Energy Queensland Limited
Annual Financial Statements

For the year ended 30 June 2018

ABN 96 612 535 583

Contents

Contents

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

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

DIRECTORS

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

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

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

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

COMPANY SECRETARY

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

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

REGISTERED OFFICE

420 Flinders Street
Townsville Queensland 4810

PRINCIPAL ACTIVITIES

The principal activities of the Group are the:

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

OPERATING AND FINANCIAL REVIEW

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

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

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

Revenue

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

Expenditure

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

Financial Position

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

DIVIDENDS

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

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

LIKELY DEVELOPMENTS AND FUTURE RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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

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

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

DIRECTORS' SHAREHOLDING

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

There are no share options in existence at this time.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

DIRECTORS' MEETINGS

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

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

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

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

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

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

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

AUDITOR'S INDEPENDENCE DECLARATION

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

ROUNDING

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

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

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

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Energy Queensland Limited

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

Independence Declaration

As lead auditor for the audit of Energy Queensland Limited and its controlled entities for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

B Worrall
Auditor-General
23 August 2018

Queensland Audit Office
Brisbane

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2018

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION 1: Basis of Preparation

NOTE 1: BASIS OF PREPARATION

(A) General information

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

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

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

420 Flinders Street
Townsville Queensland 4810

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

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

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

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

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

(B) Basis of preparation

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

(i) Historical cost convention

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

(ii) Basis of consolidation

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

(C) Changes in accounting policies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

SECTION 2: Profit or Loss Information

NOTE 2: REVENUE AND OTHER INCOME

In millions of dollars	2018	2017
REVENUE		
Sales revenue		
Network use of system revenue[1]	**2,142**	2,608
Retail sales revenue	**2,136**	2,081
Service charges [1]	**350**	333
Revenue from sale of goods	**52**	64
Government grant revenue [2]	**250**	3
Other revenue		
Non-refundable capital contributions	**109**	112
Interest received	**24**	8
Other operating revenue[1]	**27**	40
Total revenue	**5,090**	5,249
OTHER INCOME		
Fair value gains on financial instruments at fair value	**29**	-
Gain on unwinding of inception value of designated hedges	**(14)**	-
Cash flow hedge ineffectiveness gains	**6**	-
Other income	**-**	16
Total other income	**21**	16

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 2: REVENUE AND OTHER INCOME (CONTINUED)

ACCOUNTING POLICIES

Revenue recognition

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

(i) *Network use of system*

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

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

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

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

(ii) *Retail sales revenue*

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

(iii) *Service charges*

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

(iv) *Revenue from sale of goods*

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

(v) *Government grants*

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

(vi) *Non-refundable capital contributions*

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

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

(vii) *Interest received*

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(i) Unbilled energy sales

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

(ii) Unbilled network charges

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 3: EXPENSES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 3: EXPENSES (CONTINUED)

ACCOUNTING POLICIES

Expenses

(i) Transmission charges and electricity purchases

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

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

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

Community service obligation (CSO) receipts are recognised as a contra expense against the transmission charges and electricity purchases as part of the cost of sales. The Group is legally required to charge its retail customers in regional Queensland at notified prices. As a consequence, the tariff revenue collected is below the cost of supplying electricity. A Deed between the Group and the State of Queensland provides for CSO payments to be made by the State of Queensland to the Group.

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

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

(ii) Finance Costs

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

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

(iii) Employee Benefits Expense

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

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(i) Community Service Obligation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 4: TAXATION

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

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

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

Refer to Note 18 for accounting policies related to taxation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION 3: Financial assets and liabilities

NOTE 5: CASH AND CASH EQUIVALENTS

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

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

ACCOUNTING POLICIES

Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 6: TRADE AND OTHER RECEIVABLES

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

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

(A) IMPAIRED TRADE RECEIVABLES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 6: TRADE AND OTHER RECEIVABLES (CONTINUED)

(B) PAST DUE BUT NOT IMPAIRED

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

ACCOUNTING POLICIES
Trade and other receivables

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

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

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

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

NOTE 7: INVENTORIES

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

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

NOTE 8: DERIVATIVE FINANCIAL ASSETS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 8: DERIVATIVE FINANCIAL ASSETS (CONTINUED)

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

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

NOTE 9: TRADE AND OTHER PAYABLES

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

ACCOUNTING POLICIES

Trade and other payables

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 10: INTEREST BEARING LIABILITIES

In millions of dollars	2018	2017
CURRENT		
Unsecured liabilities		
Customer and other repayable deposits	**15**	17
Total current interest bearing liabilities	**15**	17
NON-CURRENT		
Unsecured liabilities		
Queensland Treasury Corporation loans	**16,250**	16,250
Total non-current interest bearing liabilities	**16,250**	16,250

(A) QUEENSLAND TREASURY CORPORATION LOANS

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

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

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

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

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

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

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

ACCOUNTING POLICIES

Interest Bearing Liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 11: DERIVATIVE FINANCIAL LIABILITIES

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

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

NOTE 12: FINANCIAL RISK MANAGEMENT

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

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

Financial risk management

(A) Credit risk

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12: FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk management (Continued)

(A) Credit risk (Continued)

Note 25 provides details of guarantees held by the Group. The Group manages its credit settlement risk associated with electricity market hedging by maintaining an Energy Commodity Credit Risk Manual as part of an overarching Energy Commodity Risk Management Policy. Credit settlement risk is managed by maintaining approved counterparty credit limits. The values of counterparty credit limits are determined by reference to each counterparty's credit rating, as determined by a recognised credit rating agency or, if the counterparty does not have a credit rating, by reference to the results of a detailed credit analysis. Where considered appropriate, the Group requires counterparties to provide appropriate letters of credit or bank guarantees. No letters of credit or bank guarantees were held as at 30 June 2018 (2017: $1 million).

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

The maximum exposure for the Group to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position.

