peace of mind

choice and control

for the best possible price

Ergon Energy

Annual Financial Statements

For the year ended 30 June 2015

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

CONTENTS

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

CONTENTS

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

The Directors present their report together with the financial report of Ergon Energy Corporation Limited (the Company) and of the consolidated entity, being the Company and its controlled entities (the Economic Entity) for the year ended 30 June 2015 and the auditor's report thereon.

Directors

The names and details of the Directors of Ergon Energy Corporation Limited in office during the financial year and up to the date of this report are as follows:

Name, qualifications and independence status	Experience, special responsibilities and other directorships
Gary Humphrys *CA GAICD* Chairman Independent Non-Executive Director	Gary Humphrys brings more than 35 years of experience in the energy and mining industries to Ergon Energy's Board. A chartered accountant, he has held senior executive roles in both the private and public sectors across a range of disciplines, including finance and accounting, treasury, taxation, information and technology, procurement, risk management and audit. In recent years, Gary held board and related committee roles in the water, energy, mining, health and superannuation industries. He is currently a Director of St Vincent's Health Australia Ltd, Electricity Supply Industry Superannuation (Qld) Ltd and HESTA Superannuation.
John Gardner *FAIM FAICD Grad Dip (Mgmt) Harvard* Deputy Chairman Independent Non-Executive Director	John has an extensive background in both private and public sectors, covering banking, finance, governance, technology, utilities, business services and economic development, in the Northern Territory, Queensland and Victoria. As well as executive and senior technical appointments in Australia, he has completed assignments in Canada and the USA, where he studied at Harvard University. John is currently involved in corporate governance and public sector consulting. His previous state and federal board and committee roles have been in treasury, superannuation, utility services, gas supply and research related areas. He is a founding Life Member and former non-executive Director of the Charles Darwin University Foundation.
John Love *GAICD* Independent Non-Executive Director	John Love is a licensed electrical contractor with extensive experience in electrical contracting and reticulation, as well as in the management of large-scale commercial and industrial construction projects. He was the founding Director of John Love Electrical, which grew to be one of Queensland's largest privately-owned electrical contracting companies. John is currently the Managing Director of Steppe Pty Ltd, a residential, commercial and industrial development company. He sits on the Queensland Government's Electrical License Committee. He is also involved, as business advisor to Autres Pty Ltd, in pharmaceutical development and is active in humanitarian organisations locally and overseas.
Gary Stanford *MAppFin DipAppFin BCom GAICD* Independent Non-Executive Director	Gary Stanford has had a wealth of management experience in the energy industry gained through numerous senior and executive level roles in Boral Ltd, Origin Energy Ltd and, more recently, Alinta Energy Retail Sales Pty Ltd. Over his career he has held responsibilities in wholesale energy trading, gas and electricity contracts, retail pricing, risk management, acquisitions, government relations and stakeholder communications. He has also previously been on the board of a number of energy companies, including Retail Energy Market Company Pty Ltd (REMco) and South East Australia Gas Pty Ltd (Seagas).

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

CHANGES TO THE BOARD

Gary Humphrys previously a Director on the Board was appointed as the Chairman of the Board on 23 April 2015.

Gary Stanford was appointed as a Director on the Board on 11 December 2014.

The following ceased to be Directors during the 2014-15 reporting period.

Malcolm Hall-Brown brought to his role as Chairman of Ergon Energy's Board a strong, proven track record in public practice accounting and commercially-oriented enterprises, and a deep understanding of Ergon Energy's regional operating environment. He was first appointed in May 2012 and resigned on 31 March 2015.

Annabel Dolphin brought extensive experience in business strategy, organisational design, culture and change management, leadership and talent management to Ergon Energy's Board and to her role as Chair of the Establishment and People Committee. Annabel was first appointed October 2011 and term ended on 30 September 2014.

Rowena McNally, as an experienced company Director, brought her background in litigation, intellectual property and corporate law to the considerations of both the Board and to her roles on various Board committees. Rowena was first appointed in November 2011 and term ended on 30 September 2014.

Helen Stanton brought her expertise in strategy, risk and governance, gained through a career in the mining industry, and more recently as a consultant, to Ergon Energy's Board and to her role as Chair of the Operational Risk Committee. Helen was first appointed July 2005 and term ended on 30 September 2014.

COMPANY SECRETARY

Karen Stafford

Karen Stafford has worked at Ergon Energy since 2002, and commenced in the role of General Counsel and Company Secretary for the Economic Entity in November 2014. Prior to joining Ergon Energy, Karen held legal roles with a national law firm and a leading European Bank. Karen is a member of the Law Society of Queensland, the Australian Corporate Lawyers Association, the Australian Institute of Company Directors and the Governance Institute of Australia.

PRINCIPAL ACTIVITIES

The principal activities of the Economic Entity during the financial year consisted of the:

- Maintenance of an electricity distribution system within Queensland;
- Distribution of electricity within Queensland;
- Non-competitive electricity retailing in Queensland; and
- Provision of electricity related contracting and other services, including wholesale telecommunication services.

DIVIDENDS

Dividends amounting to $1,925 million (2014: $392 million) have been provided for during the financial year. A final dividend of $392 million was paid on 31 December 2014 in respect of the 2014 financial year. The dividend for the 2015 financial year was not paid during the year.

OPERATING AND FINANCIAL REVIEW

The consolidated statement of profit or loss shows a consolidated profit after income tax equivalent expense for the Economic Entity for the year of $696 million (2014: $295 million), which is above the $591 million target agreed with the Queensland Government in the Company's Statement of Corporate Intent.

The result reflects a strong performance by the retail business (and a favourable market), as well as a focus on delivering organisational efficiency and effectiveness, efforts to scale back operations in line with changes in demand, as well as improvements to financing costs.

Ergon Energy Telecommunications Pty Ltd (trading as Nexium) continues to provide commercial value through the provision of wholesale and retail high speed fibre optic connectivity.

The Economic Entity delivered a $983 million capital works program, $866 million of which relates to Standard Control Services for replacing ageing assets, undertaking targeted network augmentation and connection works and delivering reliability improvement.

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In response to a direction from the shareholding Ministers, dated 29 June 2015, under section 131(3)(b) of the *Government Owned Corporations Act 1993*, the Board adopted a dividend payout ratio of 100 per cent of profit after tax equivalent for the 2014-15 year and declared an additional distribution of $1,229 million. Payment of this dividend, to the extent necessary, will be funded from long term borrowings and facilitates the regearing of the Economic Entity.

There were no other significant changes to the state of affairs of the Economic Entity during the year.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

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

LIKELY DEVELOPMENTS AND FUTURE RESULTS

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

In October 2014, the Company submitted a comprehensive investment proposal to the Australian Energy Regulator (AER) that focused on delivering 'peace of mind' by way of a safe and reliable electricity supply, as well as greater 'choice and control' around how the network can be used for the best possible price.

Following a review of stakeholders' feedback and the AER preliminary determination, an updated proposal was submitted to the AER, which included further expenditure reductions compared to the previous regulatory period.

Community Service Obligations

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

The *National Greenhouse and Energy Reporting Act 2007* (NGER Act) requires the Economic Entity to report its annual greenhouse gas emissions and energy use. The Economic Entity has implemented systems and processes for the collection and calculation of the data required, enabling it to submit its report to the Greenhouse and Energy Data Officer.

All environmental performance obligations are reported to the Operational Risk Committee and are, from time to time, subject to government agency, internal and external professional agency audits, as well as ongoing review to ensure compliance. The Economic Entity has a policy of meeting all its environmental obligations. The Economic Entity's certification to International Standard AS/ISO 14001:2004 has been maintained.

There have been no major non-conformances/incidents reported in the financial year.

For further environmental performance information, refer to the Annual Stakeholder Report, which is available separately and on the website - www.ergon.com.au

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

The Company also indemnifies each Director and officer against any legal costs incurred in respect of a liability incurred by virtue of being a Director or officer of the Economic Entity, other than for legal costs incurred: in defending or resisting proceedings in which the Director or officer could not be indemnified; in defending or resisting criminal proceedings in which the Director or officer is found guilty; and in defending or resisting proceedings brought by the Australian Securities and Investments Commission (ASIC) or a liquidator for a court order.

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

DIRECTORS' SHAREHOLDING

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) held during the year ended 30 June 2015 and the number of meetings attended by each Director was as follows:

	Board Meetings		Audit & Financial Risk Committee		Regulatory Committee		Establishment & People Committee		Operational Risk Committee	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
G Humphrys	12	12	5	5	7	7	2	2	2	2
J Gardner	12	12	5	5	7	7	3	3	4	4
J Love	12	12					5	5	6	6
G Stanford	7	8	3	3	2	2				
M Hall-Brown	7	8	2	2	5	5	3	3	4	4
A Dolphin	2	2	1	1			1	1		
R McNally	2	2					1	1	1	1
H Stanton	2	2			2	2			1	1

A - Number of meetings attended

B - Number of meetings held during the time the Director held office during the financial year

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is on page 75 and forms part of the Directors' report for the year ended 30 June 2015.

ROUNDING

The Company is of a kind referred to in Class Order 98/100 issued by ASIC, relating to the "rounding off" of amounts in the Directors' report (or financial statements). Amounts in the Directors' report (or financial statements) have been rounded off in accordance with that Class Order to the nearest million dollars, or in certain cases, to the nearest thousand dollars.

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

Gary Humphrys
Chairman

Dated at Brisbane this 28th day of August 2015.

STATEMENTS OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2015

		CONSOLIDATED		THE COMPANY	
		2015	2014*	2015	2014*
In millions of dollars	Note				
Revenue	2	**2,541**	2,436	**2,495**	2,172
Other income	2	**86**	4	**2**	4
Network charges / electricity purchases	3	**(252)**	(481)	**(324)**	(333)
Employee expenses		**(248)**	(242)	**(219)**	(214)
Materials and services		**(222)**	(190)	**(221)**	(188)
Depreciation, amortisation and impairments	14	**(454)**	(488)	**(412)**	(447)
Finance costs		**(310)**	(372)	**(308)**	(368)
Fair value losses	3	**-**	(123)	**-**	-
Other expenses		**(150)**	(123)	**(169)**	(175)
Profit before income tax equivalent expense		**991**	421	**844**	451
Income tax equivalent expense	4	**(295)**	(126)	**(207)**	(135)
Profit after income tax equivalent expense		**696**	295	**637**	316

* Prior year has been restated, see Note 1(c)
The statements of profit or loss are to be read in conjunction with the notes to the financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	CONSOLIDATED		THE COMPANY	
	2015	2014*	2015	2014*
In millions of dollars				
Profit after income tax equivalent expense	**696**	295	**637**	316
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss:				
Revaluation of property, plant and equipment	**(193)**	(449)	**(193)**	(449)
Deferred income tax relating to the revaluation of property, plant and equipment	**58**	135	**58**	135
Actuarial gains/(losses) on defined benefit plans recognised directly in equity	**71**	60	**69**	58
Deferred income tax relating to actuarial gains/(losses) on defined benefit plans	**(21)**	(17)	**(21)**	(17)
Prior year tax losses adjustment	**33**	4	**27**	4
Items that may be reclassified to profit or loss:				
Cash flow hedges				
Effective portion of changes in fair value for the year	**40**	-	**-**	-
Deferred income tax relating to changes in fair value	**(12)**	-	**-**	-
Other comprehensive income for the financial year, net of tax	**(24)**	(267)	**(60)**	(269)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	**672**	28	**577**	47
Profit attributable to:				
Owners of the Company	**696**	295	**637**	316
Total comprehensive income attributable to:				
Owners of the Company	**672**	28	**577**	47

* Prior year has been restated, see Note 1(c)

