainment and hospitality events over $5,000 (including GST), incurred by the Energex Group of companies for 2015/16.

| Event | Date | Subtotal ($) |
|---|---|---|
| Staff Recognition – 25 Years of Service | 7 August 2015 | $6,000 |
| Energex Apprenticeship Awards | 27 May 2016 | $12,447 |
| Energex Excellence Awards | 6 May 2016 | $13,215 |
| **Total** | | **$31,662** |

### Table 8 – Summary of Network and Customer Statistics

| Assets | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| **Total Overhead and Underground (km)** | 51,434 | 51,879 | 52,176 | 52,635 | 53,034 |
| **Lines - Length of Overhead (km)** | | | | | |
| Total | 35,051 | 35,094 | 35,112 | 35,171 | 35,167[4] |
| LV (Low Voltage) | 14,274 | 14,262 | 14,242 | 14,226 | 14,213 |
| 11 kV | 17,502 | 17,529 | 17,541 | 17,553 | 17,570 |
| 33 kV | 2,098 | 2,130 | 2,196 | 2,219 | 2,211 |
| 132 kV and 110 kV | 1,177 | 1,173 | 1,173[4] | 1,173[4] | 1,173[4] |
| **Cables - Length of Underground (km)** | | | | | |
| Total | 16,383 | 16,785 | 17,064 | 17,464 | 17,867 |
| LV (Low Voltage) | 10,262 | 10,457 | 10,599 | 10,848 | 11,114 |
| 11 kV | 5,122 | 5,290 | 5,421 | 5,547 | 5,684 |
| 33 kV | 866 | 892 | 892 | 913 | 913 |
| 132 kV and 110 kV | 133 | 146 | 152 | 156 | 156 |
| **Other Equipment (Quantity)** | | | | | |
| Bulk Supply Substations | 41 | 41 | 42 | 42 | 42 |
| Zone Substations | 235 | 238 | 242 | 244 | 246 |
| Poles[1] | 653,741 | 658,886 | 661,714 | 667,469 | 671,803 |
| Distribution Transformers | 46,792 | 47,436 | 47,875 | 48,436 | 48,997 |
| Street Lights[2] | 340,248 | 345,807 | 348,716 | 354,691 | 359,100 |
| **Customer Numbers** | | | | | |
| Residential | 1,220,430 | 1,235,740 | 1,250,326 | 1,271,644 | 1,297,106 |
| Other | 113,185 | 111,455 | 113,489 | 113,801 | 114,522 |
| **Total** | 1,333,615 | 1,347,195 | 1,363,815 | 1,385,445 | 1,411,628 |

[1] All poles including customer poles and streetlight poles held on record.
[2] All streetlights including rate 3 streetlights.
[3] All information as at June 30 each year.
[4] Distance includes previously purchased 110 kV lines from Powerlink that are currently out of service.

# GLOSSARY AND ABBREVIATIONS

| TERM | DEFINITION |
|---|---|
| Assets | The assets referred to in the revenue section of this document can include financial assets and network equipment. |
| Australian Energy Market Commission (AEMC) | The Australian Energy Market Commission was established in 2005 by the Council of Australian Governments as part of new governance arrangements to oversee the nation's main energy markets. It is responsible for making rules to govern the electricity and natural gas markets, including the retail elements of those markets. |
| Australian Energy Regulator (AER) | The Australian Energy Regulator is the economic regulator of the national electricity market established under Section 44AE of the Competition and Consumer Act 2010 (Cth). It is their role to review our Regulatory Proposal and determine our revenue cap for the five year regulatory period. |
| Battery Energy Storage System (BESS) | A Battery Energy Storage System allows storage of electricity for use at a later time. While batteries were first produced in the 1800s, the types of batteries that efficiently store power and provide electricity to households are relatively new. |
| C20 CAPEX | C20 Capital Expenditure – C20 is used to indicate sub-transmission network and distribution backbone capital projects. |
| C25 CAPEX | C25 Capital Expenditure – C25 is used to indicate distribution capital projects for customer connections, company initiated and customer driven works. |
| Consumer Price Index (CPI) | Consumer Price Index is determined by the Australian Bureau of Statistics which measures changes in the price of consumer goods and services purchased by households. |
| Demand | The amount of electricity being used at a given time measured in either kilowatts or kilovolt amperes. |
| Demand Management programs | Demand management programs provide solutions to our customers which are designed to reduce demand on our electricity supply network or part of the electricity supply network. |
| Electricity Distributor | An electricity distributor is an owner and operator of substations, poles and wires that transport electricity from high voltage transmission network to customers. It is also a provider of technical services including construction of power lines, inspection of equipment, maintenance and public lighting. We are an electricity distributor, operating as a registered participant in the National Electricity Market for the region of South East Queensland. There are sixteen electricity distributors which operate within the National Electricity Market. |
| Electricity use | The amount of electricity used by a customer (or all customers) over a period of time. Electricity use is measured in watt hours, kilowatt hours, megawatt hours or gigawatt hours. |
| Gigawatt hours (GWh) | A measure of electricity volume or use. |
| Guaranteed Service Levels (GSL) | A Guaranteed Service Level is a commitment of Energex to meet standards defined by the Queensland Electricity Industry Code. The standards include; appointments, hot water, reliability etc. Where these service levels are not met, we are required to make a payment to the customer impacted. |
| Kilowatt hours (kWh) | A measure of electricity volume or use. |
| Maximum allowable revenue | The maximum revenue which can be recovered through network tariffs for the regulatory period. |
| Megavolt amperes (MVA) | A measure of electricity demand. |

| TERM | DEFINITION |
|---|---|
| Megawatt hours (MWh) | A measure of electricity volume or use. |
| National Electricity Law | The legislation that establishes the role of the Australian Energy Regulator as the economic regulator of the National Electricity Market and the regulatory framework under which the Australian Energy Regulator operates. |
| National Electricity Market | The interconnected electricity grid covering Queensland, New South Wales, Victoria, Tasmania, South Australia and the Australian Capital Territory. |
| National Electricity Rules | The legal provisions (enforced by the Australian Energy Regulator) that regulate the operation of the National Electricity Market and the national electricity systems, the activities of market participants and the provision of connection services to retail customers. |
| Operating expenditure | The combined total of maintenance and operating costs. Maintenance costs relate to the repair and maintenance of network equipment while operating costs relate to day to day operations. |
| Peak demand | The peak demand recorded at a customer's meter or the peak demand placed on the electrical distribution network system at any time or at a specific time or within a specific time period, such as a month. Maximum demand is an indication of the capacity required for a customer's connection or the electrical distribution network. |
| PeakSmart | A signal receiver device installed on an air-conditioner to reduce energy use of the appliance and to assist with managing peak demand. |
| Positive Payback | A program which provides incentives to residential or business customers to participate in demand management programs. |
| Queensland Government Solar Bonus Scheme | A Queensland Government policy that pays small residential and business customers for the surplus electricity generated from roof-top solar PV systems that is exported to the Queensland electricity network. |
| Regulation | Delegated legislation made under an Act of Parliament. |
| Reliability | How long and how often customers experience power outages. |
| Solar PV | A system made up of an inverter and photovoltaic (PV) panels that uses sunlight to generate electricity for use at the customer's property. These systems may have the capability to feed electricity into the network. |
| Standard control service | Services we provide where the entire community shares the cost are called standard control services. Standard control services include network services which ensure the operation of our network and delivery of electricity services. The costs for these services are shared by everyone who is connected to the network and are subject to a 'revenue cap'. This means the total revenue is a fixed amount collected over a five year period. |
| SCS System CAPEX | Standard Control Services Systems Capital Expenditure – A measure of the capital expenditure incurred by the Energex Group on standard control system capital works to the end of the reporting period. |
| SCS System OPEX | Standard Control Services System Operating Expenditure – A measure of the operational expenditure incurred by the Energex Group on standard control services to the end of the reporting period. |

## For general enquiries:

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13 12 53 (8am to 5:30pm, Monday to Friday)
13 14 50 Telephone interpreter service

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energex

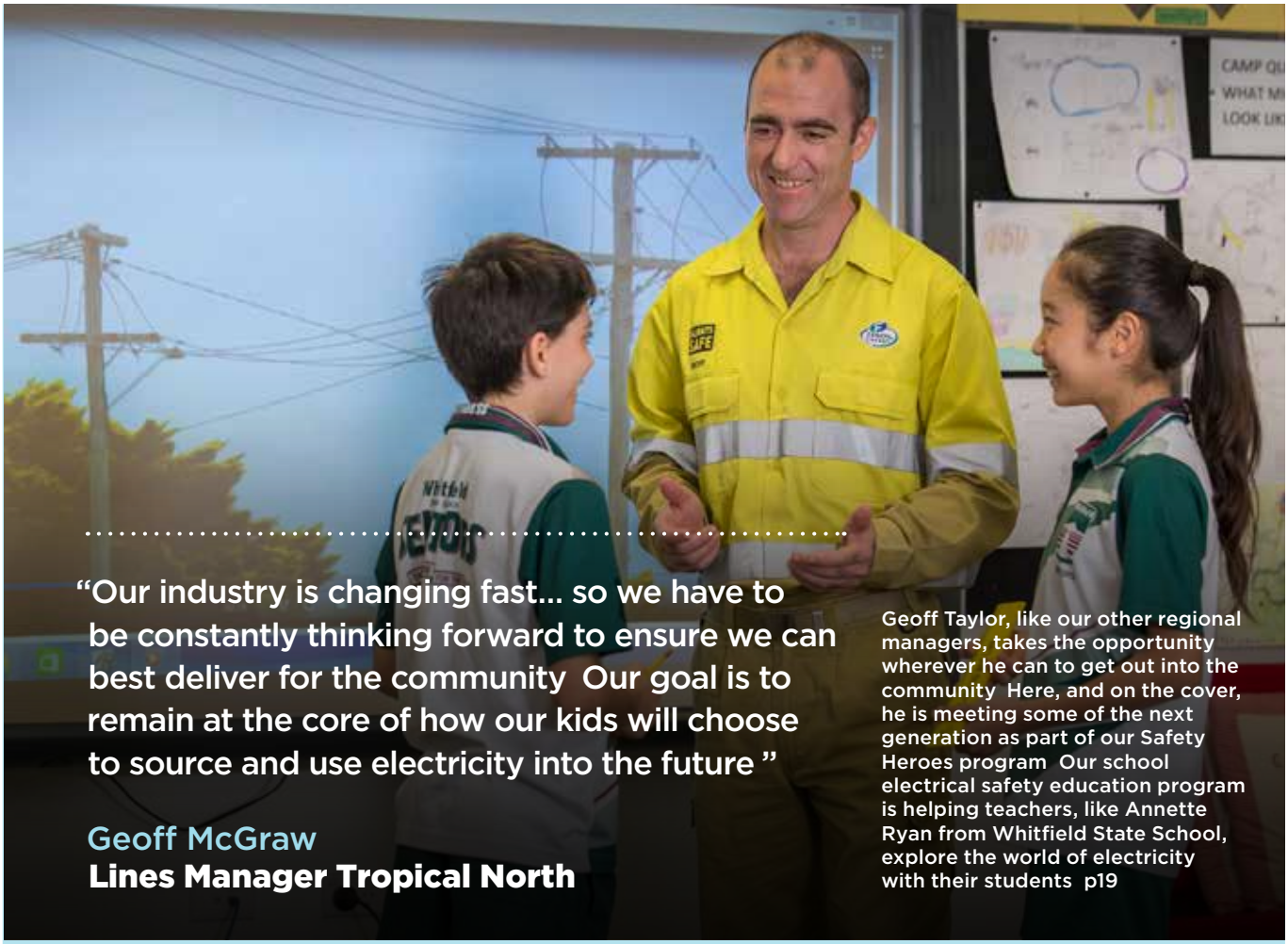
positive energy

# Ergon Energy Annual Stakeholder Report **2015/16**

for the year ended 30 June 2016


# Ergon Energy

# Annual Stakeholder Report 2015–16



"Our industry is changing fast... so we have to be constantly thinking forward to ensure we can best deliver for the community  Our goal is to remain at the core of how our kids will choose to source and use electricity into the future "

Geoff McGraw
**Lines Manager Tropical North**

Geoff Taylor, like our other regional managers, takes the opportunity wherever he can to get out into the community  Here, and on the cover, he is meeting some of the next generation as part of our Safety Heroes program  Our school electrical safety education program is helping teachers, like Annette Ryan from Whitfield State School, explore the world of electricity with their students  p19

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**Looking for more information?**

Our Annual Stakeholder Report is part of a suite of documents available online at www.ergon.com.au/annualreport

Ergon Energy is very much part of the fabric of life in regional Queensland. We see ourselves as powering prosperity – energising the lifestyles we enjoy and most critically our local economies.

To achieve this we're delivering the 'peace of mind' that comes from a safe, dependable electricity service and enabling greater customer 'choice and control' in their energy solutions... all for the 'best possible price'.

Like many others, we're evolving as a business to embrace change... in the way our customers are using the network with the take up of new energy-related technologies, change in the energy market itself, and change in the economic environment.

This has seen us responding on a range of fronts: with lower and new tariff choices for our customers, major system changes to boost our service capability, a focus on connecting renewable energy generation and quicker network connection timeframes generally, improvements in employee engagement, and a major program to bring our costs down.

**We've focused on finding ways to do things smarter and more efficiently for our customers – a journey that will continue now as we merge with our South East Queensland counterpart, Energex Limited.**

# About our report

**This report covers Ergon Energy's overall performance for the 2015-16 financial year. It largely showcases the contribution of Ergon Energy Corporation Limited and its subsidiary Ergon Energy Queensland Pty Ltd.**

**It is being presented as part of Energy Queensland Limited's suite of reporting documents. Energy Queensland Limited has been created as our parent company, through the merger of Ergon Energy Corporation Limited, Energex Limited and SPARQ Solutions on 30 June 2016.**

## Sustainability and Ergon Energy

While our most significant contribution to our stakeholders' sustainability concerns for regional Queensland remains our response to electricity affordability (being central to addressing the cost of living and of doing business), this report also addresses a range of other matters material to our different stakeholders and our purpose as an organisation. We are looking to create shared value across these areas.

We are active in assessing our stakeholder expectations – an imperative that has been fundamental in guiding the content of this report. Our approach to reporting also continues to be guided by Global Reporting Initiative's Principles of Sustainability Reporting, as well as the Australasian Reporting Awards criteria for best-practice reporting (last year's report benchmarked as Silver). We welcome your feedback on our reporting.

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|---|---|
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| **Work health and safety** | p 29, 30 |
| **Workplace diversity and social inclusion** | p 21, 31 |
| OUR INDUSTRY PARTNERS | |
| **Sustainable industry outcomes (incl procurement practices and other economic opportunities)** | p 11-15, 22-25, 33, 35, 39, 46 |

# Ergon Energy in profile

## Our vision

To be a high performance, customer driven energy business

## Our purpose

To provide safe, reliable, efficient and sustainable energy solutions to support our customers and the Queensland economy

## Review of operations p10

More value and choice

PEACE OF MIND

CHOICE AND CONTROL

FOR THE BEST POSSIBLE PRICE

Evolving the network

Our people, our future

## Delivering economic value p37



### Our distribution business

Our role as a distributor is to transport electricity along our 'poles and wires' across regional Queensland

The distribution network, which is part of the National Electricity Market (NEM), is regulated by the Australian Energy Regulator (AER) The regulator determines the revenue we are allowed to collect from our customers for the use of the network These charges are just one of the components making up the price of electricity We also operate under Queensland Government electricity industry laws and regulations

### Our retail business

Our retailer (Ergon Energy Queensland Pty Ltd) buys electricity from the generators, through the market and in direct deals, and on sells it to our customers

We sell electricity at the Queensland Government s notified prices, which are set by the Queensland Competition Authority (QCA) This enables Queenslanders to access the same regulated electricity tariffs (with the support of the government s Community Service Obligation payment), wherever they are, even though the supply cost may be different

### Our other businesses

Nexium Telecommunications (Ergon Energy Telecommunications Pty Ltd) services Ergon Energy s communications needs and, as a licensed telecommunications carrier, also sells wholesale high speed data services to the market

SPARQ Solutions Pty Ltd, our joint venture company with Energex Limited, provides each of our respective organisations with information and communications technology solutions and services

## Our history

In our many forms we have always played an integral part of Queensland's lifestyle and prosperity.

Ergon Energy was formed in 1999 from the six former regional Queensland Government-owned electricity distributors and their subsidiary retailer. These regional 'electricity boards' were created in the seventies, from the earlier community-based electricity generators and small network operators, to manage the electricity grid as it expanded across our vast service area.

In many ways, this journey parallels the development of electricity networks around the world where greater economies of scale have been sought through expansion and mergers.

The growth of electricity networks in Australia in the second half of the 20th Century is considered one of the great modern feats of engineering. Before this time there were only small, local electricity networks across Queensland.

Today this change continues. Our next chapter will be as part of Energy Queensland. Bringing Ergon Energy, Energex and SPARQ Solutions together has created a truly statewide team of locals all working to deliver 24/7 for our communities.

The move places us in the best possible position to adapt to the changes underway in electricity supply sector as a customer-oriented, efficient business. This will help us to deliver positive price outcomes for our local communities, as well as long-term, sustainable business returns to the Queensland Government as our owner, and ultimately to the people of Queensland.

**Since becoming Ergon Energy, we have grown to a workforce of over 4,000 with an asset base of $11.8 billion.**

**We are now serving over 740,000 homes and businesses, up over 25% in the 17 years – with a peak demand of 2,518MW, up 45%.**

**In this time reliability has improved dramatically – today we have an average of 2.9 power outages per customer each year.**

**And we have connected 118,000 solar energy systems to our network.**

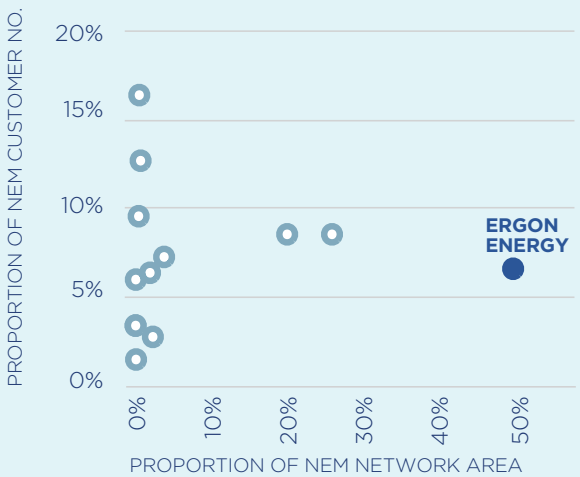
## Our network

Around 75% of our electricity network runs through rural Queensland, a vast service area with large distances between communities. Our customer density per network kilometre is the second lowest in the NEM.

We have a proportionately high investment in subtransmission assets, compared to our urban counterparts, and one of the largest Single Wire Earth Return (SWER) networks in the world. Compared to a meshed or interconnected network, the radial design of our network and the limited capacity the 'SWER' lines limits what we can do when responding to peaks in demand or outages.

Ergon Energy also has 33 stand-alone power stations supplying communities isolated from the main grid; in western Queensland, the Gulf of Carpentaria, Cape York, various Torres Strait islands, and Palm Island. Our retailer also has a gas-fired power station at Barcaldine, which supplies the main grid.

### HOW ERGON ENERGY COMPARES TO OTHER DISTRIBUTORS




Our service area is by far the largest distribution area in the National Electricity Market (NEM) However, proportionally our customer base is small

Source: Huegin Ergon Energy Expenditure Benchmarking.

## Ergon Energy supplies electricity across a vast, diverse service area of more than one million square kilometres – across 97% of the state of Queensland.


**160,000km** of powerlines

**2 network control** centres

**69 service depot** locations

**2 customer solutions** centres

# Year in summary

## Performance highlights

- **Played our role in stabilising prices** with our investment proposal for 2015 to 2020 supporting a 20% reduction in what we charged for the use of our network this year. p11
- **Boosted our customer service capability**, and ability to offer 'choice', with the transition from a 30-plus year-old billing system to a suite of new modern systems. p11
- **Established a Joint Market Transaction Centre**, bringing together Ergon Energy Network and Energex's market data, metering and billing services. p12
- **Continued our network tariff reform journey**, with fairer and more equitable pricing signals offering customers real savings when the network is not being used to its full capacity. p13
- **Collaborated on a number of major renewable energy projects** – to harness the sun and the wind to drive a new wave of economic prosperity for Queensland. p14 & p34
- **Further reduced the time it takes to be connected to the network** – now down 48% compared to the average timeframes for new connections five years ago. p18
- **Advanced how we supply the remotest parts of the state** with 17 Grid Utility Support Systems now installed, and our ability to operate the network remotely increasing. p24 & 25
- **Progressed numerous data management improvements**, from an investment in new network planning systems to mobile field devices that interface back to our control centres. p25 & p33
- **Completed a range of major infrastructure works**, before scaling back our capital investment program in line with new efficiencies in delivery and our demand forecasts. p27
- **Increased employee engagement by 26%**, laying the foundation for the culture needed to deliver on the vision for the corporate merger underway. p31
- **Achieved operating cost reductions in the order of $30 million**, as part of our efforts to secure a more sustainable cost base. p33

### OUR FINANCIALS IN A SNAPSHOT

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | TREND | 2015-16 |
|---|---|---|---|---|---|---|
| Total Profit After Tax (million) | $193 | $308 | $295 | $696 | ↓ | **$443** |
| Total Capital Investment (million) | $870 | $872 | $812 | $983 | ↓ | **$774** |
| Dividends Provided For (million) | $256 | $326 | $392 | $1,925[1] | ↓ | **$476** |
| Community Service Obligation Payment (million) | $415 | $596 | $519 | $596 | ↓ | **$542** |

[1] This was a special dividend payment as part of the Queensland Government's Debt Reduction Action Plan.

FOR MORE ON OUR FINANCIAL PERFORMANCE SEE PAGES 37-39

## An overview of our performance

To monitor our success we have a range of performance targets shown in the table below. These targets were set through our Statement of Corporate Intent, our performance agreement with our shareholding Ministers for 2015-16 (tabled in the Queensland Parliament). The results shown here are discussed throughout this report.

| | | TARGETS | RESULTS | |
|---|---|---|---|---|
| More value and choice p10 | **'Value to Customer' Survey** | Better than peer average | 97 | ✗ |
| | **Supply Reliability Indicators:** | | | |
| | **System Average Interruption Duration:** | | | |
| | **- Urban** | ≤149 | 128 | ✓ |
| | **- Short Rural** | ≤424 | 350 | ✓ |
| | **- Long Rural** | ≤964 | 955 | ✓ |
| | **System Average Interruption Frequency:** | | | |
| | **- Urban** | ≤1.98 | 1.3 | ✓ |
| | **- Short Rural** | ≤3.95 | 3.0 | ✓ |
| | **- Long Rural** | ≤7.40 | 6.8 | ✓ |
| | **Asset Related Public Shocks** | ≤242 | 235 | ✓ |
| Evolving the network p22 | **Demand management reductions**[1] | ≥2.1MVA | 2.3MVA | ✓ |
| Our people, our future p28 | **Employee Engagement** | 60% | 57% | ✗ |
| | **Safety Indicators:** | | | |
| | **- Lost Time Injuries Frequency Rate – Employees** | ≤2.1 | 2.3 | ✗ |
| | **- Total Recordable Injuries Frequency Rate – Employees**[2] | ≤6.7 | 6.5 | ✓ |
| | **- Lost Time Injuries Frequency Rate – Contractors** | ≤2.7 | 1.8 | ✓ |
| | **Environmental Protection Agency Breaches (Class 1)** | Nil breaches | Nil breaches | ✓ |
| Delivering economic value p37 | **Net Profit After Tax** | ≥$560 million | $443 million | ✗ |
| | **Dividends Provided For** | ≥$560 million | $476 million | ✗ |
| | **Customer Service Obligation Payment** | ≤$479 million | $542 million | ✗ |

The value to customer score and the employee engagement measure are provided by external research providers. Our network reliability performance and financials (p50) are audited by external parties. The measures for workplace safety, environmental and asset related public shocks are audited through our external certification program (ISO 14001, AS/NZS 4801 and OHSAS 18001).

[1] The original Statement of Corporate Intent had a target of 14.4MVA. A variation was approved in early 2016 in line with changes in the Demand and Energy Management Plan (p24).

[2] Since the original Statement of Corporate Intent, the All Injuries Frequency Rate has been renamed the Total Recordable Injuries Frequency Rate – Employees to align with the industry standard definitions.

# Chairman's message

**"We know our customers want stable electricity prices, more choice and control, and greater access to emerging energy technologies as they become available."**

Ergon Energy has been working hard, across the organisation, to deliver for its customers and to respond to the fast-paced changes happening throughout the electricity industry.

This has included preparing for the next stage of the company's journey – merging with Energex to form Energy Queensland Limited.

## Australia's biggest power company

The formation of Energy Queensland has created the largest power company in Australia. It's a continuation along the path we have been on to ensure we can continue to deliver real customer value for the best possible price.

I am pleased to be staying on as a Director for Energy Queensland. My aim will be to provide continuity through the transition, and advocacy for regional Queensland, as we move to build the new merged company. The creation of Energy Queensland is an exciting step, as it puts the business in the best position possible to adapt to the changes underway in the sector. It will allow the business to evolve faster and further than it could have done as a stand-alone entity and it provides the scale needed to lead the industry as opportunities unfold.

Energy Queensland is about making it easier for customers, offering a world-class service and developing innovative products. It is about supporting the investment needed in new technologies to keep the company at the core of how Queenslander's choose to source and use energy.

## A solid year of achievements

This year there have been some great steps forward. We know customers want stable electricity prices, more choice and control, and greater access to emerging energy technologies as they become available.

This focus has seen a boost in the customer service capability of the business with the introduction of new customer-related systems. The investment has set the foundation to deliver more value, choice and flexibility into the future with our retail and network businesses now operating independently like others in the market.

There has also been work at the leading edge of industry change. This includes efforts, both by our retail and network businesses, to work collaboratively to support the emerging renewable economy boom. I see this investment as a vital stimulant for economic growth across regional Queensland.

It has also seen Ergon Energy embrace, on a number of fronts, the integration of battery storage into the supply solution. Further progress has been made with trials of the many battery systems now in the market and a number of medium scale 'battery' systems rolled out to support grid supply for our rural customers. This is seeing the company's expertise in this area remain at the forefront of the industry.

From a financial perspective it has been a challenging year.

The Net Profit After Tax result is down at $443 million. This largely reflects the fact that the network business's revenue allowance was reset by the AER at the start of 2015-16. The Board has overseen a suite of activities to transition to the new arrangements, and significant savings have been achieved. However, further work is still required to adjust the company's cost base to come in line with the new operating environment as we move towards 2020.

## Creating a bright future

I would like to recognise here the people right across Ergon Energy for their continued focus and commitment to creating a bright future for our customers, and for the business. In my time as the Chairman of the Board I have witnessed countless examples of where employees have gone above and beyond, showcasing the skills and expertise within the organisation, to deliver new and innovative solutions.

I would also like to thank Ian McLeod and Roslyn Baker for their contribution as they led the company consecutively through what has been a challenging year. They have positioned the company well. I also thank the outgoing directors of Ergon Energy Corporation Limited for their stewardship as we progressed the merger.

I look forward to seeing some really strong outcomes for regional Queensland from all of these endeavours as we move forward as part of Energy Queensland Limited.

CLIVE SKAROTT AM
**CHAIRMAN**

# Chief Executive's report

2015-16 saw us proactively responding to the changes in Ergon Energy's operating environment, refining our priorities to remain in front of the opportunities and challenges before us.

## Large scale renewables bring promise

One of the opportunities has been the rapid uplift in demand for the connection of large-scale renewable generation.

Based on enquiries, we believe there could be up to 1.7GW of renewable energy investment in the pipeline for regional Queensland, and we're determined to play our role in bringing this new wave of economic activity to life. A highlight here has been our financial support to what will be Australia's largest wind farm in Far North Queensland.

To help Queensland capitalise on the economic promise of the new renewable economy, we're also focused on delivering effectively across our core operations, collaborating where we can add value, and ensuring we have a competitive connection offering.

This will build on the 1GW of distributed energy resources already feeding into the network, much of which comes from our partnership with the sugar industry. This saw us contribute $58.8 million to this industry throughout the year.

## Making it easier to do business with us

Our focus on becoming more customer-driven, with less bureaucracy, has spurred progress across a range of initiatives.

The most significant was our investment in modernising our customer-related systems. This has set the foundation for how we will interact with our customers, and our industry partners, into the future. It will allow our customers to do business with us when it is convenient to them, even outside business hours.

We are continuing to engage with our customers and other stakeholders to help drive our service delivery transformation efforts. This has supported real improvements across the board, most importantly in the average time it takes for new customers to be connected to the network.

We are also continuing to evolve our product offering, and embracing technology to give our customers greater choice and control.

By helping them understand and access the new technologies coming to the market, I believe we will be able to deliver more affordable energy solutions in the future with the same 'flick of a switch' convenience they enjoy today.

An area of our focus has been on the new energy storage system solutions. This has seen us testing the battery products coming onto the market to see how they could operate with the network, and to understand any safety risks. In line with this, we have been working with Standards Australia and others to establish the installation and connection safeguards necessary.

## Our success is Queensland's success

We are very much part of regional Queensland, and we will continue to invest in our communities, and in our people who live and work in them.

This includes ensuring meaningful, long-term job opportunities, fostering the next generation of industry talent, and ensuring that our workforce has the skills to thrive and adapt in an industry which is undergoing absolute transformation. Our aim is to maintain real opportunities within the organisation, and to see our industry partners thrive.

Throughout 2015-16 our people rallied behind our efforts to address electricity affordability as a critical input into our state's economic prosperity.

Our investment plans for the current 2015-20 regulatory control period, included an intention to reduce our expenditure by around a billion dollars. Then the AER's final determination made further cuts to our revenue allowance. In line with this, we successfully reduced our operational cost base by over $30 million by the end of the financial year, and we will continue to find further efficiencies as we move forward.

This achievement, and the countless others documented in this report, has been supported by a significant jump in how engaged our employees are, especially around the changes to how we are doing business. This is an important lead indicator for success.

Perhaps the most pleasing area of progress here is in the development of our safety culture. In this area, however, I feel we can and must do more. We can never become complacent. Safety is central to our performance as a business, and we must continue to strive to be a top performer. This includes maintaining our focus on the safety incidents relating to our assets in the community.