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

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

(1) Standard & Poors or equivalent

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

(B) Interest rate risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12: FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) Interest rate risk (Continued)

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

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

Sensitivity analysis

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

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

(C) Price risk

Electricity

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12: FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) Price risk (Continued)

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

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

(D) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available. Available lines of funding are disclosed in Note 10.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12: FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) Liquidity risk (Continued)

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

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

(E) Capital management

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12: FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) Capital management (Continued)

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

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

NOTE 13: FAIR VALUE OF FINANCIAL INSTRUMENTS

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

1) Fair value measurements

The Group uses the following fair value measurement hierarchy:

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

2) Level 3 fair value measurements

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

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

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

4) Valuation policies and procedures

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

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

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

(A) Swaps

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

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

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

(B) Options

(i) $300 Caps Exchange Traded

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

(ii) Caps over the counter

Over the counter $300 caps are valued using a mean reversion jump diffusion model incorporating historical pool price outcomes and broker provided cap curves. Where positions are held in periods beyond the curve, the curve is extended accordingly (refer to Note 13(6)).

(iii) Swaptions

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

(C) Power purchase agreements

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

(D) Large-scale generation certificates

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

(E) Small-scale technology certificates

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

6) Fair value valuation techniques and significant unobservable inputs

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

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

Master netting or similar agreements

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

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

Master netting or similar agreements (Continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

ACCOUNTING POLICIES

Financial instruments

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

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

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

Derivative financial instruments held or issued for hedging franchise load are recorded at their fair value. The contracts are valued using a combination of data sources including current trades executed by the Group, the Sydney Futures Exchange (SFE), ICAP Plc (ICAP), TFS Australia Pty Ltd (TFS) and other market intelligence. The Group trades frequently in these instruments and has sufficient market information to reliably measure the value of these contracts in accordance with the requirements of Australian Accounting Standards. Refer to Note 14 for hedge accounting disclosures and accounting policies.

2) Power purchase agreements

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

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Electricity financial instruments measured at fair value

The Group enters into electricity related financial instruments and determines the fair value of these instruments, which includes swaps, options (including caps and swaptions), and PPAs using market based valuation methods. It takes into account the conditions existing at balance date and has used its judgement in the following areas:

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

NOTE 14: HEDGE ACCOUNTING

Cash flow hedges

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14: HEDGE ACCOUNTING (CONTINUED)

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

(i) *Nominal amount of electricity hedges outstanding*

The average notional amount of electricity hedges outstanding over the next 3 years from the 2018/19 to 2020/21 financial year is approximately 4,250,000 MWh (Megawatt hours) at an average contracted price ranging between $59 and $79 per MWh (2017: approximately 4,625,000 MWh at an average contracted price ranging between $69 and $79 per MWh).

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14: HEDGE ACCOUNTING (CONTINUED)

ACCOUNTING POLICIES

Derivative financial instruments and hedge accounting

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 13. Movements of the hedging reserve in shareholders' equity are shown in the statement of other comprehensive income.

The fair values of hedging derivatives are classified as current.

Cash flow hedges

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION 4: Operating assets and liabilities

NOTE 15: PROPERTY, PLANT AND EQUIPMENT

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Valuation of the Group's regulated Supply System assets

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

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

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

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

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

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

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

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

Valuation policies and procedures

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

Fair value hierarchy

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Fully written down assets still in use

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

ACCOUNTING POLICIES

Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Depreciation

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

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

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

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

Major depreciation periods are:

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

(iii) Disposal of items of property, plant and equipment

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

(iv) Maintenance and repairs

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

(v) Contributed Assets

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

(vi) Finance and related costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment of assets

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). No such impairments were required during the financial year.

Dismantled supply system assets and assets held for sale are removed from the relevant cash generating unit and impaired once the decision is made to dismantle or sell. The resulting impairment loss is treated as a revaluation decrement and recorded directly in equity to the extent of any credit balance existing in the revaluation reserve in respect of that asset, with the remainder recognised in the income statement.

NOTE 16: INTANGIBLE ASSETS

In millions of dollars	2018	2017
COMPUTER SOFTWARE		
At cost	**816**	691
Less accumulated amortisation	**(602)**	(536)
Net carrying value	**214**	155
OTHER INTANGIBLES		
At cost	**42**	41
Less accumulated amortisation	**(21)**	(15)
Net carrying value	**21**	26
WORK IN PROGRESS		
Work In Progress	**39**	83
TOTAL INTANGIBLES	**274**	264

Reconciliations of the carrying amounts for each class of intangibles are set out below:

COMPUTER SOFTWARE		
Gross carrying amount at the beginning of the financial year	**691**	659
Accumulated amortisation at the beginning of the financial year	**(536)**	(478)
Carrying amount at the beginning of the financial year	**155**	181
Transfers of assets between categories	**-**	(1)
Transfer from work in progress	**128**	45
Amortisation expense	**(69)**	(70)
Carrying amount at the end of the financial year	**214**	155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16: INTANGIBLE ASSETS (CONTINUED)

In millions of dollars	2018	2017
OTHER INTANGIBLES		
Gross carrying amount at the beginning of the financial year	**41**	23
Accumulated amortisation at the beginning of the financial year	**(15)**	(9)
Carrying amount at the beginning of the financial year	**26**	14
Additions	**3**	19
Disposals	**-**	(1)
Amortisation expense	**(8)**	(6)
Carrying amount at the end of the financial year	**21**	26
WORK IN PROGRESS		
Carrying amount at the beginning of the financial year	**83**	44
Transfers to property, plant and equipment and intangible assets	**(135)**	(37)
Additions	**91**	76
Carrying amount at the end of the financial year	**39**	83
TOTAL INTANGIBLE ASSETS		
Carrying amount at the end of the financial year	**274**	264

ACCOUNTING POLICIES

Intangible assets

(i) Recognition and measurement

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

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

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

(ii) Amortisation

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

Impairment of assets

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

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

No impairment losses were recognised during the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17: EMPLOYEE RETIREMENT BENEFITS