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

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2015

		CONSOLIDATED			THE COMPANY		
In millions of dollars	Note	2015	2014*	2013*	2015	2014*	2013*
CURRENT ASSETS							
Cash and cash equivalents	5	**324**	224	201	**36**	107	90
Trade and other receivables	6	**524**	495	484	**624**	426	446
Inventories		**104**	111	111	**104**	111	110
Financial assets	7	**53**	28	92	**-**	-	-
Other assets		**38**	39	40	**-**	8	-
Total current assets		**1,043**	897	928	**764**	652	646
NON-CURRENT ASSETS							
Trade and other receivables	6	**-**	-	-	**77**	41	43
Property, plant and equipment	14	**10,183**	9,879	10,011	**10,174**	9,869	9,999
Intangible assets		**122**	76	93	**14**	15	33
Employee retirement benefits	15	**137**	79	24	**133**	77	24
Other assets		**-**	-	2	**2**	2	5
Total non-current assets		**10,442**	10,034	10,130	**10,400**	10,004	10,104
TOTAL ASSETS		**11,485**	10,931	11,058	**11,164**	10,656	10,750
CURRENT LIABILITIES							
Trade and other payables	8	**2,262**	706	655	**2,172**	612	548
Interest bearing liabilities	9	**27**	276	325	**-**	250	301
Employee benefits	17	**163**	153	151	**156**	147	145
Provisions		**14**	14	29	**11**	12	29
Current tax liabilities		**134**	7	-	**134**	7	-
Financial liabilities	10	**32**	127	70	**-**	-	-
Other liabilities		**54**	62	60	**20**	36	28
Total current liabilities		**2,686**	1,345	1,290	**2,493**	1,064	1,051
NON-CURRENT LIABILITIES							
Trade and other payables		**-**	-	2	**-**	-	2
Interest bearing liabilities	9	**5,273**	4,865	4,679	**5,273**	4,865	4,679
Employee benefits	17	**12**	15	14	**11**	14	13
Provisions		**5**	5	5	**2**	2	2
Net deferred tax equivalent liability	16	**1,687**	1,625	1,629	**1,697**	1,674	1,590
Other liabilities		**6**	7	6	**6**	7	6
Total non-current liabilities		**6,983**	6,517	6,335	**6,989**	6,562	6,292
TOTAL LIABILITIES		**9,669**	7,862	7,625	**9,482**	7,626	7,343
NET ASSETS		**1,816**	3,069	3,433	**1,682**	3,030	3,407
EQUITY							
Share capital	19	**942**	942	942	**942**	942	942
Other owners' contributions	20	**(10)**	(10)	(10)	**(9)**	(9)	23
Reserves	20	**777**	1,768	2,082	**749**	1,768	2,082
Retained earnings	20	**107**	369	419	**-**	329	360
TOTAL EQUITY		**1,816**	3,069	3,433	**1,682**	3,030	3,407

* Prior year has been restated, see Note 1(c)
The statements of financial position are to be read in conjunction with the notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

In millions of dollars	Share capital	Other owners' contributions	Asset revaluation reserve	Retained earnings	Hedging Reserve	Total equity
CONSOLIDATED						
Changes in equity for 2014						
Balance at 1 July 2013	942	(10)	2,082	701	-	3,715
Changes in accounting policies*	-	-	-	(282)	-	(282)
Restated balance at 1 July 2013	942	(10)	2,082	419	-	3,433
Dividends	-	-	-	(392)	-	(392)
Total comprehensive income for the financial year*	-	-	(314)	342	-	28
Balance at 30 June 2014*	942	(10)	1,768	369	-	3,069
Changes in equity for 2015						
Dividends	**-**	**-**	**-**	**(1,925)**	**-**	**(1,925)**
Transfer from reserves (refer Note 20)	**-**	**-**	**(884)**	**884**	**-**	**-**
Total comprehensive income for the financial year	**-**	**-**	**(135)**	**779**	**28**	**672**
Balance at 30 June 2015	**942**	**(10)**	**749**	**107**	**28**	**1816**
THE COMPANY						
Changes in equity for 2014						
Balance at 1 July 2013	942	23	2,082	642	-	3,689
Changes in accounting policies*	-	-	-	(282)	-	(282)
Restated balance at 1 July 2013	942	23	2,082	360	-	3,407
Dividends	-	-	-	(392)	-	(392)
Prior year tax loss adjustment	-	(32)	-	-	-	(32)
Total comprehensive income for the financial year*	-	-	(314)	361	-	47
Balance at 30 June 2014*	942	(9)	1,768	329	-	3,030
Changes in equity for 2015						
Dividends	**-**	**-**	**-**	**(1,925)**	**-**	**(1,925)**
Transfer from reserves (refer Note 20)	**-**	**-**	**(884)**	**884**	**-**	**-**
Total comprehensive income for the financial year	**-**	**-**	**(135)**	**712**	**-**	**577**
Balance at 30 June 2015	**942**	**(9)**	**749**	**0**	**-**	**1682**

* Prior year has been restated, see Note 1(c)

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

In millions of dollars	Note	CONSOLIDATED 2015	CONSOLIDATED 2014*	THE COMPANY 2015	THE COMPANY 2014*
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**2,750**	2,721	**2,334**	2,191
Receipts for community service obligations		**643**	599	**-**	-
Payments to suppliers and employees		**(1,737)**	(1,925)	**(926)**	(963)
Interest received		**14**	13	**9**	9
Interest paid		**(337)**	(369)	**(335)**	(365)
Dividends received		**-**	-	**2**	61
Income tax equivalent payments		**(51)**	-	**(51)**	-
Net cash from operating activities	25	**1,282**	1,039	**1,033**	933
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		**5**	30	**5**	30
Payments for property, plant and equipment		**(884)**	(819)	**(874)**	(756)
Payments for intangible assets		**(69)**	(40)	**(1)**	(1)
Net cash from investing activities		**(948)**	(829)	**(870)**	(727)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		**408**	459	**408**	457
Repayment of borrowings		**(250)**	(320)	**(250)**	(320)
Dividends paid		**(392)**	(326)	**(392)**	(326)
Net cash from financing activities		**(234)**	(187)	**(234)**	(189)
Net increase / (decrease) in cash and cash equivalents		**100**	23	**(71)**	17
Cash and cash equivalents at the beginning of the financial year		**224**	201	**107**	90
Cash and cash equivalents at the end of the financial year	5	**324**	224	**36**	107

* Prior year has been restated, see Note 1(c)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

SECTION 1: Basis of preparation

In this section………

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

NOTE 1: BASIS OF PREPARATION

(A) General information

Ergon Energy Corporation Limited (the Company) is a public company limited by shares and is domiciled in Australia. The consolidated financial statements of the Company for the year end 30 June 2015 comprises the Company and its subsidiaries (collectively referred to as the Economic Entity) and the Economic Entity's interest in joint arrangements.

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

Registered Office

420 Flinders Street

Townsville Queensland 4810

Principal Place of Business

420 Flinders Street

Townsville Queensland 4810

The Economic Entity is a for-profit entity and the principal activities during the financial year consisted of:

- Maintenance of a electricity distribution system within the State of Queensland;
- Distribution of electricity within the State of Queensland;
- Non-competitive electricity retailing in Queensland; and
- Provision of electricity related contracting and other services.

The financial statements were authorised for issue by the Directors on 28 August 2015.

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

(B) Basis of preparation

The financial statements are presented in Australian dollars. The Company is of a kind referred to in Class Order 98/100 issued by Australian Securities and Investments Commission (ASIC), relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest million dollars, or in certain cases, to the nearest thousand dollars.

(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 through profit or loss and certain classes of property, plant and equipment at fair value.

(C) Changes in accounting policies

The Australian Accounting Standards Board (AASB) has published certain new accounting standards and interpretations in the current year. The Economic Entity has adopted all of the new and revised standards and interpretations that are relevant to its operations and effective for the current reporting period. The adoption of these new and revised standards and interpretations has had a material impact on the result or disclosure of the Economic Entity in the current reporting period due to some changes in accounting policies.

In line with AASB108 *Accounting policies, changes in accounting policies, estimates and errors*, the Economic Entity has adjusted the opening balance of each affected component of equity for the comparative period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

(i) AASB9 Financial Instruments

The Economic Entity has early adopted *AASB 9 (December 2013) Financial Instruments* in advance of the effective date. AASB9 contains new accounting requirements for financial assets and liabilities, including classification, measurement and hedge accounting.

The new hedge accounting requirements are more principle based, allowing closer alignment between accounting and risk management practices.

AASB 9 will replace *AASB139, Financial Instruments: Recognition and Measurement.* The Board of Directors approved the implementation of Hedge Accounting from 1 July 2014 to minimise the volatility flowing through the Statement of profit and loss arising from the movement in the fair value of hedges. The implementation of Hedge Accounting prospectively from 1 July 2014 required an early adoption of accounting standard *AASB 9 (December 2013) Financial Instruments*, which is not otherwise mandatory until the 2017/18 financial year.

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(C) Changes in accounting policies

(i) AASB9 Financial Instruments

In accordance with the transitional provisions of AASB 9, the Economic Entity has applied the classification and measurement requirements retrospectively with the exception of hedge accounting which is applied prospectively. The change in classification and measurement resulting from the adoption of AASB9 is outlined in the table below:

	IAS39		AASB9	
CONSOLIDATED	Category	$M	Category	$M
Financial assets				
Cash and cash equivalents	Fair Value	**324**	Fair Value	**324**
Trade and other receivables	AC	**524**	AC	**524**
Derivative financial instruments				
Electricity hedges (hedge accounting applied)	FVPL	**34**	FVOCI	**34**
Electricity hedges	FVPL	**19**	FVPL	**19**
Amounts previously designated as measured at fair value through profit and loss				
Elective reclassification on adoption of AASB9				**34**

	IAS39		AASB9	
CONSOLIDATED	Category	$M	Category	$M
Financial liabilities				
Trade and other payables	AC	**2,262**	AC	**2,262**
Interest bearing liabilities	AC	**5,300**	AC	**5,300**
Derivative financial instruments				
Electricity hedges (hedge accounting applied)	FVPL	**16**	FVOCI	**16**
Electricity hedges	FVPL	**16**	FVPL	**16**
Amounts previously designated as measured at fair value through profit and loss				
Elective reclassification on adoption of AASB9				**16**

FVOCI denotes fair value through other comprehensive income as a result of applying hedge accounting
FVPL denotes fair value through profit and loss
AC denotes amortised cost

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(C) Changes in accounting policies

(ii) Regulated Revenue

The Economic Entity has changed the accounting policy for regulated revenue to exclude the recognition of revenue under or over recovery adjustments. Previously distribution revenue was recognised in accordance with the regulated revenue allowed by the Australian Energy Regulator (AER) each year. Regulatory receivables or provisions were recognised on the balance sheet, representing any amounts under or over recovered respectively, due to differences in consumption compared to the estimates included in annual regulatory pricing proposals.

There is no definitive guidance on the accounting treatment for regulatory receivables or provisions within existing standards. However the AASB has commented, in response to the International Accounting Standards Board's (IASB) Invitation to Comment *ITC32 Reporting the Financial Effects of Rate Regulation*; that it has a view that the rights and obligations associated with rate regulation do not meet the asset and liability recognition criteria. To date, consensus has not been achieved and divergent views continue to be debated by the IASB.

The new policy, where the accrued (or deferred) revenues are not recognised, results in more reliable information to users as it reflects a closer correlation between market conditions, shareholder and other regulatory policies and profitability.

The following tables summarise the impacts of the above changes on the Economic Entity's statements of profit or loss, statements of comprehensive income and statements of financial position

Statement of Profit or Loss (Extract) for the year ended 30 June 2014 CONSOLIDATED	As previously reported $M	Regulated Revenue $M	As restated $M
Revenue	2,590	(154)	2,436
Profit before income tax equivalent expense	575	(154)	421
Income tax equivalent expense	(172)	46	(126)
Profit after income tax equivalent expense	403	(108)	295

Note: only items which have been restated are shown.