**"...we're focused on delivering across our core operations, to being a truly customer-centric business, with a nationally competitive offering."**

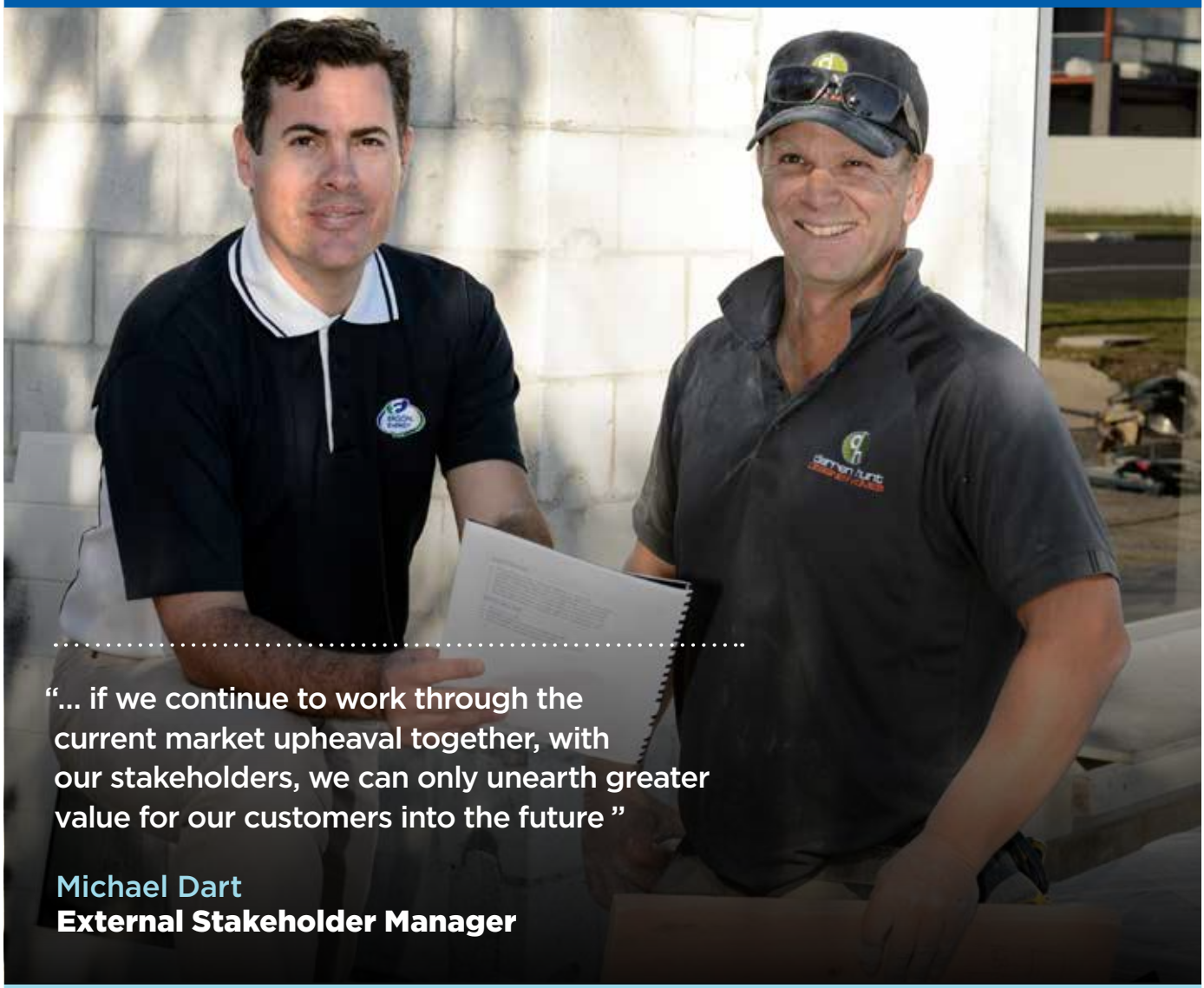
## Moving from strength to strength

I thank Ergon Energy's Board for their direction and support. In the current environment of industry reform and competing stakeholder expectations, I feel we have, at every level of the organisation, demonstrated our responsiveness for the benefit of our customers, our people and the Queensland Government.

As we transition further into the merger of Ergon Energy, Energex and SPARQ Solutions, I am confident that our people are ready to embrace the change and help shape the future of our industry, and ensure we are able to deliver outstanding services and real value to our customers well into the future.

ROSLYN BAKER
**CHIEF EXECUTIVE (ACTING)**

# Review of operations:
# More value and choice



"... if we continue to work through the current market upheaval together, with our stakeholders, we can only unearth greater value for our customers into the future"

Michael Dart
**External Stakeholder Manager**

**We know we must continue to respond to customer needs to remain at the core of how Queenslanders access and use electricity.**

**Our strategic focus here has been on building customer value and addressing electricity affordability – not only through our own efficiencies but, importantly, by supporting an effective market for economic energy solutions.**

**Our efforts here are highlighted in this section, along with how we have delivered across our service commitments and operated as a responsible service provider.**

Michael Dart finds reward in helping to align our priorities with our many stakeholders' – here he is with Darren Hunt from Darren Hunt Designer Homes in Bundaberg checking in to see that we are doing all we can to support economic development across regional Queensland.

# Playing our role in stabilising prices

## Our proposal is now taking us to 2020

Ergon Energy Network's Regulatory Proposal to the AER for 2015-20 was about delivering 'peace of mind' by way of a safe and reliable electricity supply, as well as greater 'choice and control' around how our network is used (connecting solar and other technologies), all for 'the best possible price'. Our investment proposals helped inform the AER's draft and final decisions on the amount of money we are allowed to collect for the use of our electricity network.

The five-year Regulatory Proposal, which was effectively a plan to reduce our overall expenditure in the order of a billion dollars compared to the previous five years, along with the AER's revenue determination, has been instrumental in providing price relief to our largest customers, and to customers in the contestable market, who are exposed to our network charges.

After reducing what we charge for the use of our network in 2015-16, in line with the AER's Preliminary Determination, we are aiming to keep these distribution charges stable overall for the remaining four years to 2020.

As well as playing our role in stabilising prices, this also minimises the burden on the Queensland Government, and ultimately taxpayers, through a reduction in our Community Service Obligation payment (p38).

Going into 2016-17, as a retailer, however, we are unfortunately seeing increases in the other components of the final bill. The Queensland Government's notified prices are being impacted by higher energy costs (p37) and benchmarked retail costs. There are also some network-related cost increases for large users.

## Value perceptions linked to choice

We continued to track perceptions of overall value through our 'value to customer' research. The score measures the value customers place on their electricity supply, taking into account views on reliability, customer experience, corporate and social responsibility, and the cost and affordability of electricity.

Our residential customer score remained stable at 6.9 out of 10 on average for the year. However, our 'better than peer average' ratio score dropped to 97 (where 100 equals parity). One of the factors identified here is that our customers feel they do not have a lot of 'choice and control' with limited competition in regional Queensland. This means we have to work harder to deliver what our customers are looking for. This is driving many of the initiatives referenced in this report.

Our business customer score showed some improvement at 6.2 out of 10 on average for the year (compared to 5.8 in 2014-15). Delivery to our business customers remains a key focus area for our customer service improvement programs.

Compared to our peer suppliers, Ergon Energy has maintained significantly stronger results for 'corporate responsibility'.

# Delivering what customers value

We see the future of our retail business being about delivering more value through new products and services, as a trusted energy provider in what is a rapidly changing marketplace. In line with this, the future of our network business is about operating successfully as an open access platform for distributed energy and other energy-related solutions.

## Modern systems for a modern service

The most significant boost to our capability to provide an improved service and greater 'choice' was the transition this year from a 30-plus year-old billing and customer information system to new modern, customer-related information systems.

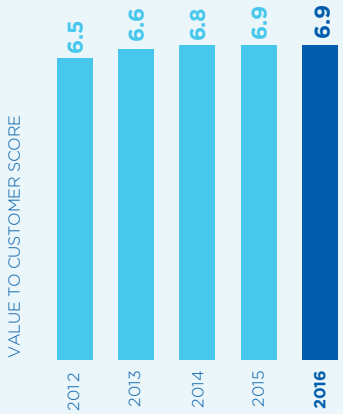
This was the most substantial system change that we have ever undertaken. It saw us separate our retail and distribution systems so that we could best support regional Queensland as it progresses toward being a more active, contestable electricity marketplace. The new arrangements allow us to operate through the NEM with our retail and network businesses interacting with each other at arm's length for the first time in the same manner as other Australian network and retail businesses.

### NETWORK CHARGES OUT TO 2020


**As the first year in the new regulatory control period, 2015 16 saw more than a 20% reduction in what we charge for the use of our distribution network Going forward our aim is to keep our Distribution Use of System charges overall stable**

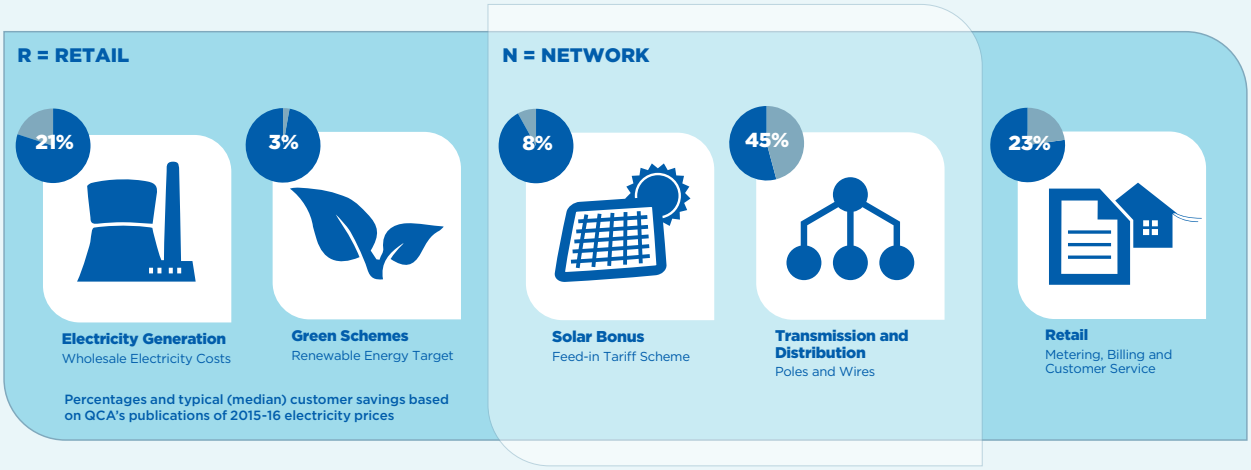
**With this we are anticipating, with a forecast reduction in transmission charges and the impact of the introduction of the Jurisdictional Scheme arrangements for the Solar Bonus Scheme flowing out in the later years (p37), that Network Use of System charges overall will come down further as we move out towards 2020**

### RESEARCH CONFIRMS NEED TO RESPOND TO CUSTOMER NEEDS




**For residential customers, 'cost and affordability remained the major concern To respond and lift perceptions of value we know we need to continue to put downward pressure on electricity prices, support our customers in their ability to control their costs, and enable choice through access to emerging energy related technologies**

## WHAT MADE UP THE PRICE OF ELECTRICITY?




**The regulated retail prices set by the QCA are based on both Retail and Network (N+R) charges As we moved into 2015 16 these prices stabilised or decreased after consecutive year on year increases**

**For typical residential customers on Tariff 11, the overall reduction in their annual bill was around $7 or 0 5% For the QCA s typical customer on the main small business Tariff 20, prices decreased by 3 5% or $73 in their annual bill, while the typical customer on Tariff 22 saw a decrease of 1 7% or $135 These reductions vary with actual energy use**

It has been a big step forward – one that will continue to deliver more flexible solutions for our customers in the future with the addition of an online self-service portal. The portal will allow customers to arrange move-in and move-outs. Customers will also be able to organise payment arrangements when it is convenient to them without the need to call our Customer Solutions Centre during business hours. Improvements to the overall customer experience have also already been supported by other contact centre technologies introduced earlier in the project.

The distribution system, which is the same one used by Energex, provides customer information management and network billing capabilities, better management of meter assets, readings and consumption data, as well as a new complaints management system (p17).

At the time of writing this report, we were transitioning through the system stabilisation phase following the 'go live' in March.

The investment also provides us with an opportunity to develop other online services to support specific customer groups.

The rollout of the Electrical Partner's Portal, for example, is now providing an interface directly to our systems, giving electrical contractors 24/7 online access to submit and track network connection requests and other works. The new system and work processes also support our National Energy Customer Framework (NECF) obligations (p17).

It has also supported the establishment of a Joint Market Transaction Centre, operating from within Energex with employees from both businesses. This has proven to be a real joint-working success story. Delivering industry benchmark standards, it is now efficiently managing all of our market data and processing all of our high volume market-facing transactions, from network metering and billing services to network-related customer service requests. The centre is effectively the Network businesses' interface with the NEM, including our retailer, Ergon Energy Retail.

We are also working closely with Energex to progress our metering capability generally so that we can, with the roll out of advanced meters in the future, give customers better access to their electricity consumption data. This work is in line with regulatory changes to metering services under the Australian Energy Market Commission's Power of Choice program.

## A future-focused service model for retail

During the year our future energy services model continued to evolve with our product offering embracing a range of innovative energy-related technologies to give our customers greater 'choice and control' around their energy solutions.

EnergyCheck

Leading the way is EnergyCheck, our online energy monitoring tool being offered for free to business customers. More than 10,000 customers are now signed up – they are tracking their energy use online, undertaking tariff comparisons, comparing their energy usage to other businesses and receiving energy saving recommendations. We appreciate that knowledge is power, so we have also continued to proactively work with our large customers to ensure they are on the optimal tariff for their business, as well as ensuring the provision of this service to other businesses through our Customer Solutions Centres.

We invited a select group of business customers to trial our new Business Solar Saver product. The offer provides high usage business customers with a solar energy system, up to 30kW in size, without the financial barrier of upfront costs. They simply pay an annual service fee for the installation and ongoing maintenance of the system on top of their normal monthly bill, based on the actual electricity used. One of the participants in the trial, Townsville Marine, is already benefiting from savings of $700 a month on their energy costs. We are working closely with the customers in the trial to better understand the customer benefits of the offer before rolling it out more widely in the future.

For our residential customers, our HomeSmart product trial has continued. The trial of the internet-based solution, which started with 100 homes in Townsville, was expanded this year to 50 homes in Rockhampton. The product lets customers monitor and control their home energy use with their smartphone, tablet, laptop or computer. Given the success to date, plans are underway to expand the trial in the near future to allow more customers to benefit.

The Hybrid Energy Service also continued this year, partly funded by the Australian Renewable Energy Agency (ARENA). The trial, involving 33 homes in Townsville, Cannonvale and Toowoomba, includes the supply, installation and maintenance of a solar energy and battery storage system, all for an affordable monthly service fee. With an energy management system, time-of use tariffs and the system, a customer can plan when to use the solar, battery or the network to maximise savings. This trial is helping us develop how to best meet our customer needs as the industry evolves.

Complementing the work in our product offering is a focus on improving our customer segmentation to better understand the needs of different customer groups, from new families to industry sectors, in order to tailor our solutions.

## Tariff reform core to effective market

Our program of network tariff reforms continued to be central to our efforts this year in supporting an efficient and effective market. We embarked on our network tariff reform journey over three years ago, very much aware of the need to deliver fairer and more equitable pricing signals.

Our Tariff Structure Statement, which we submitted to the AER for consideration in November 2015, has established 2016-17 as our foundation year with the majority of our major reforms now in place. We landed on a refined suite of demand-based, seasonal time-of-use network tariffs. These optional tariffs can offer customers real savings when the network is not being used to its full capacity, offset by more appropriate, 'cost reflective' rates during peak periods in the summer months. It is at these peak times that the level of demand is more likely to drive future capital investment.

To ensure we considered diverse perspectives, the development process involved consultation with customer advocacy groups, major customers, electrical contractors/solar industry, retailers and our government and regulatory stakeholders.

Our Tariff Structure Statement covers our tariffs from 2017 to 2020. During this period we plan to keep our tariff structures relatively stable to allow us to build a greater understanding of the new tariff options and to promote their benefits. Our larger energy users, who are already familiar with demand-based tariffs generally, are already opting for the new tariffs, with many gaining an additional financial benefit by actively shifting some of their electricity demand outside of the peak demand window.

For our smaller users, a key initiative will now be our Tariff 14 Trial. This is already underway with employees participating in the first phase to pilot the introduction of the new residential, demand-based tariff. This initiative, along with a smaller trial which will involve small business customers, will help us to understand the customer experience, and build our analytics so we can give our customers the information they need to decide if they could benefit from moving to these new voluntary tariffs.

## Driving a customer-driven transformation

In our distribution business, a major customer-driven transformation program is also underway with service improvement plans formulated for each of our key customer segments – from our end users to developers. The program started with significant customer research into how to best meet our customers' needs into the future. This was followed by internal workshops with customers participating to help identify solutions.

Our aim is to ensure our service improvement initiatives focus on the areas that will drive the most value for customers, our end-to-end processes are customer-centric and our performance is measured against what is important to customers. This will be supported by ongoing customer research and 'real time' performance monitoring, allowing us to respond to customer needs in a timely manner.

Our focus on customer value also continues to be supported by our peak body engagement activities. Our Customer Council, established in 2011, remains our 'umbrella' listening forum to both explore customer needs, and to look with a customer's lens at initiatives or emerging issues in the supply of energy solutions to regional Queensland. We have also continued with our industry forums as an engagement channel for the agricultural, solar/micro generation and real-estate development industries.

We have also been engaging with the agricultural industry in a practical way, with our Energy Savers program helping farmers rein-in their power costs. The program, delivered in partnership with the Queensland Farmers Federation and funded by the Queensland Government, is providing information on the benefits of new and more efficient technologies. It includes energy assessments of farm irrigation, heating, cooling, lighting and processing to quantify potential savings. Some farmers participating are already on their way to cutting their electricity costs for irrigation by 20%. With up to 100 audits to be undertaken during the program, it will provide valuable case studies across a range of farming contexts to better target energy efficiency and productivity measures in the sector.

# Powering prosperity together

Renewable energy and other new technologies are emerging as a real opportunity, when integrated into the network and the energy market, to drive a new wave of prosperity for Queensland.

Ergon Energy has traditionally partnered with Queensland sugar mills, solar farms, wind generators and hydro generation projects, and is now seeing opportunities in other types of renewable generation.

There is a growing variety of renewable energy projects forming in the pipeline. We see our role as a retailer to purchase the energy locally from these projects, where we can, and as a network provider and market enabler, to work with these customers to efficiently and cost-effectively plan the connection of these projects to the grid.

## Collaborating to harness renewables

During the year we collaborated with Power Purchase Agreements (PPAs) to progress two major renewable energy projects, in Normanton and Mount Emerald. There is also another major solar project connecting to our network in Barcaldine. In addition, work is continuing with other prospective renewable energy projects that are seeking federal funding through ARENA.

Construction has commenced on the $12 million, 5MW solar farm to be established in Normanton, near our substation, in the state's remote northwest Gulf country. The commercial viability of this project, which is expected to be connected by December 2016, was cemented by Ergon Energy Retail's nine-year PPA and ARENA grant funding support.

The project was developed collaboratively between Scouller Energy, Canadian Solar and Ergon Energy in order to secure ARENA funding. From an Ergon Energy Network perspective it will allow us to better understand the benefits in reducing energy loss by having a solar farm at the very fringe of our grid. The project will also allow us to explore regulatory changes that would best support more renewable energy installations in fringe-of-grid locations across Australia.

A PPA was also put in place, through an Expression of Interest process (p34), to support the $360 million 170MW Mount Emerald Wind Farm in Far North Queensland. This was a major milestone for the project as the agreement provides the revenue stream which underpins the financial case for the project.

We are facilitating the connection of the $69 million, 25MW Barcaldine Solar Farm, which will be situated next to Ergon Energy's Barcaldine power station, with completion expected in late 2016.

The under construction 13MW solar array and 5.34MWh battery storage facility at Lakeland also moved another step forward with the signing of a project knowledge sharing plan. The Tri-party Participant Deed, signed by project owner Conergy, ARENA and Ergon Energy, was an important milestone in obtaining $17 million in Federal grant funding.

We are currently actively managing more than 50 enquiries for major projects that are expected to come online over the next five years to export renewable energy into the grid, and we are aware of numerous other opportunities being explored. Our support for these projects has the potential to provide a major economic windfall for regional Queensland as we move towards a renewable energy future.

As well as progressing connection requirements for these projects and PPAs as appropriate, we are looking at other ways to best collaborate with these customers, potentially in the operational and maintenance areas. This approach complements the focus we have on our service offering for our major customers (p18).

## Moving to more efficient street lighting

With the rapid rise of new technologies, LED (light emitting diode) street lights are set to deliver a more cost efficient street lighting solution for regional Queensland. Our local government customers are already showing a keen interest in the technology, and Ergon Energy has developed a Street Lighting Strategy to ensure a comprehensive and cost-effective plan for the transition.

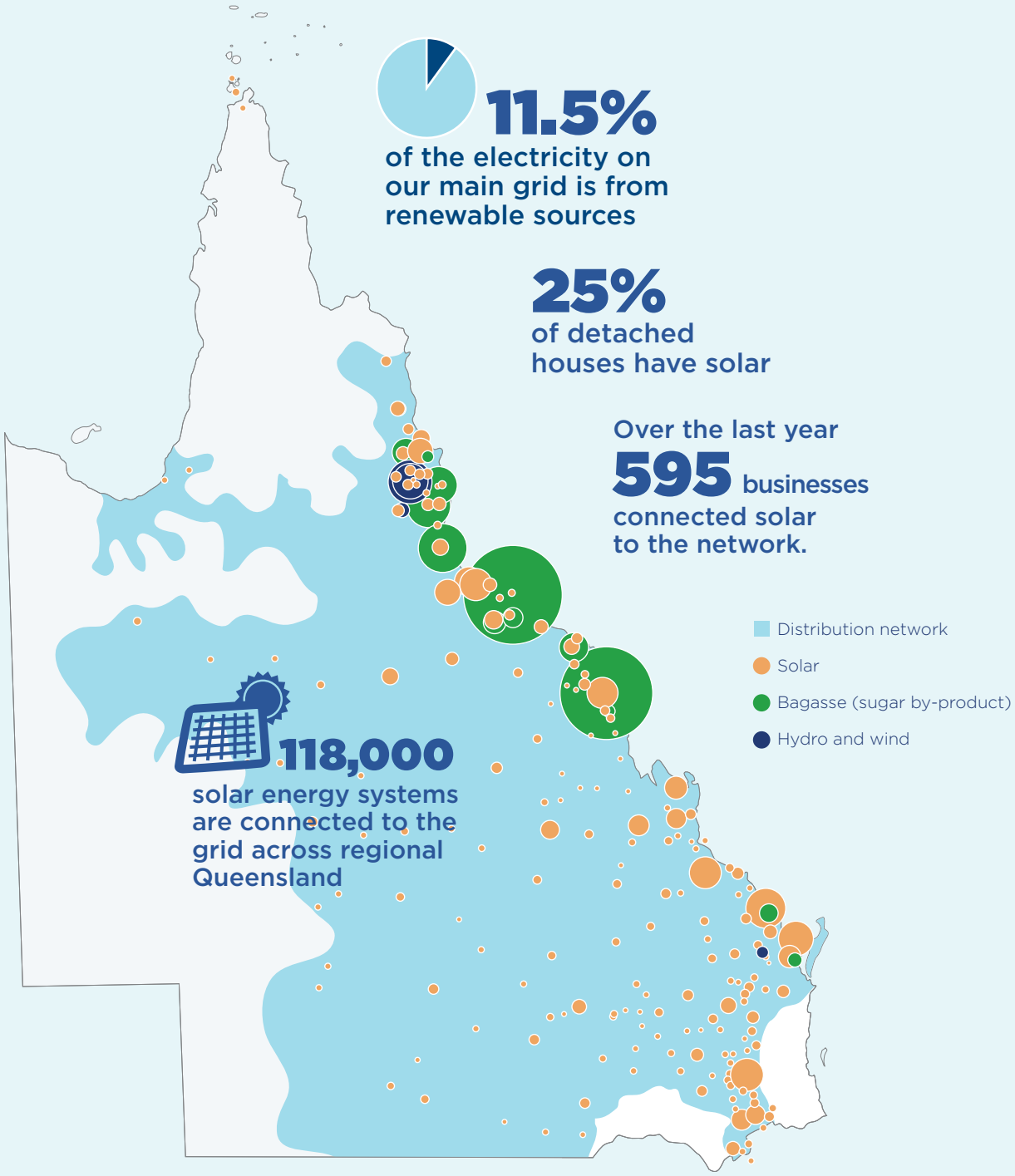
The technology comes, however, with some challenges including the cost involved to modify existing street light pole arms to take the additional weight of the LEDs. These factors have been considered in the strategy to ensure the most cost-effective transition possible.

We have been working with customers, mostly local councils, to deploy 270 LED street lights this year in four regional areas to test the technology and the potential deployment processes in different conditions. These trials support our engagement with all 70 local councils in regional Queensland. The first phase of the five-year strategy is looking to initially exchange about 20 street lights per council area. While the cost per LED light is currently higher than a traditional light we expect this to significantly decrease over the next few years, and will therefore deliver savings for our local communities.

This is just one of the ways we are looking to offer new services. We know we can drive greater prosperity by using our expertise and resources more innovatively, and by building on existing partnerships and establishing new ones to deliver new products and services for our customers.

**Ergon Energy Meter Strategy Manager, Andrew Gillespie, with former Burdekin Shire Mayor, Bill Lowis, during the strength testing of pole arm brackets for the new energy efficient LED lighting in Ayr**

**Our network is a platform for distributed energy resources with over 1GW of capacity now connected – including 444MW of solar – and a significant number of major projects in the pipeline. We are contributing to this economic growth in numerous ways – our support for the generation of renewable energy by the Queensland sugar mills saw $58.8 million go to this industry over the past year.**



# CUSTOMER SCORECARD

## Targeting our reliability investment

In 2015-16 we met all six of the Minimum Service Standard (MSS) limits for network reliability. The largest improvement was in our response times, which has reduced the average duration of outages. This reflects the significant focus and investment made over recent years to achieve the MSS standards. Overall the frequency and duration of supply interruptions has improved by 6.6% and 9.3% respectively since 2011-12.

The result was achieved despite an early start to the storm season, and a number of severe weather events. Major storms affected supply to 8,000 customers in Rockhampton in early December, 8,000 customers in the Darling Downs two days before Christmas and 14,000 in the Fraser/Burnett region in February.

We will continue to look for ways to achieve the standards through our practices and with realistic and efficient investment in the network.

This year saw a significant shift in our investment strategy with a focus on targeted network issues rather a drive to achieve overall reliability improvements. This follows research that showed the majority of our customers are largely satisfied with the level of supply they receive and are looking for downward pressure on electricity prices.

Our worst performing feeder improvement program led to detailed reviews of sections of the network that are currently underperforming. This has identified areas to target improvements for our customers, in line with the regulatory requirements set out in our Distribution Authority. This will see investment focused towards a number of short and long rural feeders in North Queensland and South West Queensland.

Running parallel with MSS limits is the AER's Service Target Performance Incentive Scheme. This framework provides a financial incentive for improving unplanned outage performance, as well as customer service standards. Our results have secured a financial benefit under this scheme for the business.

Further information on our network's reliability, and our worst performing feeders, is available in our Distribution Annual Planning Report online.

## Meeting customer service expectations

### Customer solutions satisfaction

Ergon Energy has customer solutions representatives in Townsville and Rockhampton to manage customer enquiries. This year saw a change in the way we measure customer satisfaction around these enquiries following new Contact Centre Technology in July 2015. The new technology enabled us to introduce a 'post call survey' for all customers to respond to, instead of getting feedback from a small sample of 'general enquiry' calls. This change has provided us with a better way of measuring the customer's perception of the quality of the service they receive. This year we achieved an average satisfaction rate of 78.4%.

Performance in the general enquiries area is measured through a grade of service of 70% of calls being answered within 120 seconds. This year our general enquiries number for the distribution business achieved a service grade of 80.8% and general enquiries for the retail business recorded 65.0%. This result is primarily due to the implementation of the new Customer Information System (p11). As expected, there was increase in the average call time following the changeover in March, this has since improved.

Call centre performance for the unplanned outage enquiries and emergency line was well above the target of 77.3% of calls answered within 30 seconds, with the support of a reduction in outage-related calls, with a service grade of 79.0% achieved.

### Standing by our service commitments

As part of our service promise, Ergon Energy has a range of Guaranteed Service Level (GSL) commitments where, if we don't deliver, we pay the customer for the inconvenience. The GSL regime is part of the Electricity Distribution Network Code. It covers network reliability (outage restoration timeframes and the number of outages), the notification of planned power interruptions, appointments, new connection and reconnection timeframes, wrongful disconnections, and the resolution of hot-water supply matters.

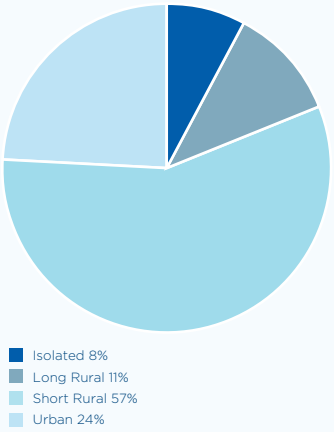
This year there was an increase in network reliability claims. This was primarily due to the early start to the storm season and the need to manage our response to numerous storm events.

## OUR RELIABILITY STATISTICS

| | MSS | 2011-12 | 2012-13 | 2013-14 | 2014-15 | TREND | 2015-16 |
|---|---|---|---|---|---|---|---|
| **System Average Interruption Duration Index (minutes of outage)** | | | | | | | |
| • Urban Distribution | ≤149 | 136 | 135 | 119 | 134 | ↓ | **128** |
| • Short Rural Distribution | ≤424 | 393 | 341 | 292 | 359 | ↓ | **350** |
| • Long Rural Distribution | ≤964 | 1,042 | 952 | 796 | 1,053 | ↓ | **955** |
| **System Average Interruption Frequency Index (number of outages)** | | | | | | | |
| • Urban Distribution | ≤1.98 | 1.4 | 1.5 | 1.4 | 1.3 | – | **1.3** |
| • Short Rural Distribution | ≤3.95 | 3.6 | 3.0 | 2.8 | 3.2 | ↓ | **3.0** |
| • Long Rural Distribution | ≤7.40 | 7.0 | 6.2 | 6.1 | 6.8 | – | **6.8** |

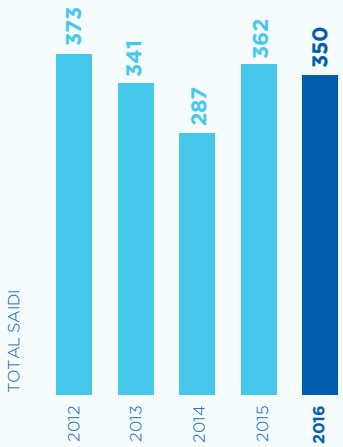
Reporting based on the Minimum Service Standards (MSS) exclusion criteria outlined in the Electricity Industry Code.