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

In millions of dollars	Defined benefit obligation	Fair value of plan assets	Net defined benefit asset/ (liability)
Year ended 30 June 2018			
Carrying amount at start of year	(698)	969	271
Included in profit or loss			
Current service cost	(26)	-	(26)
Interest income/(cost)	(28)	38	10
	(54)	38	(16)
Included in other comprehensive income			
Remeasurement gain/(loss):			
Actuarial gain/(loss) arising from:			
Changes in financial assumptions	(5)	-	(5)
Experience adjustments[1]	2	37	39
	(3)	37	34
Other			
Contributions by the employer	-	3	3
Contributions by Fund participants	(7)	7	-
Benefit payments and tax	139	(139)	-
	132	(129)	3
Carrying amount as at 30 June 2018	**(623)**	**915**	**292**
Year ended 30 June 2017			
Carrying amount at start of year	(865)	990	125
Included in profit or loss			
Current service cost	(31)	-	(31)
Interest income/(cost)	(25)	28	3
	(56)	28	(28)
Included in other comprehensive income			
Remeasurement gain/(loss):			
Actuarial gain/(loss) arising from:			
Changes in financial assumptions	65	-	65
Experience adjustments[1]	25	78	103
Return on plan assets excluding interest income	-	-	-
	90	78	168
Other			
Contributions by the employer	-	6	6
Contributions by Fund participants	(8)	8	-
Benefits payments and tax	141	(141)	-
	133	(127)	6
Carrying amount as at 30 June 2017	(698)	969	271

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17: EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

DEFINED BENEFIT OBLIGATION

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

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

Energy Super is managed by a trustee company, Electricity Supply Industry Superannuation (Qld) Ltd. The Trustee is responsible for managing Energy Super for the benefit of all members, in accordance with the trust deed and relevant legislation. At 30 June 2018, the Trustee Board consisted of four member representative directors, four employer representative directors and one independent director.

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

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

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

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

The major categories of plan assets are as follows:

In millions of dollars	2018	2017
Cash	**46**	48
Fixed interest	**91**	97
Australian shares	**229**	242
International shares	**229**	242
Alternatives	**229**	242
Property and infrastructure	**91**	98
Total fair value of plan assets	**915**	969

This portfolio exposes the Fund to market risk. All shares and fixed interest plan assets have quoted prices in active markets. The actual return on plan assets for 2018 was a profit of $75 million (2017: $107 million).

The defined benefit assets are invested in a balanced investment portfolio, to match the weighted average duration of the defined benefit obligation of 9 years (2017: 9 years).

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

	2018	2017
	%	%
Expected rate of return on plan assets for one year	**3.8**	3.9
Pre-tax discount rate	**3.8**	3.9
Future salary increases	**3.0**	3.0

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

In millions of dollars	2018	2017
Not later than one year	**58**	57
Later than one year and not later than five years	**245**	244
Later than five years	**938**	1,147
Total undiscounted defined benefit obligations	**1,241**	1,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17: EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

Sensitivity analysis:

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

		2018 %	2017 %
Discount rate			
	0.5% increase	(4.40)	(4.70)
	0.5% decrease	4.70	5.00
Future salary increases			
	0.5% increase	4.90	5.25
	0.5% decrease	(4.55)	(4.85)

Net financial position of plan

The superannuation plan computes its obligations in accordance with AAS 25 *Financial Reporting by Superannuation Plans* (AAS 25) which prescribes a different measurement basis to that applied in this financial report pursuant to AASB 119 *Employee Benefits*. Under AAS 25, and in accordance with the Occupational Superannuation Standards Regulation, the Energy Super Fund is required to undertake actuarial investigations at least every three years. The last reporting period for the Energy Super Fund Actuarial Report for the Group was 30 June 2016. The next Actuarial Report as at 30 June 2019 will be completed in the 2019/20 financial year.

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

In millions of dollars	Last reporting period	
Accrued benefits	30/06/2016	(1,598)
Net market value of plan assets	30/06/2016	1,773
Net surplus		175

Employer contributions

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

For the financial year ended 30 June 2018, the Group contributed 2% (2017: 4-5%) of defined benefit members' salaries. The Group expects to retain its contribution rate of 2% during the next financial year. Accordingly, the Group expects to contribute $3 million (2017: $3 million) to its defined benefit plan in 2017/18. Funding recommendations are made by the actuary based on their forecast of various matters including future plan asset performance, interest rates and salary increases. The Group will assess this contribution rate in the future to ensure it remains appropriate.

ACCOUNTING POLICIES

Employee retirement benefits

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 18: NET DEFERRED TAX EQUIVALENT LIABILITY

In millions of dollars	2018	2017
(A) DEFERRED TAX EQUIVALENT ASSETS		
The balance comprises temporary differences attributable to:		
Amounts recognised in statements of profit or loss		
Provisions/accruals	**131**	131
Tax losses	**12**	16
Derivatives	**(2)**	13
Unearned revenue	**27**	18
Other	**2**	2
	170	180
Amounts recognised directly in equity		
Hedge accounting of derivatives	**31**	25
	31	25
Deferred tax equivalent asset	**201**	205

(B) DEFERRED TAX EQUIVALENT LIABILITIES		
The balance comprises temporary differences attributable to:		
Amounts recognised in statements of profit or loss		
Property, plant and equipment	**1,955**	1,969[1]
Derivatives	**(8)**	(9)
Other	**63**	66[1]
	2,010	2,026
Amounts recognised directly in equity		
Recognition of defined benefit surplus	**53**	43[1]
Revaluation of property, plant and equipment	**1,633**	1,596[1]
Hedge accounting of derivatives	**12**	60
	1,698	1,699
Deferred tax equivalent liabilities	**3,708**	3,725

(C) TOTAL NET DEFERRED TAX EQUIVALENT LIABILITY		
Deferred tax equivalent asset	**201**	205
Deferred tax equivalent liabilities	**(3,708)**	(3,725)
Net deferred tax equivalent liability	**(3,507)**	(3,520)

(1) Comparatives have been restated to more appropriately recognise the split between income and equity of the Deferred Tax Liability relating to the defined benefits funds and asset revaluation reserves.

The Group has a closing current tax receivable of $32 million at 30 June 2018 (2017: $92 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 18: NET DEFERRED TAX EQUIVALENT LIABILITY (CONTINUED)

ACCOUNTING POLICIES

Income taxes

(i) *Tax equivalents*

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

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

(ii) *Current tax equivalents payable/receivable*

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

Current tax payable/receivable is recognised as current tax expense/benefit.

(iii) *Deferred tax equivalent assets and liabilities*

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

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

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

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

(iv) *Income tax equivalent expense*

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

(v) *Tax consolidation*

Energy Queensland and its wholly-owned subsidiaries formed a tax consolidated group effective from 30 June 2016 and are therefore taxed as a single entity. The head entity within the tax consolidated group is Energy Queensland Limited.