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(C) Changes in accounting policies

Statement of Financial Position (Extract) as at 30 June 2014 CONSOLIDATED	As previously reported $M	Regulated revenue $M	As restated $M
CURRENT ASSETS			
Trade and other receivables	751	(256)	495
Total current assets	1,153	(256)	897
NON-CURRENT ASSETS			
Trade and other receivables	301	(301)	-
Total non-current assets	10,335	(301)	10,034
TOTAL ASSETS	11,488	(557)	10,931
CURRENT LIABILITIES			
Total current liabilities	1,345	-	1,345
NON-CURRENT LIABILITIES			
Net deferred tax equivalent liability	1,792	(167)	1,625
Total non-current liabilities	6,684	(167)	6,517
TOTAL LIABILITIES	8,029	(167)	7,862
NET ASSETS	3,459	(390)	3,069
EQUITY			
Share capital	942	-	942
Other owners' contributions	(10)	-	(10)
Reserves	1,768	-	1,768
Retained earnings	759	(390)	369
TOTAL EQUITY	3,459	(390)	3,069

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(C) Changes in accounting policies

Statement of Financial Position (Extract) as at 30 June 2013 CONSOLIDATED	As previously reported $M	Regulated Revenue $M	As restated $M
CURRENT ASSETS			
Trade and other receivables	619	(135)	484
Total current assets	1,063	(135)	928
NON-CURRENT ASSETS			
Trade and other receivables	268	(268)	-
Total non-current assets	10,398	(268)	10,130
TOTAL ASSETS	11,461	(403)	11,058
CURRENT LIABILITIES			
Total current liabilities	1,290	-	1,290
NON-CURRENT LIABILITIES			
Net deferred tax equivalent liability	1,750	(121)	1,629
Total non-current liabilities	6,456	(121)	6,335
TOTAL LIABILITIES	7,746	(121)	7,625
NET ASSETS	3,715	(282)	3,433
EQUITY			
Share capital	942	-	942
Other owners' contributions	(10)	-	(10)
Reserves	2,082	-	2,082
Retained earnings	701	(282)	419
TOTAL EQUITY	3,715	(282)	3,433

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(C) Changes in accounting policies

Statement of Profit or Loss (Extract) for the year ended 30 June 2014 THE COMPANY	s previously reported $M	Regulated Revenue $M	As restated $M
Revenue	2,326	(154)	2,172
Profit before income tax equivalent expense	605	(154)	451
Income tax equivalent expense	(181)	46	(135)
Profit after income tax equivalent expense	424	(108)	316

Statement of Financial Position (Extract) as at 30 June 2014 THE COMPANY	As previously reported $M	Regulated Revenue $M	As restated $M
CURRENT ASSETS			
Trade and other receivables	682	(256)	426
Total current assets	908	(256)	652
NON-CURRENT ASSETS			
Trade and other receivables	342	(301)	41
Total non-current assets	10,305	(301)	10,004
TOTAL ASSETS	11,213	(557)	10,656
CURRENT LIABILITIES			
Total current liabilities	1,064	-	1,064
NON-CURRENT LIABILITIES			
Net deferred tax equivalent liability	1,841	(167)	1,674
Total non-current liabilities	6,729	(167)	6,562
TOTAL LIABILITIES	7,793	(167)	7,626
NET ASSETS	3,420	(390)	3,030
EQUITY			
Share capital	942	-	942
Other owners' contributions	(9)	-	(9)
Reserves	1,768	-	1,768
Retained earnings	719	(390)	329
TOTAL EQUITY	3,420	(390)	3,030

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(C) Changes in accounting policies

Statement of Financial Position (Extract) as at 30 June 2013 THE COMPANY	As previously reported $M	Regulated Revenue $M	As restated $M
CURRENT ASSETS			
Trade and other receivables	581	(135)	446
Total current assets	781	(135)	646
NON-CURRENT ASSETS			
Trade and other receivables	311	(268)	43
Total non-current assets	10,372	(268)	10,104
TOTAL ASSETS	11,153	(403)	10,750
CURRENT LIABILITIES			
Total current liabilities	1,051	-	1,051
NON-CURRENT LIABILITIES			
Net deferred tax equivalent liability	1,711	(121)	1,590
Total non-current liabilities	6,413	(121)	6,292
TOTAL LIABILITIES	7,464	(121)	7,343
NET ASSETS	3,689	(282)	3,407
EQUITY			
Share capital	942	-	942
Other owners' contributions	23	-	23
Reserves	2,082	-	2,082
Retained earnings	642	(282)	360
TOTAL EQUITY	3,689	(282)	3,407

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 1: BASIS OF PREPARATION (CONTINUED)

(D) Application of new Accounting Standards and interpretations

Early adoption of standards

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

New standards and interpretations not yet adopted

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

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

The AASB has issued a new standard for the recognition of revenue which will replace AASB 118 Revenue and AASB 111 Construction Contracts. This may result in substantial changes to the timing of revenue recognition from customer initiated capital works. For these contracts, the Economic Entity will be required to recognise revenue during construction (rather than upon energisation) as these assets have no alternative use and the contract does not allow the customer to avoid paying for the work done. The Economic Entity currently recognises a liability on its balance sheet for capital contributions received in advance for the construction of distribution assets and revenue recognition is deferred until the asset is energised.

In addition, AASB 15 also requires revenue to be recognised when, or as, the entity satisfies a performance obligation and requires the entity to identify the distinct performance obligations at the inception of the contract ("unbundling"). A preliminary assessment indicates that this change in the accounting standard is unlikely to affect the revenue recognition policy for the Economic Entity as revenue is currently being recognised at a disaggregated level.

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

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

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

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

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

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

SECTION 2: Profit and loss information

In this section………

This section focuses on the results and performance of the Economic Entity and provides further information about individual line items in the statement of profit and loss and other comprehensive income including:

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

NOTE 2: REVENUE AND OTHER INCOME

	CONSOLIDATED		THE COMPANY	
	2015	2014*	2015	2014*
	$M	$M	$M	$M
REVENUE				
Sales revenue				
Sales revenue – controlled entities	**-**	-	**1,671**	1,499
Sales revenue	**2,409**	2,291	**477**	450
Other revenue				
Non-refundable capital contributions	**70**	78	**70**	78
Interest received	**15**	13	**9**	9
Dividend income – controlled entities	**-**	-	**147**	2
Other operating revenue	**47**	54	**121**	134
Total revenue	**2,541**	2,436	**2,495**	2,172
OTHER INCOME				
Fair value gains on financial instruments at fair value	**33**	-	**-**	-
Unwinding of inception value of designated hedges	**43**		**-**	
Cash flow hedge ineffectiveness	**1**	-	**-**	-
Fair value gains on energy certificates at fair value	**7**	-	**-**	-
Other income	**2**	4	**2**	4
Total other income	**86**	4	**2**	4

* Prior year has been restated, see Note 1(c)

ACCOUNTING POLICIES

Revenue recognition

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

(i) Regulated network business

As a network service provider, the Company includes Distribution Use of System (DUOS) income in sales revenue.

Where appropriate, DUOS income is eliminated upon consolidation.

The Company is subject to a revenue cap that can be earned on its regulated assets. Regulated network prices are determined based on the regulated revenue cap and estimated demand. Invoiced regulated revenue may vary from the regulated revenue cap due to actual demand varying from estimated demand.

NOTE 2: REVENUE AND OTHER INCOME (Continued)

ACCOUNTING POLICIES

Revenue recognition

(1) Regulated network revenue

Regulated network revenue and electricity sales revenue are disclosed as sales revenue. Revenue recognised is the aggregate of invoices raised, together with the estimated metered but not invoiced energy consumption.

(2) Non-refundable capital contributions

Non-refundable contributions of cash or non-current assets are recognised as revenue (up to an amount determined by the Regulator) when the network has been extended or modified consistent with the terms of the contribution.

(ii) Electricity retail business

Electricity sales revenue to franchise customers

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

(*iii) Dividend revenue*

Dividend revenue is recognised in the statements of comprehensive income on the date the entity's right to receive the payment is established.

(*iv) Other non-regulated revenue*

Non-regulated revenue comprises revenue (net of discounts and allowances) mainly from the provision of electricity-related services. Revenue for the provision of services is recognised by reference to the stage of completion of the transaction.

Revenue for the sale of goods is recognised on delivery of the goods to the customer. Interest income is recognised in the statements of profit or loss as it accrues, using the effective interest rate method.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(1) Unbilled Energy Sales

Unbilled energy sales are accrued monthly. The previous 14 months billed consumption data is used to calculate a weighted daily average which is then multiplied by the unbilled days left in the period and seasonally adjusted.

(2) Unbilled Network Charges

Unbilled network charges are accrued monthly, both as Revenue in the Company and as expense in the Retailer. The calculation uses purchases and billing volumes for the last four months, as well as the calculated opening balance from four months prior to estimate the unbilled network charges.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 3: EXPENSES

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
Profit before income tax equivalent expense includes the following specific expenses:				
Network charges / electricity purchases				
Network charges / electricity purchases	**848**	1,000	**324**	333
less Community service obligation	**(596)**	(519)	**-**	-
Total network charges / electricity purchases	**252**	481	**324**	333
Fair values losses				
Fair value losses on financial instruments measured at fair value through profit and loss	**-**	121	**-**	-
Fair value losses on energy certificates measured at fair value through profit and loss	**-**	2	**-**	-
Total fair value losses	**-**	123	**-**	-

ACCOUNTING POLICIES

Expenses

(i) Network charges / electricity purchases

Network charges and electricity purchases are the accumulation of costs associated with network charges (including Transmission Use of System expenses), electricity purchases and any other costs associated with the sale of electricity.

(ii) CSO Offset

The CSO receipts are recognised as a contra expense against the cost of sales due to the higher network charges and energy losses for NEM connected customers and the higher cost of generation for customers in other parts of the retail area.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 4: TAXATION

	CONSOLIDATED		THE COMPANY	
	2015	2014*	2015	2014*
	$M	$M	$M	$M
(A) INCOME TAX EQUIVALENT EXPENSE				
Current tax expense	**182**	7	**117**	7
Deferred tax expense	**113**	119	**90**	128
Income tax equivalent expense	**295**	126	**207**	135
Deferred income tax expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (refer Note 16(A))	**65**	174	**36**	111
Increase/(decrease) in deferred tax liabilities (refer Note 16(B))	**22**	(54)	**25**	19
Under/(over) provision in prior years	**29**	(2)	**29**	(2)
Jointly controlled operations	**(3)**	1	**-**	-
Income tax expense attributable to profit from continuing operations	**113**	119	**90**	128
(B) NUMERICAL RECONCILIATION OF INCOME TAX EQUIVALENT EXPENSE TO PRIMA FACIE TAX PAYABLE				
Net profit before income tax equivalent expense	**991**	421	**844**	451
Prima facie income tax equivalent expense on operating profit at 30% (2014: 30%)	**297**	127	**253**	136
Decrease in income tax equivalent expense:				
Dividends receivable	**-**	-	**(44)**	(1)
Other	**(3)**	-	**(2)**	-
Increase in income tax equivalent expense:				
Non-deductible expenses	**-**	1	**-**	2
	294	128	**207**	137
Under/(over) provision in prior years	**1**	(2)	**-**	(2)
Income tax equivalent expense	**295**	126	**207**	135
(C) DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY				
Revaluation property, plant and equipment	**(58)**	(135)	**(58)**	(135)
Recognition of defined benefit surplus/(deficit)	**21**	17	**21**	17
Hedge accounting of derivatives	**12**	-	**-**	-
Prior year tax loss adjustments	**(33)**	(4)	**(27)**	(4)
Deferred tax recognised directly in equity	**(58)**	(122)	**(64)**	(122)

Refer to Note 16 for accounting policies related to taxation.

* Prior year has been restated, see Note 1(c)

SECTION 3: Financial assets and financial liabilities

In this section………

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

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

NOTE 5: CASH AND CASH EQUIVALENTS

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
Cash at bank and on hand	**8**	12	**2**	3
Short term deposits	**316**	212	**34**	104
Total cash and cash equivalents	**324**	224	**36**	107

NOTE 6: TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		THE COMPANY	
	2015	2014*	2015	2014*
	$M	$M	$M	$M
CURRENT				
Trade receivables	**391**	377	**46**	44
Less provision for impairment of receivables	**(17)**	(14)	**(1)**	(1)
Total net trade receivables	**374**	363	**45**	43
Community service obligations	**109**	93	**-**	-
Receivables due from controlled entities	**-**	-	**519**	313
Receivables due from jointly controlled entities	**-**	-	**30**	41
Other receivables and prepayments	**42**	39	**30**	29
Total current trade and other receivables	**524**	495	**624**	426
NON-CURRENT				
Loans to jointly controlled entities	**-**	-	**77**	41
Total non-current trade and other receivables	**-**	-	**77**	41

* Prior year has been restated, see Note 1(c)

NOTE 6: TRADE AND OTHER RECEIVABLES (CONTINUED)

(A) IMPAIRED TRADE RECEIVABLES

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

	GROSS 2015 $M	IMPAIRMENT 2015 $M	GROSS 2014 $M	IMPAIRMENT 2014 $M
CONSOLIDATED – AGEING OF IMPAIRED RECEIVABLES				
Less than one month overdue	**26**	**1**	29	1
One to two months overdue	**10**	**1**	9	1
Two to three months overdue	**6**	**2**	4	1
Over three months overdue	**17**	**13**	14	11
	59	**17**	56	14

	CONSOLIDATED 2015 $M	2014 $M
Movements in the provision for impairment of receivables are as follows:		
Carrying amount at the beginning of the financial year	**14**	12
Provision for impairment recognised during the financial year	**15**	11
Receivables written off during the financial year as uncollectible	**(12)**	(9)
Carrying amount at the end of the financial year	**17**	14

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

(B) PAST DUE BUT NOT IMPAIRED

As at 30 June 2015 there were no trade receivables that were past due but not impaired. In 2014 the Economic Entity had $2 million of trade receivables that were past due but not impaired.

ACCOUNTING POLICIES

Trade and other receivables

Trade and other receivables are recognised initially at fair value when the Economic Entity has a legal right to receive cash, cash equivalent or economic benefit. Subsequent to initial recognition the recoverable amount of trade and other receivables is recognised at amortised cost less accumulated impairment losses. The recoverability of trade and other receivables is reviewed on an ongoing basis.