## PROFILE OF DISTRIBUTION NETWORK (FEEDER LINES)



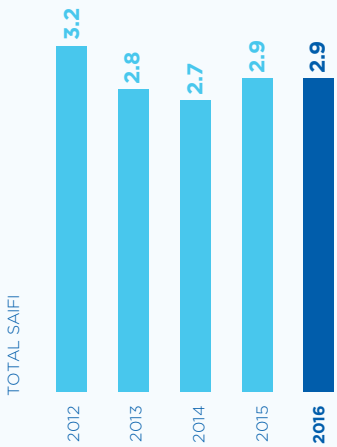

**Ergon Energy operates one of the longest distribution networks in Australia, with only five customers per kilometre of line on the main grid Our reliability challenges are both common to the industry and unique With less than a third of our network supplying our urban communities, the topography of our network is largely made up of radial rural lines with limited redundancy in the event of a fault**

## AVERAGE DURATION OF OUTAGES




**While the network was impacted by the early start to the storm season experienced this year, the overall average duration of outages was down slightly to 350 minutes Data includes our regulated main network and our isolated networks**

## AVERAGE FREQUENCY OF OUTAGES




**Overall our customers are experiencing an average of 2 9 outages per year With overall network reliability now generally delivering the level of service our customers expect, to deliver customer value we are now looking to ensure reliability expenditure targets improvements across our worst performing feeders**

With the introduction of NECF in July 2015, improvements were implemented to notify customers at least four business days before a planned power interruption. Our focus here, including staff training, saw a 24% reduction in claims against this GSL. There was also a significant reduction across the remaining GSLs.

Other improvements are also being progressed to ensure compliance with the national framework (p49).

### Complaints management

We know the importance of effective complaint handling to deliver quality customer service, and we have continued our commitment to manage complaints in an equitable, objective and unbiased manner. This year saw the introduction of new complaint management systems for our retail and distribution businesses. The systems will allow us to improve the customer experience and efficiencies in the complaints process.

## GUARANTEED SERVICE LEVELS

| | 2014-15 CLAIMS | 2014-15 PAYMENTS | 2015-16 CLAIMS | 2015-16 PAYMENTS |
|---|---|---|---|---|
| Network Reliability | 5,510 | $572,949 | **6,343** | **$723,102** |
| Other:<br>• Notification Planned Interruption | 2,609 | $82,108 | **1,982** | **$65,845** |
| • Remaining GSLs | 1,981 | $151,498 | **1,181** | **$89,395** |
| TOTAL | 10,100 | $806,555 | **9506** | **$878,342** |

## OUR CUSTOMER SERVICE STATISTICS

| CUSTOMER SERVICE DELIVERY | | 2011-12 | 2012-13 | 2013-14 | 2014-15 | TREND | 2015-16 |
|---|---|---|---|---|---|---|---|
| Value to Customer – Residential Research Parity | (Annual average 100 = peer average) | 104 | 105 | 101 | 101 | ↓ | **97** |
| Value to Customer – Residential Research Score | (Annual average) | 6.6 | 6.8 | 6.9 | 6.9 | – | **6.9** |
| Value to Business – Research Score | (Annual average) | 6.0 | 6.1 | 6.0 | 5.8 | ↑ | **6.2** |
| Call Volumes to Customer Solutions Centre | | 1.65m | 1.76m | 1.76m | 1.68m | ↓ | **1.47m** |
| Customer Solutions Centre – Customer Satisfaction[1] | Target ≥75% | 86% | 92% | 91% | 91% | ↓ | **78.4%** |
| General Enquiries – Calls Answered in 120 Seconds | Target ≥70% | 72% | 47% | 86.4% Dist'n<br>69.1% Retail | 89.8% Dist'n<br>60.3% Retail | ↓<br>↑ | **80.8% Dist'n**<br>**65.0% Retail** |
| Unplanned Outage Enquiries and Emergency Calls[2] – Calls Answered in 30 Seconds | Target ≥77.3% | 84.8% | 82.1% | 81.3% | 80.8% | ↓ | **79.0%** |
| New Connections – Average Time from Contract to Construction | Target ≤160 days | 170 days | 155 days | 128 days | 124 days | ↓ | **113 days** |

[1] From 2015-16, Customer Satisfaction surveys were expanded to include complaints management, billing and payment satisfaction. In light of this change, the target has been adjusted to 75%.

[2] Target as set for the AER's Service Target Performance Incentive Scheme.

# CUSTOMER SCORECARD (continued)

We continued to perform favourably in the Energy and Water Ombudsman Queensland's (EWOQ) complaints scheme which provides an independent view of the complaints management performance compared to other scheme members. It also provides a valuable mechanism to highlight areas of possible improvement for customer service delivery and complaints management. This year Ergon Energy Retail represented 7.4% of total cases, well below our proportion of the customer base. Ergon Energy Network achieved 2.2 complaints per 10,000 customers, or 1.4% of the total EWOQ cases.

## Making connecting to the network easier

### Working closer with major customers

During the year a taskforce was established to review our performance around the delivery of new or upgraded network connections for our major customers. This was about giving an executive focus to addressing our ability to give tailored advice to our major customers, and our commercial competiveness in this area.

We are currently focused on increasing transparency and cooperation with our customers. This has seen collaboration workshops with our engineers and the customer at the planning stage of a new project, so that we can better work together to explore construction options and consider other potential operational matters. Our annual major customer satisfaction survey results showed 61% of our major customers are likely to speak well of Ergon Energy.

The growth in connection activity this year has been in the number of commercial and industrial businesses placing solar systems, often between 100kW and 150kW, onto rooftops of existing sites. We are actively collaborating to support the uptake of renewable energy (p14), with a focus on the cost, timeliness and value of the associated network connection, to ensure we play our role in contributing to economic growth.

One of the most innovative projects this year was the connection of the 1MVA Maryborough Landfill Gas Generator. Installed and operated by Landfill Gas Industries, the generator is fuelled by gases collected from the landfill facility as a by-product of organic waste decomposition.

With plans to add a second 1MVA generator in the future, the project will produce enough energy to power thousands of homes for up to 20 years. Landfill Gas Industries has begun construction of another generation site near Gladstone, with similar opportunities available across the numerous local councils in Queensland.

### Improved timeframes for smaller connections

We have continued the service improvements made in recent years around our smaller, non-complex customer-initiated connections and upgrades, with the average time taken from 'contract acceptance to construction' for these works reduced to 113 days. This is now down 48% on the average timeframes being experienced five-years ago. The result is well within our target, and has seen 99% of these connections delivered by the agreed date. During the year we reviewed our operating model for these works, and put in place plans to improve the time it takes for us to make a customer an offer, and to ensure we meet their expectations around the delivery of the works.

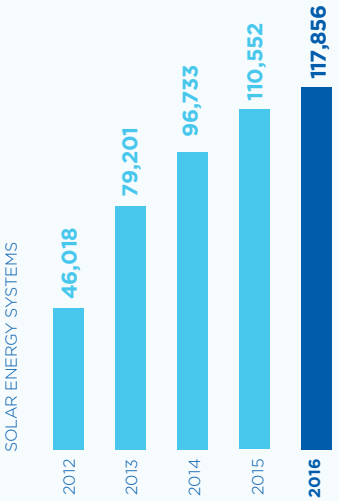
### Connecting solar

During the year, more than 7,300 new solar energy systems were connected to the network. While this has dropped compared to 2014-15, the rate of new applications has been fairly consistent over the year.

We have continued to improve our approval timeframes for solar applications, with almost 50% of applications now approved immediately after lodgement. For applications requiring a technical assessment, a response is usually provided within one to three weeks. The new Electrical Partners Portal will support these timeframes, as well as providing additional benefits to the solar energy industry and electrical contractors (p12).

Interest in emerging technologies has also continued this year with approximately 300 customers applying to connect batteries to the network. We expect this figure to grow significantly over the next 12 months as battery products become less cost prohibitive. p23

### THE TAKE UP OF SOLAR IS CONTINUING




**Ergon Energy has seen a dramatic increase in the solar energy systems connected to the grid over recent years, with around 118,000 now connected, and the average size now 3 8kW**

# Being a responsible provider

Ergon Energy places a priority on good corporate citizenship. Beyond our central role in powering the prosperity of regional Queensland, we see our responsibilities mostly associated with 'being there after the storm', community electrical safety awareness, support for those in financial hardship, local employment and skills development, environmental protection, energy and resource conservation, and community participation generally. Our contribution here is highlighted in this section and on pages 34 to 36 of this report.

## An effective emergency response

We know the importance to a community of Ergon Energy being there as soon as possible after a storm. It is why we invest so significantly in our summer preparedness and resourcing. Our aim is to ensure the efficiency, effectiveness and safety of our response to emergency and natural disaster events.

To support our preparedness this year, we not only undertook our normal disaster scenario testing, we hosted a series of open community disaster planning, resilience, response and recovery events in Cairns, Townsville and Brisbane. These saw local council and emergency services personnel, industry leaders, and other stakeholders and our own employees sharing disaster recovery experiences. At the events, Rod West from the American power company Entergy, shared the lessons from Hurricane Katrina, and a disaster simulation was used so that participants could consider how new technologies could improve both community resilience and any future emergency responses.

Another highlight of the year was the recognition of our power restoration effort in the wake of Cyclone Marcia, in February 2015, at the 2015 Premier's Awards for Excellence with a Highly Commended in the Excellence in Performance category.

Fortunately, our region did not experience a major natural disaster this year. The Queensland summer storm season did start early though, with a number of severe weather events (p16).

During these events our crews have been able to increasingly rely on our own new digital radio network. The new 'two-way' network essentially connects crews around the state with our control centres in Rockhampton and Townsville. To date we have replaced the old analogue radio system used in our major centres with the digital infrastructure, which is integrated into our core telecommunications network. Over the next 18 months this replacement will extend to our rural depots and fleet. With normal communications methods like mobiles phones often unavailable following major storms or other natural disasters, this investment is especially critical to emergency response.

## Investing in community electrical safety awareness

Safety is a high priority for Ergon Energy – not only in the workplace (p29) but in the community. Through our Community Electrical Safety Awareness Plan we are continuing to invest and engage with the general public and at-risk industry groups to maintain a high level of electrical safety awareness, especially around the safety risks associated with our electricity infrastructure.

### Scouts spread the message... Be Prepared

This year our summer storm season messages were relaunched with a helping hand from Scouts Queensland. The 'Be Prepared' for Summer campaign encourages the community to think forward and be prepared for whatever nature might have in store. The Scout's motto was used to help reinforce the importance of having a fully stocked storm kit at the ready and knowing how to stay safe after the storm.

The Be Prepared for Summer campaign enlisted the Scouts to help spread our safety messages – Stay well away from fallen powerlines Always assume they are 'live' and dangerous Report them immediately to Triple Zero (000)

Our other home electrical safety messages continued to be delivered through our 'Think Ahead a Bit' around Electricity advertising campaign using the memorable character, the Grim Llama. The success of this campaign, which was launched in 2014, was recognised by the advertising industry this year with numerous Brisbane Advertising and Design Club awards.

Our school electrical safety education program, Safety Heroes, launched in 2015, was also extremely well received with over 684 schools adopting the program, delivering vital electrical safety messages as part of the school curriculum to around 71,000 primary-aged school children. Thanks to the strong interest in the program, this year a further investment was made to help teachers better explore the world of electricity with their students and spread our safety messages. While the program focuses on years five and six, it also provides opportunity for students from prep to year six to participate in Electrical Safety Week activities in September each year.

### Targeting the at-risk industries

Tragically there were two fatalities associated with our infrastructure this year. The first incident was on a farm near Dalby. The second was a helicopter accident near Carmila, south of Mackay.

It is this tragic loss of life, and the impact on all the other lives that have been changed by the other incidents that have occurred, that drives our community safety team in its work to raise awareness of the dangers of working in close proximity to powerlines. The team's work in this regard focuses on farmers, contractors, road transport users, the aviation sector and other targeted industry groups.

To reinforce the 'Look Up and Live' message this year the team delivered more than 100 face-to-face industry presentations and participated in many more industry events and agricultural shows.

They also continued to actively collaborate with Workplace Health and Safety Queensland, Electrical Safety Office and Dial Before You Dig, as well as Energex and Powerlink, to develop strong, consistent safety messaging for joint activities and cobranded materials. In addition, the team worked closely with other industry bodies including AgForce Queensland, Local Government Association Queensland, Queensland Master Builders association and Queensland Master Plumbers association, Queensland Building and Construction Commission, Queensland Trucking Association, Civil Contractors Association, Cotton Australia and Canegrowers.

In addition, Ergon Energy is also now offering customers a number of new overhead powerline markers for both temporary and permanent powerlines to improve their visibility in key areas. This follows the success of last year's trials into more cost-effective solutions to improving the visibility of our assets in order to reduce community safety incidents. These markers can be installed by a single person removing the cost barrier.

### The statistics are focusing our efforts

Ergon Energy analyses the electrical safety incidents that take place in the community to best target our engagement strategies.

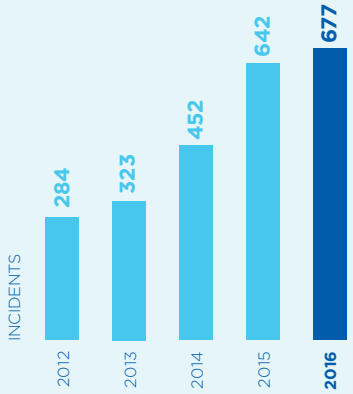
During the year, 677 community electrical safety incidents associated directly with our assets were recorded. Fortunately, the large increases in incidents of recent years have stabilised (these were largely associated with the regulatory requirement to expand the scope of reportable incidents).

Over the past 12 months the number of incidents associated with vegetation clearing and earthmoving has reduced, however, motor vehicle and aviation incidents have increased. These will be a focus for our efforts going forward.

The number of incidents of electric shocks reported relating to our assets was 235 (compared to 191 for 2014-15). This result demonstrated that people are increasingly aware of the need to report a 'shock or a tingle'.

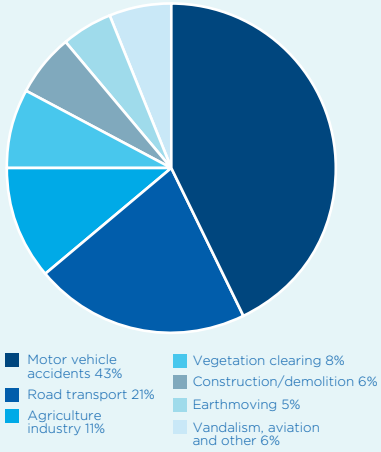
In addition to the community cost of these incidents, network-related incidents often cause inconvenience to customers and add operational costs, with outages of approximately 8.6 million customer minutes impacting over 30,000 customers.

### COMMUNITY NETWORK RELATED SAFETY INCIDENTS




**The escalation in the number of incidents stabilised this year, after the recent annual increases associated largely with the regulatory requirements expanding the scope of reportable incidents to those involving low voltage wires and poles This data is continuing to drive our engagement activities**

### TYPES OF COMMUNITY NETWORK-RELATED SAFETY INCIDENTS




**Pleasingly we have seen further reductions in the number of network related safety incidents in the community linked to vegetation clearing and earthmoving However, over the past 12 months there has been a notable increase in the number of motor vehicle and aviation accidents associated with our assets**

## Assisting those experiencing financial hardship

Ergon Energy continues to work closely with customers to help them manage their electricity bills and usage and considers disconnection for non-payment as a last resort. We make every attempt to contact customers to discuss their options to avoid disconnection, providing payment plans and information about our hardship program.

During the last 12 months, there has been an increase in the customers that we know are experiencing financial hardship. This increase is largely due to earlier identification of financial hardship signals, as well as the softening of the economy across regional Queensland.

Marking 10 years this year, our Customer Assist program supports customers who are in financial hardship and are unable to pay their accounts. During the year 4,133 customers successfully exited from the program with an improved financial capability and the energy usage knowledge needed to meet their energy debts in a sustainable and independent way.

We understand the importance of the hundreds of community groups and non-government organisations who support our customers in regional Queensland. This year saw the launch of our Customer Assist e-bulletin. Sent every six months, the e-bulletin provides these organisations information about our Customer Assist program and energy efficiency advice. It is a great way to connect and build valuable working relationships with these important community groups.

### Supporting our drought-affected farmers

With more than 83% of Queensland now drought declared, we continue, on behalf of the Queensland Government, to provide support to primary producers asking for assistance, specifically looking at possible changes to their tariffs and waiving fixed charges for farming or irrigation purposes.

With a high number of drought-declared areas located within the Ergon Energy service area, the affect is felt close to home for many of our employees, inspiring them to throw their support behind Queensland farmers by raising funds to purchase bales of hay for livestock in drought regions.

## Working with our Indigenous communities

Ergon Energy supplies the majority of regional Queensland's Indigenous communities, one of the most disadvantaged consumer groups in Australia. Providing electricity services to these communities is challenging, with the majority being remote and supplied by stand-alone power stations.

This year saw the successful trial of new card-operated meters in the remote Indigenous communities of Wujal Wujal and Hammond Island. The new meters make it easier for customers to add credit and manage their electricity usage and costs using paywave technology on the meter, as well as an increase to the amount of emergency credit available to customers.

Work is also well underway to introduce new technology which will connect with the cutting-edge meters to provide two-way communication and extensive data to Ergon Energy, such as how many times customers go into emergency credit, how often they self-disconnect, energy usage statistics, meter-reading capabilities and the ability to remotely change customer tariffs. This data will help us to better understand our customers in remote communities and be more customer-focused in our interactions.

Extensive customer engagement was undertaken to inform customers of the features of the new meters and as an added benefit, during the engagement our team identified an additional 20 customers who were eligible for concessions. Customer feedback following the trial was positive and will support plans to expand the project into more than 30 other remote communities over the next couple of years.

As part of the Community Fund grants this year, support was provided to the Red Cross to deliver a community workshop in the Indigenous community of Woorabinda. The workshop focused on understanding power bills, and on providing information on payment methods, tariffs, assistance programs, rebate schemes and energy efficiency.

In addition to the workshop, Ergon Energy staff also provided a 'train the trainer' course to educate Red Cross staff and enable them to continue to assist the community to manage their energy use and their bills.

Through our sponsorship of the SES, we re working together to find smarter ways of doing things for our communities  The new equipment provided through the joint sponsorship is both replacing old equipment and addressing their needs as technology advances

## Playing our role as part of the community

We have continued to connect with our 'local faces' active in their communities, participating in business community forums and local community events, and now with the launch of a new employee volunteering program. We see this as important to building relationships critical to ensuring we are operating effectively at the local level and working together to create shared value where ever possible.

The employee volunteer program is being trialled by our Retail operations with a new Made Better website created to help us connect with organisations that are looking for volunteers. The program gives employees the equivalent of one day's leave per year to volunteer as part of a workplace team. This builds on the time many of our employees are already giving to help charities, sporting groups, emergency services and events in our communities.

The other highlight in our community program this year was the sponsorship of the Queensland State Emergency Service (SES) Equipment Program. The SES consists of more than 6,000 unpaid volunteers who are trained and equipped to help their communities. By joining forces with Energex and Powerlink Queensland, we have been able to help SES groups across the state to buy vital equipment for use in the frontline of post-disaster or emergency response, from battery-operated lighting to specialist emergency stretchers.

This builds on our other partnerships, including Royal Flying Doctor Service (Queensland) (RFDS) donations program, which started 16 years ago.

Our customers and employees continued to give generously here, with donations, via our electricity bill, reaching $10 million in donations. This fantastic milestone was thanks to the 127,000 plus Queenslanders who give to this life-saving service. We also extended our partnership with the RFDS in 2016, supporting their inaugural Local Hero Awards, which recognised local community members who provide support to their nine bases located across Queensland.

At the grass roots level, our Community Fund continued to support our smaller local organisations. The fund continues to bring their ideas to life, with 170 applications received.

This year the projects supported included the purchase of equipment to create 'Tropical Energy Saving Toolkits' at the Townsville City Council Library which are loaned free of charge to Townsville residents and community organisations, providing resources to make informed decisions on saving energy in the home. Funding was also provided for Mundubbera State School to create a sustainable learning space in their library with the installation of energy efficient and motion detecting lighting. In that project, power usage was measured and students could access the school's solar net site to see improved efficiencies and usage trends. In addition, funding was also provided to upgrade the electrical system at the Hervey Bay Girl Guides for improved safety and reliability. In doing so, this also provided an opportunity to educate the Guides and created an awareness of the importance of electrical safety.

# Review of operations:
# Evolving the network

"We see that batteries could ultimately allow our customers to source their power needs more cost effectively, and at the same time help us avoid costly infrastructure investment "

Michelle Taylor
**Manager Technology Development**

**Ergon Energy, like other network providers, is operating in a period of rapid change – especially in the choices our customers are making in meeting their energy needs. In response, we are evolving the network to ensure it is best able to meet the needs of the future.**

**Here, we showcase how we are supporting the connection of renewables to the network and preparing for the mass market take-up of batteries and electric vehicles.**

**We also look in this section at the demand on the network, and how we are optimising the use of the network.**

Michelle Taylor is passionate about harnessing the new technologies emerging in the marketplace for the benefit of all. Here she is checking in with Alan Louis, Senior Engineer Distributed Energy, on our battery testing program – this one is a large unit designed to provide centralised, community-level energy storage from within our network.

# The changing use of the network

The way our customers are using the electricity network is undergoing unprecedented change. Just five years ago there were only around 20,000 solar energy systems connected to our network, and the average size was around 2.4kW. Today, around 118,000 are connected with an average size of 3.8kW.

The increase in the average size of the systems being installed is a result of both an increase in the size of the residential systems being purchased (this year averaging 4.5kW) and the increase in number of larger commercial and industrial size connections (an average size of 17.4kW). The size of the residential systems, in particular, means the majority are exporting electricity into the local grid during the day. This two-way flow of electricity is altering the nature, operation and planning of the network, and solar is seen as only the first technology in the industry's disruption.

To assist in our longer-term response to the change underway, we have continued our work with the CSIRO and others, through the Energy Networks Association, to develop a shared roadmap for the transformation of the electricity network. The partnership, and the future scenarios modelled, is helping guide us in transitioning the network to one that efficiently supports the new operational need.

Our Feeder of the Future Strategy is all about ensuring the distribution network, at the community level, can support better customer outcomes as the sector accommodates the rapid adoption of new technologies. It is about ensuring the network can operate increasingly as an open access platform for solar and other distributed energy resources. The strategy, advanced this year following detailed technical studies and analysis, articulates a set of principles to guide our asset management decisions.

## Investing today to support renewables

While the network is operating well in most instances with the two-way flow already being experienced, we continued to focus existing resources and target investment into areas of the network with high levels of solar penetration to manage voltage issues, and more broadly, security of supply.

This year, to minimise voltage issues on the network, we introduced mandatory reactive power control inverter settings for new solar connections.

In an Australian first we have also been successful in adapting the use of Statcom power electronics devices to form part of the solution. The innovative use of the technology, originally designed to manage reactive power on individual systems, has been proven in our trials to be a more cost-effective way to enable the uptake of residential solar energy. This will see the targeted use of these low voltage control devices across our network.

We have also progressed plans to trial a change in voltage from 240V to 230V in seven areas across the state. This alignment with international standards will allow more solar onto the network in the future.

## Battery technology is showing promise

We have continued to build our understanding of emerging battery technologies to determine how they could interact with our network in the future. We see energy storage systems as having the potential to substantially change how we collectively use, share, distribute and cost energy.

Coupled with smart energy management systems, batteries could give customers the flexibility to source their power needs more cost-effectively, and at the same time help us manage peak loads on the network. This will allow us to reduce our investment in costly infrastructure, and deliver savings for the community as a whole. Our modelling has also shown that batteries could be an invaluable tool to respond to solar-related voltage issues and to deliver network reliability benefits.

This year has seen us, in our laboratory facility in Cairns, further one of Australia's most comprehensive trials of residential battery energy storage systems (Resi-BESS). Eight different systems are now being trialled with the most recent additions being two Tesla Powerwall batteries and two LG systems.

We have also been testing some of these systems in a number of 'real world' trials. One of our 'Resi-BESS' trials moved into phase two this year, with the 10 households in Townsville helping us gain insights into how our tariff reforms could benefit our customers and our network. The trial has been using a range of different systems and sizes to look at how customers interact with the technology and the opportunities for the network.

Phase three is in development to continue our efforts to explore how we can interface with the smart technology, and engage customers, to create a more holistic power supply solution.

We have also been working with Standards Australia and other industry bodies to establish installation and connection standards for battery energy storage systems, and improve other related standards. While there are issues that need to be addressed, we anticipate that the capabilities in today's systems will be rapidly surpassed and prices will fall.

## A path forward for electric vehicles

We are actively providing leadership and planning for the Electric Vehicles (EVs) market to grow substantially in the coming years.

In a partnership with Mitsubishi, we brought eight plug-in hybrid electric vehicles into our operational fleet this year. We also offered lease arrangements to employees for the new plug-in hybrid electric vehicle (PHEV) Mitsubishi Outlander, the world's first plug-in hybrid SUV. This partnership was an important step forward in our goal to provide leadership in electric transportation.

To help customers understand the benefits we also launched a new Smarter Energy webpage to showcase the EVs now on the market and the associated charging costs by model.

To support the potential adoption of electric vehicles, we mapped our network for potential charging stations from Toowoomba to Cairns. This looked at what would be needed to create an electric car super highway. It identified around 100 potential sites with capacity to host 'fast chargers' with the aim of improving the utilisation of our existing assets. The sites were also selected based on EV driving range and the need to address the 'range anxiety' explored on our earlier EV trials.

Our focus on EVs is allowing us to talk with industry and all levels of government about the development of electric transportation as a real solution for regional Queensland.

During the year we joined Tesla Motors, AGL, TransGrid and others pushing for a 'path forward' to accelerate the take-up of electric cars in Australia. This saw a discussion paper, led by ClimateWorks Australia and co-signed by Ergon, submitted.

# Optimising the use of the network

Ergon Energy now has a greater capacity to drive value from the network. Our goal is to achieve a balance between having a safe, secure, reliable, and high quality electricity supply, and a service provided at minimal cost.

## Focus shifts from demand to energy flows

To increase our network utilisation, support the changing energy market and better manage a range of other network risks, we shifted our demand management planning focus this year increasingly towards managing energy and energy flows. This shift saw us dramatically reduce our demand management reduction target as we moved into the current regulatory control period, this year to 2.1MVA, with 2.3MVA achieved.

While demand is stable overall, there are still pockets of demand growth that we are targeting with new and existing network constraint programs. To assist our engagement on these programs we have developed our online advisory information, including a Network Capacity Incentive Map of our entire electricity network.

The timely integration of customer demand-side solutions into our overall approach is seen as a cost-effective way to respond to demand growth, and avoid costly expenditure in major electricity infrastructure.

To support this, during the year, we have further developed risk-based valuation techniques to 'price' future network risk much earlier in the risk cycle. The intention with this approach is to enable a lower-cost program with a longer-term outlook. We have also been developing cost-reflective tariffs (p13), which we expect to increasingly integrate into our approach to help us work with customers to respond to network risk.

The most significant on-the-ground initiative launched this year was the Cannonvale Incentive Program in Central Queensland. The program aims to offset forecast load growth by providing cashback incentives for residential and commercial customers to implement measures that reduce demand on the network over the peak summer demand period.


By way of example, the program has already helped customers such as the Whitsunday Christian College and a local AMCAL Pharmacy undertake major lighting retrofits, replacing old technology lighting with new high efficiency LED lighting. This is a win-win, reducing both demand on the network and their annual electricity bill by thousands of dollars. This initiative has also continued to build on the success of the Trade Ally Network.

This year's 2.3MVA demand reduction also came from the continuation of the Mackay EMPower program, in the high-growth area of South Mackay, as well as continued delivery of the Kingaroy program and the delivery of demand reduction in Alpha. Our program also includes an investment in maintaining the 41MVA in customer demand that we now have under contractual control.

In addition, we continue to benefit from the 700MW of demand we can control under our economy Tariffs 31 and 33. We have been piloting new ways to control these hot water and other controllable loads. The new dynamic operational approach is allowing us to better utilise the control capability, and only turn the supply off when we need to respond to peak in demand on the electricity network.

We are also developing our ability to predict zone substation load for the immediate week ahead, based on current demand and weather forecasts, rather than basing our response solely on historical demand.

Further information is available online in our Demand and Energy Management Plan.

## Using technology to better manage local demand

2015-16 saw the use of energy storage as part of a grid solution reach an important milestone with the installation of 17 of our Grid Utility Support Systems, known as GUSS, across our SWER network.

GUSS is one of the first economically viable applications of energy storage embedded within the main grid in Australia. The unit is effectively a medium scale 'battery', which stores power during off-peak times and puts it back on the network during times of peak demand. They house 56 Lithium-Ion type batteries, with the capacity to provide enough power for the average home for up to five days.

Ergon Energy's network has over 65,000 kilometres of limited capacity, limited redundancy SWER line technology. While the SWER technology was an ideal solution in the early years of the electrification of the state, today the way we use electricity in our modern lives is increasingly seeing these lines overloaded and constrained. Our investment in the GUSS units is addressing this issue, boosting the power supply to 12 of our worst performing SWER networks.

Our GUSS battery energy storage units, this one in Kinnoul, are both enhancing the local capacity of the network and managing voltage issues, for a lower cost than traditional network solutions

Around 700 customers across our vast rural networks are now benefitting from this – including those in the south around Kinnoul, Coolabri and Cotton Gin, in central Queensland around Lotus Creek, Mistake Creek and Middlemount, and in North Queensland around Dajarra.

The innovative modular design of GUSS, which are mounted on skids, facilitates relocation to other constrained parts of the network as required.

## Ensuring we are ready to respond to supply issues

To ensure we are delivering a high standard of electricity supply, we undertook a comprehensive review of the main elements of the network this year to fully understand the redundancy built into the network, and the performance risk. This information has allowed us to further review and develop our network plans.

Where necessary, contingency plans have been developed to ensure we are best placed in the event of an incident to manage the asset under our new risk-based planning approach called Safety Net. This new approach is all about driving value from our investment in the network. It has led this year to a further investment in our mobile supply solutions, including additional Pegasus high-voltage injection units that work in conjunction with generation equipment, to provide the 'safety net' when network repairs could take an extended time period.

## Building our capability with smart technologies

Technology is at the heart of the improvements we are making in our network and asset management capability.

### Network automation and remote control

Evolving a smarter network, with greater use of remote monitoring and control, and ultimately automation, is allowing us to operate the network in a more efficient and dynamic way.

This journey began with upgrades to our monitoring control and automation capability, as well as a significant investment in our own all-encompassing core telecommunications network, which links our smarts in the field with our Control Centres.

This year we made further progress with our ability to monitor capacity in real time. Measuring actual conditions using real time data, from field devices and weather stations, gives us greater flexibility in our load management response, which can be critical when responding to asset failure.

Machine-to-machine technologies are also now advancing reliability standards for those in the most remote parts of the state, many of who are several hours drive from our closest depot. In addition to the standard of supply, the use of this remote monitoring and control capability has also improved safety and delivered cost efficiencies.
The capability is allowing us to remotely detect, isolate and then respond to issues on the network with a flow on effect of reducing the number of crews required for planned switching events.

### Using data to help drive better decisions

To drive better asset management decisions our focus on improving our data management capability has continued.