DTAs and DTLs arising from temporary differences of the members of a tax consolidated group are recognised in the separate financial accounts of the members of the tax consolidated group using the standalone basis as specified in the tax funding deed.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 18: NET DEFERRED TAX EQUIVALENT LIABILITY (CONTINUED)

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

The members of the Energy Queensland tax consolidated group have entered into a tax funding deed which sets out the tax funding obligations for each member. The tax funding deed allows for an intercompany payable/receivable between the head entity and subsidiary equal to the current tax liability or asset assumed by the head entity. Any tax loss or deferred tax equivalent asset assumed by the head entity, results in the recognition of an inter-entity receivable/payable in the separate financial accounts of the members of the tax consolidated group equal in amount to the tax liability/asset assumed.

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

Contributions to fund the current tax liabilities are payable as per the tax funding deed.

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

(vii) *Goods and services tax*

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 19: EMPLOYEE BENEFITS

In millions of dollars	2018	2017
CURRENT LIABILITIES		
Employee benefits	**296**	296
Termination benefits	**12**	9
Total current employee benefits liability	**308**	305
NON-CURRENT LIABILITIES		
Employee benefits	**21**	25
Total non-current employee benefits liability	**21**	25

ACCOUNTING POLICIES

Employee benefits

Wages and salaries, annual leave, long service leave and sick leave

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

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

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

Termination benefits

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

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

Employee benefits

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 20: UNEARNED REVENUE

In millions of dollars	2018	2017
CURRENT LIABILITIES		
Unearned revenue – government grant[1]	**262**	268
Unearned revenue – capital contributions	**67**	47
Unearned revenue – other	**27**	23
Total current unearned revenue	**356**	338
NON-CURRENT LIABILITIES		
Unearned revenue – government grant[1]	**266**	504
Total non-current unearned revenue	**266**	504

(1) On 30 May 2017, the Queensland State Government announced a Government Grant that would fund the Solar Bonus Scheme over a three year period to provide pricing relief to electricity consumers. Refer to Note 2 for associated Government Grant Revenues recognised in 2017/18.

ACCOUNTING POLICIES

Unearned revenue – government grant

When there is reasonable assurance that the Group will comply with all conditions attached to the government grant and those grants are received, then they are recognised in the statement of financial position initially as unearned revenue. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis as the conditions of the grants are fulfilled.

Unearned revenue – capital contributions

Unearned capital contributions comprise funds received from customers for the Group to construct distribution substation transformers, high voltage cables and switchgear and other assets required to supply electricity to new developments, which include renewable energy installations such as solar farms and wind farms. As supply is made available, unearned capital contributions are recognised as revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION 5: Capital structure

NOTE 21: SHARE CAPITAL

	2018	2018	2017	2017
SHARE CAPITAL	**Shares**	**$M**	**Shares**	**$M**
Fully paid ordinary shares	**100**	**19,643**	100	19,643
Total share capital	**100**	**19,643**	100	19,643

Fully paid ordinary shares carry one vote per share and carry the rights to dividends. The shares have no par value.
There were no changes in share capital during the period.

NOTE 22: OTHER TRANSACTIONS WITH OWNERS, RESERVES AND RETAINED EARNINGS

In millions of dollars	2018	2017
Other transactions with owners	**(18,634)**	(18,635)
Asset revaluation reserve	**2,367**	2,284
Hedging reserve	**(44)**	83
Retained earnings	**223**	196

ACCOUNTING POLICIES

Other transactions with owners

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

NATURE AND PURPOSE OF RESERVES

Asset revaluation reserve

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

Hedging reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

SECTION 6: Other notes

NOTE 23: LEASES

OPERATING LEASES

In millions of dollars	2018	2017
Not later than one year	**36**	35
Later than one year but not later than five years	**145**	146
Later than five years	**115**	156
Non-cancellable operating lease commitments	**296**	337

The Group leases various office, workshop and storage space under non-cancellable operating leases expiring within one to 10 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are re-negotiated.

The Group sub-leases a number of corporate premises to tenants. The total future minimum sub-lease payments expected to be received under non-cancellable subleases at the end of the reporting period is $7 million (2017: $6 million).

The Group has five significant leasing arrangements, four in the greater Brisbane area and one in regional Queensland (Townsville). The remaining lease terms range from two to 10 years and there are lease extension options on all of these leases. The escalation applicable to each lease is a fixed annual rate or the greater of CPI and a fixed rate.

ACCOUNTING POLICIES

Lease commitments

(i) Operating leases

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

(ii) Lease incentives

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

NOTE 24: COMMITMENTS

In millions of dollars	2018	2017
CAPITAL EXPENDITURE COMMITMENTS		
Estimated capital expenditure contracted for at the end of the financial year but not recognised as liabilities[1]	**114**	109

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 25: CONTINGENCIES

(A) Legal claims

A number of common law claims are pending against the Group and liability is not admitted. The amount of claims due to litigation and associated legal fees is $3 million (2017: $2 million). These claims are disclosed on a gross basis and exclude possible reimbursement through insurance recoveries.

(B) Other possible claims

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

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

(C) Guarantees

(i) Third Parties

In order to participate in the electricity market, entities within the Group are required to deliver acceptable security as collateral to the Australian Energy Market Operator for their obligations to counter parties in the Electricity Market arising as a consequence of normal trading. Security, in the form of payment guarantees totalling $100 million (2017: $100 million), has been issued by QTC to the AEMO. EQL provides QTC with a Counter Indemnity up to the value of $150 million in respect of this guarantee.

In order to participate in the electricity market, entities within the Group are required to hold an Australian Financial Services Licence for which QTC provides the required Eligible Undertaking to the value of $300 million. EQL provides QTC with a Counter Indemnity up to the value of $300 million in respect of the eligible undertaking. The Group now has in place a Bank Guarantee facility with Commonwealth Bank to the value of $2 million (2017: Nil).

Energex also has in place a bank guarantee facility with NAB to the value of $1 million for non-regulated business (2017: $1 million).

(ii) Subsidiaries – Wholly-owned

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, Energy Queensland has guaranteed to pay any deficiency in the event of winding up of Energex, Ergon Energy, SPARQ Solutions, Yurika and Metering Dynamics. These controlled entities have also given a similar guarantee in the event that Energy Queensland or any of the entities are wound up or does not meet their obligations. Refer to Note 26.