CRITICAL JUDGEMENTS IN APPLYING THE ECONOMIC ENTITY’S ACCOUNTING POLICIES

Impairment of trade receivables

A provision for impaired receivables is established when there is objective evidence that the Economic Entity will not be able to collect all amounts due according to the original terms of receivables. 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 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 addition to these indicators, the Economic Entity considers evidence of the trends of bad debts experienced within certain levels of aged receivables. The recoverable amount is discounted at the effective interest rate.

NOTE 7: FINANCIAL ASSETS

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
CURRENT				
At fair value through profit and loss				
Derivative financial instruments - Electricity hedges	**19**	28	**-**	-
At fair value through other comprehensive income				
Derivative financial instruments - Electricity hedges	**34**	-	**-**	-
Total current financial assets	**53**	28	**-**	-

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Electricity financial instruments measured at fair value

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

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

NOTE 8: TRADE AND OTHER PAYABLES

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
CURRENT				
Trade payables	**132**	113	**105**	74
Accrued interest and charges	**82**	93	**82**	93
Dividends payable	**1,925**	392	**1,925**	392
GST payable	**14**	14	**14**	14
Electricity hedges payable	**9**	7	**-**	-
Other payables and accruals	**100**	87	**44**	36
Amounts payable to controlled entities	**-**	-	**2**	3
Total current payables	**2,262**	706	**2,172**	612

NOTE 8: TRADE AND OTHER PAYABLES (CONTINUED)

ACCOUNTING POLICIES

Trade and other payables

(i) Trade and other payables

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

(ii) Dividends payable

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

NOTE 9: INTEREST BEARING LIABILITIES

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
CURRENT				
Unsecured liabilities				
Customer and other repayable deposits	**27**	26	**-**	-
Queensland Treasury Corporation loans	**-**	250	**-**	250
Total current interest bearing liabilities	**27**	276	**-**	250
NON-CURRENT				
Unsecured liabilities				
Queensland Treasury Corporation loans	**5,273**	4,865	**5,273**	4,865
Total non-current interest bearing liabilities	**5,273**	4,865	**5,273**	4,865

(A) QUEENSLAND TREASURY CORPORATION LOANS

The market value of Queensland Treasury Corporation (QTC) loans at 30 June 2015 was $5,506 million (2014: $5,396 million). The market value of the QTC loan is the price that the bonds could be bought for at balance date as advised by the QTC.

The Economic Entity has not forecast to make loan repayments in the next 12 months (2014: $250 million). There is no obligation to make repayments under current loan agreements with QTC.

(B) FINANCING ARRANGEMENTS

The Economic Entity has access to the following lines of credit:				
Working capital facility				
Facility not utilised at the end of the financial year	**600**	600	**300**	300
Total facility available	**600**	600	**300**	300

ACCOUNTING POLICIES

Borrowings

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

NOTE 10: FINANCIAL LIABILITIES

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
CURRENT				
At fair value through profit and loss				
Derivative financial instruments - electricity hedges	**16**	123	**-**	-
At fair value through other comprehensive income				
Derivative financial instruments – Electricity Hedges	**16**	-	**-**	-
Held for trading				
Power purchase agreement liability	**-**	4	**-**	-
Total current financial liabilities	**32**	127	**-**	-

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Electricity financial instruments measured at fair value

The Economic Entity enters into electricity financial instruments. The Economic Entity determines the fair value of these financial instruments, which includes swaps, options, swaptions and PPAs using market based valuation methods outlined in Note 12 and Note 13. It has taken into account the conditions existing at balance date and has used its judgement in the following areas:

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

NOTE 11: FINANCIAL RISK MANAGEMENT

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

Financial risk management

(A) Credit risk

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

The Economic Entity manages credit risk by maintaining an established and appropriate credit review process. Furthermore, the Economic Entity minimises concentration of credit risk by undertaking transactions with a large number of retail customers and limiting credit to any individual customer.

Where it is appropriate, collateral in the form of a cash deposit is obtained from customers as a means of mitigating the risk of financial loss from defaults. At the end of the financial year, the Economic Entity held collateral of $27 million (2014: $26 million). Note 22 provides details of guarantees held by the Economic Entity. At the end of the financial year, the Company did not hold any collateral.

The Economic Entity 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 Economic Entity requires counterparties who have not been rated by a credit rating agency to provide appropriate letters of credit or bank guarantees. These letters of credit and bank guarantees reduced the Economic Entity's exposure to credit risk by $2 million as at 30 June 2015 (2014: $6 million).

The Economic Entity 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 Economic Entity also trades with non-wholesale market entities.

At 30 June 2015, there were no significant concentrations of credit risk other than those disclosed below. The maximum exposure for both the Economic Entity and the Company to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statements of financial position.

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

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

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

(B) Interest rate risk

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

The Economic Entity's income and operating cash flows are substantially independent of changes in short-term market interest rates. The Economic Entity borrows exclusively from QTC. For the 2010-2015 regulatory period, long-term borrowings from QTC were structured to approximate a fixed rate loan over the 5 year term. The interest rate charged on long-term borrowings is derived from debt instruments issued by QTC and a competitive neutrality fee (CNF) designed to remove any unfair competitive advantage obtained from borrowing at a lower interest rate than the private sector by virtue of the Economic Entity's Government ownership. During the 2014/15 financial year, QTC refinanced the debt instruments used to establish the interest rate charged on the Economic Entity's existing borrowings in preparation for the 2015 regulatory reset and aligned the new debt term to match the debt profile implied by the trailing average return on debt approach to be used by the Australian Energy Regulator (AER) to estimate the allowed return on debt in the next regulatory control period from 1 July 2015 to 30 June 2020.

NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

The Economic Entity hedged a portion of the future borrowings for the current regulatory period by entering into Forward Starting Loans and fixing the interest rate to be charged on these additional borrowings. From 1 July 2015, the Economic Entity will manage its debt on a staggered portfolio basis and will be approximately funded by 10 fixed-rate loans with annual maturities from 1 to 10 years. Each maturing loan, representing approximately 10% of the existing debt portfolio will be refinanced annually with new 10 year fixed rate debt. New borrowings drawn to fund the Economic Entity's capital expenditure requirements over the next regulatory control period are expected to maintain the AER's implied benchmark debt profile and will be executed by QTC on a best endeavours basis subject to investor demand, liquidity and market conditions for QTC bonds. During the 2014/15 financial year, Forward Starting Loans totalling $400 million (2014: $444 million) settled and the interest rates achieved on these new borrowings were incorporated into the book interest rate at the time of settlement. Forward Starting Loans to hedge new borrowings are not required for the next regulatory control period due to the AER's change in methodology to estimate the allowed return on debt using a trailing average approach.

Movements in book interest rates on this facility largely reflect the prevailing interest rates at the time of the refinancing. The book interest rate will also be affected by drawn new borrowings and the results of QTC's active management on the debt portfolio. The Economic Entity terminated QTC's active management services on 31 July 2015 to minimise the mismatch with the regulated return on debt. The CNF was reset effective 1 July 2010 for a period of five years. The next CNF reset will occur on 1 July 2015 and will be updated annually.

The Economic Entity incurs market value realisation charges to QTC, when the Economic Entity makes repayments of borrowings to QTC as part of its strategy to manage surplus cash balances. The market value realisation charges are included as an adjustment to finance charges in the Statements of profit or loss.

On 2 July 2012, the Economic Entity executed new lending terms and conditions documentation with QTC which requires the Economic Entity to maintain minimum financial ratios (debt covenant). Failure to do so may result in the Economic Entity being charged a line fee by QTC on the total debt outstanding if the Economic Entity's Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) interest coverage ratio is not maintained at 1.5 times or better. The QTC line fee matrix is based on a Debt to Fixed Assets gearing measure. If Total Debt to Fixed Assets is greater than 75%, then the Economic Entity must maintain EBITDA Interest cover at 2.0 times or better.

Other assets and liabilities exposing the Economic Entity to interest rate cash flow risk include cash and cash equivalents (floating rate interest exposure) and repayable deposits (both fixed and floating interest rate exposure), receivables from jointly controlled entities (both fixed and floating interest rate exposure)

Sensitivity analysis

At 30 June 2015, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Economic Entity's net profit and equity would decrease or increase by $3 million (2014: $2 million) and the Company's net profit and equity would decrease or increase by $1 million (2014: $1 million).

The Economic Entity's and the Company's borrowings from QTC have been classified as loans with a fixed interest rate in the following table. As discussed above, an element of these borrowings is exposed to interest rate cash flow risk. This interest rate cash flow risk has been incorporated in the preceding sensitivity analysis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	FLOATING INTEREST RATE	FIXED INTEREST RATE	WEIGHTED AVERAGE INTEREST RATE
	$M	$M	%
CONSOLIDATED			
2015			
Financial assets			
Cash and cash equivalents	**324**	**-**	**3.24**
Total financial assets	**324**	**-**	
Financial liabilities			
Repayable deposits	**27**	**-**	**1.75**
Loans	**-**	**5,341**	**6.20**
Total financial liabilities	**27**	**5,341**	
2014			
Financial assets			
Cash and cash equivalents	224	-	3.35
Total financial assets	224	-	
Financial liabilities			
Repayable deposits	26	-	1.70
Loans	-	5,194	7.17
Total financial liabilities	26	5,194	

NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

	FLOATING INTEREST RATE $M	FIXED INTEREST RATE $M	WEIGHTED AVERAGE INTEREST RATE %
THE COMPANY			
2015			
Financial assets			
Cash and cash equivalents	**36**	-	**3.25**
Receivables due from jointly controlled entities	**52**	**39**	**7.26**
Total financial assets	**88**	**39**	
Financial liabilities			
Loans	**-**	**5,341**	**6.20**
Total financial liabilities	**-**	**5,341**	
2014			
Financial assets			
Cash and cash equivalents	107	-	3.33
Receivables due from jointly controlled entities	21	47	8.09
Total financial assets	128	47	
Financial liabilities			
Loans	-	5,194	7.17
Total financial liabilities	-	5,194	

NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) Price risk

Electricity

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

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

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

On 7 June 2013, the Queensland Government issued a direction for the Economic Entity to enter into particular wholesale energy contracting arrangements with CS Energy and Stanwell for the 2013-14 to 2016-17 period. These deals substantially hedge the Economic Entity's retail load out to 2017.

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

	Electricity Pool Price			
	+10%	+10%	-10%	-10%
	2015	2014	2015	2014
	$M	$M	$M	$M
Profit / (loss) before tax	**14**	68	**(17)**	(69)
Equity	**86**	68	**(85)**	(69)

(D) Liquidity risk

Liquidity risk is the risk that the Economic Entity 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 Economic Entity aims to maintain flexibility in funding by keeping committed credit lines available. Available lines of funding are disclosed in Note 9.

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

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

Where entities within the Economic Entity 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.

Under the funding arrangements entered into between the Company and the Treasurer (via QTC), the Company seeks approval from the Treasurer (via QTC) for funding requirements for the coming financial year on an annual basis. These approved borrowings form part of the Government Owned Corporations' borrowing programme undertaken by QTC. For the year ending 30 June 2015, the Company has secured approval for additional borrowings to meet forecast operational requirements. Should further additional funds beyond this requirement be needed to maintain liquidity and/or meet operational requirements, approval for additional funds must be sought from the Treasurer (via QTC.)

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

NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

	LESS THAN 1 YEAR $M	1 TO 5 YEARS $M	OVER 5 YEARS $M	TOTAL CONTRACTUAL CASH FLOWS $M	CARRYING AMOUNT $M
CONSOLIDATED					
2015					
Electricity hedges	**25**	**13**	**-**	**38**	**32**
Power purchase agreements held for trading	**1**	**-**	**-**	**1**	**-**
Financial guarantees	**100**	**-**	**-**	**100**	**-**
Non-interest bearing	**2,314**	**-**	**-**	**2,314**	**2,314**
Variable rate	**27**	**-**	**-**	**27**	**27**
Fixed rate	**244**	**973**	**5,221**	**6,438**	**5,341**
Total	**2,711**	**986**	**5,221**	**8,918**	**7,714**
2014					
Electricity hedges	79	61	-	140	123
Power purchase agreements held for trading	25	1	-	26	4
Financial guarantees	102	-	-	102	-
Non-interest bearing	619	-	-	619	620
Variable rate	26	-	-	26	26
Fixed rate	338	1,354	4,836	6,528	5,194
Total	1,189	1,416	4,836	7,441	5,967
THE COMPANY					
2015					
Financial guarantees	**100**	**-**	**-**	**100**	**-**
Non-interest bearing	**2,222**	**-**	**-**	**2,222**	**2,222**
Variable rate	**2**	**-**	**-**	**2**	**2**
Fixed rate	**244**	**973**	**5,221**	**6,438**	**5,341**
Total	**2,568**	**973**	**5,221**	**8,762**	**7,565**
2014					
Financial guarantees	102	-	-	102	-
Non-interest bearing	523	-	-	523	523
Variable rate	3	-	-	3	3
Fixed rate	338	1,354	4,836	6,528	5,194
Total	966	1,354	4,836	7,156	5,720

The amounts included above for financial guarantee contracts are the maximum amounts the Economic Entity 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 Economic Entity considers that it is more likely than not that such an amount will not be payable under the arrangement.

NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) Capital management

The Economic Entity 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.

In response to a direction from the shareholding Ministers, dated 29 June 2015, under section 131(3)(b) of the *Government Owned Corporations Act 1993*, the Economic Entity will return a dividend for the 2014/15 financial year equal to $1,925 million being 100 per cent of profit after tax equivalent ($696 million) and an additional distribution of $1,229 million . The increased dividend payout ratio of 100 per cent and the additional distribution facilitates the regearing of the Economic Entity and to the extent necessary, will be funded from long term borrowings.

The Economic Entity will manage its capital structure to maintain a minimum investment grade credit rating of BBB- consistent with its loan documentation with QTC.

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

The Economic Entity borrows exclusively from QTC. The facility provided by QTC has 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 unfair competitive advantage obtained from borrowing at a lower interest rate than the private sector by virtue of the Economic Entity's Government ownership.

The Economic Entity's Board of Directors approves benchmarks within which debt financing must be managed. QTC manages debt financing, including new debt raising and the re-financing of existing borrowings, on behalf of the Economic Entity. 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.

During the 2014/15 financial year, QTC refinanced the debt instruments used to establish the interest rate charged on the Economic Entity's existing borrowings in preparation for the 2015 regulatory reset. QTC also aligned the new debt term to match the debt profile implied by the trailing average return on debt approach used by the Australian Energy Regulator to estimate the allowed return on debt in the next regulatory control period from 1 July 2015 to 30 June 2020.

The Economic Entity is required to maintain minimum financial ratios under QTC's lending terms and conditions. The Economic Entity must maintain an earnings before interest, tax, depreciation and amortisation (EBITDA) interest coverage of greater than or equal to 1.5 times, except where the total debt to fixed assets is greater than 75% in which case the EBITDA interest coverage must be equal to or greater than 2.0 times.

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

The Economic Entity monitors capital on the basis of monthly key financial ratios for debt to equity, interest cover and return on equity. At 30 June 2015 and 30 June 2014 these key financial ratios were as follows:

	Consolidated		The Company	
	2015	2014	2015	2014
Debt to equity ratio	**74.4%**	62.5%	**75.8%**	62.8%
EBITDA to Interest cover (times)	**5.2**	3.3	**4.7**	3.3
Return on equity	**28.4%**	9.1%	**27.0%**	20.9%

NOTE 12: FAIR VALUES

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

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

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

1) Fair value measurements

The Economic Entity 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 Economic Entity's assets and liabilities measured and recognised at fair value.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	$M	$M	$M	$M
CONSOLIDATED				
2015				
Assets				
Electricity hedges	**3**	**50**	**-**	**53**
Large-scale generation certificates held for trading	**-**	**29**	**-**	**29**
Small-scale technology certificates held for trading	**-**	**4**	**-**	**4**
	3	**83**	**-**	**86**
Liabilities				
Electricity hedges	**3**	**29**	**-**	**32**
	3	**29**	**-**	**32**
2014				
Assets				
Electricity hedges	3	21	4	28
Large-scale generation certificates held for trading	-	12	-	12
Small-scale technology certificates held for trading	-	9	-	9
	3	42	4	49
Liabilities				
Electricity hedges	(20)	(97)	(6)	(123)
Power purchase agreements held for trading	-	-	(4)	(4)
Long-term energy procurement	-	-	-	-
	(20)	(97)	(10)	(127)

NOTE 12: FAIR VALUES (CONTINUED)

2) *Reconciliation of Level 3 fair value measurements*

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

	ELECTRICITY HEDGES	POWER PURCHASE AGREEMENTS HELD FOR TRADING	LONG-TERM ENERGY PROCUREMENT	TOTAL
	$M	$M	$M	$M
CONSOLIDATED				
2015				
Assets				
Opening balance	**4**	**-**	**-**	**4**
Transfers out of Level 3	**4**	**-**	**-**	**4**
Closing balance	**-**	**-**	**-**	**-**
Liabilities				
Opening balance	**(6)**	**(4)**	**-**	**(10)**
Transfers out of Level 3	**6**	**-**	**-**	**6**
Settlements	**-**	**4**	**-**	**4**
Closing balance	**-**	**-**	**-**	**-**
2014				
Assets				
Opening balance	33	6	-	39
Transfers out of Level 3	(25)	-	-	(25)
Settlements	-	(5)	-	(5)
Unrealised gains/(losses) recognised in statement of profit or loss	(4)	(1)	-	(5)
Closing balance	4	-	-	4
Liabilities				
Opening balance	(27)	-	(13)	(40)
Transfers out of Level 3	26	-	-	26
Settlements	-	-	13	13
Unrealised gains/(losses) recognised in statement of profit or loss	(5)	(4)	-	(9)
Closing balance	(6)	(4)	-	(10)

NOTE 12: FAIR VALUES (CONTINUED)

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

Transfers between hierarchy levels are expected to occur when there is a change in the observability of a pricing input, or a change in valuation technique. The Economic Entity recognises transfers between levels of the fair value hierarchy as of the beginning of the reporting period during which the transfer has occurred. During 2015 electricity derivatives valued at $2 million were transferred from a level 3 into level 2 due to an increase in market liquidity and the instrument became readily tradeable.

4) Valuation policies and procedures

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

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

The Economic Entity currently has five different classes of financial instruments that are measured at fair value through profit and loss. These are: swaps, options, PPAs, LGCs and STCs.

(A) Swaps

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

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

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

(B) Options

(i) $300 Caps Exchange Traded

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

(ii) Caps over the counter

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

(iii) Swaptions

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

(C) Power purchase agreements

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

NOTE 12: FAIR VALUES (CONTINUED)

Fair value valuation techniques and significant unobservable inputs

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

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

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
QTC borrowings	Discounted cash flows.	Not applicable.

Master netting or similar agreements

The Economic Entity 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 Economic Entity does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default or other credit events.

NOTE 12: FAIR VALUES (CONTINUED)

Master netting or similar agreements

	Note	Gross amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
CONSOLIDATED		**$M**	**$M**	**$M**
2015				
Financial assets				
Electricity hedges	7	**53**	**(53)**	**-**
Financial liabilities				
Electricity hedges	10	**(32)**	**53**	**21**
2014				
Financial assets				
Electricity hedges	7	28	(28)	-
Financial liabilities				
Electricity hedges	10	(123)	28	(95)

ACCOUNTING POLICIES

Financial instruments

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

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

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

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

2) *Power purchase agreements*

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

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

3) *Embedded derivatives*

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

NOTE 13: HEDGE ACCOUNTING

Cash flow hedges

Cash flow hedges are used by the Economic Entity to hedge the energy commodity risk arising through its wholesale and retail operations.

The Economic Entity principally uses energy futures, swaps, caps and options to protect against price and volume fluctuations. The effective hedge contracts are valued at fair value through other comprehensive income with hedge accounting employed only for swaps and the intrinsic value of options. Ineffective hedge contracts are valued at fair value through profit and loss.

The Economic Entity undertakes derivative transactions to hedge the price of electricity it purchases over a three-year period within a set of volumetric limits.

Changes in hedge effectiveness are predominantly driven by changes in energy load forecasts, changes in valuation methodology and movement in the carbon price.

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

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

(i) *Nominal amount of electricity hedges outstanding*

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

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

The following table sets out the fair value of electricity hedges which meet the criteria for hedge accounting. The accounting policies applied to the valuation of electricity derivatives is outlined in Note 12:

	2015 $M
CONSOLIDATED	
Financial Assets: Cash flow hedges - electricity derivatives	**34**
Financial Liabilities: Cash flow hedges – electricity derivatives	**(17)**

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

	Note	2015 $M
CONSOLIDATED		
Statement of profit and loss		
Gain on unwinding of inception value of designated hedges	2	**43**
The ineffectiveness gains recognised in other income	2	**1**

NOTE 13: HEDGE ACCOUNTING (CONTINUED)

	Note	2015 $M
CONSOLIDATED		
Statement of comprehensive income		
Cash flow hedge reserve (CFHR)		
Opening balance		**-**
The effective portion recognised in CFHR (pre-tax)		**148**
Transfer from CFHR to electricity purchases		**(108)**
Closing balance		**40**

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

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

	2015 $M
CONSOLIDATED	
Electricity Price Risk	
Changes in value of hedge instrument	**42**
Changes in value of hedge item	**45**
Cash flow hedge reserve	**40**

ACCOUNTING POLICIES

Derivative financial instruments and hedge accounting

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

The Economic Entity 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 Economic Entity also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

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

Cash flow hedges

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

SECTION 4: Operating assets and liabilities

In this section………

This section shows the financial information relating to the Economic Entity's operational assets and liabilities including:

- property, plant and equipment engaged in the provision of the distribution, generation and other activities
- employee benefits
- tax liabilities
- a summary of accounting policies and critical accounting estimates.

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
SUPPLY SYSTEMS				
At Directors' valuation	**14,731**	14,608	**14,731**	14,608
Less accumulated depreciation	**(6,240)**	(6,175)	**(6,240)**	(6,175)
Net carrying value	**8,491**	8,433	**8,491**	8,433
POWER STATIONS				
At Directors' valuation	**452**	407	**443**	398
Less accumulated depreciation	**(212)**	(182)	**(203)**	(173)
Net carrying value	**240**	225	**240**	225
LAND				
At Directors' valuation	**333**	312	**333**	312
Net carrying value	**333**	312	**333**	312
BUILDINGS				
At Directors' valuation	**342**	340	**342**	340
Less accumulated depreciation	**(162)**	(152)	**(162)**	(152)
Net carrying value	**180**	188	**180**	188
OTHER PLANT AND EQUIPMENT				
At Directors' valuation	**820**	769	**777**	729
Less accumulated depreciation	**(414)**	(364)	**(380)**	(334)
Net carrying value	**406**	405	**397**	395
WORK IN PROGRESS				
Work In Progress	**533**	316	**533**	316
TOTAL PROPERTY, PLANT AND EQUIPMENT	**10,183**	9,879	**10,174**	9,869

NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
If property, plant and equipment were stated on a historical basis, the carrying amount would have been:				
Supply Systems	**6,542**	6,184	**6,542**	6,184
Power stations	**204**	209	**204**	209
Land	**274**	247	**274**	247
Buildings	**165**	175	**165**	175
Other plant and equipment	**374**	367	**365**	356
RECONCILIATIONS				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
SUPPLY SYSTEMS				
Gross carrying amount at the beginning of the financial year	**14,608**	14,737	**14,608**	14,737
Accumulated depreciation and impairment at the beginning of the financial year	**(6,175)**	(6,208)	**(6,175)**	(6,208)
Carrying amount at the beginning of the financial year	**8,433**	8,529	**8,433**	8,529
Transfers of assets between categories	**-**	(1)	**-**	(1)
Additions	**565**	624	**565**	624
Disposals	**(2)**	(1)	**(2)**	(1)
Revaluation increments less decrements	**(207)**	(415)	**(207)**	(415)
Depreciation expense	**(298)**	(303)	**(298)**	(303)
Carrying amount at the end of the financial year	**8,491**	8,433	**8,491**	8,433
POWER STATIONS				
Gross carrying amount at the beginning of the financial year	**407**	381	**398**	372
Accumulated depreciation and impairment at the beginning of the financial year	**(182)**	(167)	**(173)**	(158)
Carrying amount at the beginning of the financial year	**225**	214	**225**	214
Additions	**15**	24	**15**	24
Revaluation increments less decrements	**19**	4	**19**	4
Depreciation expense	**(19)**	(17)	**(19)**	(17)
Carrying amount at the end of the financial year	**240**	225	**240**	225
LAND				
Carrying amount at the beginning of the financial year	**312**	310	**312**	310
Transfers of assets between categories	**-**	-	**-**	-
Additions	**23**	32	**23**	32
Disposals	**-**	(18)	**-**	(18)
Revaluation increments less decrements	**(2)**	(12)	**(2)**	(12)
Carrying amount at the end of the financial year	**333**	312	**333**	312

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
BUILDINGS				
Gross carrying amount at the beginning of the financial year	**340**	350	**340**	350
Accumulated depreciation and impairment at the beginning of the financial year	**(152)**	(144)	**(152)**	(144)
Carrying amount at the beginning of the financial year	**188**	206	**188**	206
Transfers of assets between categories	**-**	-	**-**	-
Additions	**6**	4	**6**	4
Disposals	**(1)**	(1)	**(1)**	(1)
Revaluation increments less decrements	**(1)**	(8)	**(1)**	(8)
Depreciation expense	**(12)**	(13)	**(12)**	(13)
Carrying amount at the end of the financial year	**180**	188	**180**	188
OTHER PLANT AND EQUIPMENT				
Gross carrying amount at the beginning of the financial year	**769**	754	**729**	720
Accumulated depreciation and impairment at the beginning of the financial year	**(364)**	(331)	**(334)**	(309)
Carrying amount at the beginning of the financial year	**405**	423	395	411
Additions	**93**	112	88	106
Disposals	**(5)**	(15)	**(5)**	(15)
Transfers	**-**	1	**-**	1
Revaluation increments less decrements	**(3)**	(18)	**(3)**	(18)
Depreciation expense	**(84)**	(98)	**(78)**	(90)
Carrying amount at the end of the financial year	**406**	405	**397**	395
WORK IN PROGRESS				
Carrying amount at the beginning of the financial year	**316**	329	**316**	329
Transfers to property, plant and equipment and intangible assets	**(653)**	(785)	**(645)**	(785)
Additions	**870**	772	**862**	772
Carrying amount at the end of the financial year	**533**	316	**533**	316
TOTAL PROPERTY, PLANT AND EQUIPMENT	**10,183**	9,879	**10,174**	9,869

NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Valuation of the Company's regulated assets

The majority of the Economic Entity's property, plant and equipment are employed in the distribution of electricity and subject to regulation via a revenue cap. Accordingly, the Fair Value valuation of the Economic Entity's property, plant and equipment is determined using a discounted cash flow (DCF) methodology.