During the year our aging network modelling tool was replaced with the PowerFactory software solution, enabling the business to better embrace technologies like battery storage and renewables. This has given our planners an advanced ability in a single package to see potential impacts across the entire network, with the aid of visual tools. The solution integrates key sources of network data and is being supported by progressive improvement to data quality.

We have also overhauled our current state assessment tool and created more user-friendly 'dashboards' to help planners see with near-live updates what is happening across the network.

Deciding when to carry out preventative maintenance on the network is also now better supported by data with an investment in a Condition Monitoring System. The system brings together the volumes of data that we capture into the one system for the first time, putting us in the best position to make decisions that gain the maximum value out of the various maintenance tasks and to improve our forward works planning.

This work is being complemented by the progress achieved in our Enterprise Business Intelligence program.
This program is all about improving the way the business uses data, more broadly, to enable better decisions, informed by hard data.

### Better planning through spatial maps

We have continued this year to expand our Geospatial Information System (GIS) capability to improve management of the network.

This saw us upgrade to the latest Smallworld EO Platform. The upgrade provides improved network design capabilities allowing modelling of emerging technologies and is integrated through design processes, logistics and mobility.

We are introducing a geospatial analytics tool with the implementation of Esri's ArcGIS. This is already providing sophisticated displays of accurate and timely asset information on spatial maps and helping key personnel identify emerging patterns and trends to changing conditions. Most significantly, the technology will allow a faster response to disaster events, as trialled during Cyclone Marcia, with real-time integrated decision-making tools and analysis. The Esri platform will work alongside our Smallworld GIS to provide visualisation and analysis to mobile users.

The expansion of our GIS capability is also continuing to be supported by the remote asset management technology, Roames. The technology solution maintains a precise, high-resolution earth simulation that includes models of our network and the surrounding environment, created using geospatial data captured by airborne sensors, without the need to deploy field crews. Developed by Ergon Energy, then sold to Fugro to support its commercialisation, Roames was recognised again this year through the Queensland Spatial Excellence Awards. As well as facilitating more cost-effective vegetation management, the technology has been used to develop a major refurbishment program to rectify situations where our powerline conductors are not a safe distance away from the ground.

**While we are finding more innovative, non network alternatives to meet our customers' supply needs, we are continuing to invest in critical infrastructure This year we completed the Marian South substation near Mackay The $14 million substation will support the growth of the sugar industry into the future**

# OUR NETWORK SCORECARD

## Energy delivered and demand met

In 2015-16 the electricity distributed through our main grid and our isolated networks decreased to 14,997GWh. The largest fall in demand was in our non-regulated network that supplies the Carpentaria Mineral Province.

Electricity used by the average household across regional Queensland fell this year with the take up of more energy efficient appliances and behaviours. This was balanced, however, by growth in customer numbers of 1.5%.

As expected, in line with our own forecasts and those of the Australian Energy Market Operator, the year also saw only low level overall demand growth. The system-wide coincident peak recorded at the substation level was up on last year at 2,481MW, on Thursday, 18 February 2016, in line with our previous highs of 2007 and 2010.

While recorded at 7.30pm in the evening, the actual peak in consumption would have occurred mid-afternoon; however, on that day solar energy generation was potentially meeting 8.5% of that demand locally.

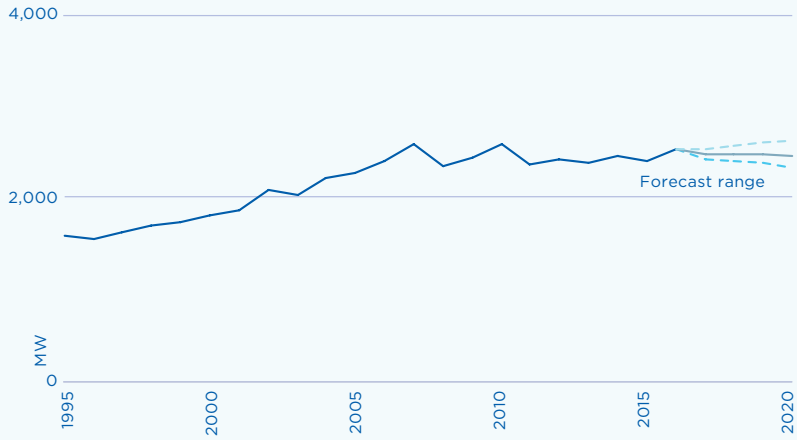
With the global and domestic economy remaining subdued, we are continuing to forecast that energy consumption and overall demand will remain steady. However, some areas are continuing to see localised growth. With investment in the resource industry down, and the LNG industry moving from project construction to production, this growth is being driven from outside the mining sector, from industries like tourism, and from residential housing investment.

## Works program successfully transitioned

2015-16 saw us scale-back our capital works program in line with the five-year investment plans we put to the AER as part of our Regulatory Proposal, and as a result of further softening of demand for customer requested works. It is important to note that our investment in critical safety investments and refurbishment of asset failures and defects remained at similar levels to the previous year.

As part of this transition, we undertook a fresh review of our investment plans to lock in a comprehensive two-year works plan aimed at enabling greater efficiencies through the continued integration of asset planning and works delivery objectives.

### TREND IN SYSTEM-WIDE PEAK DEMAND




**This year s coincident system wide peak of 2,481MW showed demand overall remaining steady With regional Queensland continuing to face national and economic challenges, post the boom in resource investment, we are forecasting the continuation of low level growth**

## OUR ELECTRICITY STATISTICS

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | TREND | 2015-16 |
|---|---|---|---|---|---|---|
| No of Connections Supplied | 700,989 | 712,634 | 724,264 | 733,261 | ↑ | **740,881** |
| Average Annual Electricity Use per Household | 7,166kWh | 6,811kWh | 6,396kWh | 6,474kWh | ↓ | **5,941kWh** |
| Maximum Coincident Peak Demand | 2,417MW | 2,380MW | 2,441MW | 2,382MW | ↑ | **2,481MW** |
| Electricity Distributed | 15,212GWh | 15,097GWh | 15,247GWh | 15,140GWh | ↓ | **14,997GWh** |
| Electricity Generated by Ergon Energy | 118GWh | 114GWh | 111GWh | 108GWh | ↓ | **118GWh** |

## OUR NETWORK STATISTICS

| | UNITS |
|---|---|
| Power Stations (grid connected & isolated) | 34 |
| Bulk Supply Points | 30 |
| Zone Substations | 323 |
| Major Power Transformers (33kV to 132kV) | 601 |
| Distribution Transformers | 110,000 |
| Power Poles | 1 million |
| **Overhead Powerline** | |
| - Sub-transmission | 15,400km |
| - High Voltage Distribution | 118,600km |
| - Low Voltage: Distribution[1] | 20-25,000km |
| Underground Power Cable | 9,200km |

1 Estimate of length only.

**FOR FURTHER DETAILS ON OUR REGULATED ASSETS, AS WELL AS OUR ASSET MANAGEMENT POLICIES, STRATEGIES AND SPECIFIC INITIATIVES REFER TO ERGON ENERGY'S DISTRIBUTION ANNUAL PLANNING REPORT, AVAILABLE ONLINE**

We are now further refining our longer-term plans in line with the AER's final determination to best inform our resourcing and procurement strategies.

The change to our investment portfolio, including both system and non-system investment, saw the level of capital investment reduced this year to $774 million (down from $983 million in 2014-15).

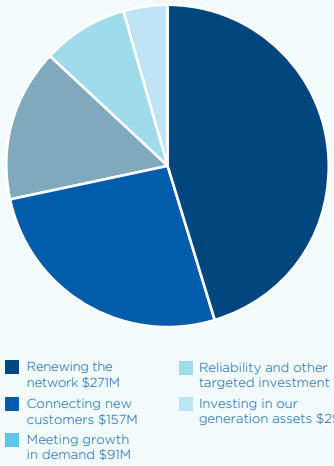
The regulated capital expenditure associated with the distribution system (Standard Control Services) was reduced to $414 million, compared to $595 million in the previous year. This was mainly due to reductions in aged asset replacements, augmentation, reliability, and telecommunications works. Despite this however, this year we completed a number of major infrastructure works. The highlights included the completion of:

- $86 million Toowoomba Central substation project. The project, which will support the city's growth for decades to come, included a new, fully-enclosed substation as part of the new Grand Central Shopping Centre, an upgrade of the South Toowoomba substation and a high reliability powerline connecting the two substations.
- Stage 2 of the $39 million East Warwick substation rebuild program. Ensuring a reliable supply to the Warwick community, the project saw the installation of two new control buildings and transformers at the site.
- $22 million upgrade of the Gladstone South substation. One of two primary points of supply for the Central Queensland community, the project included the installation of two control buildings and transformers and 11kV switchboard.
- $14 million Marian South substation project. The project will bolster energy supply in the Mackay region and support the growth underway in the local sugar industry.
- $10 million upgrade to the Biloela substation. The project includes the installation of a new transformer and replacement of the load control equipment to improve reliability of supply to the area, particularly in times of peak demand.
- three major projects associated with our Atherton substation. This $6 million investment included upgrades to the transformers, replacement of aged equipment and the installation of protection software to reduce the risks associated with fallen powerlines.
- $10 million in works associated with Duchess Road substation in Mount Isa, with the installation of a new 132kV feeder bay, to accommodate change of supply arrangements.

To respond to customer initiated requests for network connections or upgrades we invested $157 million. This was down slightly from the $162 million in 2014-15, reflecting the current levels of economic activity, especially in the mining sector.

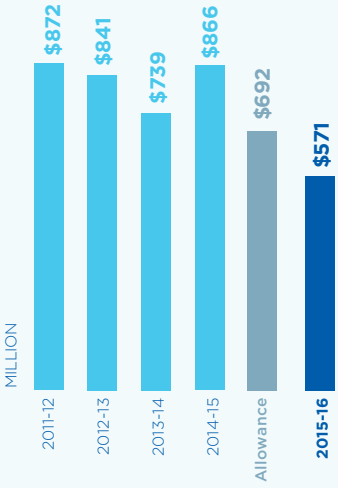
A $25 million investment was also made in our stand-alone isolated networks where we have significant generation assets. This included the replacement of numerous generation units and progress on a new power station for Palm Island in North Queensland.

## INVESTMENT IN THE NETWORK



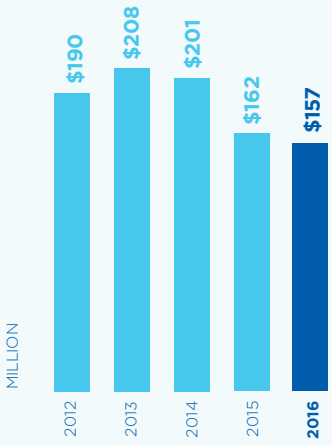

**Network renewal remained our main area of investment – the level of safety and refurbishment (incl defect remediation) investment has been maintained here, although there has been a reduction in aged asset replacement Our next biggest investment area is customer connections, which has fallen this year We are also keeping our investment down in meeting growth in demand (p24) and reliability improvement (p16) Investment in generation increased with the commencement of a new power station on Palm Island**

## CAPITAL PROGRAM UNDER REGULATORY ALLOWANCE




**The scaling back of the capital expenditure plan is being supported by the new planning criteria, greater efficiencies in our delivery and demand remaining steady overall It also reflects the fall in customer connections This graph shows the 2015 16 investment for our Standard Control Service (SCS), compared to both the AER s allowance in its final determination and to previous years**

## CUSTOMER REQUESTS FOR NEW CONNECTIONS BELOW EXPECTATIONS




**While we were anticipating the rate of new connections and upgrades to remain relatively stable for the coming years, there has been a reduction, most notably in any major investment in the mining sector We are, however, seeing a jump in demand for the connection of major renewable energy projects This graph includes SCS and Alternative Control Services**

# Review of operations:
# Our people, our future

"I'm working collaboratively within a range of regular consultative groups throughout the business I am also directly involved in the merger discussions there's currently a genuine level of inclusion and a lot of good things happening "

Ken Feltham
**Regional Program Coordinator**

**To us 'high-performance' is about embracing the changes taking place in our operating environment. It is about delivering for our customers today, as efficiently and effectively as possible across our vast region, and ensuring we are 'future ready'.**

**In this section we focus on our priority on work safety performance. And highlight our ongoing efforts to develop a culture of empowerment and how we are investing in the capability of our people.**

**We also cover how we are driving our cost base down, and detail our environmental performance.**

Ken Feltham, as a Union Delegate is committed to advocating for other employees. He is fuelled by his passion for ensuring a fair, safe and supportive workplace for all. Here, he is talking to colleague John Fowler in our Townsville office.

# Work safety an absolute priority

Ergon Energy is committed to ensuring the health and safety of our people. Our aim is to be 'Always Safe' and to stand with the best in our industry.

We know more work is needed to create the right safety culture, and that we need to maintain our focus on our key risk areas to ensure our people go home without injury each day. In these times of change we are also being proactive about health and wellbeing.

## Safety culture supports safe behaviours

To continue to evolve our safety culture and drive the right behaviours, we continued the roll out of our Safety Citizen program, first introduced to our leaders and field based employees in 2014-15. This saw us further embed the program in the field, with the training of nominated field staff as Safety Citizen Coaches, new toolkits and with webinars, and the expansion of the program to corporate employees.

The corporate Safety Citizens program specifically focuses on the risks involved in working in an office environment (such as stress, manual tasks, prolonged repetitive work and the risks associated with driving). The roll out of the corporate program will continue over the coming months to positively challenge people to shift their safety focus (or mind-set) to the next level.

We believe this program is part of the solution to a safer workplace and safer communities.

The success of this program, and other safety initiatives, has seen a significant improvement in our safety leadership capabilities, measured through an independent safety impact study. The study, which included an onsite safety evaluation and a safety climate survey, saw a 68% improvement in leaders' ability to have effective safety interactions and an 18% improvement in the workgroup safety climate – including a 12% improvement in the willingness to report incidents and errors.

Proudly one of the initiatives that has had a positive impact across the business was developed by one of our own Work Group Leaders, Andrew Bowe. Andrew's 'safety as defence' concept uses a rugby league analogy to explain how if a team has a defensive mind set instead of just focusing on their attack they'll get the job done without safety suffering.

Our annual Field Safety Day Championships continued this year, with crews from Clermont, Home Hill, Gladstone and Rockhampton meeting in Townsville to test their technical and safety skills against the best of the best. The selection of workgroups is based on the Comprehensive Safety Indicator (p30) results and the team's leadership and focus on safety performance. The competition allows teams to come together, learn, grow and achieve, as well as recognise and showcase their skills.

**"Ergon Energy continues to have a strong focus on supporting employee health, wellbeing and fitness for work"**

We continued to meet the Health Safety and Environment Management System requirements to operate as an electrical entity in accordance with Electrical Safety Office regulatory requirements, and we received external recertification against International and National Standards for Environment, Occupation Health and Safety including ISO 14001, AS/NZS 4801 and OHSAS 18001.

## Managing fatigue remains a priority

Each year, Ergon Energy employees drive upwards of 32 million kilometres. It is a high risk business, considering that in Australia road traffic injury is the leading cause of work-related death. This makes managing fatigue a critical issue for Ergon Energy.

This year we worked with Energex to align our fatigue management frameworks, gaining the support of the National Heavy Vehicle Regulator for our approach during emergency response. In line with our best-practice fatigue management framework, our employees driving heavy vehicles have some flexibility to work in excess of the standard fatigue work and rest hours in emergency situations.

We also started planning to pilot an In-Vehicle Management System. The system supports driver safety to enable better on-road driving decisions. Studies into the technology used at other organisations have revealed a significant reduction in accidents, better driving performance and more efficient utilisation of fleet resources.

## Supporting employee health and wellbeing

Ergon Energy continues to have a strong focus on supporting employee health, wellbeing and fitness for work – this year achieving Gold Recognition from the Queensland Government's Healthier. Happier. Workplaces initiative (up from silver last year).

During the year we established a mental health and wellbeing taskforce to ensure we have a best-practice approach to providing a mentally healthy workplace. This saw sessions underway across the state, facilitated by a professional psychologist, to provide tools and strategies for use at home and work to recognise when someone is struggling, and to help people manage change and personal stress.

Another highlight of the year was the launch of our Fitness Passport program. Developed from employee feedback, the program gives participants an affordable option to use a range of gyms and pools without having to be a member at each location. The program is offered for a low single or family weekly fee. More than 300 employees have already signed up.

Other ongoing initiatives include the 10,000 steps program, where more than 300 employees are focused on increasing incidental activity during the day. More than 1,700 employees also participated in the free influenza vaccination program. And, since it commenced in 2014, 109 employees have now participated in the Health Matters Quit Smoking program.

Drug and alcohol testing continues to be a key initiative to ensure employees are 'fit for work'.

Our Employee Assistance Program also continued to provide employees and their families with free confidential counselling service for work and personal concerns.

## Leading industry with asbestos best practice

Ergon Energy continued its focus to become an asbestos-free workplace by 2027 with recognition of our 'best practice' standards at the second International Asbestos Management and Awareness Conference held in November 2015.

Our asbestos management practices were also showcased during the conference. The two case studies, 'a systematic approach to managing asbestos' and 'putting safety into practice', provided an insight into the

work that had occurred to manage and eradicate asbestos containing materials from our workplaces.

This year the focus was also on inspecting over 11,500 pits across our underground network for the presence of asbestos, with a small number of pits identified as containing the material.

These sites have now been labelled and a program of work is now being developed to address them.

The safety of our people, contractors and the public is a priority and we continue to work with Workplace Health and Safety Queensland, the Asbestos Safety and Eradication Agency (ASEA), regulators and unions to eradicate the asbestos hazard from our workplace. We also sit on the Senior Steering Committee and Technical Advisory Group for the ASEA as the Energy Network Association's representative, and are part of the Leadership Team for the Asbestos Industry Association Queensland.

# OUR WORK SAFETY SCORECARD

## Striving to be an industry top performer

In 2015-16 there was an increase in the Lost Time Injury Frequency Rate (LTIFR) – Employees, from 1.9 in 2014-15 to 2.3. There was also an increase in the Total Recordable Injury Frequency Rate (TRIFR) – Employees from 5.0 last year to 6.5 (new name for the All Injury Frequency Rate (AIFR) – Employees used in previous years in line with new standard industry reporting).

These results reflect the level of change currently occurring. The overall figures also include a significant injury that occurred during the year.

We have continued to strive to be an industry top performer with a range of safety and employee engagement programs (p29). In addition, a review of the injuries that were occurring and the contributing factors was completed to identify specific opportunities for improvement. It found that an increased focus on the psychosocial factors could support our safety goals. Our focus is now on these areas, as well as the physical hazards.

On the positive, we almost halved both the level of Dangerous Electrical Events Frequency Rate (DEEFR) – Employees (from 3.5 in 2014-15 to 1.9) and the LTIFR – Contractors (from 3.2 in 2014-15 to 1.8). The latter was supported by the achievement of zero lost time injuries across a half-million hours of work by our contractor UGL Limited who support the delivery of our works program.

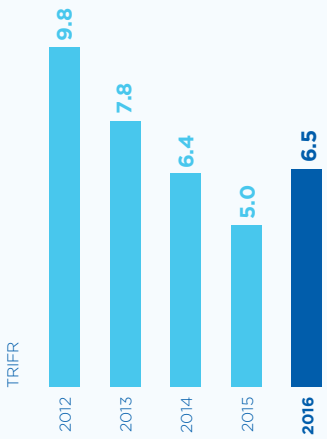
Another safety highlight for the year was the achievement of our Banyo workshop's two year's free from lost time injuries and medical treatment injuries.

## OUR WORK HEALTH AND SAFETY STATISTICS

| | | 2011-12 | 2012-13 | 2013-14 | 2014-15 | TREND | 2015-16 |
|---|---|---|---|---|---|---|---|
| Lost Time Injuries Frequency Rate – Employees | Target ≤2.1 | 2.6 | 2.6 | 1.4 | 1.9 | ↑ | **2.3** |
| Total Recordable Injuries Frequency Rate[1] | Target ≤6.7 | 9.8 | 7.8 | 6.4 | 5.0 | ↑ | **6.5** |
| Lost Time Injuries Frequency Rate – Contractors | Target ≤2.7 | 1.8 | 2.2 | 3.2 | 3.2 | ↓ | **1.8** |
| Total Dangerous Electrical Events (DEEs) | | 1,050 | 956 | 1,116 | 1,152 | ↓ | **1,094** |
| – Unassisted Asset Failure (within Ergon Energy's control) | | 359 | 323 | 423 | 367 | ↑ | **395** |
| – Assisted Asset Failure (outside Ergon Energy's control) | | 691 | 633 | 693 | 785 | ↓ | **741** |
| Dangerous Electrical Events Frequency Rate – Employees | Target ≤2.5 | 2.5 | 4.4 | 3.1 | 3.5 | ↓ | **1.9** |

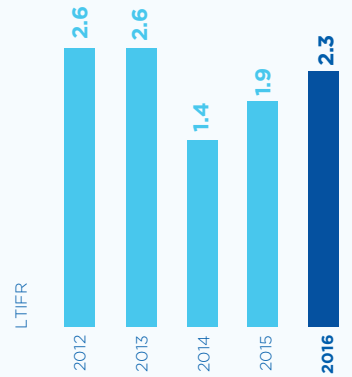
[1] From 2015-16 in line with industry standards, the All Injuries Frequency Rate – Employees is now reported as the Total Recordable Injuries Frequency Rate.

### TOTAL INJURIES FREQUENCY RATE




**The frequency of workplace injuries has increased this year Supporting our people through the current period of organisational and industry change, and our safety leadership programs are seen as key to maintaining a safe place to work**

### LOST INJURIES FREQUENCY RATE




**The organisation s Lost Time Injuries Frequency Rate reflect the level of change occurring throughout the business They also include an increase in the injury severity rate following a significant injury to an employee during the year**

Ergon Energy incorporates the TRIFR, along with other lag and lead indicators, into a Comprehensive Safety Indicator to give our people at the work-group level a meaningful score of how they are performing from a holistic safety perspective. Our overall performance is stable at the silver benchmark, with 549 total points allocated against a range of areas, out of a possible 600.

Severe storm events were again the largest contributor to the Dangerous Electrical Events (DEEs) – Assisted Asset Failures. They also accounted for 40% of all DEEs occurring across our service area.

**FURTHER INFORMATION ON COMMUNITY SAFETY IS AVAILABLE ON PAGE 19**

# Embracing change – being future ready

Over last 12 months we have been working hard to ensure that we are responsive, as an organisation, to our customers' changing needs and expectations, and that our people are future ready.

This has seen a major focus on employee engagement, on ensuring diversity of thought in the workplace, and on building the capability of our people to perform to a high standard.

## Engaging our people in the journey

In our employee survey undertaken in June 2016 we saw a very pleasing 26% improvement in the levels of employee engagement across the organisation. The achievement of an overall whole-of-business score of 57% engaged, although just below our ambitious target of 60%, means we have exceeded the 2016 energy sector industry norm and compare favourably with the norm across the other industries in Australia and New Zealand who participate in the same benchmarking conducted by the external provider.

This has been supported by a concerted effort by our Chief Executive and our senior leaders to ensure our people are engaged through the change journey underway. This has included getting out and about and personally connecting with our people across the organisation to provide direction and clarity on the organisational changes progressing and what we need to do, together, to achieve success in the future.

The YourView survey feedback will now look to inform our future people initiatives as we progress with the organisational changes associated with the merger. Our focus is supported by studies showing high engagement supports better customer and business outcomes.

To complement our existing support for employees, we engaged a leading career transition advisor, Lee Hecht Harrison, to deliver tailored support sessions for employees, providing tools and information on career planning, resume development and interview skills. The focus here was on how our people need to operate to ensure success.

These, and other initiatives, have been particularly important to the success of the voluntary retrenchment program (p33), which aimed to balance our need to reduce our overheads while maintaining our capacity to deliver for our customers. This process has relied on our people openly exploring how to best maintain effectiveness while delivering the savings required.

A high level of employee engagement was also vital in our preparations for the move to our new customer information systems – and key to our readiness confidence to 'go live'. The potential ramifications of a breakdown at any point in the transition to the new systems could have been significant, so it was vital issues were exposed and resolved prior to the system changeover. p11

Our focus in creating a high-performing culture is about providing employees with clear expectations of performance outcomes and behaviours, and enabling the ability to deliver on these.

### Building constructive workplace relations

We have also worked to build constructive industry union engagement. There has been a strong focus on collaboration, and on exploring new ways to engage. This saw a joint Independent Review Panel established to review the Voluntary Retrenchment and Early Retirement Scheme applications received as part of our efficiency drive, to partner with the business in ensuring business critical roles were not lost and that the process was equitable and transparent.

An Industrial Relations Consultative Group has also been established to support the merger, and to identify the people principles now applying to the major changes underway. The wages and conditions for the majority of employees are covered by Ergon Energy's Unions Collective Agreement 2015. This agreement will continue to apply under the merged structure.

## Valuing diversity and inclusion

The increased focus on diversity and inclusion this year has been about creating a culture in which difference is accepted and encouraged. This will see us with a workforce that is innovative, diverse in thought and better reflective of our customers.

Our leaders have been engaged in a wide range of initiatives designed to enhance diversity and inclusion outcomes. More than 400 of our leaders have now participated in the unconscious bias awareness training. Developed in-house, the training provides an understanding of how unconscious or hidden beliefs or attitudes can unintentionally impact decision making and contribute to patterns of behaviour that can impact diversity and inclusion.

To support women in the workplace, we also rolled out a number of targeted initiatives. As part of Queensland Women's Week, local panel discussions were held around the state to discuss the importance of building supportive networks, having the self-confidence to have a go, and the different approaches to achieving flexible working conditions. We also piloted a program based on the book Lean In: Women, Work and the Will to Lead. This saw 45 women come together regularly to discuss their personal and professional path to achieving their goals, while addressing work-life balance.

A record 17 females and nine Indigenous candidates, from a total of 85, were successful in securing an apprenticeship with Ergon Energy in 2016

Our effort to raise awareness of domestic and family violence continued with an increase in domestic and family violence leave provisions along with flexible work arrangements to help protect employees and their families. White Ribbon Day was highlighted through events held around the state and employees spoke out in a video saying NO to domestic and family violence. These activities were also complemented through our volunteer Sexual Harassment and Anti-Discrimination Officers network and changes to our policies. These changes have resulted in Ergon Energy being acknowledged as achieving a green seven star rating from the Services Union.

This year we had a record number of women in our apprentice intake. Of the 85 new recruits, 17 were female. We now have a total of 36 female apprentices working towards trade qualifications.

We are also continuing to support indigenous employment, with an increase in the number of Aboriginal and Torres Strait Islander (A&TSI) recruits in our apprenticeship intake this year.

This has been supported by a unique three week training program, an 'Introduction to the Electricity Supply Industry'. We targeted female and Indigenous applicants who had not secured an apprenticeship in last year's intake largely because they didn't have exposure to trade related skills. The accredited training is transferable to other trade and construction sectors, expanding the employment opportunities and apprenticeship competitiveness for participants.

## Investing in our people

In addition to our engagement and cultural efforts, our People Strategy is also driving investment in building our leadership capability and growing our talent pool, as well as focusing on better performance management.

### Building our leaders

We know our leaders' ability to engage and lead employees in changing environments is vital.

This year we have continued to embed the leadership capabilities and behaviours into the performance and talent framework, setting and measuring the expected outcomes of high performing leaders. The Senior Leader engagement forums continued to provide opportunities to align and focus our leaders on the strategic priorities of the business. Visible leadership and clear communication was a key expectation of all managers to drive the business and customer outcomes required whilst also engaging with our people.

This year has also seen a continuation of our leadership development to support leaders to inspire and lead teams through complex environments, enhance their performance and that of their teams, and connect with their employees.

We have continued with the successful Field Leadership Series provided by the Australian Institute of Management, which provides diploma level qualifications to current and upcoming work group leaders. Since the start of the series, 305 current and potential leaders have participated in the workshops and training.

### Growing our organisational talent

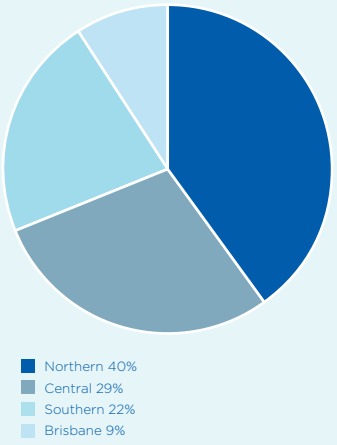
Our talent and succession strategy is about identifying and developing the current talent within the business to build a strong leadership pipeline for the future.

By providing employees with targeted development opportunities, including the opportunity to act in different roles or participate in the merger project and

### OUR PEOPLE STATISTICS

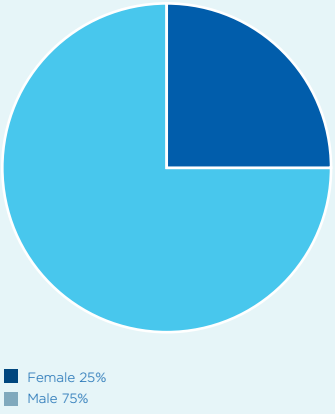
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | TREND | 2015-16 |
|---|---|---|---|---|---|---|
| Number of Employees | 5,060 | 4,614 | 4,415 | 4,447 | ↓ | 4,137 |
| Full Time Equivalent | 4,869 | 4,435 | 4,308 | 4,349 | ↓ | 4,053 |
| Staff Turnover (annualised) | 8.1% | 14.3% | 8.9% | 7.6% | ↑ | 11.2% |
| Women in the Workforce | 1,337 | 1,204 | 1,126 | 1,163 | ↓ | 1,050 |
| Women in Senior Management | 17% | 16% | 16% | 20% | ↓ | 19% |
| Women in Middle Management | 21% | 21% | 22% | 27% | – | 27% |
| A&TSI in Entry Level Positions | 67 | 58 | 58 | 55 | – | 55 |

### OUR WORKFORCE BY REGION



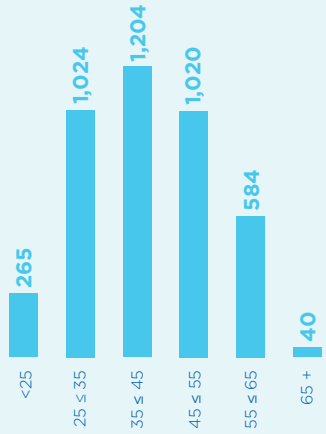

Our workforce of 4,137 (Full Time Equivalent 4,053) is based across Queensland, from the northern and western reaches, to the population centres along the coast, and in the south east

### OUR WORKFORCE BY GENDER




Being predominantly field based, in a male dominated industry, around three quarters of the workforce is male

### OUR WORKFORCE BY AGE




The age profile of our workforce has remained largely stable during the year, with the most notable change occurring at both ends of the age spectrum with the recent voluntary redundancy scheme

other initiatives, they have been able to build their skills and our talent base. Through this, our employees become more engaged and resilient. Employee capability and skill is built largely through experiential learning, as the most effective form of development, complemented by formal training where required.