(D) Guarantees held

The Group holds bank guarantees from customers totalling $84 million (2017: $62 million) relating to the construction of capital assets.

There are nil guarantees held with trading counterparties (2017: Nil), as security to cover obligations arising from the trading of electricity.

(E) Environmental remediation

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

ACCOUNTING POLICIES

Contingent assets and liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 26: CONSOLIDATED ENTITIES

	COUNTRY OF INCORPORATION	PERCENTAGE INTEREST HELD BY THE GROUP	
		2018 %	2017 %
THE COMPANY			
Energy Queensland Limited	**Australia**		
CONTROLLED ENTITIES			
Energex Limited	Australia	**100**	100
Ergon Energy Corporation Limited	Australia	**100**	100
Ergon Energy Queensland Pty Ltd	Australia	**100**	100[1]
SPARQ Solutions Pty Ltd	Australia	**100**	100
Varnsdorf Pty Ltd	Australia	**100**	100[2]
VH Operations Pty Ltd	Australia	**100**	100[2]
Yurika Pty Ltd	Australia	**100**	100[3]
Metering Dynamics Pty Ltd	Australia	**100**	100[4]
Ergon Energy Telecommunications Pty Ltd	Australia	**100**	100[5]

Impacts of the EQL Group corporate restructure effective 1 December 2017 are as follows:

1. Ergon Energy Queensland Pty Ltd was previously a subsidiary of Ergon Energy Corporation Limited. The company is now a direct subsidiary of EQL.
2. Varnsdorf Pty Ltd and VH Operations Pty Ltd were previously subsidiaries of the Energex Group. They are now direct subsidiaries of EQL.
3. Yurika Pty Ltd (formerly Energy Impact Pty Ltd) was previously a subsidiary of Energex Limited. The company is now a direct subsidiary of EQL.
4. Metering Dynamics Pty Ltd (formerly Metering Dynamics Business Support Pty Ltd) was previously a subsidiary of Energex Limited. The company is now a subsidiary of Yurika Pty Ltd.
5. Ergon Energy Telecommunications Pty Ltd was previously a subsidiary of Ergon Energy Corporation Limited. The company is now a subsidiary of Yurika Pty Ltd.

Pursuant to the *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, relief has been granted to Energex, Ergon Energy, Yurika Pty Ltd (Yurika), Metering Dynamics Pty Ltd (Metering Dynamics) and SPARQ Solutions Pty Ltd (SPARQ Solutions) from the requirements under the *Corporations Act 2001* for the preparation, audit and lodgement of their financial reports. Ergon Energy Queensland Pty Ltd (Ergon Energy Retail), a subsidiary of Energy Queensland, still prepares its own financial statements. The remaining Energy Queensland subsidiaries are small proprietary companies and are therefore relieved from the requirement for preparation, audit and lodgement of annual financial statements.

ACCOUNTING POLICIES

Basis of consolidation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 26: CONSOLIDATED ENTITIES (CONTINUED)

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

CLOSED GROUP LEGISLATIVE INSTRUMENT

As a condition of *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, Energy Queensland entered into a Deed of Cross Guarantee with the following controlled entitles:

- Energex Limited
- Ergon Energy Corporation Limited
- SPARQ Solutions Pty Ltd
- Yurika Pty Ltd
- Metering Dynamics Pty Ltd

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

The existing Deed of Cross Guarantee continues to provide reporting relief to the above controlled entities.

The consolidated profit or loss and statements of financial position of the entities that are members of the Closed Group are provided in Note 28(A).

Further information regarding guarantees is provided in Note 25.

NOTE 27: ENERGY QUEENSLAND LIMITED (THE PARENT)

In millions of dollars	2018	2017
Current Assets	**1,686**	2,675
Non-Current Assets	**19,809**	19,662
Total Assets	**21,495**	22,337
Current liabilities	**1,869**	2,712
Non-Current Liabilities	**16,251**	16,250
Total Liabilities	**18,120**	18,962
Net Assets	**3,375**	3,375
Issued Capital	**19,643**	19,643
Other transactions with owners	**(16,267)**	(16,267)
Retained Earnings	**(1)**	(1)
Total Equity	**3,375**	3,375
Profit/(loss) of the Parent entity	**809**	881
Total comprehensive income of the Parent entity	**809**	881

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 28: CLOSED GROUP AND ENERGEX AND ERGON ENERGY PARENT INFORMATION

(A) Closed Group Information

As discussed in Note 26, pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, relief has been granted to wholly-owned entities of the Group from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

The consolidated profit or loss and statements of financial position of the entities that are members of the Closed Group are as follows:

Consolidated Closed Group Profit or Loss

In millions of dollars	2018	2017
Profit or loss before income tax	**776**	1,247
Income tax expense	**(232)**	(325)
Profit after tax	**544**	922
Retained earnings at the beginning of the period	**222**	56
Dividends provided for or paid	**(809)**	(881)
Transfers to reserves	**224**	125
Retained earnings at the end of the period	**181**	222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 28: CLOSED GROUP AND ENERGEX AND ERGON ENERGY PARENT INFORMATION (CONTINUED)

(A) Closed Group Information (Continued)

Consolidated Closed Group Statement of Financial Position

In millions of dollars	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	**10**	3
Trade and other receivables	**1,955**	2,138
Inventories	**178**	168
Other assets	**12**	2
Total current assets	**2,155**	2,311
NON-CURRENT ASSETS		
Property, plant and equipment	**23,377**	22,952
Intangible assets	**236**	171
Investments in subsidiaries	**119**	126
Employee retirement benefits	**292**	271
Other assets	**7**	8
Total non-current assets	**24,031**	23,528
TOTAL ASSETS	**26,186**	25,839
CURRENT LIABILITIES		
Trade and other payables (including dividends payable)	**1,713**	1,143
Employee benefits	**308**	306
Provisions	**21**	17
Unearned revenue	**356**	338
Other liabilities	**1**	1
Total current liabilities	**2,399**	1,805
NON-CURRENT LIABILITIES		
Interest bearing liabilities	**16,250**	16,258
Employee benefits	**21**	25
Provisions	**12**	11
Net deferred tax equivalent liability	**3,560**	3,589
Unearned revenue	**266**	504
Other liabilities	**5**	6
Total non-current liabilities	**20,114**	20,393
TOTAL LIABILITIES	**22,513**	22,198
NET ASSETS	**3,673**	3,641
EQUITY		
Share capital	**19,643**	19,643
Other transactions with owners	**(18,514)**	(18,508)
Reserves	**2,363**	2,284
Retained earnings	**181**	222
TOTAL EQUITY	**3,673**	3,641