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

In completing the valuation of property, plant and equipment of the Economic Entity as a going concern, future cash flows are captured beyond the explicit forecast period using a terminal value. The terminal value is typically based on the last year of the forecast period, and reflects an assessment of an appropriate fair value of the property, plant and equipment into perpetuity. The forecast assumes the last year of the regulatory control period as the terminal year and derives a terminal value on the basis of applying a multiple to the closing Regulated Asset Base (RAB).

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 Economic Entity and the value the regulator intends returning to the Economic Entity over the life of the property, plant and equipment.

Thus, the key assumptions adopted by the Directors of the Company in the DCF methodology for the valuation of the Economic Entity's property, plant and equipment are:

- The quantification and assessment of the cash flow forecasts generated by the Economic Entity's property, plant and equipment during the forecast period based on the Post Tax Revenue Models (PTRM) released by the AER to support its Preliminary Decision for the 2015-20 Regulatory Control Period;
- The inclusion of estimated annual capital expenditure during the forecast period;
- Assessment of terminal value (in the case of the regulated property, plant and equipment) reflecting a 1.0 times multiple of terminal year RAB;
- Determination of a discount rate which is used to convert the future cash flows into a present day value. The post-tax discount rate of 6.00% (2014: 6.86%) reflects both the time value of money and the risks inherent in the projected cash flows.

It has been noted in assessing the fair value of property plant and equipment that regulatory changes may also impact the Economic Entity. It is possible that the Economic Entity's cost of capital could impact on future profitability.

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
The Company's regulated assets are disclosed in the following categories:				
Supply systems – at Directors' valuation	**8,423**	8,244	**8,423**	8,244
Land – at Directors' valuation	**321**	300	**321**	300
Buildings – at Directors' valuation	**174**	181	**174**	181
Other plant and equipment – at Directors' valuation	**395**	393	**395**	393
Work in progress – at cost	**516**	433	**516**	433
Property, plant and equipment	**9,829**	9,551	**9,829**	9,551
Intangible assets – at amortised cost	**13**	15	**13**	15
Total regulated asset base	**9,842**	9,566	**9,842**	9,566

NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Valuation policies and procedures

The Economic Entity has an established control framework with respect to the measurement of fair values. The Finance Operations team has the overall responsibility for overseeing all regulatory asset fair value measurements, including level 3 fair value, and reports directly to the Chief Financial Officer (CFO). Significant valuation issues are reported to the Audit and Financial Risk Committee of the Economic Entity.

The fair value of the Company's regulated assets was determined using the DCF methodology, which reflects the present value of an investment's future cash flows in order to arrive at a current fair value estimate for an investment. This resulted in a Level 3 fair value. Transfers between hierarchy levels occur when there is a change in the observability of a pricing input, or a change in valuation technique. The Economic Entity recognises transfers between levels of the fair value hierarchy as of the beginning of the reporting period during which the transfer has occurred. There has been no change to the valuation technique during the year.

Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in level 3 items for the recurring fair value measurements:

	Supply Systems	Land	Buildings	Other Plant & Equipment	Total
	$M	$M	$M	$M	$M
Changes for 2014					
Opening balance – 1 July 2013	8,300	286	189	383	9,158
Acquisitions	658	26	13	133	830
Disposals	(90)	-	(2)	(18)	(110)
Depreciation and impairment	(299)	-	(13)	(90)	(402)
Revaluation decrement recognised in other comprehensive income	(325)	(12)	(6)	(15)	(358)
Closing balance 30 June 2014	8,244	300	181	393	9,118
Changes for 2015					
Acquisitions	672	24	7	88	791
Disposals	(1)	(1)	(1)	(5)	(8)
Depreciation and impairment	(295)	-	(12)	(78)	(385)
Revaluation decrement recognised in other comprehensive income	(197)	(2)	(1)	(3)	(203)
Closing balance 30 June 2015	8,423	321	174	395	9,313

NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Valuation inputs and relationships to fair value

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

Fair value at 30 June 2015 $M	Unobservable inputs	Nature and range of inputs	Relationship of unobservable inputs to fair value
9,313	Smoothed Revenue Cap Cash inflows	Revenue cash flows for the financial year 2016 to (and including) financial year 2020 are based on the AER's Preliminary Decision (2015-2020).	A higher allowed rate of return increases the fair value.
	Operating Expenditure	Operating expenditures for the distribution network are based on the AER's Preliminary Decision (2015-2020).	A lower operating expenditure increases the fair value.
	Capital Expenditure	Future capital expenditure required to ensure the security and reliability of the distribution network are based on the AER's Preliminary Decision (2015-2020).	A lower future capital expenditure increases the fair value.
	Terminal value	Terminal value is based the AER's Preliminary Decision (2015-2020) regulatory asset base (RAB) value as at year 2020 and a terminal value multiple of 1.00 (with this input ranging from 1.00 – 1.10).	A higher terminal value and multiple increases the fair value.
	Weighted Average Cost of Capital (WACC) discount rate	A post-tax WACC of 6.00% (with a range of 4.53% - 6.00%) has been employed in the valuation. The WACC discount rate has been determined by management, in consultation with independent experts, with regard to the AER's recent decisions on rate of returns updated for current market variables.	The higher the post-tax nominal WACC, the lower the fair value.

ACCOUNTING POLICIES
Property, plant and equipment

(i) Recognition and measurement

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

All regulated assets are measured at fair value less any subsequent depreciation..

The fair value of regulated assets was determined as at 30 June 2015 by the Directors. The income approach was used as there was no market based evidence of fair value due to the specialised nature of the regulated assets, and the items are rarely sold, except as part of a continuing business.

Power station assets comprising isolated generation and distribution systems were subject to an independent valuation undertaken by Jacobs using the Depreciated Optimised Replacement Cost methodology as at 30 June 2014. These values were rolled forward to 30 June 2015 and then uplifted using a basket of representative indices which estimate the fair value.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the statements of profit or loss, the increment is recognised immediately as income in the statements of profit or loss. Revaluation decrements are recognised immediately in the statements of profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same asset, they are debited directly to the asset revaluation reserve.

(ii) Depreciation

Depreciation is calculated on the straight line basis by reference to the average useful life and residual value of each item of property, plant and equipment, other than freehold land and easements which are not depreciated. An assessment of useful lives is performed annually. Major spare parts and standby equipment purchased specifically for particular plant are capitalised and depreciated on the same basis as the plant to which they relate.

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

Major depreciation periods are:

	Measurement basis	Depreciation period
Supply systems	Fair value	7 to 60 years
Power stations	Fair value	5 to 40 years
Buildings	Fair value	40 years
Other plant and equipment	Fair value (1)	3 to 40 years

(1) Other plant and equipment of the Company is at fair value. The subsidiaries' and joint operation's property, plant and equipment are measured at cost which is considered to be a reasonable estimation of fair value.

NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

ACCOUNTING POLICIES
Property, plant and equipment

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

The gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds of disposals with the carrying amounts of the items. Revaluation amounts on both the asset base and the accumulated depreciation are reversed on disposal. The net gains and losses on disposals are included in the statements of profit or loss.

(v) Maintenance and repairs

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

(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.

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).

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

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

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

NOTE 15: EMPLOYEE RETIREMENT BENEFITS

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
NON-CURRENT ASSETS				
Retirement benefit asset	**137**	79	**133**	77
Total non-current employee benefits asset	**137**	79	**133**	77

(A) DEFINED BENEFIT OBLIGATION

Ergon Energy Corporation Limited (the Company) contributes to an industry multiple employer superannuation fund, the Energy Super Fund. Members, after serving a qualifying period, 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.

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, acting on the advice of an actuary to the participating employers, unless directed otherwise by the employer in accordance with the Trust Deed.

The Company 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. However, the Company assumes most of the risks of the Fund and therefore the Fund is Defined Benefit.

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

The Company expects to contribute $5 million (actual contributions for 2015 $4 million) to its defined benefit plan in 2016.

NOTE 15: EMPLOYEE RETIREMENT BENEFITS (Continued)

The amounts included in the statements of financial position arising from the Company's obligations in respect of its defined benefits plan are as follows:

	THE COMPANY				
	2015 $M	2014 $M	2013 $M	2012 $M	2011 $M
Present value of funded defined benefit obligations	**(436)**	(489)	(521)	(613)	(489)
Present value of plan assets	**569**	566	545	516	527
Net asset/(liability) arising from defined benefit obligations	**133**	77	24	(97)	38
Experience adjustments gain/(loss) – plan liabilities	**7**	15	14	(18)	16
Experience adjustments gain/(loss) – plan assets	**35**	49	60	(28)	12

Employer contributions

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three yearly intervals. An actuarial assessment as at 30 June 2013 has been completed and from 1 July 2015 it has been recommended that the Company pay 5% (2014: 5%) of defined benefit members' salaries. The next actuarial assessment will be completed as at 30 June 2016 and the actuary's next recommended contribution rate will apply from 1 July 2017.

(B) DEFINED CONTRIBUTION PLANS

The Company makes contributions to defined contribution schemes in various superannuation funds. The amount recognised as expense was $31 million for the year ended 30 June 2015 (2014: $30 million).

ACCOUNTING POLICIES

Employee retirement benefits

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

A defined contribution plan is a superannuation plan under which the Company pays fixed contributions. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

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

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

NOTE 16: NET DEFERRED TAX EQUIVALENT LIABILITY

	CONSOLIDATED		THE COMPANY	
	2015	2014*	2015	2014*
	$M	$M	$M	$M
(A) DEFERRED TAX EQUIVALENT ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in statements of profit or loss				
Provisions	**66**	62	**51**	51
Tax losses	**-**	30	**171**	201
Derivatives	**8**	38	**-**	-
Accrued expenses	**3**	3	**3**	3
Unearned revenue	**4**	6	**4**	6
Jointly controlled operations	**13**	16	**-**	-
	94	155	**229**	261
Tax losses utilised by wholly owned entities	**-**	-	**(171)**	(171)
	94	155	**58**	90
Amounts recognised directly in equity				
Hedge accounting of derivatives	**1**	-	**-**	-
Prior year tax loss adjustments	**-**	4	**-**	4
Deferred tax equivalent asset	**95**	159	**58**	94

	CONSOLIDATED		THE COMPANY	
	2015	2014*	2015	2014*
	$M	$M	$M	$M
(B) DEFERRED TAX EQUIVALENT LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in statements of profit or loss				
Property, plant and equipment	**998**	967	**997**	967
Derivatives	**3**	8	**-**	-
Jointly controlled operations	**7**	8	**-**	-
Other	**20**	23	**18**	23
	1,028	1,006	**1,015**	990
Amounts recognised directly in equity				
Recognition of defined benefit surplus	**33**	12	**32**	12
Revaluation of property, plant and equipment	**708**	766	**708**	766
Hedge accounting of derivatives	**13**	-	**-**	-
Deferred tax equivalent liabilities	**1,782**	1,784	**1,755**	1,768
(C) TOTAL NET DEFERRED TAX EQUIVALENT LIABILITY				
Deferred tax equivalent asset	**95**	159	**58**	94
Deferred tax equivalent liabilities	**(1,782)**	(1,784)	**(1755)**	(1,768)
Net deferred tax equivalent liability	**(1,687)**	(1,625)	**(1,697)**	(1,674)

* Prior year has been restated, see Note 1(c)

The Company has a closing current tax liability of $134 million at 30 June 2015 (2014: $7 million).