Our 11 current graduates are also considered an important talent pool for the future. As an organisation, we ranked second best this year in the list of Australia's 75 top graduate employers. The rankings list is created from a survey of over 1,900 graduates, conducted by the Australian Association of Graduate Employers – the peak body for the graduate recruitment and development market.

Two of our emerging engineering leaders best demonstrate the rising talent within our business. Our General Manager Network Development, Blake Harvey and Principal Engineer Technology Innovation, Dr David Ingram were awarded Fellowships this year from Engineers Australia – recognition from the peak industry association of their leadership and contribution to the profession. Blake is one of the youngest ever to receive this high honour and comes after he recently served as the Queensland President of Engineers Australia.

Another engineer, Technology Innovation Engineer, Stephen Sproul, received the prestigious E.S Cornwall Memorial Scholarship this year. It presents a once-in-a-lifetime career opportunity to work for electricity industry leaders in Europe and the United States and learn all aspects of smart grids and how they could translate to our network in regional Queensland.

### Training and development

We continued to utilise our established performance management framework to define and set clear performance expectations for our people.

The framework includes the setting of performance and development plans on an annual basis, with mid-year reviews to ensure performance is on track. The development plans are discussed between leaders and employees to identify development opportunities specific to the employee and their role – including formal training, project and leadership opportunities.

As a registered training organisation, we continued to deliver a diverse range of technical and non-technical training. In total there were over 150,000 hours of training delivered, over 16,000 units of competency achieved and 52 formal qualifications issued.

As well as formal training, this year we promoted self-learning opportunities through our online learning portal and extensive course database. The portal offers online courses on a range of topics, from Microsoft Word and Excel, through to marketing and sales, project management, time management or becoming a manager to name a few.

We also continued to invest in our graduate and apprentice programs, already discussed, and in traineeships. These programs ensure that the relevant skills, experience and business knowledge are built through targeted rotations within the business, including field placements, relevant technical training and ongoing internal mentoring.

Our apprentice program, which places new recruits in 40 locations across the state from Thursday Island to Charleville, provides career pathways to become a systems electrician, communication technician, fitter and turner, boilermaker, linesperson or sheet-metal worker.

The talent of our apprentices was recognised this year with Mackay based Systems Electrician apprentice Stewart Dorante named as the Tec-NQ Mackay Electrical Apprentice of the Year and Home Hill based Electrical Fitter Mechanic apprentice Alex Romeo nominated for the Tec-NQ Townsville Electrical Apprentice of the Year.

## Placing a priority on efficiency

From an organisational change perspective, this year's priority has been on securing a more sustainable cost base, in line with our works program and revenue forecasts (p37), and the preparations for our merger with Energex and SPARQ Solutions.

One of the levers used to achieve the efficiencies included targeted voluntary workforce reductions. This has been supported by a review of our executive (p40), senior leadership and contract positions. Then, in May 2016, the launch of a voluntary retrenchment program for our corporate support areas, targeted operational areas of the network business and targeted areas in the retail business. While this program is continuing, it has already seen significant employee and organisational change. The promotion of flexible working options has also been used to achieve cost reductions while at the same time supporting our people to achieve a better work and life balance.

In addition, efficiencies are being achieved in specific operating activities, such as vegetation management, and through a reduction in field-based contractor hours. We are also working with Energex to deliver greater efficiencies in the procurement area.

These programs have collectively achieved more than $30 million in savings across our cost base. These measures and the achievement of further savings are essential to reducing our operating costs in line with the AER's final determination over the five years to 2020.

Our efficiency journey also continued to be supported by our ongoing investment in technology. Having information at our fingertips, through advances in information and communications technologies, is seen as critical to our ability to respond to the changes taking place in our operating environment and to continuing our efforts to deliver more effectively for our customers.

A highlight has been our Field Force Automation (FFA) project, which was named 'Best in Cost Savings' at the Field Services Management Excellence Awards Summit in Sydney in March.

**Electricity System Designer Luke Leighton uses the FieldSmart mapping to identify and view assets in the field**

With bottom line benefits in excess of $50 million, phase two of the project is now expanding workforce automation to planned line works, to support asset designers in the field, and rolling out FieldSmart mapping software to provide our customer delivery and lines crews with a geospatial view of assets and work order locations. The software allows users to view, find, edit and update data while in the field, and link sketches and photos, with flow on data quality improvements. Once phase two is fully implemented, by early 2017, around 900 of the mobile 'toughpads' will be in use in the field.

Other advances in smart technology were discussed on page 25.

We are also continuing to seek greater efficiencies through our property strategy. During the year the redevelopment of our facilities in Glenmore Road, Rockhampton was completed. This has reduced our operational sites in Rockhampton from six properties to three, and delivered a better disaster response capability, improved fleet management and logistics, as well as improved traffic safety. As part of this strategy, we have continued the redevelopment of our facilities in Garbutt, Townsville, with stage one completed in November 2015 and design well underway for stage two. This investment furthers the consolidation of our people in the Townsville area.

# Protecting the environment

Ergon Energy has a corporate responsibility to demonstrate leadership in protecting the environment and conserving resources. To us, a high standard of environmental performance is an important element of being a high-performing organisation.

This year, we were recognised as Business Innovator of the Year at the 2015 Climate Alliance Business Leadership Awards in Melbourne for our strategy and leadership in the response to climate change. This follows the inclusion of an objective to create an open access platform for renewable and distributed energy in our Strategic Plan since 2007-08.

The strategy included efforts to enable an effective market for renewable energy and other distributed energy resources, meet best-practice environmental management standards and to leverage business imperatives and investment in smart technologies to enhance the collective climate change response.

Looking forward, we are expanding our credentials and contribution to community and government objectives by encouraging and enabling the efficient connection of large scale renewable projects to our network. p14

We have also worked to increase the profile of environment and cultural heritage by leveraging off our internal branding Always Safe. This saw us introduce Always Sustain, with the message to minimise our footprint and consider our environmental impacts, and Always Respect to express the importance of showing respect for our cultural heritage and remembering our past, for the benefit of our future.

## Conserving energy and mitigating emissions

### Looking to the market for renewable energy partnerships

This year we expanded our commitment to source renewable energy for our customers with Ergon Energy Retail releasing an expression of interest (EOI) in August 2015 for a further 150MW of renewable energy.

Our goal was to develop new renewable energy projects with companies who could demonstrate their projects would contribute significantly to helping us meet our renewable energy requirements under the Federal Government's Renewable Energy Target (RET).

Following strong interest, an agreement was put in place with the Mount Emerald Wind Farm in Far North Queensland. This one agreement, which will run for the next twelve-and-a-half years, was above our original target, providing 170MW of 'wind' energy, enough to power a city the size of Mackay.

We are already the largest purchaser of renewable energy in Queensland through agreements with our sugar mills who generate electricity from bagasse a by-product of sugar refining, the PPA with the 5MW solar farm in Normanton, and other agreements. The Mount Emerald Wind Farm will add to this. p14

The project was chosen from the 51 projects (more than 2,000MW of capacity) put forward by 22 proponents. We are still in discussions with other proponents to explore how else we can best support further development of renewable energy generation into the grid.

### Reducing our reliance on diesel

We are continuing to increase our capacity to generate electricity using renewable energy in our remote isolated communities, to reduce our reliance on diesel. We remain committed to our aim of reducing our reliance on diesel to zero by 2050, through energy conservation, increased renewable generation and energy efficiency activities.

Our 264kW solar farm in remote Doomadgee in north-west Queensland has now been in operation for over two-and-a-half years, and since starting full production in October 2013 it has exported 1,215MWh of electricity. This performance is 9.4% better than was expected for the system and has equated to more than 303,000 litres of diesel saved since it started production. We are continuing to look for ways to expand on this success.

The solar farm powers the equivalent of 30 homes, or around 8% of the town's total energy needs. In addition to saving diesel fuel, the farm also assists with reliability of supply during extended wet seasons when the community can be cut off from fuel supplies for up to six months.

We are also progressing plans to upgrade our geothermal power station in Birdsville, the only utility operated system in Australia that uses water from the Artesian Basin to generate geothermal energy. Planning is advanced on a project to replace the existing 85kW system and increase the net output to between 150kW and 200kW. The proposal is to integrate the new geothermal power station with the existing diesel power station to allow for the penetration of renewable energy to reach up to 70% of the total energy generated.

**We are planning to upgrade the Birdsville geothermal power station using state of the art technology to significantly boost its output**

### Reducing the electricity used

Energy conservation has long been a focus of Ergon Energy, both within our own operations and by helping our customers save on their usage. Energy and operational efficiencies have been central to the delivery of our new administration and technical buildings, which have incorporated many energy conservation technologies including using natural light and ventilation and installing movement sensors to manage lighting and air conditioning. p33

We have also continued to support our customers with energy efficiency information and advice through the expansion of our EnergyCheck product, HomeSmart energy trial (p12) and the Energy Savers program (p13).

# ENERGY SCORECARD

## Our carbon footprint

Ergon Energy's greenhouse gas emissions total 760,761 tonnes of carbon dioxide equivalent. This information is based on available 2014-15 emissions data as the most up to date at the time of publishing.

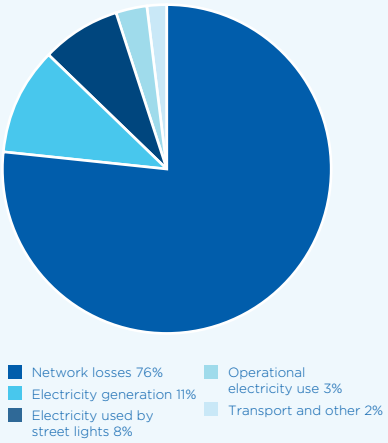
Our emissions, as per the *National Greenhouse and Energy Reporting Act 2007* (Cth), include:

**Direct Emissions (Scope 1)** – electricity generation through our 33 diesel-fired power stations, which we use to supply electricity to our communities isolated from the main grid, accounts for 9.5% of our total emissions. Our remaining direct emissions are mostly from fuel used in our vehicle fleet.

**Emissions associated with the use of electricity (Scope 2)** – these emissions are largely unavoidable network energy losses, comprising around 76.3% of our carbon footprint. This figure includes real network losses and losses associated with unmetered supplies. Street lighting is also a significant contributor to emissions associated with electricity use, estimated to be responsible for 8.4% of our footprint. The electricity used across our operations in our 100 plus buildings represents 2.5%.

Ergon Energy's operations also result in indirect emissions (Scope 3). These are associated with other entities, including the operations of joint venture SPARQ Solutions.

### OUR CARBON FOOTPRINT




## Renewable energy

Ergon Energy continues to support the establishment and growth of renewable generation sources.

For our grid connected customers, we purchased over 11.5 % of our energy requirements directly from renewable energy generators.

Through the 44c/kWh Feed-in Tariff (FiT) under the Queensland Government's Solar Bonus Scheme, more than $110.4 million was credited to customers for the 372GWh of renewable energy they exported back into the grid in 2015-16. At the end of June, approximately 63% of customers on the scheme receive the 44c/kWh FiT. The remaining 37% received the regional FiT of 6.35c/kWh, which is funded separately by a customer's electricity retailer (it rose to 7.45c/kWh from 1 July 2016).

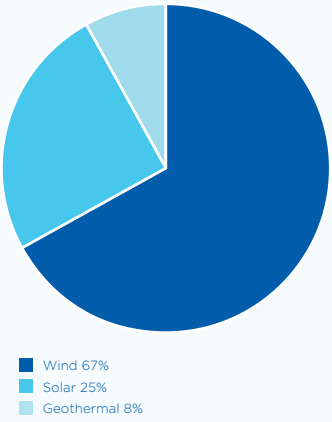
We also purchase additional Renewable Energy Certificates, to meet our liability under the Australian Government's renewable energy targets. Our Large-scale Generation Certificate compliance requirements for 2015-16 were equivalent to sourcing 11.9% of our customers' energy requirements from renewable generation. We also met our compliance under the Small-scale Renewable Energy Scheme by buying Small-scale Technology Certificates, at a level equivalent to sourcing 10.7% of our customers' energy requirements from renewable energy.

### OUR ISOLATED GENERATION STATISTICS

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | TREND | 2015-16 |
|---|---|---|---|---|---|---|
| Diesel Generation | 93,213MWh | 96,841MWh | 100,774MWh | 102,753MWh | ↑ | 107,433MWh |
| Renewable Generation | 1,602MWh | 1,964MWh | 2,283MWh | 2,207MWh | ↓ | 1,672MWh |
| Emission Reduction[1] | 1,139t$CO_2$-e | 1,396t$CO_2$-e | 1,454t$CO_2$-e | 1,502t$CO_2$-e | ↓ | 1,209t$CO_2$-e |

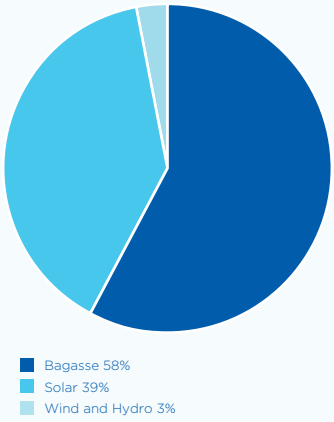
[1] Based on renewable generation off-setting diesel generation.

### RENEWABLE ENERGY IN ISOLATED COMMUNITIES




We continue to use renewable energy to supply our isolated systems This year saw a reduction in total renewable generation This was partly due to the need to upgrade the aging Birdsville geothermal power station, which is expected in 2017, which will significantly increase our renewable energy output (p34)

### RENEWABLE ENERGY FOR THE MAIN GRID




Our network is increasingly operating as an open access platform for distributed energy resources, with power purchasing agreements renewed this year with the local sugar industry, and solar exports now contributing 38% to the renewable energy for the grid

## Ensuring best practice operations

### Working sensitively to protect biodiversity

We continued our high standards of weed and vegetation management practices this year, including the continued vigilance to help protect banana farms in northern Queensland against the Panama TR4 disease.

We also undertook a number of specific initiatives this year to protect the biodiversity of the environment. One of those projects was a streetlight trial to help the declining population of turtles in Bundaberg.

Artificial lighting near turtle nesting beaches can sometimes lead turtles to select sub-optimal nesting locations and can also disorient hatchlings, which can contribute to an increase in hatchling mortality. Along with the Department of Environment and Heritage Protection, we participated in a series of scientific trials at the Mon Repos turtle rookery in Bundaberg to compare various types of standard and non-standard street lights. The trials provided valuable information to assist in future planning of public lighting near turtle nesting beaches and have also contributed to a decision to make changes to street lights on the Woongarra Coast.

This year has also seen the use of fauna cameras to survey for rare and threatened species in proposed powerline corridors. After signs of an endangered quail were identified in one project, the cameras were used to confirm the species presence, as well as the presence of echidnas, koalas and a goshawk. Confirmation of fauna species during initial studies ensures specific controls can be applied to minimise the impact on local wildlife during construction and in the long term.

We have also worked to create a 'biosecurity layer' in GIS to help identify and manage biosecurity risks. The layer assists with identifying biosecurity issues when planning for, constructing and maintaining the network. It includes information on various biosecurity issues including Panama TR4 areas, banana farms, cattle feedlots, declared plants (weeds) and fire ant restricted areas, to name a few. The improvement helps us meet our obligations under the new *Biosecurity Act 2014* and existing *Land Protection (Pest and Stock Route Management) Act 2002* for preventing the introduction and spread of pests.

### Protecting our cultural heritage

Ergon Energy remains committed to protecting the diverse cultural heritage found in our region, and minimising the impact of our works program. We continue to work closely with the Department of Aboriginal and Torres Strait Islander Partnership (DATSIP) through an industry-based network forum of Cultural Heritage Officers. The forums purpose is to set industry best practice which protects cultural heritage while balancing the needs for public infrastructure development.

### Minimising environmental incidents

Ergon Energy has a robust Health, Safety, Environment and Cultural Heritage Integrated Management System (HSE IMS) that ensures appropriate planning is undertaken to help prevent environmental incidents. The HSE IMS also ensures effective monitoring of early trends in environmental issues and incidents for continuous improvement. We maintained our certification of AS/NZS ISO 14001 Environmental Management System and will be transitioning to the new ISO 14001:2015 standard by late 2018.

During the year, we had no serious environmental incidents or breaches of the *Environmental Protection Act 1994* (Qld) (Class 1 or 2 incidents). We had one notifiable activity under the Duty to Notify requirement of the *Environmental Protection Act 1994*, where a pole transformer exploded releasing the contents to the ground.

There were a total of 230 incidents that occurred this year, with 72% being fauna related incidents involving birds, flying fox and small animals contacting powerlines.

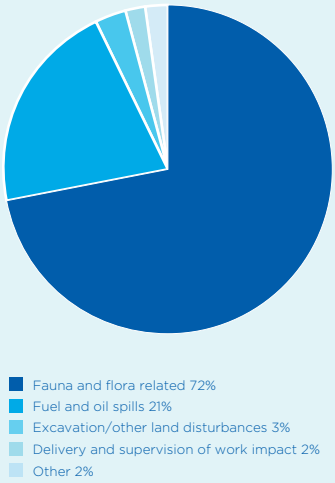
We have been improving our environmental governance around our field-based construction activities with new measures developed. This year also saw the largest number of contaminated land site investigations initiated, as part of a project to address risks associated with potential contamination from legacy activities.

## Best practice use and recycling of materials

While the quantity of materials we use is directly related to the scale of our works programs, we are committed to maximising the life of plant and equipment to make the best us of these resources and our expenditure.

This year we purchased around 8,000 new poles (compared to 11,000 in 2014-15) and 2,769 transformers (compared with 3,120 in 2014-15).

**ENVIRONMENTAL INCIDENTS**




**Fauna related incidents, involving birds and flying fox contacting powerlines continues to be our most frequent environmental incident During 2015 16 there were 230 environmental incidents in total**

We continue to own and manage a number of native forest properties for hardwood pole production in order to ensure a sustainable pole supply for maintenance and expansion of our network. Management plans ensure ecologically sustainable forest management practices are used to maximise forest health and pole production, which is done on a cost neutral basis with the sales of non-pole products reinvested to fund weed management, road maintenance, fire management and non-commercial thinning. The properties are also used by the University of Southern Queensland (USQ) students studying native fauna as part of their wildlife management studies.

We also continued our waste oil recycling, with 620,011 litres of waste oil collected this year. We recovered 933 tonnes of scrap metal including copper, aluminium, steel and brass (which is comparable to the five year average of 1,042 tonnes), and recycled a further 1,231 tonnes of scrap metal from redundant transformers.

We have also commenced a recycling program for used mercury vapour bulbs, following a cost benefit analysis in 2014-15.

More than 132kg of batteries have been saved from landfill following a small group of dedicated employees starting a battery recycling program. It has grown through word of mouth, with 14 battery recycling stations now available across the state.

We continue to look for better solutions regarding the disposal of our waste.

# Delivering economic value

**A prudent and efficient service remains core to our economic contribution to Queensland. This contribution flowed from price relief this year, with the charges we make for the use of the network reduced, and through other areas of our service, and in the commercial return we make to our shareholder, the Queensland Government, and ultimately tax payers.**

## Our financial performance

### Investment proposal is delivering value

To assist the AER in determining our revenue cap for 2015 to 2020 we provided our future investment plans as a Regulatory Proposal in October 2014. This informed the AER's draft position on our revenue allowance, released in April 2015, which was reflected in our network charges in 2015-16 (p11). Following stakeholder submissions and a revised proposal from ourselves, which saw us adjust our expenditure forecasts down further with the greater confidence in our ability to realise the efficiencies already built into our proposal, the AER then made a Final Determination in October 2015.

Our proposal was for a 17% reduction in our expenditure for the five years to 2020, compared to 2010-15. The AER determined we could reduce this by another 10%. This included cuts of 4.6% to our operating expenditure, and 12.9% to our capital investment plans. This, along with improvements in the cost of capital, reduced our revenue allowance for the five-year regulatory control period to $6.3 billion. This is now dictating what we can charge for the use of the network out to 2020.

Throughout this process we have been conscious of the need to provide price relief while still ensuring a sustainable revenue stream to deliver what the community expect from us. Our revenue allowance will be challenging. The AER outcome, and changes to our works plans, has driven a major focus this year on securing a more sustainable cost base (p33).

With the transition to the new regulatory control period, we have also been managing the AER's reclassification of a number of services. While these services have shifted from being Standard Control Services to Alternative Control Services they are still subject to pricing regulation.

The key services that changed with this relate to Type 5 and 6 metering and the connection of real estate developments. Our revenue from these services is now exposed to market conditions. As an Alternative Control Service, we are also actively seeking revenue for the design and construction of assets for large customer connections (p18).

### A below forecast profit result

#### Profit levels adjust to new operating environment

Ergon Energy Corporation Limited delivered a consolidated Net Profit After Tax of $443 million (below our target of the $560 million agreed in our SCI (p7) and down on the previous year) and an Earnings Before Interest and Tax result of $900 million (compared to the target of $1,080 million).

With the transition to our new revenue allowance there was a forecast step down in the expected profit, this was due to the AER's position on our Weighted Average Cost of Capital, and our capital and operating allowances.

The below target element of the performance was largely due to a drop in network connections revenue, higher wholesale energy market costs, and the final position on our operating costs.

The profit result was boosted by changes in the National Electricity Rules around the treatment of the costs associated with the solar Feed-in Tariff. These costs are now being dealt with through Jurisdictional Scheme arrangements. As a result, the cost of the tariff payments we actually made in 2013-14 were passed on this year and we also collected the revenue associated with the payments we expected to make under the new arrangements in 2015-16. This lag in how these expenses where previously dealt with, has meant there has been a temporary $114 million increase this year in this revenue. In 2017-18 the collection of this revenue will be fully aligned with the year we incur the expense. p35

#### Retail results impacted by challenging energy market

Our retail business, Ergon Energy Queensland Pty Ltd, delivered a Net Profit After Tax of $134 million (below the target of $146 million).

This result was largely due to challenging wholesale energy trading conditions and an increase in Renewable Energy Certificate costs. To manage these renewable energy costs going forward we have entered into a major agreement to purchase 170MW of renewable energy from a new wind farm to come online in Far North Queensland (p14).

The profit was supported by gains of $40 million in the mark to market value of the hedges entered into to manage the purchase price risk associated with electricity sales forecast for future years.

#### Other contributions to commercial value

Our subsidiary Ergon Energy Telecommunications Pty Ltd (trading as Nexium), continued to provide commercial value through the provision of wholesale and retail high-speed fibre-optic connectivity to the resource, transport, energy and government sectors. Ergon Energy also continues to deliver a range of other non-regulated services.

# The Financial Statements explained

This section explains the key financial outcomes for Ergon Energy Corporation Limited for 2015-16.

This commentary is not intended to be comprehensive – for full disclosures please refer to the Annual Financial Statements for Energy Queensland Limited and its controlled Entities, available online at www.ergon.com.au/annualreport

On 30 June 2016, the ownership of Ergon Energy Corporation Limited (and Energex Limited) was transferred to this new entity. Energy Queensland Limited's consolidated Annual Financial Statements provide detail on the key measures detailed here. The group's reporting also covers the overall asset and liability position of the group, including details of the key return, debt and equity ratios.

## A. WHERE DOES OUR REVENUE COME FROM?

Ergon Energy's revenue for the financial year totalled $2,474 million, a decrease of $153 million compared to the prior financial year.

There was a reduction in retail electricity sales revenue (to $1,938 million) and in distribution revenue from our non-retail customers (to $395 million); and a decline in customer contributions from connections to the network (to $45 million).

The revenue collected from customers for the use of our electricity distribution network (network charges) is regulated by the AER. These charges are billed to both our retail business and the retailers of customers, who entered the contestable market in regional Queensland. The AER also regulates certain payments by our customers for capital contributions towards network extensions and other services.

## B. WHAT ARE OUR MAIN EXPENDITURES?

Our operating expenses for the year totalled $646 million, up by $26 million.

From an operational perspective, we have continued to bring down our cost base with our efficiency and effectiveness efforts. Payroll costs were contained at $629 million (both allocated as operating expenses and capitalised) with significant organisational change undertaken. Although we incurred the associated redundancy costs, by the end of the year our payroll cost base had been reduced by $30 million. We also delivered $13 million in procurement savings, while still adhering to procurement policy and encouraging local sourcing. We see further opportunities to address costs under Energy Queensland Limited.

Our other major expenses included electricity purchases, up to $584 million, and transmission charges paid to Powerlink Queensland, up to $354 million.

The Community Service Obligation payment from the Queensland Government – $542 million for 2015-16 – is treated as an offset expense of the network charges (Network Charges/Electricity Purchases).

The Uniform Tariff Policy, and the associated 'CSO' payment, allows Ergon Energy Queensland Pty Ltd to sell electricity to its customers using the same regulated electricity tariffs, wherever they are located, even though the supply cost may be different. The payment was the difference between the costs to supply energy in South East Queensland and, for some our largest customers, our Eastern zone, and the costs to supply regional Queensland customers generally.

## C. WHAT WAS OUR CAPITAL INVESTMENT?

Ergon Energy delivered a $774 million total capital investment program (down from $983 million in 2014-15). Capital projects Ergon Energy initiated were $414 million down from $588 million in 2014-15. An additional $157 million was invested into network connections or upgrades requested by our customers. p26

## D. WHAT RETURN DO WE GIVE TO OUR OWNERS?

In June 2016, our shareholding Ministers issued a direction (p49) for Ergon Energy to declare and pay a dividend of $476.3 million on 29 June 2016. This was based on 100% of Ergon Energy's forecast consolidated Net Profit After Tax.

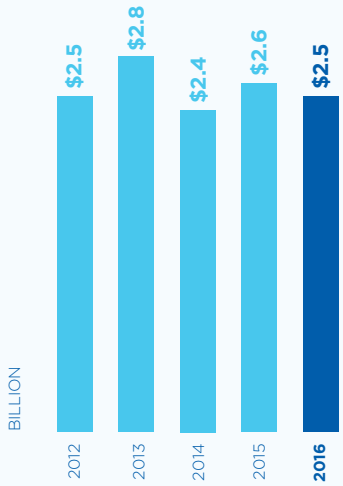
Maintaining the dividend payments at this level supports the Queensland Government's debt reduction plan. At the same time, the Queensland Government made the $542 million 'CSO' payment to Ergon Energy for the benefit of our customers.

## FINANCIAL SUMMARY FOR ERGON ENERGY CORPORATION LIMITED (CONSOLIDATED)

| | 2011-12 $million | 2012-13 $million | 2013-14 $million | 2014-15 $million | TREND | 2015-16 $million |
|---|---|---|---|---|---|---|
| **A. OUR REVENUE** | | | | | | |
| Revenue and Other Income | 2,511 | 2,839 | 2,440 | 2,627 | ↓ | **2,474** |
| **B. OUR EXPENDITURE** | | | | | | |
| Network Charges/Electricity Purchases | (853) | (995) | (481) | (252) | ↑ | **(396)** |
| Operating Expenses | (682) | (615) | (678) | (620) | ↑ | **(646)** |
| Depreciation Expense | (380) | (430) | (488) | (454) | ↑ | **(493)** |
| Finance Charges | (321) | (369) | (372) | (310) | ↓ | **(299)** |
| **p37 OUR PROFIT** | | | | | | |
| Earnings Before Tax | 275 | 430 | 421 | 991 | ↓ | **640** |
| Tax Expense | (82) | (122) | (126) | (295) | | **(197)** |
| **Net Profit After Tax** | 193 | 308 | 295 | 696 | ↓ | **443** |
| **C. OUR INVESTMENT** | | | | | | |
| Total Capital Investment | 870 | 872 | 812 | 983 | ↓ | **774** |
| **D. DIVIDENDS** | | | | | | |
| Dividends Provided For | 256 | 326 | 392 | 1,925[1] | ↓ | **476** |

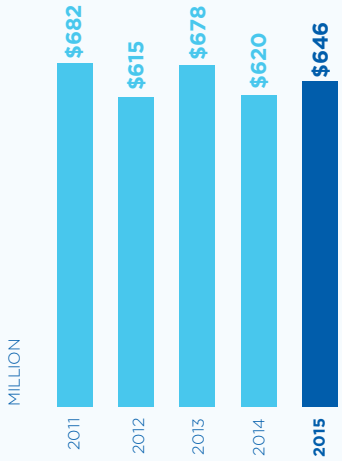
[1]. This was a special dividend payment as part of the Queensland Government's Debt Reduction Action Plan.

### REVENUE IMPACTED BY RESET AND DEMAND



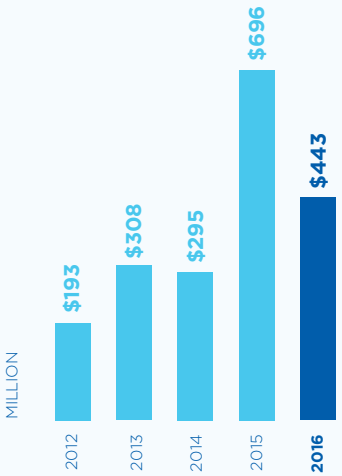

While the AER s Final Determination or revenue reset, led to a drop in forecast revenue, the revenue actually collected was also impacted by a drop in demand for new connections and the associated customer contributions towards the electricity distribution network

### FOCUS ON REDUCING OUR COST BASE




Our efficiency and effectiveness efforts have continued to deliver results, supporting a decline in our cost base by the end of the year in the order of $30 million However, the organisational change underway saw a related redundancy cost incurred this year

### PROFIT REFLECTS REVENUE RESET




After a profit boost last year from the electricity trading and savings success, this year we forecasted a step down with the regulatory revenue reset process (p37) We also saw falls in demand for connections, higher energy costs, and incurred the impact of organisational change on our operating costs

# Our corporate governance statement

## Ergon Energy's corporate governance practices are in line with the Australian Stock Exchange (ASX) Corporate Governance Principles and Recommendations, where applicable, as well as the Queensland Government's Corporate Governance Guidelines for Government Owned Corporations.

**ADDITIONAL INFORMATION IS AVAILABLE ONLINE AT WWW ERGON COM AU/ABOUT-US/WHO-WE-ARE/OUR-COMPANY/CORPORATE-GOVERNANCE**

## Principle 1 – Lay solid foundations for management and oversight

### Our companies

Ergon Energy Corporation Limited has two operating subsidiaries, Ergon Energy Queensland Pty Ltd and Ergon Energy Telecommunications Pty Ltd, as well as a joint venture with Energex Limited – SPARQ Solutions Pty Ltd. p3

Since 30 June 2016, as a result of the *Government Owned Corporations (Energy Consolidation) Regulation 2016*, Ergon Energy Corporation Limited has become a subsidiary of Energy Queensland Limited. While it is no longer a Government Owned Corporation, it remains a public, unlisted company.

Prior to the 30 June, when it was a Government Owned Corporation, its shares were held by two shareholding Ministers on behalf of the Queensland Government (Honourable Curtis Pitt, Treasurer, Minister for Aboriginal and Torres Strait Islander Partnerships and Minister for Sport and Honourable Mark Bailey, Minister for Main Roads, Road Safety and Ports and Minister for Energy, Biofuels and Water Supply).