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 28: CLOSED GROUP AND ENERGEX AND ERGON ENERGY PARENT INFORMATION (CONTINUED)

(B) Energex and Ergon Energy Parent Information

	Energex		Ergon Energy	
In millions of dollars	2018	2017	2018	2017
Revenue	**2,250**	**2,577**	**2,140**	**2,570**
Other Income	**-**	**14**	**-**	**2**
Expenses				
Transmission charges and electricity purchases	337	485	281	391
Solar photovoltaic feed in tariff	172	177	100	100
Employee expenses	226	254	255	230
Materials and services	191	235	231	227
Depreciation, amortisation and impairments	408	401	431	440
Other expenses	68	43	170	150
Profit before income tax equivalent expense	**848**	**996**	**672**	**1,034**
Income tax equivalent expense	255	297	202	262
Profit after income tax equivalent expense	**593**	**699**	**470**	**772**
OTHER COMPREHENSIVE INCOME				
Other comprehensive income for the financial year, net of tax	**126**	**83**	**(17)**	**138**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	**719**	**782**	**453**	**910**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) Details of Shareholding Ministers

The Group's responsible shareholding Ministers are identified as part of the Group's KMP, and these Ministers are the:

- Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships, and the
- Minister for Natural Resources, Mines and Energy.

(B) Compensation – Shareholding Ministers

Ministerial remuneration entitlements are outlined in the Legislative Assembly of Queensland's Members' Remuneration Handbook. The Group does not bear any cost of remuneration of Ministers. The majority of Ministerial entitlements are paid by the Legislative Assembly, with the remaining entitlements being provided by Ministerial Services Branch within the Department of the Premier and Cabinet. As all Ministers are reported as KMP of the Queensland government, aggregate remuneration expenses for all Ministers is disclosed in the Queensland General Government and Whole of Government Consolidated Financial Statements as from 2017/18, which are published as part of Queensland Treasury's Report on State Finances.

(C) Details of Directors

Directors of Energy Queensland as at 30 June 2018: **Term of appointment**

Directors of Energy Queensland as at 30 June 2018:		Term of appointment	Appointment expiry date

Philip Garling	Chairman	3 years	30 June 2019
Kerryn Newton	Non-Executive Director	3 years 3 months	30 September 2020
Mark Algie	Non-Executive Director	3 years	30 September 2019
Teresa Dyson	Non-Executive Director	3 years	30 September 2019
Hugh Gleeson	Non-Executive Director	3 years	30 September 2019
Kathy Hirschfeld	Non-Executive Director	3 years	30 September 2019
Helen Stanton	Non-Executive Director	3 years	30 September 2019
Vaughan Busby	Non-Executive Director	3 years	30 September 2020

(D) Compensation – Directors

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

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

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

In accordance with Ministerial Guidelines, details of compensation provided to Directors in office during the financial period ended 30 June 2018 by the Group are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(D) Compensation – Directors (Continued)

DIRECTORS' REMUNERATION	SHORT TERM BENEFITS Directors' Fees		POST EMPLOYMENT BENEFITS Superannuation		TOTAL	
In thousands of dollars	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Energy Queensland						
Philip Garling	207	206	20	20	**227**	**226**
Clive Skarott[1]	-	81	-	8	**-**	**89**
Mark Algie	83	58	8	6	**91**	**64**
Teresa Dyson	95	71	9	7	**104**	**78**
Hugh Gleeson	88	66	8	6	**96**	**72**
Kathy Hirschfeld	88	66	8	6	**96**	**72**
Kerryn Newton	88	83	8	8	**96**	**91**
Helen Stanton	85	64	8	6	**93**	**70**
Vaughan Busby[2]	61	-	5	-	**66**	**-**
Total	**795**	**695**	**74**	**67**	**869**	**762**

(1) Clive Skarott's term of appointment expired 30 June 2017.

(2) Vaughan Busby was appointed on 12 October 2017.

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

(E) Compensation – Executives

Senior executive employment contracts

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

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

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

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

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

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

Performance payments to all employees, including executive staff, are disclosed in this note.

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

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

Application to Chief Executive Officer (CEO) and other Executives

Upon termination the executive is entitled to pay in lieu of the executive's entitlements to annual leave and long service leave, calculated with reference to the executive's total fixed remuneration up to the date on which the termination takes effect. If the employment of the executive is terminated by Energy Queensland, except in the event of serious misconduct or incapacity, the executive is entitled to:

i. salary for the balance of the notice period; and
ii. a termination payment of six months (for CEO) and three months (for other Executives) superannuable salary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(E) Compensation – Executives (Continued)

EXECUTIVE REMUNERATION	Short term benefits[1]	Performance payment[2]	Post-employment benefits[3]	Other long-term benefits[4]	Termination benefits	Total
2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Energy Queensland						
David Smales - Chief Executive Officer	858	91	20	90	-	**1,059**
Peter Scott - Chief Financial Officer	459	65	20	55	-	**599**
Belinda Watton – Chief Transformation Officer	381	58	20	46	-	**505**
Peter Price - Head of Corporate Strategy and Executive General Manager Asset Safety and Performance	391	59	43	51	-	**544**
Paul Jordon – Executive General Manager Distribution	480	53	42	53	-	**628**
Cheryl Hopkins - Executive General Manager Retail and Chief Risk Officer	383	20	20	48	-	**471**
Charles Rattray - Executive General Manager Energy Services	387	23	20	44	-	**474**
Craig Chambers - Executive General Manager Strategy, Portfolio and Innovation[5]	345	33	16	39	187	**620**
Barbara-Anne Bensted - Chief Digital Officer[6]	297	22	15	32	-	**366**
Total	**3,981**	**424**	**216**	**458**	**187**	**5,266**

(1) Short-term benefits include all payments made to the Officer during the year excluding at-risk performance payments (disclosed separately), less payments for annual leave and long-service leave taken.