NOTE 16: NET DEFERRED TAX EQUIVALENT LIABILITY

ACCOUNTING POLICIES

Income taxes

(i) Tax equivalents

The Economic Entity 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 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 Economic Entity.

(ii) Current tax equivalents payable

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

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

(iii) Deferred tax equivalent assets and liabilities

Deferred tax equivalent assets (DTA) and liabilities (DTL) are 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.

(v) Tax consolidation

The Company and its wholly-owned Australian resident subsidiaries formed a tax-consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity. The head entity within the tax consolidated group is Ergon Energy Corporation Limited.

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

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

The Company recognises 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.

(vi) Nature of tax funding arrangements and tax sharing agreements

The members of the tax-consolidated group have entered into a tax funding arrangement which sets out the tax funding obligations for each member. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity. Any tax loss or tax credit deferred tax equivalent asset assumed by the head entity, results in the recognition of an inter-entity receivable/(payable) in the separate financial statements of the members of the tax-consolidated group equal in amount to the tax liability/(asset) assumed. The inter-entity receivable/(payable) is at call.

NOTE 16: NET DEFERRED TAX EQUIVALENT LIABILITY

ACCOUNTING POLICIES

Income taxes

(vi) Nature of tax funding arrangements and tax sharing agreements (continued)

The head entity recognises the assumed current tax amounts as current tax liabilities/(assets), adding to its own current tax amounts, 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 arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

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

Goods and services tax

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

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

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

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

NOTE 17: EMPLOYEE BENEFITS

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
CURRENT LIABILITIES				
Employee benefits	**163**	153	**156**	147
Total current employee benefits liability	**163**	153	**156**	147

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
NON-CURRENT LIABILITIES				
Employee Benefits	**12**	15	**11**	14
Total non-current employee benefits liability	**12**	15	**11**	14

The current provision for employee benefits for the Economic Entity and the Company includes $87 million of annual leave and vested long service leave accrued but not expected to be taken within 12 months (2014: $91 million). The provision has been classified as a current liability as the Economic Entity and the Company do not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

ACCOUNTING POLICIES

Employee benefits

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

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

For long service leave, consideration is also given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments relating to such liabilities are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, to the estimated future cash outflows.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Annual leave, vested long service leave and on-cost entitlements accrued but not expected to be taken within 12 months have been included as part of current liabilities as the Economic Entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

CRITICAL JUDGEMENTS IN APPLYING THE ECONOMIC ENTITY'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.

NOTE 18: LEASES

OPERATING LEASES

	CONSOLIDATED AND THE COMPANY	
	2015	2014
	$M	$M
Not later than one year	**13**	13
Later than one year but not later than five years	**32**	34
Later than five years	**56**	59
Non-cancellable operating lease commitments	**101**	106

The Economic Entity leases various office, workshop and storage space under non-cancellable operating leases expiring within one to 15 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are re-negotiated.

The Economic Entity has two significant leasing arrangements. The Ann St Brisbane office has a remaining term of 8 years with two five year options. The escalation is set at 3.5% per annum. The Flinders St Townsville office has a remaining term of 8 years with one five year option. The escalation is set at 4.0% per annum.

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 Economic Entity 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.

SECTION 5: Capital structure

In this section………

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

NOTE 19: SHARE CAPITAL

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
SHARE CAPITAL				
Fully paid ordinary A class shares	**-**	-	**-**	-
Fully paid ordinary B class shares	**942**	942	**942**	942
Total share capital	**942**	942	**942**	942

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	Shares	Shares	$M	$M
MOVEMENT IN SHARE CAPITAL				
Ordinary A class shares				
Carrying amount at the beginning of the financial year	**26**	26	**-**	-
Carrying amount at the end of the financial year	**26**	26	**-**	-
Ordinary B class shares				
Carrying amount at the beginning of the financial year	**1,172,151,523**	1,172,151,523	**942**	942
Carrying amount at the end of the financial year	**1,172,151,523**	1,172,151,523	**942**	942

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

NOTE 20: OTHER OWNERS' CONTRIBUTIONS, RESERVES AND RETAINED EARNINGS

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
Other owners' contributions	**(10)**	(10)	**(9)**	(9)
Asset revaluation reserve[1]	**749**	1,768	**749**	1,768
Hedging reserve	**28**	-	**-**	-
Retained earnings[1]	**107**	369	**-**	329

[1] In response to a direction from the shareholding Ministers, dated 29 June 2015, the Economic Entity adopted a dividend payout ratio of 100% of net profit after tax for the 2014/15 year and declared an additional distribution of $1,229 million. A transfer from reserves to retained earnings of $884 million was made to enable payment of the total dividend of $1,925 million.

ACCOUNTING POLICIES

Other owners' contributions

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 and loss when the associated hedged transactions affect the profit and loss statement or as part of the cost of an asset if non-monetary.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Section 6: Other notes

In this section………

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

NOTE 21: COMMITMENTS

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$M	$M	$M	$M
CAPITAL EXPENDITURE COMMITMENTS				
Estimated capital expenditure contracted for at the end of the financial year but not recognised as liabilities	**78**	105	**72**	102
LOAN COMMITMENTS				
Commitments for future loans with QTC at a fixed average rate of 2014: 6.98%	**-**	400	**-**	400

NOTE 22: CONTINGENCIES

(A) Legal claims

A number of common law claims are pending against entities within the Economic Entity. In each case, a writ has been served and the entity is at various stages of defending the actions. Liability is not admitted and all claims will be defended. The total amount of these claims is $3 million (2013: $3 million). These claims are disclosed on a gross basis and exclude possible reimbursement through insurance recoveries.

(B) Guarantees

In order to participate in the electricity market, entities within the Economic Entity were required to deliver acceptable security as collateral for their obligations arising as a consequence of normal trading. Security, in the form of payment guarantees totalling $100 million (2014: $102 million), has been issued by QTC to the Australian Energy Market Operator. These guarantees are supported by counter indemnities to QTC from the Company totalling $350 million (2014: $350 million).

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

(C) Guarantees held

The Economic Entity holds bank guarantees from customers totalling $104 million (2014: $95 million) relating to the construction of capital assets for energy customers.

The Economic Entity also holds bank guarantees from trading counterparties totalling $2 million (2014: $6.5 million) as security to cover their obligations arising from the trading of electricity.

(D) Contingent Assets

As a network service provider, the Company includes Distribution Use of System (DUOS) income in sales revenue. Where appropriate, DUOS income is eliminated upon consolidation.

The Company is subject to a revenue cap that can be earned on its regulated assets.

Regulated network prices are determined based on the regulated revenue cap and estimated demand. Invoiced regulated revenue may vary from the regulated revenue cap due to actual demand varying from estimated demand.

Any excess collected is deducted from future revenue, as the Regulator requires these amounts to be refunded through a reduction in future prices. Conversely, the Regulator allows any shortfall to be collected through increases in future prices.

The Company is expecting to recover $357 million in past revenue shortfalls, $239 million in Solar feed-in-tariff payments and $41 million in Service Target Performance Incentive Scheme earnings through increases in future prices.

ACCOUNTING POLICIES

Contingent assets and liabilities

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

NOTE 23: CONSOLIDATED ENTITIES

	COUNTRY OF INCORPORATION	PERCENTAGE INTEREST HELD BY THE ECONOMIC ENTITY[1]	
		2015	2014
THE COMPANY			
Ergon Energy Corporation Limited	Australia		
CONTROLLED ENTITIES			
Ergon Energy Queensland Pty Ltd	Australia	**100%**	100%
Ergon Energy Telecommunications Pty Ltd	Australia	**100%**	100%

(1) The proportion of ownership interest is equal to the proportion of voting power held.

The Company provides management services to its subsidiaries. Accordingly, Ergon Energy Queensland Pty Ltd and Ergon Energy Telecommunications Pty Ltd do not have their own management structures.

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 other members of the Economic Entity.

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Company prior to 2010. There have been no acquisitions since 2010. 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.

NOTE 24: JOINT OPERATION

The Economic Entity has a material joint operation, SPARQ Solutions Pty Ltd (SPARQ). SPARQ is a proprietary company limited by shares and is incorporated and domiciled in Australia.

The Economic Entity has a 50% share in the ownership of the joint operation and the other 50% is held by Energex Limited. The principal activity of SPARQ during the financial year was to act as the Information Communications and Technology (ICT) Service Provider to its clients Ergon Energy Corporation Limited and Energex Limited. During the year, SPARQ Solutions Pty Ltd continued to engage in its principal activity and consolidate the joint ICT business through its delivery of both the day to day operations and ICT project work to its clients.

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

Registered office	Principal place of business
420 Flinders Street	Level 6, 26 Reddacliff Street
Townsville	Newstead, Queensland 4006
Queensland 4810	

SPARQ operates on a cost pass through model to its clients, who are its shareholders. The Economic Entity has recognised its interest in the joint operation by recognising its proportional share of assets, liabilities, income and expenses of the joint operation (SPARQ Solutions Pty Ltd) with the similar items, line by line in its financial statements.

ACCOUNTING POLICIES

Joint arrangements

Under AASB 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement

The Economic Entity recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

NOTE 25: NOTES TO STATEMENTS OF CASH FLOWS

	CONSOLIDATED		THE COMPANY	
	2015	2014*	2015	2014*
	$M	$M	$M	$M
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	**696**	295	**637**	316
NON-CASH FLOWS IN PROFIT:				
Depreciation, amortisation and impairment	**454**	488	**412**	447
Net gain/(loss) on disposal of property, plant and equipment	**4**	17	**3**	18
Changes in employee benefits and provisions	**8**	21	**5**	13
Other non-cash flow items	**(121)**	184	**(181)**	128
CHANGES IN ASSETS AND LIABILITIES:				
Trade and other receivables	**(51)**	46	**(32)**	41
Inventory	**(4)**	2	**(4)**	-
Other assets	**12**	51	**(3)**	52
Trade and other payables	**35**	(30)	**30**	(18)
Other liabilities	**3**	(35)	**7**	(33)
Income tax payable	**179**	-	**129**	-
Deferred income tax liability	**67**	-	**30**	(32)
Net cash flow provided by operating activities	**1,282**	1,039	**1,033**	933

* Prior year has been restated, see Note 1(c)

ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and investments in money market instruments. They are highly liquid, subject to an insignificant risk of change in value and have a maturity of three months or less at date of acquisition. Bank overdrafts in the form of working capital facilities are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) Details of Directors

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

Gary Humphrys	Chairman / Non-Executive Director	
John Gardner	Deputy Chairman / Non-Executive Director	
John Love	Non-Executive Director	
Gary Stanford	Non-Executive Director	
Malcolm Hall Brown	Chairman	Resigned 31 March 2015
Annabel Dolphin	Non-Executive Director	Term ended 30 September 2014
Rowena McNally	Non-Executive Director	Term ended 30 September 2014
Helen Stanton	Non-Executive Director	Term ended 30 September 2014

Gary Humphrys, John Gardner and John Love are appointed until 30 September 2015.

Gary Stanford has been appointed until 30 September 2017.

(B) Compensation - Directors

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

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

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

In accordance with Ministerial Guidelines, details of compensation provided to Directors in office during the financial period ended 30 June 2015 by the Economic Entity and the Company, are as follows:

DIRECTOR	SHORT TERM BENEFITS						POST EMPLOYMENT BENEFITS		TOTAL	
	Directors' fees		Committee fees		Other fees		Superannuation			
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gary Humphrys	**48**	31	**11**	10	**-**	-	**6**	3	**65**	44
John Gardner	**39**	31	**15**	10	**4**	4	**5**	3	**63**	48
John Love	**39**	31	**10**	9	**3**	2	**5**	4	**57**	46
Gary Stanford	**25**	-	**3**	-	**-**	-	**3**	-	**31**	-
Malcolm Hall-Brown	**66**	79	**12**	17	**1**	-	**7**	8	**86**	104
Annabel Dolphin	**10**	31	**3**	10	**-**	-	**1**	3	**14**	44
Rowena McNally	**10**	31	**3**	9	**-**	-	**1**	4	**14**	44
Helen Stanton	**10**	26	**3**	9	**-**	10	**1**	3	**14**	48
Total compensation	**247**	260	**60**	74	**8**	16	**29**	28	**344**	378

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

NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

The total of all amounts paid or payable, directly or indirectly, from the respective entities of which they are a director, or from any related party, to all the directors of each entity in the Economic Entity was $344 thousand (2014: $378 thousand). The above amounts exclude the value of insurance premiums made for the directors' indemnity.