It is governed by the provisions of the *Corporations Act 2001* (Cth), except (during its time as a Government Owned Corporation) as otherwise provided by the *Government Owned Corporations Act 1993* (Qld). Moving forward Energy Queensland Limited, as the Government Owned Corporation, will be required to meet the obligations of the *Government Owned Corporations Act 1993* (Qld).

Ergon Energy Corporation Limited's electricity distribution responsibilities are outlined under its Distribution Authority and the *Electricity Act 1994* (Qld).

### Board charters

The responsibilities of the Ergon Energy Corporation Limited Board are outlined in the Board Charter (summarised p46). The Board delegates functions to management. However, certain matters are reserved for the Board, as detailed in the Charter, and a policy document, Delegation of Powers. These documents are available online.

The activities of the subsidiary companies are overseen by their own boards.

In October 2015, Ergon Energy Queensland Pty Ltd's Board, which was previously made up of senior executive members, was reappointed with three non-executive directors creating an independent board. The members are Ergon Energy Corporation Limited directors' Gary Stanford (Chairman) and Gary Humphrys and a new director, Rod Wilkes, an experienced energy industry professional. Rod played a leading role in industry reforms in New South Wales, Tasmania and the Northern Territory, and has extensive experience in market deregulation, retail and network separation, and establishment of competitive energy retailers.

Ergon Energy Telecommunications Pty Ltd Board is made up of executive members: Roslyn Baker and Peter Effeney.

The Board of SPARQ Solutions Pty Ltd has detailed shareholder agreements that guide the governance of this company with its board. This board comprises one independent non-executive director, Adam Aspinall (who is also on the Board of Ergon Energy Corporation Limited), as the Chairman and executive members from both Ergon Energy Corporation Limited and Energex Limited.

### Board committees

To assist with the discharge of directors' duties, the Board has four committees to consider, and respond to specific governance and organisational performance matters or risks, many of which are linked intrinsically to regional Queensland sustainability challenges (such as electricity affordability, future infrastructure investment, community safety, environmental matters, workplace health and safety and other people-related issues).

The membership of each committee and the committee charters, along with their key focus areas during 2015-16, is outlined in the table on page 46. The Directors' Report, online in the Annual Financial Statements, provides the committee meeting attendance.

### Executive Leadership Team

Ergon Energy's Executive Leadership Team comprises the Chief Executive and seven other executives, including the Chief Executive of SPARQ Solutions. The team is currently based in three locations, Townsville, Maryborough and Brisbane.

Our focus on reducing costs and our future sustainability, including preparations for the merger, led to significant changes within the leadership team during 2015-16. Most notably, in February 2016, Ian McLeod left the organisation with his contract as Chief Executive ending. This saw Roslyn Baker step into the role, in an acting capacity, from her position as Executive General Manager Retail. The other changes to the executive (all made in an interim capacity due to the pending merger) were critical to allowing attention to be focused on key delivery areas, for different members to participate in the merger preparations, and for the changes in functions and reporting lines needed to take us forward into the new entity.

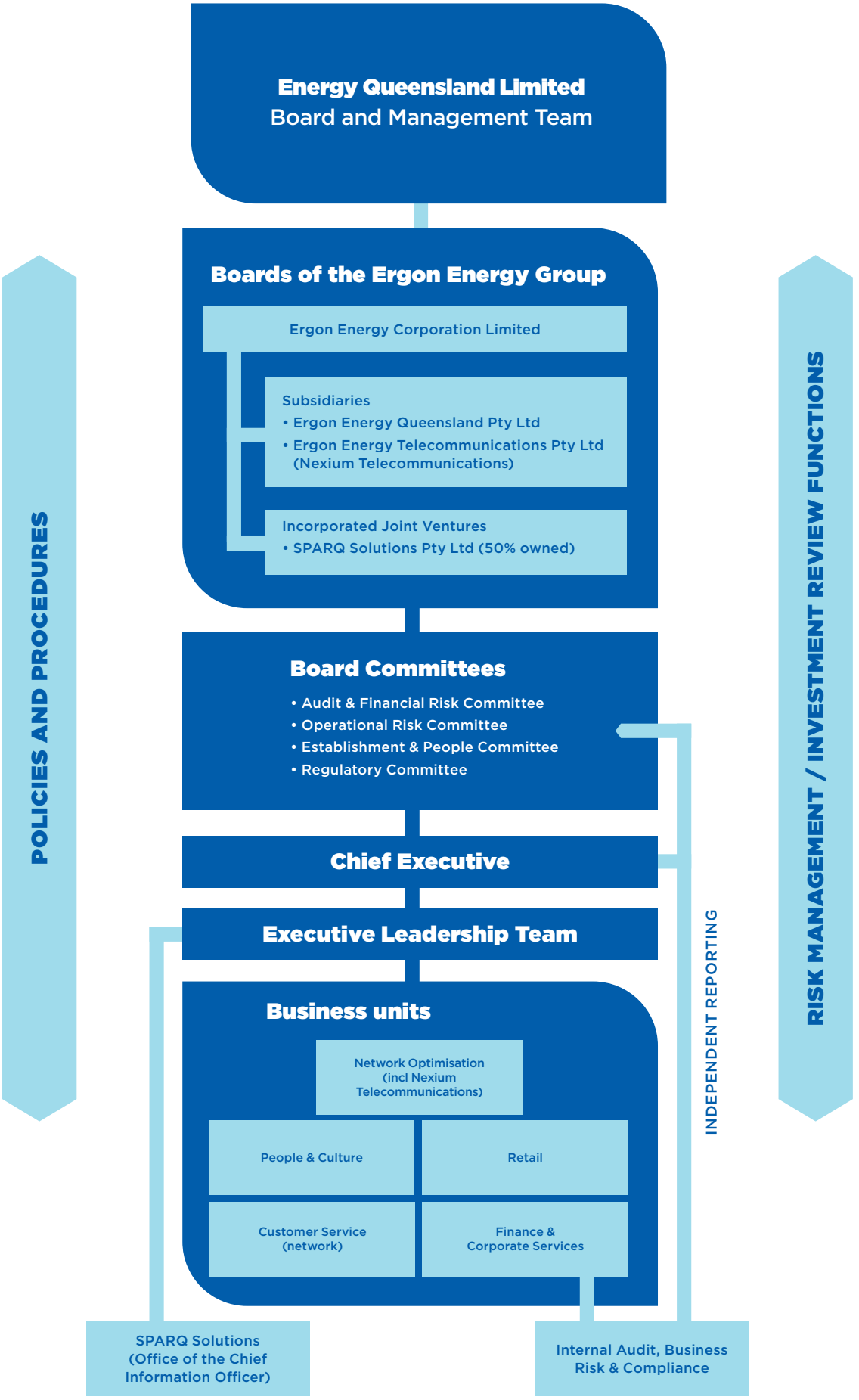
The performance of the team is evaluated annually. The Board sets the key performance measures for the Chief Executive for the year, in line with the Statement of Corporate Intent (p7), and reviews the performance of the Chief Executive and the Ergon Energy group based on these agreements. This process then cascades through the Chief Executive to the Executive Leadership Team.

### Investment review functions

For the development and prioritisation of investment programs, the Board and the Executive Leadership Team are supported by various internal approval processes, including the Investment Review Committee (IRC) and the Network Investment Review Committee (NIRC), and a range of assessment tools.

*continued on page 47*

# Our governance framework



# The Board of Directors

## CLIVE SKAROTT AM

Dip FM AM FAICD FAMI

**CHAIRMAN**
**Independent Non-Executive Director**

First appointed
September 2015
Term in office 1 year

Clive Skarott has had extensive experience developing and managing regional businesses in a variety of industries. Born in Atherton, North Queensland, he gave 35 years of service to the Electricity Credit Union (ECU), serving as CEO and Company Secretary before retiring in 2008. Clive was named Cairns' Citizen of the Year in 2011, and in 2012 was made a Member of the Order of Australia for his contributions to export, tourism, banking, sport and education. Clive is the Patron of Advance Cairns, Director of Energy Super, and has undertaken board and related roles at James Cook University. He is currently Chairman of JCU Dental and JCU Founders Committee Cairns Campus and President of the Cairns Historical Society and the Cairns Museum.

## GARY HUMPHRYS

CA GAICD

**DEPUTY CHAIRMAN**
**Independent Non-Executive Director**

First appointed
October 2009
Term in office 7 years

Gary Humphrys brings to Ergon Energy's Boards more than 40 years of experience in the energy and mining industries. A chartered accountant, he has held senior executive roles in both the private and public sectors across a range of disciplines, including finance and accounting, treasury, taxation, information and technology, procurement, risk management and audit. In recent years, Gary held board and related committee roles in the water, energy, mining and health industries. He is currently a director of St Vincent's Health Australia Ltd and H.E.S.T Australia Ltd.

## ADAM ASPINALL

BE GAICD CPEng

**INDEPENDENT NON-EXECUTIVE DIRECTOR**

First appointed
October 2015
Term in office 1 year

Adam Aspinall is a mechanical engineer with more than 35 years' experience in electricity generation, transmission, remote supply networks, distribution, retailing and market trading in Australia and overseas. As the power sector lead with global consulting firm Advisian, Adam also brings expertise with regulatory authorities, infrastructure owners, fuel supply companies and major contractors to the Ergon Energy Board. Adam's broad experience in the electricity industry has recently led to him being engaged as an expert on international contract arbitrations. He previously led production and business development functions at CS Energy, and worked in the UK with the National Grid's interconnections division. Adam is the Chairman of SPARQ Solutions Pty Ltd.

## GARY STANFORD

MAppFin DipAppFin BCom GAICD

### INDEPENDENT NON-EXECUTIVE DIRECTOR

First appointed
December 2014
Term in office 1 year
9 Months

Gary Stanford has had a wealth of management experience in the energy industry gained through numerous senior and executive level roles in Boral Ltd, Origin Energy Ltd and, more recently, Alinta Energy. Over his career he has held responsibilities in wholesale energy trading, gas and electricity contracts, retail pricing, risk management, acquisitions, government relations and stakeholder communications. He has also previously been on the board of Retail Energy Market Company Pty Ltd (REMco), the gas retail market operator for Western Australia, and South East Australia Gas Pty Ltd (Seagas).

## DR LORRAINE STEPHENSON FTSE

BSc (Hons) MBA PhD GAICD

### INDEPENDENT NON-EXECUTIVE DIRECTOR

First appointed
October 2015
Term in office 1 year

Lorraine Stephenson has over 30 years' experience in energy, infrastructure, agribusiness and R&D. She was formerly a Partner at EY and held senior executive roles at Origin Energy, Boral and Caltex. Lorraine was the first Chief Clean Energy Advisor to the Queensland Government. As the principal consultant of Lightning Consulting Services, Lorraine now advises major local and international industries on energy, climate change and strategic sustainability issues. Lorraine has been an active participant in UNFCCC meetings since 2000 and is currently a Non-Executive Director of Good Environmental Choice Australia, a member of the NSW Climate Change Council, a Fellow of the Australian Academy of Technology and Engineering and member of the Technical Advisory Board, Energy Action Pty Ltd.

## CHANGES TO THE BOARD

The Board had a number of new appointments, including Clive Skarott as Chairman, which saw Gary Humphrys return to his previous role as Deputy Chair. The following Board members resigned during 2015-16. Their full profiles are provided in the Directors' Report available online.

John Gardner brought an extensive background in both private and public sectors to the board. His experience covered banking, finance, governance, technology, utilities, business services and economic development, in the Northern Territory, Queensland and Victoria. As well as executive and senior technical appointments in Australia, he has worked overseas assignments in Canada and the USA, where he studied at Harvard University.

John Love brought to the board his perspective as a licensed electrical contractor with extensive experience in electrical contracting and reticulation, as well as his experience in the management of large-scale commercial and industrial construction projects. He was the founding director of John Love Electrical, which grew to be one of Queensland's largest privately-owned electrical contracting companies.

# Our Executive Leadership Team

## ROSLYN BAKER

BCom(Accounting) MBA Dip FM GAICD

### CHIEF EXECUTIVE (ACTING)

Roslyn Baker is responsible for the business' overall direction and, ultimately, for our ability to deliver value over the longer-term for our customers and the community, and to meet the financial objectives of our shareholders. Roslyn has 18 years' experience in managing transformational change across a diverse range of industries. During her career, Roslyn has held senior management and board positions within the education, dairy and petroleum sectors. She currently holds a position on the Committee for Regional Development Australia (Townsville and North West Queensland). Within Ergon Energy she is the Chair of Ergon Energy Telecommunications Pty Ltd and is a director of SPARQ Solutions Pty Ltd.

## PETER BILLING

### EXECUTIVE GENERAL MANAGER, NETWORK OPTIMISATION (ACTING)

Peter Billing is responsible for the safe, efficient and effective utilisation of Ergon Energy's electricity distribution and associated communications networks and, where necessary, the delivery of new major infrastructure projects or other non-traditional solutions. He brings a wealth of industry, leadership and change management experience to the executive, from trade roles to management. Peter was directly involved in the deregulation of the electricity industry in South Australia in the 1990s. He is on the board of Energy Skills Queensland.

## PAUL JORDON

### EXECUTIVE GENERAL MANAGER, CUSTOMER SERVICE (ACTING)

Paul Jordon is responsible for the customer service elements of our network business, and for the safe and efficient operation and maintenance of the distribution network. He is also responsible for supply to our isolated communities, and the commercial delivery of modular infrastructure and generation solutions. Paul brings with him a breadth of distribution and retail experience and skills having worked in Distribution entities for over 30 years, leading Ergon Energy's Customer Service Retail arm and providing distribution consultancy services internationally in the past.

## TONY PFIEFFER

BE CPEng RPEQ FIEAust GAICD

### EXECUTIVE GENERAL MANAGER, RETAIL (ACTING)

Tony Pfeiffer is responsible for Ergon Energy's electricity retailing business and oversees retail strategy, energy procurement, retail corporate services, retail operations and customer service. Tony brings 30 years of industry experience in business strategy, economic regulation, operation, construction, asset management and business performance in the electricity utility industry. He was involved in the initial formation of the National Electricity Market and development of the National Electricity Code. He is a Non-Executive Director of Enova Community Energy and a board member on the Australian Power Institute and the Queensland Geothermal Energy Centre of Excellence Advisory Board.

## ROD WILLIAMS

BBus (Accounting) MBA MEcSt CPA

### EXECUTIVE GENERAL MANAGER, FINANCE AND CORPORATE SERVICES (ACTING)

Rod Williams is responsible for managing the financial and commercial aspects of the business – this includes responsibility for the strategy and regulatory functions, along with our legal counsel and risk and assurance program, and strategic procurement. Rod is also responsible for the corporation's customer and external stakeholder engagement, and shared services functions. He is focused on driving business performance to deliver greater customer value and strong commercial outcomes. He brings with him over 30 years of experience both within Ergon Energy and in the private sector covering a range of industries, including manufacturing, mining and construction.

## BELINDA WATTON

B Com, M App Law, Grad Cert App Fin, GAICD

### EXECUTIVE GENERAL MANAGER, PEOPLE AND CULTURE (ACTING)

Belinda Watton is responsible for the people and culture functions of the business incorporating human resources, organisational culture, health, safety and environment and employee communications. Belinda brings extensive experience from executive roles in various public, private and not for profit organisations. Her expertise includes strategy development, organisational, leadership and talent development, developing and leading high performing cultures, as well as industrial relations, stakeholder and remuneration management. Belinda also has expertise in corporate communications.

## PETER EFFENEY

BEng(Hons) BSc MBA HonDBus CQU FAICD

### CHIEF EXECUTIVE SPARQ SOLUTIONS

Peter Effeney is the Chief Executive Officer of SPARQ Solutions Pty Ltd, Ergon Energy's Information and Communications Technology (ICT) joint venture with Energex. As the Chief Information Officer, his responsibility is to ensure Ergon Energy's ICT strategy, architecture and investment and SPARQ Solutions' ICT services are aligned with the business' strategic priorities, and deliver maximum value. Prior to leading the formation of SPARQ Solutions, Peter held various management, engineering and ICT roles within Ergon Energy.

## FOCUS OF THE BOARD AND THE BOARD COMMITTEES

| MEMBERSHIP | SUMMARY OF CHARTER | FOCUS IN 2015-16 |
|---|---|---|
| **Ergon Energy Corporation Limited Board**<br>**Current members:**<br>C Skarott*<br>G Humphrys<br>A Aspinall<br>G Stanford<br>L Stephenson<br>**Members during year:**<br>J Gardner<br>J Love | • Responsible for the strategic direction of the organisation.<br>• Ensures the corporate governance required to monitor operational, safety, environmental, social and financial performance and reports to the Shareholding Ministers.<br>• Delegates authority to the Chief Executive, management and employees. | • Overseeing ongoing organisational reforms and driving operational efficiencies through the business.<br>• Continued to support the Queensland Government's industry reforms and evolving market reform agenda.<br>• Monitored the corporate risks associated with the high level of uncertainty in the current operating environment. |
| **Ergon Energy Queensland Pty Ltd Board**<br>**Current members:**<br>Gary Stanford*<br>Gary Humphrys<br>Rod Wilkes | • Responsible for setting our Retail business objectives and plans under the corporate strategy.<br>• Approves Ergon Energy Queensland Pty Ltd policies, performance assessment and governance risks. | • Reviewing the Retail business risk profile and governance framework.<br>• Overseeing the renewable energy purchasing process and Ergon Energy's electricity trading activities.<br>• Oversaw the implementation and transition to the new retail customer billing system. |
| **Audit and Financial Risk Committee**<br>**Current members:**<br>G Humphrys*<br>G Stanford<br>L Stephenson<br>C Skarott^<br>**Members during year:**<br>J Gardner* | • Approves and monitors Ergon Energy's internal audit program.<br>• Provides ongoing assurances to the Board that its obligations are being met in relation to:<br>  • financial integrity<br>  • financial risks<br>  • regulatory reporting<br>  • compliance issues. | • Reviewed reports re solvency and the integrity of financial systems/controls.<br>• Reviewed and recommended approval of the annual Internal Audit Plan and a range of external and internal audit reports.<br>• Oversaw compliance with the conditions of the Australian Financial Services Licence.<br>• Noted the direction to pay a dividend for 2015-16 in June. p49<br>• Reviewed and recommended approval of the Financial Statements. |
| **Operational Risk Committee**<br>**Current members:**<br>A Aspinall*<br>G Stanford<br>L Stephenson<br>C Skarott^<br>**Members during year:**<br>J Love*<br>J Gardner<br>G Humphrys | • Assists the Board in its response to business and operational risks and oversight responsibilities in relation to:<br>  • health and safety, including community safety<br>  • environmental risks<br>  • risk exposure<br>  • insurance and claims management. | • Reviewed and recommended approval of amendments to the Risk Management Policy. p49<br>• Reviewed updates on Health, Safety & Environment organisational risks.<br>• Reviewed and recommended approval of amendments to the Corporate Risk Profile.<br>• Endorsed and recommended approval of the Insurance Program for 2015-16. |
| **Establishment and People Committee**<br>**Current members:**<br>L Stephenson*<br>A Aspinall<br>G Humphrys<br>C Skarott^<br>**Members during year:**<br>J Love*<br>J Gardner | • Assists in developing a strategic, long-term and sustainable approach on issues relating to people working for Ergon Energy.<br>• Fulfils the Board's oversight responsibilities in relation to remuneration; performance management; industrial relations; employee engagement; organisational culture; and learning and development. | • Endorsed the Employee & Industrial Relations Plan for 2016-17 for submission to the Queensland Government.<br>• Oversaw extension of acting executive appointments and development of initiatives for the Executive Leadership Team. p40<br>• Reviewed succession planning, performance management, professional development and the voluntary retrenchment programs. |
| **Regulatory Committee**<br>**Current members:**<br>G Stanford*<br>A Aspinall<br>G Humphrys<br>C Skarott^<br>**Members during year:**<br>J Gardner* | • Assists the Board to fulfil its corporate governance and oversight responsibilities by reviewing and reporting on the due diligence process conducted in relation to the preparation and outcomes of regulatory proposals. | • Reviewed the Network Tariff Structure Statement.<br>• Oversaw the preparation of the submission to the AER of the Annual Performance, Economic Benchmarking and Category.<br>• Analysis and Regulatory Information Notice. Reviewed compliance with the National Energy Customer Framework and strategies for improving compliance. p16 & 49 |

* Chair of Committee ^ Ex-officio member.

*continued from page 40*

The IRC is Ergon Energy's peak investment governance committee providing strategic oversight and stewardship of Ergon Energy's entire capital and operating investment portfolio. The committee ensures the appropriate balance across our investment portfolio, between network asset-related investments, customer service improvement, product and asset research and development and business transformation.

The IRC delegates part of its oversight responsibilities to the NIRC, as its sub-committee. The NIRC scrutinises all significant network asset-related capital investment proposals to ensure they adequately address risk management, performance outcomes, sustainability, and efficiency.

During the year, our governance processes were central to formulating our detailed two-year works plan, following the AER's Final Determination. p26

## Principle 2 – Structure the Board to add value

### Independence of directors

Ergon Energy Corporation Limited's Board consists of five non-executive directors and Ergon Energy Queensland Pty Ltd's Board consists of three non-executive directors. p42 & 40.

All of these directors are considered to be independent. This assessment is made by the Board on a case-by-case basis against the seven criteria listed in the ASX Corporate Governance Principles and Recommendations that reference relationship materiality.

The directors of Ergon Energy Telecommunications Pty Ltd are executives of Ergon Energy and are not independent. SPARQ Solutions Pty Ltd has five directors, four of which are executives of Ergon Energy or Energex and therefore not independent, and one of whom is an independent director who is also on the Board of Ergon Energy Corporation Limited.

While Ergon Energy Corporation Limited's Board has a number of committees, discussed in detail in this statement, it does not have a nomination committee. The current directors were appointed for a set term of office by Queensland's Governor-in-Council, in accordance with the *Government Owned Corporations Act 1993* (Qld). This acts as a review mechanism for enhancing Board performance, allowing new members to be selected on a regular basis, for their expertise and ability to contribute on behalf of our regional Queensland customer base.

### Assessing Board performance

Ergon Energy's governance framework requires that the Board reviews its own performance, and that of the Board committees, on a regular basis, to ensure they are working effectively. The focus of the directors has been on the success of the Board in setting the corporate direction and monitoring achievement of strategic objectives, as well as on ensuring the effectiveness of committee roles, key relationships and governance processes.

The Board has operated effectively, and managed the uncertainty associated with the merger of Ergon Energy Corporation Limited, Energex Limited and SPARQ Solutions under the holding company Energy Queensland Limited from 30 June 2016. In light of the ongoing uncertainty, the Board has continued to adopt a business as usual approach. In light of the merger, the Board did not undergo an external review of its performance during the year.

The effectiveness of the Board of Ergon Energy Queensland Pty Ltd, our retail business, is also being internally monitored.

### Access to information and quality advice

The directors have unfettered access to the information and records relevant to the Board, in effectively discharging their duties in accordance with the requirements under the *Government Owned Corporations Act 1993* (Qld) and the *Corporations Act 2001* (Cth). The appropriateness of Board agendas and papers are reviewed on an ongoing basis with a formal annual review. Directors also have access to the Company Secretary on any matter relevant to their role.

As necessary in the performance of its duties, the Board has the authority to initiate investigations or retain services, such as legal or accounting services, from time to time, at the company's expense. Individual directors' Code of Conduct also provides for each director to have the right to seek independent professional advice at the company's expense, subject to the approval of the Chairman.

A Deed of Access and Indemnity with each director gives them right of access to all documents that were provided to them during their term in office, for a period of 10 years after ceasing to be a director, and to indemnify them to the extent allowed by law, in respect of certain liabilities that they may incur as a result of, or by reason of, being a director.

## Principle 3 – Act ethically and responsibly

It is a fundamental principle of Ergon Energy to conduct all business activities legally, ethically and with strict observance of the highest standards of integrity and propriety.

### Code of conduct and disclosure of interests

This principle is implemented through the Ergon Energy Corporation Limited Board Charter and Directors' Code of Conduct, and Conflict of Interest Guidelines. The subsidiary boards have adopted the Directors Code of Conduct applicable to the Ergon Energy Corporation Limited Board. The Board of SPARQ Solutions Pty Ltd has a Corporate Governance Manual, which includes a Code of Conduct based on those approved by its shareholders.

Each director is expected to have regard for these practices and policies in the performance of their duties as a director of the company.

The *Corporations Act 2001* (Cth) applies to all of the companies in the Ergon Energy group; accordingly, the statutory duties of directors apply. The Boards follow normal procedures for the disclosure of directors' standing interests and material personal interests, and how to deal with them. All new declarations of interest are brought to the attention of the other directors.

Ergon Energy's employees are expected to act appropriately and practice ethical behaviour. This expectation is outworked through the Code of Conduct Standards. Our Code, which applies to all employees, is available on the intranet and is reinforced regularly through our learning and development programs, and employee engagement.

### Reporting breaches of conduct

Ergon Energy continues to operate the FairCall Service, established in 2003, as a means by which staff, contractors and members of the public can report unethical conduct, breach of corporate policy – such as the Code of Conduct – or suspected fraud. The service is independently operated and reflects the principles embodied in the *Public Interest Disclosure Act 2010* (Qld), and various whistleblowers' protection standards, ensuring fairness to all concerned.

All allegations lodged using the FairCall Service are referred to the Senior Internal Auditor for investigation and, where these are substantiated, appropriate disciplinary measures are applied. During the year, eight allegations were received; after investigation no disciplinary action was required.

The Senior Internal Auditor is also the liaison officer for referring any suspicions of corrupt conduct to the Crime and Corruption Commission, as required of government-owned corporations by the *Integrity Act 2009* (Qld), as well as overseeing any investigations and reporting of the findings/outcomes. Ergon Energy's Fraud and Corrupt Conduct Policy, Employees' Code of Conduct Policy, Employees' Code of Conduct Standards Procedure and Reportable Conduct Guidelines support the commission's legislative power to investigate suspicions of corrupt conduct.

### Supporting diversity at board level and in the workplace

As part of the board-appointment process, shareholding Ministers consider diversity when reviewing the register of suitable board candidates.

In the workplace, Ergon Energy has a diversity policy, which is implemented through the diversity program as a part of Ergon Energy's people strategy, to support an inclusive workplace culture. p31

## Principle 4 – Safeguard integrity in corporate reporting

Ergon Energy has a robust structure to independently verify and safeguard the integrity of our financial reporting, as well as a comprehensive internal and external audit process, of which the Audit and Financial Risk Committee has oversight. The Committee's charter and focus for the year is provided on page 43. The role of the Chair of the Committee is not held by the Board Chair.

The Chief Executive provides representation, through the Audit and Financial Risk Committee, to the Board that the Financial Statements and Directors' Report are a true and fair view and in compliance with reporting standards.

As per the provisions of the *Auditor-General Act 2009* (Qld), the Queensland Auditor-General is the external auditor for Ergon Energy Corporation Limited and its subsidiaries. The Audit and Financial Risk Committee review the performance of the external audit annually.

## Principle 5 – Make timely and balanced disclosure

### Disclosure to shareholders

During the year, the Board had reporting and disclosure obligations to the shareholding Ministers under the *Government Owned Corporations Act 1993* (Qld), as well as under the *Corporations Act 2001* (Cth). These obligations were outworked through Disclosure to Shareholders Policy, and a Communications Strategy Guideline, ensuring the Queensland Government is kept informed of material matters. Going forward these obligations will be outworked through Energy Queensland Limited.

Ergon Energy also has established policies and practices that specifically cover our government communication obligations around performance targets, public safety, probity, occupational health and safety, employment practices, privacy and environmental protection.

### Strategic planning and reporting cycle

Ergon Energy documented its corporate performance commitments for the financial year within its Statement of Corporate Intent (see summary p7). These commitments formed the basis of quarterly reporting to our shareholding Ministers.

Our strategic planning framework is illustrated here, as it relates to our key public documents that support transparent public disclosure of Ergon Energy's performance. Ergon Energy's longer-term strategic planning cycle aligns with the distribution business' five-year regulatory control period. The year in review was the first year of the AER's Final Determination 2015-16 to 2019-20 (p37).

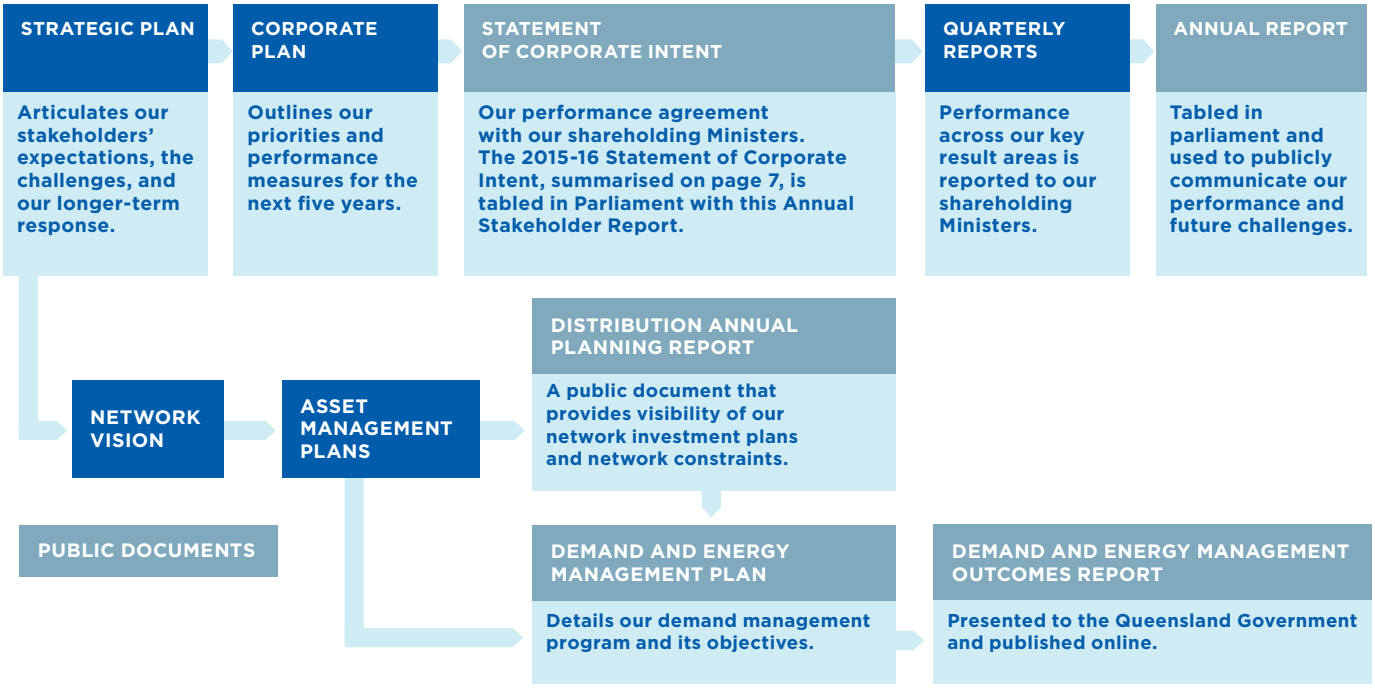
Our Distribution Annual Planning Report, which is published at the same time as this report, details our rolling five-year asset management plan. Published online, it details how Ergon Energy is managing and developing its network, with the objective of delivering an adequate, economical, reliable and safe connection of electricity supply to our customers. It provides further analysis of the performance of the network.