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

(3) Post-employment benefits represent superannuation contributions made by the employer to the superannuation fund at the rates prescribed in the executives' employment contracts (which range from 9.5% of the maximum contribution base to 10% as part of the fixed remuneration base). Some executives are members of the defined benefit superannuation fund. Refer to Note 17 for further information regarding the defined benefit obligations of the Group.

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

(5) Craig Chambers was appointed to the position of Executive General Manager Strategy Portfolio & Innovation on 12 December 2016. He remained in that position until 9 April 2018 and the position was subsequently rationalised from the structure.

(6) Barbara-Anne Bensted was appointed to the role of Chief Digital Officer on 12 January 2017. She resigned from that position on 30 March 2018 and the position was subsequently rationalised from the structure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

EXECUTIVE REMUNERATION	Short term benefits[1]	Performance payment[2]	Non-monetary benefits[7]	Post-employment benefits[3]	Other long-term benefits[4]	Termination benefits	Total
2017	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Energy Queensland							
David Smales - Chief Executive Officer[8]	592	-	-	15	66		**673**
Terence Effeney - Interim Chief Executive Officer[9]	434	106	3	74	83	-	**700**
Peter Scott - Chief Financial Officer[10]	491	60	-	20	50		**621**
Belinda Watton - Executive General Manager People, Culture and Safety[11]	245	-	-	13	28	-	**286**
Peter Price - Executive General Manager Asset Safety and Performance[12]	244	-	-	26	29	-	**299**
Roslyn Baker - Chief Operating Officer Distribution[13]	152	-	-	6	18	192	**368**
Craig Chambers - Executive General Manager Strategy, Portfolio and Innovation[5]	259	-	-	11	26	-	**296**
Mark Williamson - Acting Executive General Manager Retail[13]	22	-	-	2	2	-	**26**
Charles Rattray - Executive General Manager Energy Services[14]	184	-	-	10	21	-	**215**
Barbara-Anne Bensted - Chief Digital Officer[6]	186	-	-	9	20	-	**215**
Cheryl Hopkins - Executive General Manager Retail[15]	159	-	-	7	17	-	**183**
Paul Jordon – Interim Chief Operating Officer[16]	54	-	-	3	4	-	**61**
Kevin Kehl - Interim Executive General Manager Energy Services [17]	203	60	2	22	23	-	**310**
Total	**3,225**	**226**	**5**	**218**	**387**	**192**	**4,253**

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

(8) David Smales was appointed Chief Executive Officer of Energy Queensland on 26 September 2016.

(9) Terence Effeney was appointed Interim Chief Executive Officer on 30 June 2016. He remained in that role until 3 October 2016 when he was appointed to the position of Transition Executive General Manager.

(10) Peter Scott was appointed Interim Chief Financial Officer of Energy Queensland on 30 June 2016 and subsequently appointed Chief Financial Officer on 14 November 2016.

(11) Belinda Watton was in the position of Executive General Manager People, Safety & Culture for Ergon until her appointment as Executive General Manager People, Safety & Culture of Energy Queensland on 31 October 2016. The amounts disclosed are only those earned by the individual since appointment as an Executive of Energy Queensland.

(12) Peter Price was in the position of Executive General Manager Asset Management for Energex until his appointment to the position of Executive General Manager Asset Safety & Performance of Energy Queensland on 14 November 2016. The amounts disclosed are only those earned by the individual since appointment as an Executive of Energy Queensland.

(13) Mark Williamson was acting in the role of Executive General Manager Retail from 8 August 2016 until 8 February 2017. The amounts disclosed are only those earned by the individual during the period acting in that role.

(14) Charles Rattray was appointed to the role of Executive General Manager Energy Services on 19 December 2016.

(15) Cheryl Hopkins was appointed to the role of Executive General Manager Retail on 9 February 2017.

(16) Paul Jordon was in the position of Executive General Manager Customer Service for Ergon until his appointment as Interim Chief Operating Officer of Energy Queensland on 6 March 2017. The amounts disclosed are only those earned by the individual since appointment as an Executive of Energy Queensland.

(17) Kevin Kehl was appointed Interim Executive General Manager Energy Services of Energy Queensland on 30 June 2016. He was then appointed to the role of Interim Executive General Manager Strategy Portfolio & Innovation from 8 August 2016 until his resignation on 2 January 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(E) Compensation – Executives (Continued)

Total Fixed Remuneration Package[1]	2018	2017
	$'000	$'000
Energy Queensland		
Chief Executive Officer	**881**	865
Chief Financial Officer	**540**	524
Executive General Manager Distribution	**520**	573
Chief Transformation Officer	**456**	414
Head of Corporate Strategy and Executive General Manager Asset Safety and Performance	**505**	459
Chief Digital Officer[2]	**-**	414
Executive General Manager Retail and Chief Risk Officer	**470**	427
Executive General Manager Energy Services	**431**	392
Executive General Manager Strategy, Portfolio and Innovation[2]	**-**	481
Total	**3,803**	**4,549**

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

(2) These positions were rationalised from the structure in April 2018.

(F) Compensation disclosures by category:

	2018	2017
	$'000	$'000
Short-term benefits	**5,200**	4,151
Post-employment benefits	**290**	285
Other long-term benefits	**458**	387
Termination benefits	**187**	192
Total	**6,135**	5,015

This table includes Directors and Executives remuneration.

(G) Transactions with related parties of key management personnel

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

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

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

- David Smales
- Peter Scott
- Jane Nant
- Belinda Watton
- Craig Chambers

Peter Scott and Teresa Dyson were Directors of Energy Super during the 2017/18 financial year and Clive Skarott was a Director of Energy Super during the 2016/17 financial year. The Group contributed to the Energy Super Fund based on actuarial advice and the total payments for the year were $96 million (2017: $95 million).