(C) Compensation - Executives

Remuneration and other terms of employment of executives are formalised in executive employment contracts. Each of these contracts makes a provision for fixed remuneration and an 'at risk' performance incentive.

The Establishment & People Committee recommends executive remuneration to the Company's Board as part of an annual review. Final approval is then required from the Board, ensuring that remuneration arrangements for the executives are appropriate. The shareholding Ministers are notified of the details.

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

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

Executive staff members are eligible for an 'at risk' or variable component that is directly linked to both the overall performance of the Economic Entity and their individual efforts against a range of key indicators, for example financial, operational and customer excellence, people and culture, learning, and growth. The Board sets the initial 'target' goals, from the annual Statement of Corporate Intent. 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 Note 26(E).

Most executives are engaged on tenured contractual arrangements in accordance with The Policy for Government Owned Corporations and Senior Executive Employment Arrangements (Policy). Two executives are currently engaged on outer limit contracts.

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

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

With the exception of serious misconduct and incapacity, executives engaged on a tenured contract will be entitled termination entitlements of one months' notice and three months' severance.

For executives engaged on an outer limit contract, where the executive's employment terminates on the termination date the Economic Entity will pay the executive a payment equal to the greater of 13 weeks salary or two weeks salary per year of continuous service up to a maximum of 52 weeks salary.

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

NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

EXECUTIVE REMUNERATION	Short term benefits[1]	Performance payment	Post employment benefits[2]	Other long-term benefits[3]	Termination benefits	Total
2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Ian McLeod, CE[(4)]	718	23	19	69	-	829
Mike Hutchens, Acting CFO[(5)]	311	28	19	9	-	367
Mal Leech, EGM – People and Shared Services [(6)]	309	41	19	11	-	380
Peter Billing, EGM – Customer Service	357	52	19	17	-	445
David Edmunds, EGM – Network Optimisation[(7)]	357	9	19	21	-	406
Roslyn Baker, EGM – Retail	346	41	19	25	-	431
Gordon Taylor, EGM – Strategy and Revenue Transformation[(8)]	608	101	19	3	191	922
Total	**3,006**	**295**	**133**	**155**	**191**	**3,780**

(1) Short term benefits include all payments made to the Officer during the year excluding at-risk performance bonuses (disclosed separately).

(2) Post-employment benefits represent superannuation contributions made by the employer to the superannuation fund at the rates prescribed by the Super Guarantee Levy (i.e. 9.5% of maximum super contribution base).

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

(4) From 23 February 2013 to 21 February 2014 the officer did not have a contractual entitlement to an at risk payment.

(5) Officer was permanently appointed to this position on 1 July 2015.

(6) Officer occupied this position until 1 July 2015.

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

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

NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

EXECUTIVE REMUNERATION	Short term benefits[1]	Performance payment	Post employment benefits[2]	Other long-term benefits[3]	Termination benefits	Total[(11)]
2014	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Ian McLeod, CE[(4)]	754	49	18	19	-	840
John Hooper, CFO[(5)]	318	74	18	8	304	722
Mike Hutchens, Acting CFO[(6)]	56	-	3	3	-	62
Tony Pfeiffer, Acting EGM– Asset Management[(7)]	276	33	16	21	-	346
Graeme Finlayson, Company Secretary and General Counsel[(7)]	277	41	17	25	-	360
Mal Leech, EGM – People and Shared Services	298	43	20	4	-	365
Brian Iwaszczyn, EGM – Major Projects[(7)]	303	38	16	7	-	364
Peter Billing, EGM – Customer Service	365	47	18	12	-	442
Phil Keogan, EGM – Energy Sustainability and Market Development[(8)]	240	67	15	6	102	430
David Edmunds, EGM – Network Optimisation[(9)]	62	-	3	8	-	73
Roslyn Baker, EGM – Retail	314	38	18	20	-	390
Gordon Taylor, EGM –Strategy and Revenue Transformation[(10)]	123	-	4	15	-	142
Justin Fitzgerald, EGM – Customer and Stakeholder Engagement[(7)]	220	37	45	3	-	305
Total	**3,606**	**467**	**211**	**151**	**406**	**4,841**

(1) Short term benefits include all payments made to the Officer during the year excluding at-risk performance bonuses (disclosed separately).

(2) Post-employment benefits represent superannuation contributions made by the employer to the superannuation fund at the rates prescribed by the Super Guarantee Levy (i.e. 9.25% of maximum super contribution base).

(3) Other long term benefits represent annual & long service leave benefits accrued during the year.

(4) From 23 February 2013 to 21 February 2014 the officer did not have a contractual entitlement to an At Risk payment. The 2014 disclosure for Other Long Term Benefits was amended to remove the impact of errors in leave calculations.

(5) Officer occupied this position until 16 April 2014.

(6) Officer was appointed in an acting capacity on 7 April 2014.

(7) Due to re-structure, this position ceased to be part of the Executive from 12 May 2014.

(8) Officer occupied this position until 4 April 2014. As part of his termination agreement, a pro rata performance payment of $29 thousand was paid.

(9) Officer was appointed to this position on 14 April 2014.

(10) Officer was appointed to this position on 31 March 2014.

(11) Non-monetary benefits were removed as the cost of car parking is paid for by Executives by salary deduction.

NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Total Fixed Remuneration Package[12]	2015 $'000	2014 $'000
Chief Executive	738	717
Acting Chief Financial Officer	335	310
Executive General Manager – People and Shared Services	350	340
Executive General Manager – Customer Service	395	384
Executive General Manager- Network Optimisation	376	376
Executive General Manager – Retail	366	333
Executive General Manager – Strategy, Revenue and Transformation	600	600
Total	**3,160**	**3,060**

(12) The TFR package differs from the Executive Remuneration disclosures on the previous page, as the Executive Remuneration disclosures reflect the cost to the Economic Entity. 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 organisation structure.

(D) Compensation disclosures by category:

	CONSOLIDATED		THE COMPANY	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Short-term benefits	**3,616**	4,443	**3,616**	4,443
Post-employment benefits	**162**	239	**162**	239
Other long-term benefits	**155**	206	**155**	206
Termination benefits	**191**	406	**191**	406
	4,124	5,294	**4,124**	5,294

This table includes Directors and Executives remuneration.

(E) Performance payments to employees

As there is no difference between the Economic Entity's and the Company's employee benefit disclosures, they have been presented in a combined table.

EMPLOYEES RECEIVING PERFORMANCE PAYMENTS				
Financial year	**Aggregate at-risk performance remuneration $'000**	**Total fixed salaries and wages payments $'000**	**Employees receiving performance payments Number**	**Employees at the end of the financial year Number**
2015	**3,889**	**43,209**	**221**	**4,349**
2014	3,869	42,280	227	4,309

NOTE 26: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

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

(F) Transactions with related parties of key management personnel

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

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

Ian McLeod and Justin Fitzgerald were executives of the Company and Directors of SPARQ Solutions Pty Ltd, a joint operation during the financial year.

They did not receive any remuneration for their positions as Directors of this entity. During the year SPARQ Solutions Pty Ltd provided services and recoveries to the wholly owned group to the value of $110,922 thousand (2014: $83,885 thousand) and received services and recoveries from the wholly owned group of $219,145 thousand (2014: $159,929 thousand).

A number of Directors are the Directors of organisations that are franchise customers of Ergon Energy Queensland Pty Ltd.

(G) Loans to key management personnel

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

NOTE 27: RELATED PARTY TRANSACTIONS

The Company provided business management, financial and corporate services and customer care administration services, (including retail products and services administration) to controlled entities. All services were undertaken on normal commercial terms and conditions.

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

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 Company.

Transactions with State of Queensland controlled entities

The Economic Entity 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.

Details of material related party transactions and balances, as reported in the statements of profit or loss and statements of financial position, are disclosed below:

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$’000	$’000	$’000	$’000
REVENUE				
Community service obligations	**596,071**	518,925	**-**	-
Revenue from State of Queensland controlled entities	**216,637**	228,348	**130,546**	138,352
Pensioner rebate revenue from Department of Communities	**49,544**	41,812	**-**	-
Interest received on deposits with QTC	**13,564**	12,266	**3,406**	3,349
EXPENSES				
Costs paid to State of Queensland controlled entities	**334,312**	341,041	**334,312**	341,041
Interest on QTC borrowings (includes administration fees)	**276,415**	323,240	**275,992**	323,240
Competitive neutrality fee paid to Queensland Treasury	**56,364**	54,983	**56,364**	54,983
Electricity trading with State of Queensland controlled entities	**144,085**	31,403	**-**	-
Derivative transactions with State of Queensland controlled entities	**1,649**	1,323	**-**	-
ASSETS				
Deposits held with QTC	**313,788**	210,236	**32,147**	102,441
Community service obligations amounts receivable	**108,959**	92,640	**-**	-
Trade receivable from State of Queensland controlled entities	**10,533**	10,831	**6,587**	6,134
LIABILITIES				
Accrued interest and fees payable to QTC	**67,424**	78,929	**67,424**	78,929
Trade payable to State of Queensland controlled entities	**27,614**	32,527	**27,614**	29,474
Community Ambulance Cover Levy payable to Office of State Revenue	**-**	11	**-**	-
Dividends payable to Queensland Treasury	**1,924,910**	392,619	**1,924,910**	392,619
Borrowings from QTC	**5,273,418**	5,115,457	**5,273,418**	5,115,457
Accrued competitive neutrality fee payable to Queensland Treasury	**14,341**	14,002	**14,341**	14,002
Electricity trading with State of Queensland controlled entities	**16,282**	3,053	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

NOTE 27: RELATED PARTY TRANSACTIONS (CONTINUED)

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Transactions with joint operations				
Aggregate amounts brought to account in relation to transactions with joint operations				
Purchase of information technology and telecommunications solutions and services from joint operations	**110,922**	83,885	**110,922**	83,885
Recovery of employee expenses and other service costs from joint operations	**219,145**	159,929	**219,145**	159,929

The wholly owned group has advanced unsecured loans to the jointly controlled entity. The loans are interest bearing with rates between 4.04% and 9.72% (2014: between 4.56% and 9.72%). The amounts outstanding at balance date were $91,130 thousand (2014: $68,225 thousand).

Amounts due and receivable from joint operations and associates are as set out in the respective notes to the financial statements.

Transactions with other related parties

During the year, the Economic Entity paid contributions of $35,315 thousand (2014: $44,195 thousand) to defined benefit and accumulation superannuation plans on behalf of employees.

Ultimate parent entity

The ultimate parent entity within the Economic Entity is Ergon Energy Corporation Limited.

Ownership interests in related parties

Interests in the following classes of related parties are set out in the following notes:

- Consolidated entities - Note 23.
- Joint Operation - Note 24.

NOTE 28: AUDITOR'S REMUNERATION

	CONSOLIDATED		THE COMPANY	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Remuneration for audit and review of the financial reports of the Economic Entity and the Company:				
Auditor-General of Queensland				
Audit services				
Audit and review of financial reports	**755**	778	**505**	625
Audit and review of regulatory reports[1]	**224**	1,084	**224**	1,084
Other				
Non-financial review of regulatory reports	**72**	125	**72**	125
Other audit services	**30**	30	**-**	-
	1,081	2,017	**801**	1,834

(1) 2014: The audit and review of regulatory reports includes audits of additional Regulatory Information Notices (RIN) implemented by the AER for Economic Benchmarking and Category Analysis purposes. $645 thousand was incurred in relation to the audit of initial RIN responses during the year and $320 thousand in relation to additional ongoing annual RIN responses.

NOTE 29: EVENTS AFTER REPORTING DATE

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

DIRECTORS' DECLARATION

In the Directors' opinion:

1. The financial statements and associated notes, set out on pages 7 to 71:
   (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 Economic Entity as at 30 June 2015 and of its performance for the year ended on that date.

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

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

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

G Humphrys
Chairman
28th August 2015

INDEPENDENT AUDITOR'S REPORT

To the Members of Ergon Energy Corporation Limited

Report on the Financial Report

I have audited the accompanying financial report of Ergon Energy Corporation Limited, which comprises the statements of financial position as at 30 June 2015, the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

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

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

Opinion

In my opinion –

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

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

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

INDEPENDENT AUDITOR'S REPORT

Other Matters - Electronic Presentation of the Audited Financial Report

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

George

QUEENSLAND
31 AUG 2015
AUDIT OFFICE

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

Queensland Audit Office
Brisbane

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Ergon Energy Corporation 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 Ergon Energy Corporation Limited and its controlled entities for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

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

~ George

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

QUEENSLAND
31 AUG 2015
AUDIT OFFICE

Queensland Audit Office
Brisbane

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