### Privacy and right to information

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

Ergon Energy manages applications for access to documents in accordance with the *Right to Information Act 2009* (Qld) and the *Information Privacy Act 2009* (Qld). Also, in accordance with the *Right to Information Act 2009* (Qld), Ergon Energy publishes on its website disclosure log access decisions, which are considered to be of significant interest to the wider public and do not contain personal information. The process for individuals to apply for information and summary information of documents released is found at www.ergon.com.au/ about-us/ contact-us/right-to-information

## ANNUAL STRATEGIC PLANNING AND REPORTING CYCLE




## Principle 6 – Respect the rights of security holders

Ergon Energy respects the rights of its shareholding Ministers, as the ultimate owners of the business, and commits to work in collaboration with the government to deliver the best outcomes for our customers and the Queensland economy.

### Government shareholder communications

The Chairman met regularly with our shareholding Ministers and their representatives, as part of a broader government engagement program, to ensure active dialogue throughout the year. This ensures the operation and strategic direction of the business is consistent with the Queensland Government's energy policy and broader objectives, and generally meets shareholder expectations.

During the year we also operated under a comprehensive reporting regime, prescribed by the *Government Owned Corporations Act 1993* (Qld), and *GOC Amendment Regulation (No. 2) (2009)*, as well as other mechanisms. This is supported by teams dedicated to managing the business' government and regulatory relationships, and to responding to reporting requests.

The content of Ergon Energy's annual reporting suite is one of many reports which endeavours to enable our government shareholders to have an informed assessment of our operations, including the organisation's overall efficiency and effectiveness.

### Directions and notifications

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

In June 2016, as part of the process to consolidate Ergon Energy Corporation Limited under our new parent entity Energy Queensland Limited, a number of directions were made:

- under the *Government Owned Corporations Act 1993* (Qld) (section 131), Ergon Energy was directed to pay a dividend for 2015-16 on 29 June 2016 of $473.6 million (due to the planned transfer of shares to Energy Queensland Limited on the 30 June 2016). p38
- under the *Government Owned Corporations Act 1993* (Qld) (section 86), a direction was given to amend our subsidiary constitutions to deal with the appointment of directors and company secretaries.

The earlier directions relevant to the financial results of the corporation in 2015-16 include:

- a direction given in May 2013, under the *Electricity Act 1994* (Qld), to implement new wholesale electricity supply arrangements for Ergon Energy's retail electricity load. The new market-based wholesale energy procurement arrangements were implemented for a four-year term from 2013-14. The precise financial impact of the direction is considered to be commercially sensitive information.
- a direction from April 2015, pursuant to the *Electricity Act 1994* (Qld), for Ergon Energy to provide information and assistance to the Electricity Mergers Working Group in its deliberations. This led to a number of requests being made in 2015-16 under this direction to progress the merger.
- a direction was issued in June 2015, pursuant to the *Government Owned Corporations Act 1993* (Qld) (section 131) for Ergon Energy to pay a dividend comprising 100% of profits for 2014-15.

## Principle 7 – Recognise and manage risk

### Our risk management framework

Ergon Energy recognises that effective risk management and compliance frameworks are necessary to meet the expectations of its shareholding Ministers, customers, the community and other stakeholders. Fundamental to this is that our directors and management are able to demonstrate an understanding of the business risks and compliance obligations and that these are being efficiently and effectively managed.

To give effect to its risk management and compliance commitments, Ergon Energy has established policies on these and other areas (eg. Health, Safety and Environment) and implemented a risk management framework based on the Joint Australia/New Zealand Risk Management Standard: AS/NZS ISO 31000:2009, and a compliance program based on the Australian Compliance Standard AS ISO 19600:2015.

Ergon Energy also has a Standard for Corporate Risk Management, Corporate Risk Management Guidelines and Corporate Risk Assessment Tables. The standard sets out the principles that Ergon Energy's management needs to follow to achieve effective risk management. The tables, used in conjunction, provide uniform risk management criteria to support consistent risk-based assessments. The standard, guidelines and tables are reviewed annually to ensure they remain appropriate to the needs of the business.

### Risk management activities and compliance

During 2015-16 the following risk management and compliance activities were undertaken:

- Organisational Resilience Framework: This was reviewed and updated to reflect an ongoing focus on the standards relating to organisational resilience and crisis management.
- Risk Management Framework: a review of the framework supported assurances to the Board by the Chief Executive and Chief Financial Officer, in accordance with section 295A of the *Corporations Act 2001* (Cth), that the framework is founded on a system of risk management and internal control and that it is operating effectively in all material respects in relation to financial reporting risks.
- Insurance Program: this year's renewal of the program ensured cost-effective coverage of the organisation's insurable risks, and ongoing endorsement of the program by the Board.
- Corporate Risk Profile and Business Unit Risk Profiles: These were updated. This included a review of against Ergon Energy's Corporate Plan and business unit plans to ensure alignment.
- Risk Assurance Maps: These continued to be used to show the assurance activities performed in relation to key corporate risks and to progress the internal audit plan.

The key compliance matters for 2015-16, which are discussed elsewhere in the report, include network reliability standards (p16); Guaranteed Service Levels (p16); network planning (p25); safety performance (p29); renewable energy targets (p35); and environmental incidents (p36).

With NECF coming into effect in Queensland in July 2015 we also had a compliance focus on the framework's new customer-related obligations. From a retail perspective, the customer protections include hardship assistance (p20), meter reading and billing timeframes and the use of card-operated meters (p21). Breaches were reported quarterly to the AER, and at the time of finalising this report, the AER have not taken any further action. From a distribution perspective, the framework includes the de-energisation and re-energisation of premises, life support registration, and the notification of planned interruptions. Breaches were reported here and the AER issued two notices. Improvements have been made to our processes to ensure compliance (p17).

Further, Ergon Energy Queensland Pty Ltd complied with the risk appetite of the Board, as detailed in the Energy Commodity Risk Management Policy.

### External and internal audit

Ergon Energy submits to a number of external audits in pursuit of world-class practice and, in some cases, to gain or retain the certification required to do business, such as Quality Assurance ISO 9001 certification for our Transmission and Project Services. Other audits we regularly undergo include Australian Standard 4801 Occupational Health and Safety, Electrical Safety Legislation, International Customer Service Standards and Environmental Standard ISO 14001. These audits provide external assurance of the performance statements made in this report.

Ergon Energy's financial systems, processes and controls are audited by the Auditor-General of Queensland. The company's financial results and position are consolidated into the Energy Queensland Limited group annual financial statements, which are also audited by the Auditor-General of Queensland.

The scope of our internal audit function covers all of Ergon Energy's operations, either directly or through the co-sourced internal audit provider contracted by the organisation or its subsidiaries. Our internal audit function helps us accomplish our objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Ergon Energy Internal Audit Charter is established by the authority of the Ergon Energy Audit and Financial Risk Committee.

This year's plan included audits of retail trading, Field Force Automation, project management – network projects, project management and governance – Strategic Projects, Executive at-risk performance payment process, WorkCover Qld claims and associated payroll entries, fixed assets, payroll, corporate card, billing of external works and an audit of ASX Corporate Governance Principles. These reviews focused on documenting and testing key management controls.

The Group Manager Risk, Assurance and Investment reports for administrative purposes to the Chief Financial Officer but retains unrestricted access to the Chief Executive to discuss any matter relating to the finances or operations of Ergon Energy. Internal Audit also ensures its independence by reporting to the Audit and Financial Risk Committee on progress against the Internal Audit Plan and resolution of issues raised in reports. The Group Manager Risk, Assurance and Investment also has access to the Board through the Audit and Financial Risk Committee Chair.

## Principle 8 – Remunerate fairly and responsibly

Ergon Energy recognises that to attract and retain the personnel necessary to deliver on the company's strategic plan and achieve its vision, salaries and salary packaging must be competitive, flexible and performance orientated.

As part of our human resources policy, we have a total employment offering considered to be attractive by both prospective and current employees and representative of the expectations of our community. This policy is designed to attract high calibre employees, retain employees, incorporate current industry benchmarks and ensure employees are aware of what they need to do to contribute to team and organisational goals.

Performance agreements are based on the strategic objectives of the organisation. Executive compensation is disclosed in the Annual Financial Statements. To encourage engagement our leaders have 'at-risk' performance payments as part of their remuneration. This allows them to share in the success when we do well and to better appreciate the implications when we do not. These payments were not made across the business for 2015-16 – Ergon Energy had a lot to overcome to respond appropriately to the reduced revenue allowance in the AER's Final Determination and while progress was made our financial targets were not met.

Non-executive directors are remunerated separately from the executive. Directors' emoluments, as a board or committee member, are set by the Queensland Government. Reimbursement is made for expenditure incurred in performing their roles as directors of the company. Non-executive directors of the company do not participate in any variable reward or at-risk plan and are not eligible for retirement or other benefits other than for statutory superannuation. Executive directors do not receive additional payment for their role as director of any of our subsidiary companies.

The Board's Establishment and People Committee assists in developing a strategic, long-term and sustainable approach on issues relating to people working for Ergon Energy.

Details of remuneration to non-executive directors and executives, and at-risk payments are reported in the Annual Financial Statements (available online), consistent with the requirements of Australian Accounting Standard AASB 124.

# Additional information

### Entertainment and hospitality

In furthering Ergon Energy's business interests, and working to achieve its corporate goals, from time to time entertainment and hospitality is provided to employees, clients, customers and community groups. Reasonable limits have been maintained during 2015-16 for total event expenditure and expenditure per head.

At the request of shareholding Ministers, the SCI includes information on Corporate Entertainment and Hospitality. For 2015-16, the following entertainment and hospitality expenses over $5,000 were:

| Event | Investment |
|---|---|
| Employee Christmas Function – Cairns | $6,390 |
| Employee Christmas Function – Townsville | $8,430 |
| Employee Christmas Function – Rockhampton | $9,930 |
| Employee Christmas Function – Toowoomba | $7,260 |
| Employee Christmas Function – Brisbane | $6,450 |

## Glossary

| | |
|---|---|
| **AER** | Australian Energy Regulator |
| **ARENA** | Australian Renewable Energy Agency |
| **ASEA** | Asbestos Safety and Eradication Agency |
| **ASX** | Australian Stock Exchange |
| **ATSI** | Aboriginal and Torres Strait Islander |
| **DATSIP** | Department of Aboriginal and Torres Strait Islander Partnerships |
| **EOI** | Expression of Interest |
| **EV** | Electric Vehicle |
| **EWOQ** | Energy and Water Ombudsman Queensland |
| **FFA** | Field Force Automation |
| **FiT** | Feed-in Tariff |
| **GIS** | Geospatial Information System |
| **GSL** | GSL |
| **GUSS** | Grid Utility Support Systems |
| **HSE IMS** | Health, Safety, Environment and Cultural Heritage Integrated Management System |
| **ICT** | Information and Communications Technology |
| **IRC** | Investment Review Committee |
| **LED** | Light Emitting Diode |
| **MSS** | Minimum Service Standard |
| **NECF** | National Energy Customer Framework |
| **NEM** | National Electricity Market |
| **NIRC** | Network Investment Review Committee |
| **PHEV** | Plug-in Hybrid Electric Vehicle |
| **PPA** | Power Purchase Agreement |
| **QCA** | Queensland Competition Authority |
| **Resi-BESS** | Residential Battery Energy Storage System |
| **RET** | Renewable Energy Target |
| **RFDS** | Royal Flying Doctor Service |
| **SCS** | Standard Control Service |
| **SES** | State Emergency Service |
| **SWER** | Single Wire Earth Return |
| **USQ** | University of Southern Queensland |

## Key service centres

**Cairns**
109 Lake Street
CAIRNS QLD 4870

**Townsville (Registered Office)**
420 Flinders Street
TOWNSVILLE QLD 4810

**Mackay**
23 Cemetery Road
WEST MACKAY QLD 4740

**Rockhampton**
Cnr Fitzroy and Alma Streets
ROCKHAMPTON QLD 4700

**Maryborough**
97-99 Adelaide Street
MARYBOROUGH QLD 4650

**Toowoomba**
Cnr South and Hampton Streets
TOOWOOMBA QLD 4350

**Brisbane**
825 Ann Street
FORTITUDE VALLEY QLD 4006

## Common industry measures

### Reliability

| | |
|---|---|
| **SAIDI** | System Average interruption Duration Index. Network reliability performance index, indicating the total minutes, on average, that customers are without electricity during the relevant period (minutes). |
| **SAIFI** | System Average Interruption Frequency Index. Network reliability performance index, indicating the average number of occasions each customer is interrupted during the relevant period (interruptions). |
| **Customer Minutes** | Customer minutes is a measure of the number of customers interrupted multiplied by the duration of a power outage or outages, incorporating any staged restoration. |

### Safety

| | |
|---|---|
| **TRIFR** | Total Injury Frequency Rate – measured as number of injuries per million hours worked. Lost Time Injuries (LTI) + Medical Treatment Injuries (MTI) x 1, 000, 000 / Exposure Hours |
| **LTIFR** | Lost Time Injury Frequency Rate. Number of lost-time injuries per million hours worked over the 12 month reporting period. Lost Time Injuries (LTI) x 1, 000, 000 / Exposure Hours |
| **DEEFR** | Dangerous Electrical Event Frequency Rate. A safe work practice measure that tracks Dangerous Electrical Events (DEEs) associated with work done by our employees (DEEs x million / exposure hours). Dangerous Electrical Events (DEE) x 1, 000, 000 / Exposure Hours |

### Electricity related

| | |
|---|---|
| **V** | volt: the unit of potential or electrical pressure |
| **VA** | volt ampere: volt amperes are the 'apparent power' and are the product of the voltage applied to the equipment times the current drawn by the equipment. The VA rating is limited by the maximum permissible current, and the watt rating by the power-handling capacity of the device |
| **kVA** | kilovolt ampere: one kVA equals 1,000VA |
| **MVA** | megavolt ampere: one MVA equals 1,000kVA |
| **kV** | kilovolt: one kV equals 1,000 volts |
| **W** | watt: a measure of the power present when a current of one ampere flows under a pressure of one volt |
| **kW** | kilowatt: one kW equals 1,000 watts |
| **MW** | megawatt: one MW equals 1,000 kilowatts |
| **kWh** | kilowatt hour: the standard 'unit' of electricity which represents the consumption of electrical energy at the rate of one kilowatt over a period of one hour |
| **MWh** | megawatt hour: one MWh equals 1,000 kilowatt hours |
| **GWh** | gigawatt hour: one GWh equals 1,000 megawatt hours or one million kilowatt hours |
| **HV** | high voltage: alternating current above 1,000V |
| **LV** | low voltage: alternating current above 32V and not exceeding 1,000V |
| **GJ** | gigajoule: a measure of energy, one million joules |

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## Annual Stakeholder Report 2015-16

**ergon.com.au**

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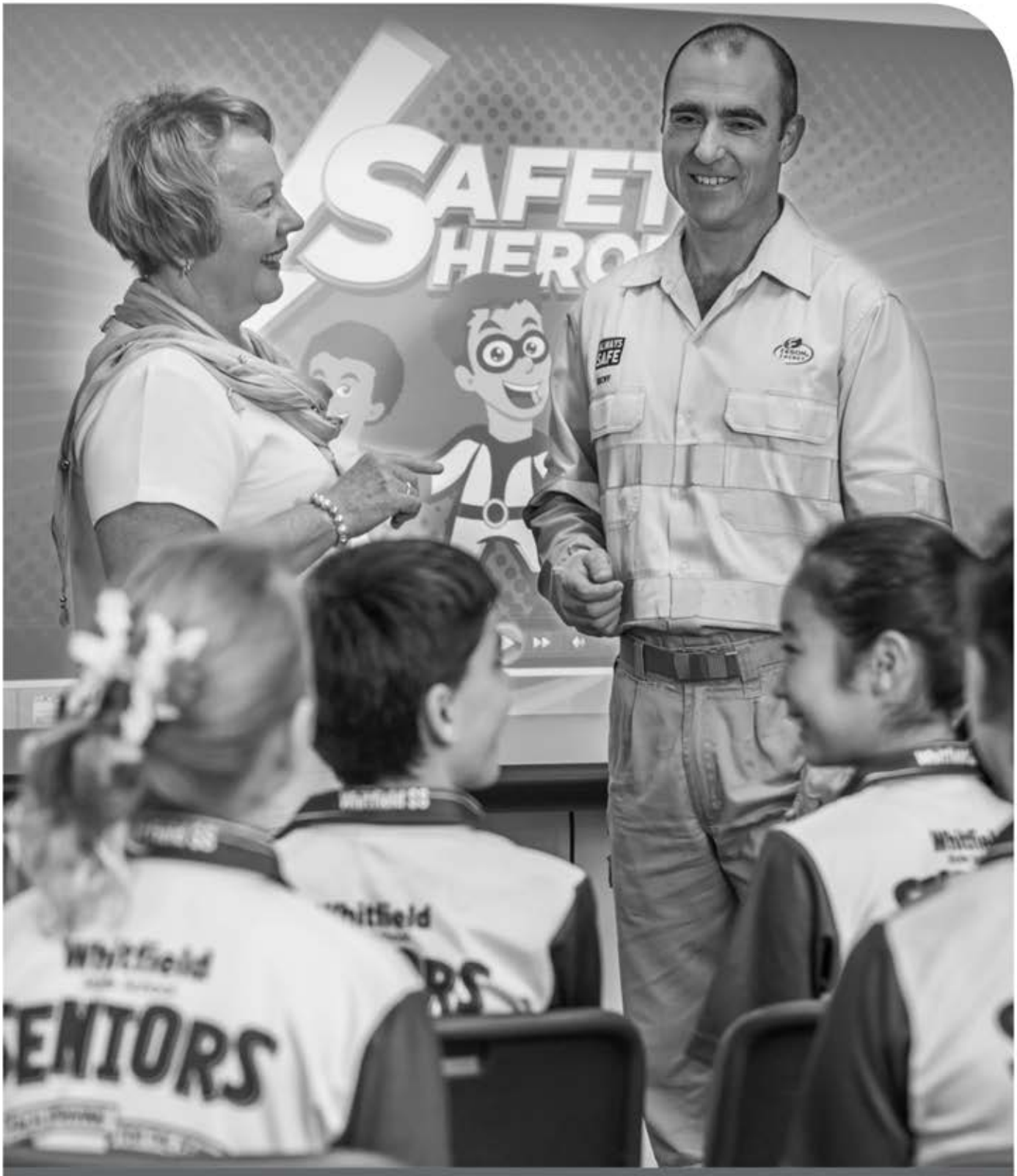
24 hours a day, 7 days a week

**Life-Threatening Emergencies Only**
Triple zero (000) or 13 16 70
24 hours a day, 7 days a week

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

# Ergon Energy Queensland Pty Ltd Annual Financial Statements **2015/16**

for the year ended 30 June 2016




# Ergon Energy Queensland Pty Ltd

## Annual Financial Statements

For the year ended 30 June 2016

Ergon Energy Queensland Pty Ltd ABN 11 121 177 802

# Ergon Energy Queensland Pty Ltd

## Table of Contents
**For the year ended 30 June 2016**

**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

## Table of Contents
**For the year ended 30 June 2016**

# Ergon Energy Queensland Pty Ltd

## Directors' report
**For the year ended 30 June 2016**

The Directors present their report together with the financial report of Ergon Energy Queensland Pty Ltd ("the Company") for the year ended 30 June 2016 and the auditor's report thereon.

### Directors
Below you'll find the names of the Directors of the Company who were in office during or since the end of the financial year:

Gary Stanford (appointed 23 October 2015)

Gary Humphrys (appointed 23 October 2015)

Rodney Wilkes (appointed 23 October 2015)

Ian McLeod resigned as a Director on the 23 October 2015.

### 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. The Board have approved a final dividend of $106,001 thousand for the 2016 financial year, which is payable on 30 December 2016. A final dividend of $204,259 thousand was declared during the 2015 financial year and paid on 30 November 2015.

### Operating and financial review
The Company's profit/(loss) after income tax equivalent expense was $133,698 thousand for the year (2015: $204,259 thousand). This result was driven by increased energy costs and lower wholesale electricity and certificate margins.

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

### Significant changes in the state of affairs
The Queensland Government merged the Company's shareholder Ergon Energy Corporation Limited with Energex Limited under a parent company to form a single electricity supply business. The parent company Energy Queensland Limited was incorporated on 20 May 2016. The ownership of the Company's shareholder Ergon Energy Corporation Limited transferred on 30 June 2016.

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

### 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.

It is intended that the parent company will remove duplication and drive synergies in corporate functions. Both the Energex and Ergon brands will be retained, and frontline staff will remain in their current groups and continue to deliver network services in their respective regions.

*Community Service Obligations*

The Company is legally required to charge its retail customers in regional Queensland at notified prices. As a consequence, the tariff revenue collected is below the cost of supplying electricity. The Community Service Obligations Deed (CSO Deed) between the Company and the State of Queensland contains the details of Community Service Obligation (CSO) payments to be made by the State of Queensland to the Company. The CSO Deed has been extended to 30 June 2017.

# Ergon Energy Queensland Pty Ltd

## Directors' report
**For the year ended 30 June 2016**

### Environmental regulation and performance

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

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

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

### Indemnification and insurance of Directors and officers

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

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

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

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

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

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 45 and forms part of the Directors' report for the period ended 30 June 2016.

### 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.

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

G Humphrys
Director
Brisbane 26th August 2016.

# Ergon Energy Queensland Pty Ltd

## Statement of profit and loss
**For the year ended 30 June 2016**

| | Note | **2016** **$'000** | 2015 $'000 |
|---|---|---|---|
| Revenue | 2 | **1,885,730** | 1,950,156 |
| Other income | 2 | **39,566** | 84,458 |
| Network charges / electricity purchases | 3 | **(1,524,941)** | (1,569,316) |
| Materials and services | | **(72,969)** | (74,050) |
| Depreciation, amortisation and impairments | | **(19,471)** | (16,508) |
| Finance costs | | **(5,337)** | (3,286) |
| Environmental certificate compliance expenses | | **(96,347)** | (66,143) |
| Other expenses | | **(15,806)** | (14,199) |
| **Profit/(loss) before income tax equivalent expense** | | **190,425** | 291,112 |
| Income tax equivalent (expense)/benefit | 4 | **(56,727)** | (86,853) |
| **Profit/(loss) after income tax equivalent expense/benefit** | | **133,698** | 204,259 |

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

# Ergon Energy Queensland Pty Ltd

## Statement of comprehensive income
**For the year ended 30 June 2016**

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Profit/(loss) after income tax equivalent (expense)/benefit** | | **133,698** | 204,259 |
| *Items that will not be reclassified to profit or loss:* | | | |
| Prior year inter-company tax adjustment | | - | 5,943 |
| *Items that may be reclassified to the profit and loss* | | | |
| ***Cash flow hedges*** | | | |
| Effective portion of changes in fair value for the year | | 119,309 | 40,028 |
| Deferred income tax relating to changes in fair value | | (35,793) | (12,009) |
| Total items that may be reclassified to the profit and loss | | 83,516 | 28,019 |
| **Total comprehensive income/(loss)** | | **217,214** | 238,221 |
| Profit/(loss) attributable to: | | | |
| Shareholders of the Company | | **133,698** | 204,259 |
| Total comprehensive income/(loss) attributable to: | | | |
| Shareholders of the Company | | **217,214** | 238,221 |

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

# Ergon Energy Queensland Pty Ltd

## Statement of financial position
**As at 30 June 2016**

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 5 | 38,157 | 280,470 |
| Trade and other receivables | 6 | 461,279 | 437,275 |
| Financial assets | 7 | 190,547 | 52,960 |
| Other assets | 14 | 47,866 | 38,355 |
| **Total current assets** | | 737,849 | 809,060 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | 101 | 133 |
| Intangible assets | 15 | 22,370 | 10,849 |
| Net deferred tax equivalent asset | 16 | - | 5,067 |
| Financial assets | 7 | 470 | - |
| **Total non-current assets** | | 22,941 | 16,049 |
| **TOTAL ASSETS** | | 760,790 | 825,109 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 8 | 528,337 | 596,365 |
| Interest bearing liabilities | 9 | 20,010 | 26,584 |
| Provisions | | 96 | 361 |
| Financial liabilities | 10 | 11,148 | 32,262 |
| Other liabilities | 18 | 55,107 | 33,460 |
| **Total current liabilities** | | 614,698 | 689,032 |
| **NON-CURRENT LIABILITIES** | | | |
| Provisions | 17 | 2,466 | 2,466 |
| Net deferred tax equivalent liability | 16 | 34,435 | - |
| **Total non-current liabilities** | | 36,901 | 2,466 |
| **TOTAL LIABILITIES** | | 651,599 | 691,498 |
| **NET ASSETS** | | 109,191 | 133,611 |
| **EQUITY** | | | |
| Share capital | 19 | - | - |
| Other owner's contributions | 20 | - | 47,094 |
| Hedging reserve | | 111,535 | 28,019 |
| Retained earnings | | (2,344) | 58,498 |
| **TOTAL EQUITY** | | 109,191 | 133,611 |

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 2016**

| | Share capital | Other owner's contributions | Hedging Reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Changes in equity for 2015** | | | | | |
| Restated balance at 1 July 2014 | - | 47,094 | - | (6,566) | 40,528 |
| Dividends | - | - | - | (145,138) | (145,138) |
| Total comprehensive income for the financial year | - | - | 28,019 | 210,202 | 238,221 |
| **Balance at 30 June 2015** | - | 47,094 | 28,019 | 58,498 | 133,611 |
| **Changes in equity for 2016** | | | | | |
| Dividends | **-** | **-** | **-** | **(106,001)** | **(106,001)** |
| Government energy consolidation transfer | **-** | **(47,094)** | **-** | **(88,539)** | **(135,633)** |
| Total comprehensive income for the financial year | **-** | **-** | **83,516** | **133,698** | **217,214** |
| **Balance at 30 June 2016** | **-** | **-** | **111,535** | **(2,344)** | **109,191** |

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 2016**

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **2,087,987** | 2,137,512 |
| Receipts for community service obligations | | **619,653** | 642,489 |
| Payments to suppliers | | **(2,656,735)** | (2,608,751) |
| Interest received | | **12,833** | 10,835 |
| Interest paid | | **(5,602)** | (3,259) |
| **Net cash from operating activities** | 22 | **58,136** | 178,826 |
| **Cash flows from investing activities** | | | |
| Payments for intangible assets | | **(12,635)** | (8,014) |
| Payment for investment | | **(470)** | - |
| **Net cash from investing activities** | | **(13,105)** | (8,014) |
| **Cash flows from financing activities** | | | |
| Proceeds from / (repayment of) repayable deposits | | **(6,573)** | 705 |
| Government energy consolidation transfer | | **(135,633)** | - |
| Dividends paid | | **(145,138)** | - |
| **Net cash from financing activities** | | **(287,344)** | 705 |
| **Net increase/(decrease) in cash and cash equivalents** | | **(242,313)** | 171,517 |
| Cash and cash equivalents at beginning of the financial year | | **280,470** | 108,953 |
| **Cash and cash equivalents at the end of the financial year** | 5 | **38,157** | 280,470 |

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

# Ergon Energy Queensland Pty Ltd

## Notes to the financial statements

**For the year ended 30 June 2016**

**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 2016 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 as follows:

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

The Company is a for-profit entity.

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

The financial statements were authorised for issue by the Directors on 25th August 2016.

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

**(a) Statement of compliance**

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

**(b) Basis of accounting**

The financial statements are presented in Australian dollars. The 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**

This year the Australian Accounting Standards Board (AASB) published new accounting standards and interpretations. The Company has adopted all of the new and revised standards and interpretations that are relevant to its operations and effective for the current reporting period.

*Early adoption of standards*

The Company has early adopted the revised AASB 9 (December 2013) *Financial Instruments* and *AASB 2015-2 Amendments to Australian Accounting Standards- Disclosure Initiative* in advance of their effective date.

*New standards and interpretations not yet adopted*

The AASB published new accounting standards and interpretations that are not mandatory for 30 June 2016 reporting periods and which the Company has not early adopted for this period. The Company's assessment of the initial impact of the following Standards and Interpretations on its financial report is outlined below.

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

The new standard introduces a single lease accounting model which requires the recognition of all leasing arrangements on the balance sheet. The standard requires a lessee to recognise a right-of-use asset and a financial liability for all leases with a term of more than 12 months, unless the underlying asset is of low value.

(ii) AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15. AASB 15 is effective for financial years commencing on or after 1 January 2018.

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

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

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

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

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

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

**SECTION 2: Profit and loss information**

**In this section…**

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

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

| Note 2: Revenue and other income | **2016 $'000** | 2015 $'000 |
|---|---|---|
| **(a) Revenue** | | |
| *Sales revenue* | | |
| Sales revenue – parent entity | **1,865** | 2,157 |
| Sales revenue | **1,838,297** | 1,928,934 |
| *Other revenue* | **45,568** | 19,065 |
| Total revenue | **1,885,730** | 1,950,156 |
| **(b) Other income** | | |
| Fair value gains/(loss) on financial instruments at fair value through profit and loss* | **5,473** | 33,144 |
| Unwinding of inception value of designated hedges | **27,939** | 42,620 |
| Cash flow hedge ineffectiveness | **5,662** | 1,455 |
| Fair value gains on energy certificates at fair value through profit and loss* | **492** | 7,239 |
| Total other income | **39,566** | 84,458 |

*Mandatory measurement at fair value.