(H) Loans to key management personnel

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 30: RELATED PARTY TRANSACTIONS

Entities subject to common control

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

Transactions with State of Queensland controlled entities

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

	2018 $'000	2017 $'000
REVENUE		
Revenue from State of Queensland controlled entities	**672,726**	398,043
Pensioner rebate revenue from Department of Communities	**98,464**	48,974
Interest received from QTC	**19,693**	61
EXPENSES		
Expenses incurred to State of Queensland controlled entities	**631,067**	887,941
Interest on QTC borrowings (includes administration fees)	**748,895**	781,761
Community service obligations offset	**(492,547)**	(598,447)
Competitive neutrality fee paid to Queensland Treasury	**7,091**	-
Electricity trading with State of Queensland controlled entities	**819**	331,024
Environmental certificate transactions with State of Queensland controlled entity counterparties	**6,935**	6,081
NTER, Payroll Tax and Land Tax paid to Queensland Treasury	**399,340**	408,307
ASSETS		
Advances facility held with Queensland Treasury	**638,093**	1,081,500
Community service obligations amounts receivable	**39,199**	116,205
Current tax receivable	**31,937**	92,438
Trade and other receivables from State of Queensland controlled entities	**9,405**	4,226
Other assets	**-**	337
LIABILITIES		
Accrued interest and fees payable to QTC	**58,905**	18,887
Trade payables to State of Queensland controlled entities	**51,687**	73,367
Dividends payable to Queensland Treasury	**808,902**	881,171
Borrowings from QTC	**16,250,000**	16,250,000
Accrued competitive neutrality fee payable to Queensland Treasury	**3,565**	-
Electricity trading with State of Queensland controlled entities	**(4,861)**	23,850
Unearned grant revenue	**528,060**	773,129

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 30: RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

Transactions with other related parties

Disclosures relating to key management personnel are set out in Note 29.

Ultimate parent entity

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

Ownership interests in related parties

Interests in consolidated entities are set out in Note 26.

NOTE 31: AUDITOR'S REMUNERATION

	2018	2017
	$'000	**$'000**
Remuneration for audit and review of the financial reports of the Group and the Company:		
Auditor-General of Queensland		
Audit services		
Audit and review of financial reports	**1,640**	1,640
Audit and review of regulatory reports	**457**	457
Other		
Non-financial review of regulatory reports	**92**	92
	2,189	2,189

NOTE 32: EVENTS AFTER REPORTING DATE

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

DIRECTORS' DECLARATION

In the Directors' opinion:

1. The financial statements and associated notes set out on pages 8 to 66;
   - (i) Comply with the Australian Accounting Standards and Interpretations;
   - (ii) Are in accordance with the *Corporations Act 2001*; and
   - (iii) Give a true and fair view of the financial position of the Group as at 30 June 2018 and of its performance for the year ended on that date.

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

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

Philip Garling
Chairman
23rd August 2018

Queensland Audit Office
Better public services

INDEPENDENT AUDITOR'S REPORT

To the Members of Energy Queensland Limited

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Energy Queensland Limited and its controlled entities (the group).

In my opinion, the financial report:

a) gives a true and fair view of the group's financial position as at 30 June 2018, and its financial performance and cash flows for the year then ended

b) complies with the *Corporations Act 2001*, the Corporations Regulations 2001 and Australian Accounting Standards.

The financial report comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the directors' declaration.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the parent and group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*. I am also independent of the parent and group in accordance with the auditor independence requirements of the *Corporations Act 2001*, and confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. I addressed these matters in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Queensland Audit Office
Better public services

Valuation of supply system assets ($21,990m) (Note 15)

Key audit matter	How my audit procedures addressed this key audit matter
The fair value of the supply system assets has been determined using the discounted cash flow (DCF) technique (Income Approach). The fair value estimation involved significant assumptions and judgements for: • Aggregating supply assets to units of account for valuation purposes. • Estimating future cash inflows and outflows based on: o Revenue forecasts o Estimations of efficient and prudent operating and capital cash outflow amounts occurring beyond the current regulatory period o Tax cash flow o Deriving a terminal value in Energy Queensland Limited's regulated environment. o Setting the rate used to discount the forecast cash inflows, cash outflows and terminal value to present	My procedures included, but were not limited to: • With reference to common industry practice, evaluating for appropriateness Energy Queensland Limited's identification of units of account and use of the income approach (having consideration for highest and best use and the principal market). • Verifying the mathematical accuracy of the discounted cash flow models. • Assessing the reasonableness of forecast revenue, operating expenditure, capital expenditure, and tax cash flows, by corroborating the key market related assumptions to relevant internal forecasts and historical external data. • Evaluating the methodology used to derive terminal values with reference to common industry practice. • Performing sensitivity analysis for the revenue cash flow growth rate, expenditure cash flow growth rate, discount rate and terminal value to assess how management addressed estimation uncertainty. • Engaging a specialist and an auditor's expert to assist me in: o agreeing the discount rate calculation methodology to industry range standards and available market information; and o assessing the reasonableness of the income approach valuation by performing valuation cross checks to comparable organisations and recent sales of similar entities. In engaging a specialist and expert to assist me in addressing this key audit matter, I have reviewed: • the qualifications, competence, capabilities, objectivity and work completed by the specialist and auditor's expert to ensure that the nature, scope and objectives of the work completed was appropriate and the findings.

Queensland Audit Office
Better public services

Depreciation of Supply System Property, Plant and Equipment ($709m) (Note 15)

Key audit matter	How my audit procedures addressed this key audit matter
The depreciation of supply system assets requires significant professional judgement for: • Disaggregating assets into components that are subject to regular replacement. • Forecasting the remaining useful lives of those components. • Estimating residual values. • Estimating useful lives which require consideration of an asset's current condition and its expected future use, physical wear and tear, and technical or commercial obsolescence.	My procedures included but were not limited to: • Evaluating management's approach to disaggregating supply assets with reference to common industry practice and expert advice from engineers and valuers. • Obtaining an understanding of the basis for calculating remaining useful lives of supply asset components within all the standardised component types. • Agreeing components' remaining useful lives to their respective asset management plans. • Evaluating management's assessment of physical condition, obsolescence, and expected usage and wear and tear in estimating remaining useful lives. • Assessing the reasonableness of residual values with reference to sale proceeds from disposals of similar assets.

Responsibilities of the company for the financial report

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

The company's directors are also responsible for assessing the parent's and group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the parent or group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the parent's and group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the group.
- Conclude on the appropriateness of the parent's and group's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent's or group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the parent or group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the audit of the group. I remain solely responsible for my audit opinion.

I communicate with the company's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the company's directors, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

23 August 2018

Brendan Worrall
Auditor-General

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