



THE WAY WE SEE IT

ANNUAL STAKEHOLDER REPORT 2008/09

DELIVERING AN AFFORDABLE,
DEPENDABLE AND SMART
ELECTRICITY SUPPLY

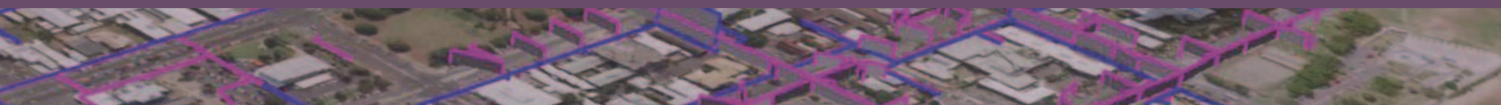
everything in our power





The way we see it... delivering a smarter, more efficient electricity network for regional Queensland, while meeting our safety and other corporate responsibilities, is what Ergon Energy is all about. Our customers, communities and other stakeholders are depending on us to deliver, and we have the plans and the people in place to do it.

In 2008/09, we delivered significant achievements, while facing many challenges across our operations. The report you have reviews our past year and explains our plans for the future. It's an exciting journey, so read on to find out how we see it unfolding.



A GLIMPSE OF THE FUTURE

The way we see it... any advance in technology that improves the way we view and manage our expansive electricity network is a smart thing. Take the Google Earth Enterprise™ system for example. The first of its kind for an Australian electricity utility, this groundbreaking initiative delivers a 3D view of our entire network, showing not just infrastructure locations, but the terrain and features of a town or city it runs through. The operational efficiencies this enables are already being seen, as planners, network controllers and field crews enjoy a faster, more efficient way of working. It's taken three years to implement the technology, but the way we see it, the benefits to our customers will last a lifetime.

ABOUT OUR REPORT

Ergon Energy's Annual Stakeholder Report 2008/09 aims to present a holistic insight into the organisation's overall performance for the financial year, as well as demonstrate Ergon Energy's contribution to the broader sustainability issues currently facing regional Queensland.

We are committed to accountability and to improving the transparency and relevance of our stakeholder communications. To achieve this in our reporting, we have once again assessed the materiality of the issues addressed and the data presented to ensure that our stakeholders are receiving the most insightful information.

To do this we have consulted with a range of representative stakeholders on their needs and expectations, in addition to undertaking a readership survey of the 2007/08 report. We also reviewed our Customer Value Measurement findings and other customer research, feedback from the Regional Electricity Councils and our complaints management tool, as well as our internal employee 'Have Your Say Survey' and cultural survey.

Broadly, our stakeholders are our government shareholders, regulators, industry associates, customers, communities, employees (including unions) and suppliers, who as individuals or as a group could potentially be impacted by our operations or could affect our ability to service our customers.

By engaging with these groups, we identified the following key sustainability challenges as being the most relevant for discussion in this report. Each presents risks and opportunities for Ergon Energy and regional Queensland.

- **Affordability of electricity:** A range of factors relating to the generation, distribution and retailing of electricity is putting pressure on the price our customers pay for electricity. However, Ergon Energy remains committed to minimising its component of the overall cost of supply, as well as supporting affordability through our customer programs (pgs 19-20).
- **Climate change:** We are endeavouring to lead by example by monitoring, avoiding, reducing and offsetting our own greenhouse gas emissions, and preparing for the challenges climate change presents, such as an increase in severe weather events, while leveraging our customers', shareholders' and other stakeholders' responses for mutual value. (pgs 50-53)
- **Infrastructure demand:** Despite the economic downturn, regional Queensland's population and industrial growth, and the high uptake of air conditioning, is continuing to drive up electricity demand. Based on our forecasts, escalated levels of infrastructure investment will need to continue (pg 27), and the management of associated community and environmental impacts needs to be given priority (pgs 22-23). This challenge is closely related to affordability, as peak demand is the primary driver of our network augmentation costs.

- **Network reliability:** We are overtly aware of the potential social and economic impacts of inadequate electricity infrastructure. This is why we are investing heavily in areas where our network is underperforming, and will continue to invest more broadly to modernise the network and expand its functionality to meet our customers' expectations into the future (pgs 25-29).
- **Safety:** Electricity can be deadly, which is why safety remains one of our key strategic priorities. We are taking a lead role in responding to potential safety risks to our people and in the community (pgs 42-44).