**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 metered or invoiced energy consumption.

### Note 3: Expenses

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Profit/(loss) before income tax equivalent expense/(benefit) includes the following specific expenses: | | |
| *Network charges / electricity purchases* | | |
| Cost of sales | **485,427** | 460,827 |
| Cost of sales – parent entity | **1,581,129** | 1,704,560 |
| less Community service obligation | **(541,615)** | (596,071) |
| | **1,524,941** | 1,569,316 |

**Accounting policies**

**Expenses**

*Network charges / electricity purchases*

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

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

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

*Community service obligations offset*

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

**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.

| Note 4: Taxation | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **(a) Income tax equivalent expense/(benefit)** | | |
| Current tax expense | **52,973** | 64,181 |
| Deferred tax expense | **3,754** | 22,651 |
| Under/(over) provision in prior year | **-** | 21 |
| Income tax equivalent expense/(benefit) | **56,727** | 86,853 |
| Deferred income tax expense included in income tax expense comprises: | | |
| Decrease/(increase) in deferred tax assets | **(4,284)** | 25,874 |
| Increase/(decrease) in deferred tax liabilities | **8,038** | (3,223) |
| Income tax expense attributable to profit from continuing operations | **3,754** | 22,651 |
| **(b) Numerical reconciliation of income tax equivalent expense/(benefit) to prima facie notional tax equivalents payable** | | |
| Net profit/(loss) before income tax equivalent expense | **190,424** | 291,112 |
| Prima facie income tax equivalent expense on operating profit at 30% (2015: 30%) | **57,127** | 87,334 |
| *Decrease in income tax equivalent expense:* | | |
| Depreciation deductible for tax purposes only | **(407)** | (407) |
| Non deductible provisions | **-** | (143) |
| *Increase in income tax equivalent expense:* | | |
| Other | **7** | 48 |
| Under/(over) provision in prior years | **-** | 21 |
| Income tax equivalent (benefit)/expense | **56,727** | 86,853 |

Accounting policies for taxation are included in Note 16.

| | | |
|---|---|---|
| **(c) Deferred Tax Recognised Directly in Equity** | | |
| Hedge accounting of derivatives | **47,801** | 12,009 |
| Deferred tax recognised directly in equity | **47,801** | 12,009 |

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** | **2016 $'000** | 2015 $'000 |
|---|---|---|
| Cash at bank and on hand | **38,157** | 6,364 |
| Short term deposits | **-** | 274,106 |
| Total cash and cash equivalents | **38,157** | 280,470 |

**Note 6: Trade and other receivables**

| | | |
|---|---|---|
| **Current** | | |
| Trade receivables and unread meters | **360,158** | 337,271 |
| Provision for impaired receivables | **(25,610)** | (16,778) |
| | **334,548** | 320,493 |
| Community service obligations | **87,028** | 108,959 |
| Hedge and other receivables | **39,703** | 7,823 |
| Total current trade and other receivables | **461,279** | 437,275 |

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

**(a) Impaired trade receivables**

| **Ageing of impaired receivables** | **Gross 2016 $'000** | **Impairment 2016 $'000** | Gross 2015 $'000 | Impairment 2015 $'000 |
|---|---|---|---|---|
| Less than one month overdue | **54,914** | **1,750** | 25,843 | 1,029 |
| One to two months overdue | **32,850** | **3,870** | 10,295 | 1,669 |
| Two to three months overdue | **10,121** | **2,252** | 5,358 | 1,688 |
| Over three months overdue | **24,466** | **17,738** | 16,111 | 12,392 |
| | **122,351** | **25,610** | 57,607 | 16,778 |

**Note 6: Trade and other receivables (Continued)**

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **(a) Impaired trade receivables** | | |
| Movements in the provision for impaired trade receivables are as follows: | | |
| Carrying amount at the beginning of the financial year | **16,778** | 12,854 |
| Provision for impairment recognised during the financial year | **18,529** | 15,607 |
| Receivables written off during the financial year as uncollectible | **(9,697)** | (11,683) |
| Carrying amount at the end of the financial year | **25,610** | 16,778 |

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

**(b) Past due but not impaired**

As at 30 June 2016, no trade receivables were past due but not impaired (2015: Nil).

**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: Financial assets

| | **2016** | 2015 |
|---|---|---|
| | **$'000** | $'000 |
| **Current** | | |
| *At fair value through profit and loss* | | |
| Derivative financial instruments – electricity hedges | **28,326** | 18,962 |
| *Designated as cash flow hedges* | | |
| Derivative financial instruments – electricity hedges | **160,508** | 33,998 |
| *Held for trading* | | |
| Power purchase agreements asset | **1,713** | - |
| Total current financial assets | **190,547** | 52,960 |
| **Non-Current** | | |
| *At cost* | | |
| Long term investment – other shares | **470** | - |
| | **470** | - |

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

**Critical accounting estimates and judgements**

*Electricity financial instruments measured at fair value*

The Company enters into electricity financial instruments and determines the fair value of these instruments, which includes swaps, options, swaptions and power purchase agreements (PPAs) using market based valuation methods as outlined in Note 12. 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

### Financial Liabilities

### Note 8: Trade and other payables

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Trade payables | **61,016** | 20,474 |
| Trade payables – parent entity | **291,910** | 371,741 |
| Dividends payable | **106,001** | 145,138 |
| Hedge and other payables | **69,410** | 59,012 |
| Total current payables | **528,337** | 596,365 |

**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.

### Note 9: Interest bearing liabilities

| | | |
|---|---|---|
| **Current** | | |
| *Unsecured liabilities* | | |
| Customer security deposits | **20,010** | 26,584 |
| Total current interest bearing liabilities | **20,010** | 26,584 |

**Accounting policies**

**Customer security deposits**

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

### Note 10: Financial liabilities

| | | |
|---|---|---|
| **Current** | | |
| *At fair value through profit and loss* | | |
| Derivative Financial Instruments - electricity hedges | **10,450** | 15,592 |
| *Designated as cash flow hedges* | | |
| Derivative Financial Instruments - electricity hedges | **698** | 16,603 |
| *Held for Trading* | | |
| Power purchase agreements held for trading | **-** | 67 |
| Total current financial liabilities | **11,148** | 32,262 |

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

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

### Financial risk factors additional disclosures

### Note 11: Financial risk management

The Company has policies and procedures in place to manage the financial risks associated with its operating activities. Exposure to credit, interest rate, price, liquidity and currency risks arises in the normal course of the Company's business. Derivative financial instruments are used to 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 having established and maintained an appropriate credit review process. Furthermore, the Company minimises concentration of credit risk by undertaking transactions with a large number of retail customers and limiting credit to any individual customer.

Where it'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 $20,010 thousand (2015: $26,584 thousand).

The Company manages its credit settlement risk associated with electricity market hedging by maintaining an Energy Commodity Credit Risk Manual as part of an overarching Energy Commodity Risk Management Policy. Credit settlement risk is managed by maintaining approved counterparty credit limits. The values of counterparty credit limits are determined by reference to each counterparty's credit rating, as determined by a recognised credit rating agency or, if the counterparty does not have a credit rating, by reference to the results of a detailed credit analysis. Where considered appropriate, the Company requires counterparties who have not been rated by a credit rating agency to provide appropriate letters of credit or bank guarantees. These letters of credit and bank guarantees reduced the Company's exposure to credit risk by $1,000 thousand as at 30 June 2016 (30 June 2015:$2,000 thousand).

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

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

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

| Counterparty classification | **2016** | 2015 |
|---|---|---|
| Queensland Government-owned electricity entities | **79%** | 75% |
| Entities with a Standard & Poors credit rating A | **-** | 2% |
| Entities with a Standard & Poors credit rating AA | **1%** | 2% |
| Entities with a Standard & Poors credit rating BBB | **1%** | 1% |
| Other entities | **19%** | 20% |

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

**(b) Interest rate risk**

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

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

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

**Note 11: Financial risk management (Continued)**

**(b) Interest rate risk**

*Sensitivity Analysis*

At 30 June 2016, 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 $181 thousand (2015: $2,359 thousand).

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

| | Note | Floating interest rate $'000 | Weighted average interest rate |
|---|---|---|---|
| **2016** | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | 5 | **38,157** | **2.89%** |
| **Financial liabilities** | | | |
| Customer security deposits | 9 | **20,010** | **2.22%** |
| | | | |
| **2015** | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | 5 | 280,470 | 3.24% |
| **Financial liabilities** | | | |
| Customer security deposits | 9 | 26,584 | 1.75% |

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

The parent entity's Board has approved an Energy 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 audit requirements.

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

**Note 11: Financial risk management (Continued)**

**(c) Price risk**

*Sensitivity Analysis*

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

| | Electricity Forward Price | | | |
|---|---|---|---|---|
| | **+10%** | +10% | **-10%** | -10% |
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Profit / (loss) before tax | **9,563** | 14,205 | **(10,967)** | (16,573) |
| Hedging reserve | **82,523** | 71,990 | **(81,118)** | (68,243) |
| Equity | **92,085** | 86,195 | **(92,085)** | (84,816) |

*Large-scale generation certificates (LGC)*

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

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

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

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

*Sensitivity Analysis*

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

| | LGCs | | | |
|---|---|---|---|---|
| | **+10%** | +10% | **-10%** | -10% |
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Profit / (loss) before tax | **538** | 1,364 | **(538)** | (1,364) |
| Equity | **538** | 1,364 | **(538)** | (1,364) |

*Small-scale technology certificates (STC)*

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

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

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

*Sensitivity Analysis*

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

| | STCs | | | |
|---|---|---|---|---|
| | **+10%** | +10% | **-10%** | -10% |
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Profit / (loss) before tax | **(448)** | (79) | **448** | 79 |
| Equity | **(448)** | (79) | **448** | 79 |

**Note 11: Financial risk management (Continued)**

**(d) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. An intercompany cash management facility is in place with the parent entity and a Working Capital Investment Facility with QTC.

The parent entity is also an 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. Pursuant to the Eligible Provider conditions set by the Australian Securities and investments Commission (ASIC), the parent entity must at all times;

- remain a Government Owned Corporation (GOC) or a subsidiary of a GOC for the purposes of the Government Owned Corporations Act 1993 (Qld);
- have access to funds from the State Borrowing Program operated by the Queensland Government (directly or as a subsidiary of a GOC);
- have a working capital facility of not less than $300,000 thousand provided by QTC; and
- have net tangible current assets of more than $100,000 thousand.

The ASIC conditions were met by the parent entity at all times, and up to the date of signing.

Liquidity risk associated with electricity market trading is controlled by the Australian Energy Market Operator (AEMO) whereby all market participants are required to deliver irrevocable bank guarantees as security for timely settlement. These guarantees are held for and on behalf of all participants thereby limiting exposure to liquidity risk.

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

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

| | Less than 1 year | 1 to 5 years | Over 5 years | Total contractual cash flows | Carrying amount |
|---|---|---|---|---|---|
| **At 30 June 2016** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Financial liabilities** | | | | | |
| Electricity hedges | **12,605** | **659** | **-** | **13,265** | **11,148** |
| Non-interest bearing | **528,337** | **-** | **-** | **528,337** | **528,337** |
| Variable rate | **20,010** | **-** | **-** | **20,010** | **20,010** |
| **Total financial liabilities** | **560,952** | **659** | **-** | **561,612** | **559,496** |

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

**Note 11: Financial risk management (Continued)**

**(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, owner's contributions and retained earnings disclosed in Notes 19 and 20. The Company does not hold or require long-term borrowings as the Company is self-funded through its income from customer receipts and community service obligation payments from the Queensland State Government. The Company's $300,000 thousand Working Capital Facility with QTC was transferred to the Queensland Government pursuant to the *Government Owned Corporations (Energy Consolidation) Regulation 2016* (Regulation) on 30 June 2016.

The Company has an intercompany cash management facility in place with the parent entity with a facility limit of $100,000 thousand (2015: $100,000 thousand). A facility limit increase to $250,000 thousand is available under this facility until 31 December 2016. This facility was not utilised at the end of the year and the Company has no other external borrowings. The parent entity has a working capital facility in place for $300,000 thousand with QTC (2015: $300,000 thousand) for the purposes of the Company's Australian Financial Services Licence. The ultimate parent entity has a working capital facility in place for $700,000 thousand 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. The Company's policy is to borrow from its parent entity to meet its short-term cash management and working capital requirements. To this end, the parent entity borrows from the ultimate parent entity when required to manage the Company's liquidity requirements.

### Note 12: Fair values

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

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

| **2016** | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **Total $'000** |
|---|---|---|---|---|
| **Assets** | | | | |
| Electricity hedges | **59,472** | **129,362** | **-** | **188,834** |
| Large-scale generation certificates held for trading | **-** | **35,997** | **-** | **35,997** |
| Small-scale technology certificates held for trading | **-** | **725** | **-** | **725** |
| Power purchase agreements held for trading | **-** | **-** | **1,713** | **1,713** |
| | **59,472** | **166,084** | **1,713** | **227,269** |
| **Liabilities** | | | | |
| Electricity hedges | **7,417** | **3,731** | **-** | **11,148** |
| | **7,417** | **3,731** | **-** | **11,148** |
| 2015 | | | | |
| **Assets** | | | | |
| Electricity hedges | 2,511 | 50,449 | - | 52,960 |
| Large-scale generation certificates held for trading | - | 28,858 | - | 28,858 |
| Small-scale technology certificates held for trading | - | 4,387 | - | 4,387 |
| | 2,511 | 83,694 | - | 86,205 |
| **Liabilities** | | | | |
| Electricity hedges | (3,309) | (28,886) | - | (32,195) |
| Power purchase agreements held for trading | - | - | (67) | (67) |
| | (3,309) | (28,886) | (67) | (32,262) |

**Note 12: Fair values (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:

| | Electricity hedges $'000 | Power purchase agreements held for trading $'000 | Total $'000 |
|---|---|---|---|
| **2016** | | | |
| **Assets** | | | |
| Opening balance | **-** | **-** | **-** |
| Unrealised gains/(losses) recognised in statement of profit or loss | **-** | **1,713** | **1,713** |
| Closing balance | **-** | **1,713** | **1,713** |
| **Liabilities** | | | |
| Opening balance | - | (67) | (67) |
| Settlements | - | 67 | 67 |
| Closing balance | - | - | - |
| **2015** | | | |
| **Assets** | | | |
| Opening balance | 3,833 | 32 | 3,865 |
| Transfers out of Level 3 | (3,833) | - | (3,833) |
| Settlements | - | (32) | (32) |
| Closing balance | - | - | - |
| **Liabilities** | | | |
| Opening balance | (5,719) | (4,166) | (9,885) |
| Transfers out of Level 3 | 5,719 | - | 5,719 |
| Settlements | - | 4,099 | 4,099 |
| Closing balance | - | (67) | (67) |

**Note 12: Fair values (continued)**

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

Transfers between hierarchy levels are expected to occur when there is a change in the observability of a pricing input, or a change in valuation technique. The Company recognises transfers between levels of the fair value hierarchy as of the beginning of the reporting period during which the transfer has occurred. During 2016 there were no transfer of electricity derivatives between level 2 and level 3. (2015: an electricity derivative valued at $1,886 thousand was transferred from a level 3 into level 2 due to an increase in market liquidity and the instrument became readily tradeable).

*(d) Valuation policies and procedures*

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

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

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

*Swaps*

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

I. Swaps over the counter – TFS quarterly peak and off peak is shaped into half hourly intervals using May 2015 to April 2016 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. Where positions are held in periods beyond the curve, the curve is extended accordingly.

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

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

*Power purchase agreements*

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

*Large-scale generation certificates*

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

*Small-scale technology certificates*

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

**Note 12: Fair values (continued)**

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

| | Reflected in statement of profit and loss | | | |
|---|---|---|---|---|
| | Favourable | | Unfavourable | |
| | $'000 | | $'000 | |
| | **2016** | 2015 | **2016** | 2015 |
| Power purchase agreements | **171** | (7) | **(171)** | 7 |

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

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

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

(iii) *Master netting or similar agreements*

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

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

**Note 12: Fair values (continued)**

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

| | Note | Gross amounts of financial instruments in the statement of financial position | Related financial instruments that are not offset | Net amount |
|---|---|---|---|---|
| | | $'000 | $'000 | $'000 |
| **2016** | | | | |
| **Financial assets** | | | | |
| Electricity Hedges | **7** | **190,591** | **(9,011)** | **181,580** |
| **Financial liabilities** | | | | |
| Electricity Hedges | **10** | **(11,150)** | **9,011** | **(2,139)** |
| | | | | |
| **2015** | | | | |
| **Financial assets** | | | | |
| Electricity Hedges | **7** | 52,960 | (52,960) | - |
| **Financial liabilities** | | | | |
| Electricity Hedges | **10** | (32,195) | 52,960 | 20,765 |

**Accounting policies**

**Financial instruments**

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

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

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

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

*2) Power purchase agreements*

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

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

*3) Embedded derivatives*

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

### Note 13: Hedge accounting

*Cash flow hedges*

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

The Company undertakes derivative transactions to hedge the price of electricity it purchases over a three-year period within a set of 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 and loss as the underlying forecast purchase or sale transactions are no longer expected to occur. During the year ended to 30 June 2016 no hedges (2015: Nil) were de-designated and all underlying forecast transactions remain highly probable to occur as originally forecast.

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

(i) *Nominal amount of electricity hedges outstanding*

As at 30 June 2016, the average notional amount of electricity hedges outstanding over the next 2 years from FY 2017 to FY 2018 is approximately 6,238,000 MWh (Megawatt hours) at an average contracted price ranging between $54 and $57. (2015: average notional amount outstanding over 3 years from FY 2016 to FY 2018 of 4,671,976 MWh (Megawatt hours) at an average contracted price between $51 and $56.)

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

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

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| Financial Assets: Cash flow hedges - electricity derivatives | 7 | **160,508** | 33,998 |
| Financial Liabilities: Cash flow hedges – electricity derivatives | 10 | **(698)** | (16,603) |

(iii) *The impact of hedging instruments designated in hedge relationships as at 30 June 2016 is as follows*:

| | | | |
|---|---|---|---|
| *Statement of profit and loss* | | | |
| Gain on unwind of inception value of designated hedges | 2(b) | **27,939** | 42,620 |
| Ineffectiveness gains recognised in other income | 2(b) | **5,662** | 1,455 |
| | | | |
| *Statement of comprehensive income* | | | |
| *Cash flow hedge reserve (CFHR)* | | | |
| Opening balance | | **40,028** | - |
| The effective portion recognised in CFHR (pre-tax) | | **147,472** | 147,864 |
| Transfer from CFHR to electricity purchases | | **(28,163)** | (107,836) |
| Closing balance (pre-tax) | | **159,337** | 40,028 |

No hedge gains or losses (2015: Nil) were reclassified to electricity purchases due to the transaction no longer being expected to occur.

**Note 13: Hedge accounting (continued)**

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

| **Electricity Price Risk** | **2016 $'000** | **2015 $'000** |
|---|---|---|
| Changes in value of hedge instrument | **165,017** | **42,119** |
| Changes in value of hedge item | **163,549** | **44,642** |
| Cash flow hedge reserve | **159,337** | **40,028** |

**Accounting policies**

**Derivative financial instruments and hedge accounting**

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

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

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

*Cash flow hedges*

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

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

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

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

**SECTION 4: Other operating assets and liabilities**

**In this section…**

This section 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 | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Energy certificates – at cost | **11,144** | 5,110 |
| Energy certificates – at fair value | **36,722** | 33,245 |
| Total current other assets | **47,866** | 38,355 |

**Accounting Policies**

**Energy certificates**

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

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

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

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

**Critical accounting estimates and assumptions**

*Energy certificates*

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

| **Note 15: Intangible assets** | **2016 $'000** | 2015 $'000 |
|---|---|---|
| Software - at cost | **14,862** | 11,712 |
| Less: accumulated amortisation and impairment | **(525)** | (10,435) |
| | **14,337** | 1,277 |
| Work in progress – at cost | **8,033** | 9,572 |
| Total intangible assets | **22,370** | 10,849 |
| **Reconciliations** | | |
| **Software** | | |
| Cost at the beginning of the financial year | **11,712** | 11,712 |
| Accumulated amortisation and impairment at the beginning of the financial year | **(10,435)** | (9,157) |
| Carrying amount at the beginning of the financial year | **1,277** | 2,555 |
| Additions | **14,174** | - |
| Disposals* | **-** | - |
| Amortisation expense | **(1,114)** | (1,278) |
| Carrying amount at the end of the financial year | **14,337** | 1,277 |
| **Work in progress** | | |
| Carrying amount at start of year | **9,572** | 1,558 |
| Transfers to intangible assets | **(14,174)** | - |
| Additions | **12,635** | 8,014 |
| Carrying amount at the end of the financial year | **8,033** | 9,572 |
| **Total intangible assets** | **22,370** | 10,849 |

*Assets with historical cost of $10,978 thousand (2015: $189 thousand), but with fully written down values have been retired.

**Accounting policies**

**Intangible assets**

*Internally generated assets including software, expenditure on research and development*

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

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

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

*Amortisation*

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

**Note 15: Intangible assets (continued)**

**Accounting policies**

**Impairment of assets**

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

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

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

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

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

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| **(a) Deferred tax equivalent assets** | | |
| The balance comprises temporary differences attributable to: | | |
| *Amounts recognised in the statement of profit and loss:* | | |
| Provisions | **24,063** | 15,018 |
| Derivatives | **3,257** | 7,837 |
| Other | **32** | 168 |
| | **27,352** | 23,023 |
| **Amounts recognised directly in equity:** | | |
| Hedge accounting of derivatives | **35** | 1,400 |
| Deferred tax equivalent assets | **27,387** | 24,423 |
| **(b) Deferred tax equivalent liabilities** | | |
| The balance comprises temporary differences attributable to: | | |
| *Amounts recognised in the statement of profit and loss:* | | |
| Property, plant and equipment | **881** | 1,083 |
| Derivatives | **10,321** | 3,119 |
| Other | **2,784** | 1,745 |
| | **13,986** | 5,947 |
| **Amounts recognised directly in equity:** | | |
| Hedge accounting of derivatives | **47,836** | 13,408 |
| Deferred tax equivalent liabilities | **(61,822)** | 19,356 |
| **(c) Net deferred tax equivalent asset/(liability)** | | |
| Deferred tax equivalent assets | **27,387** | 24,423 |
| Deferred tax equivalent liabilities | **(61,822)** | (19,356) |
| Net deferred tax equivalent asset/(liability) | **(34,435)** | 5,067 |

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

**Accounting policies**

**Income tax**

(i) *Tax equivalents*

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

(ii) *Current tax equivalents payable*

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

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

(iii) *Deferred tax equivalent assets and liabilities*

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

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

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

- Items recognised directly in equity, in which case that portion is recognised in equity; and
- DTA's and DTL's are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority.

(iv) *Income tax equivalent expense*

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

(v) *Tax consolidation*

The Company is a wholly-owned subsidiary in a tax-consolidated group with Ergon Energy Corporation Limited as the head entity up to 30 June 2016 and Energy Queensland Limited the head entity from 30 June 2016. The NTER Administrator has confirmed that the integration of Ergon Energy and Energex within the new Energy Queensland Limited corporate group is a government imposed restructure within the meaning of paragraph 103 of the NTER Manual. As a result, the transactions are treated in a tax neutral manner.

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

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

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

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

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

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

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

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

**Accounting policies**
**Income tax**

(vii) Goods and services tax (GST)

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

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

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

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

## Other operating liabilities

| **Note 17: Provisions** | **2016 $'000** | 2015 $'000 |
|---|---|---|
| **Non-current** | | |
| Provision for rehabilitation | **2,466** | 2,466 |
| Total non-current provisions | **2,466** | 2,466 |
| **Reconciliations** | | |
| Reconciliations of the carrying amounts of each class of provision are set out below: | | |
| **Provision for rehabilitation** | | |
| Carrying amount at the beginning of the financial year | **2,466** | 2,942 |
| Reversal of unused amounts | **-** | (476) |
| Carrying amount at the end of the financial year | **2,466** | 2,466 |

**Rehabilitation**

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

**Accounting policies**

**Restoration and rehabilitation provisions**

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

**Critical accounting estimates and judgements**

*Provision for rehabilitation*

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

| Note 18: Other liabilities | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Environmental certificate acquittal | **54,506** | 32,920 |
| Unclaimed monies | **601** | 540 |
| Total current other liabilities | **55,107** | 33,460 |

**Accounting policies**

**Environmental certificate acquittal**

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

*Large-scale generation certificates*

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

*Small-scale technology certificates*

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

**SECTION 5: Capital structure**

**In this section…**

This section outlines the Company's shares, reserves and related movements. Liabilities relating to the Company's financing activities are addressed in Section 3 on page 15.

### Note 19: Share capital

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Share capital** | | |
| 100 fully paid ordinary shares | **-** | - |
| Total share capital | **-** | - |

Issued capital totals $100 (2015: $100).

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

**Accounting policies**

**Share capital**

Ordinary shares are classified as equity.

### Note 20: Other owner's contributions

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

*On 30 June 2016, pursuant to Regulations issued by the State of Queensland, cash deposits were transferred to the State of Queensland.

**Accounting policies**

**Other owner's contribution**

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

**SECTION 6: Other notes**

**In this section…**

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

### Note 21: Contingent assets and liabilities

**(a) Guarantees issued**

In order to participate in the electricity market, the Company is required to deliver acceptable security as collateral for their obligations arising as a consequence of normal trading. Security, in the form of payment guarantees totalling $100,000 thousand (2015: $100,000 thousand) have been issued by QTC to AEMO. These guarantees are supported by counter indemnities to QTC totalling $350,000 thousand (2015: $350,000 thousand) by the parent entity.

**(b) Guarantees held**

The Company holds bank guarantees from trading counterparties totalling $1,000 thousand (2015: $2,000 thousand) as security to cover their obligations arising from the trading of electricity. The Company holds bank guarantees from customers totalling $1,742 thousand (2015: $3,144 thousand) as security to cover their obligations arising from purchase of electricity.

**Accounting policies**

**Contingent assets and liabilities**

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

## Notes to the financial statements

**For the year ended 30 June 2016**

| **Note 22: Notes to statement of cash flows** | **2016** | 2015 |
|---|---|---|
| | **$'000** | $'000 |
| **Reconciliation of profit/(loss) after income tax equivalent expense/(benefit) to the net cash flows provided by operating activities** | | |
| Profit/(loss) after income tax equivalent expense | **133,698** | 204,259 |
| **Non-cash flows in profit from ordinary activities:** | | |
| Depreciation and amortisation | **1,146** | 1,309 |
| Changes in provisions | **(265)** | (449) |
| Loss/(gain) on revaluation of financial instruments at fair value through profit and loss | **(39,074)** | (77,219) |
| Loss/(gain) on revaluation of energy certificates at fair value through profit and loss | **(492)** | (7,240) |
| Impairments | **18,325** | 15,199 |
| Other non-cash flow items | **56,727** | 86,851 |
| **Changes in assets and liabilities** | | |
| Trade and other receivables | **(25,944)** | (49,932) |
| Other assets | **(5,284)** | 9,780 |
| Trade and other payables | **(98,250)** | (117) |
| Other liabilities | **17,593** | (3,615) |
| Deferred tax liability | **(44)** | - |
| **Net cash flow provided by operating activities** | **58,136** | 178,826 |

**Accounting policies**

**Cash and cash equivalents**

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

### Note 23: Key management personnel disclosures

**(a) Names, positions and terms held of Directors**

The Directors of the Company during the financial year ended 30 June 2016 were:

| | |
|---|---|
| Gary Stanford | Chairman and Non-Executive Director |
| Gary Humphrys | Non-Executive Director |
| Rodney Wilkes | Non-Executive Director |

Ian McLeod is no longer a Director following changes made to the board during the 2015-16 reporting period.

Gary Stanford, Gary Humphrys and Rodney Wilkes are appointed until 22 October 2018.

**(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 2016 by the Company are as follows:

| | Directors' fees | Other fees | Superannuation | Total |
|---|---|---|---|---|
| **2016** | **$** | **$** | **$** | **$** |
| Gary Stanford | 62,177 | - | 5,907 | 68,084 |
| Gary Humphrys | 31,089 | - | 2,953 | 34,042 |
| Rodney Wilkes | 31,089 | 1,523 | 2,953 | 35,565 |
| | 124,355 | 1,523 | 11,813 | 137,691 |

Ian McLeod was an executive of the parent entity (Ergon Energy Corporation Ltd) and his appointment resulted from his executive position in the parent entity and no compensation has been made for his directorship of the Company. Information regarding the compensation received as a result of his executive position in the parent entity is included in the financial statements of the parent entity.

**(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.

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

### Note 24: Related party transactions

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

The parent entity provided business management, financial and corporate services and customer care administration services (including retail products and services administration) to the Company. The total value of these services during the year was $49,510,498 (2015: $44,845,411). All services were undertaken on normal commercial terms and conditions.

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

**(b) Controlling entities**

The Australian parent entity is Ergon Energy Corporation Limited.

**(c) Transactions with State of Queensland controlled entities**

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

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

| | **2016** | 2015 |
|---|---|---|
| **Revenue** | **$** | $ |
| Pensioner rebate and grant revenue from Department of Communities | **52,049,503** | 49,544,380 |
| Interest received on deposits with QTC | **12,433,130** | 10,157,845 |
| Revenue from State of Queensland controlled entities | **82,277,750** | 86,091,412 |
| **Expenses** | | |
| Community service obligations | **(541,615,000)** | (596,070,923) |
| Interest on QTC borrowings (Includes administration fees) | **4,240,997** | 2,688,339 |
| Electricity trading with State of Queensland controlled entities | **220,745,789** | 144,085,405 |
| Environmental certificate transactions with State of Queensland controlled entity counterparties | **512,594** | 1,649,416 |
| **Assets** | | |
| Deposits held with QTC | **-** | 274,106,249 |
| CSO amounts receivable | **87,028,097** | 108,959,369 |
| Trade receivables with State of Queensland controlled entities | **6,283,808** | 3,945,696 |
| **Liabilities** | | |
| Electricity trading payable with State of Queensland controlled entities | **22,575,552** | 16,281,722 |

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

### Note 25: Auditor's remuneration

| | **2016** | 2015 |
|---|---|---|
| Remuneration for audit and review of the financial reports of the Company: | **$** | $ |
| Auditor-General of Queensland | | |
| *Audit services* | | |
| Audit and review of financial reports | **221,000** | 221,000 |
| Other audit services | **-** | 31,590 |
| | **221,000** | 252,590 |

# Ergon Energy Queensland Pty Ltd

## Directors' declaration

In the Directors' opinion:

1. The financial statements and associated notes, set out on pages 5 to 41

   (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 2016 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 2016.

Made in accordance with a resolution by the Directors.

G Humphrys
Director
Brisbane
26th August 2016

# Ergon Energy Queensland Pty Ltd

## INDEPENDENT AUDITOR'S REPORT

**Report on the Financial Report**

I have audited the accompanying financial report of Ergon Energy Queensland Pty Ltd which comprises the statement of financial position as at 30 June 2016, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

*Directors' Responsibility for the Financial Report*

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

*Auditor's Responsibility*

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

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

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

*Independence*

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

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

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

*Opinion*

In my opinion –

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

(i) giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

# Ergon Energy Queensland Pty Ltd

## Independent Auditor's Report

*Independence*

**Other Matters - Electronic Presentation of the Audited Financial Report**

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

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

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

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

*Opinion*

In my opinion –

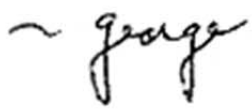
(a) the financial report of Ergon Energy Queensland Pty Ltd is in accordance with the *Corporations Act 2001*, including –

  (i) giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

**Other Matters - Electronic Presentation of the Audited Financial Report**

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




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

Queensland Audit Office
Brisbane

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

Queensland Audit Office
Brisbane

# Ergon Energy Queensland Pty Ltd

## AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Ergon Energy Queensland Pty Ltd

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

*Independence Declaration*

As lead auditor for the audit of Ergon Energy Queensland Pty Ltd for the year ended 30 June 2016, 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.


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

Queensland Audit Office
Brisbane

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