Throughout this report, the @ symbol is shown whenever additional information is available, either on our website or the attached CD, which includes our Corporate Governance Statement and Annual Financial Report. A copy of this report, along with archived reports, can also be obtained online at www.ergon.com.au/annualreport

Further details on our stakeholder engagement activities are provided in the Corporate Governance Statement on the CD at the back of this report (@ pgs 9-11).

The content of this report has been guided by the Australasian Reporting Awards criteria for best-practice reporting, as well as the Global Reporting Initiative's Sustainability Reporting Guidelines and Electricity Utility Sector Supplement, which have been used to enhance the quality and comparability of our reporting. An index of our responses to these guidelines is available on the CD at the back of this report (@ pgs 93-100). A glossary of terms and an index are also provided at the back of this publication (pgs 59-60).

We remain committed to continuing to improve our reporting and we sincerely invite your feedback through our online Feedback Form at www.ergon.com.au/annualreport

You are also welcome to phone our Government and Stakeholder Relations team on 13 10 46.

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ABOUT ERGON ENERGY

Ergon Energy services around 650,000 customers (653,220 at the end of June 2009) across its vast service area of 1.7 million square kilometres. Our franchise area covers 97% of Queensland, from the rapidly expanding coastal and rural population centres to the remote communities of outback Queensland and the Torres Strait.

The organisation has a total asset base of \$8 billion and around 4,500 employees (4,634 at the end of June 2009) to deliver on our purpose – ‘to enhance the economic and lifestyle aspirations of our customers through sustainable energy solutions’.

The principal operating companies in the Ergon Energy group are Ergon Energy Corporation Limited, our electricity distributor, and its subsidiary Ergon Energy Queensland Pty Ltd, a ‘non-competing’ electricity retailer. This report also provides commentary on our other subsidiaries and joint venture.

Ergon Energy Corporation Limited is incorporated under the Australian Government’s *Corporations Act 2001* and is a ‘company GOC’ under the Queensland Government’s *Government Owned Corporations Act 1993*.

THE PROFILE OF OUR NETWORK

Ergon Energy’s electricity network has approximately 150,000 kilometres of powerlines and one million power poles. Since August 2007, Ergon Energy has owned and operated the Barcaldine gas-fired power station, along with its associated infrastructure, which supplies power into the main grid.

We also own and operate 33 stand-alone power stations that provide supply to communities isolated from the main electricity grid in Western Queensland, the Gulf of Carpentaria, Cape York, various Torres Strait Islands and Palm Island.

The size and diversity of our service area leads to a critical point of difference between Ergon Energy’s network and other electricity networks – its very low customer density, particularly west of the Great Dividing Range.

Around 70% of Ergon Energy’s powerlines are classified as non-urban, with approximately 65,000 kilometres of the network being Single Wire Earth Return (SWER) lines.

In addition to impacting on our cost to supply, the profile of the network is a major factor in our overall reliability performance. More than two thirds of our zone substations are radially fed, and these, in turn, feed half of all our distribution feeders. This means the network does not have built in redundancy, as a meshed urban network does, so the failure of one component along the supply chain can have a significant impact downstream.

OUR HISTORY AND CONTRIBUTION TO SUSTAINABILITY

This year, Ergon Energy enjoyed its tenth anniversary since being formed from the six former regional Queensland electricity distributors and their subsidiary retailer. Since 1999, the industry in Queensland has evolved, most notably with the introduction of Full Retail Competition in 2007 and the privatisation of the state’s contestable retail operations.

In today’s environment, we are unique as a ‘non-competing’ electricity retailer, with Ergon Energy only permitted to offer its customers the Government-regulated uniform tariff. Regardless of whether our customers are buying their electricity from us as their franchise retailer or from another retailer, it remains our priority as an energy distributor to provide an affordable, dependable and smart electricity network for regional Queensland.

This responsibility is central to our contribution to addressing a number of key sustainability challenges currently faced by the regional Queensland communities that we both live and work in. Ergon Energy is committed to meeting the needs of these communities (our existing stakeholders) while considering the needs of future generations. We believe the most effective way for Ergon Energy to advance towards greater corporate sustainability is to deliver the greatest possible economic, environmental and social value to our customers, employees, government shareholders and other stakeholders. We trust this report gives you a greater insight into our plans and achievements across all these dimensions.

OUR VISION

To be a world-class, customer-driven energy business.

OUR PURPOSE

To enhance the economic and lifestyle aspirations of our customers through sustainable energy solutions.

OUR VALUES

Success is built on our values of

Professionalism

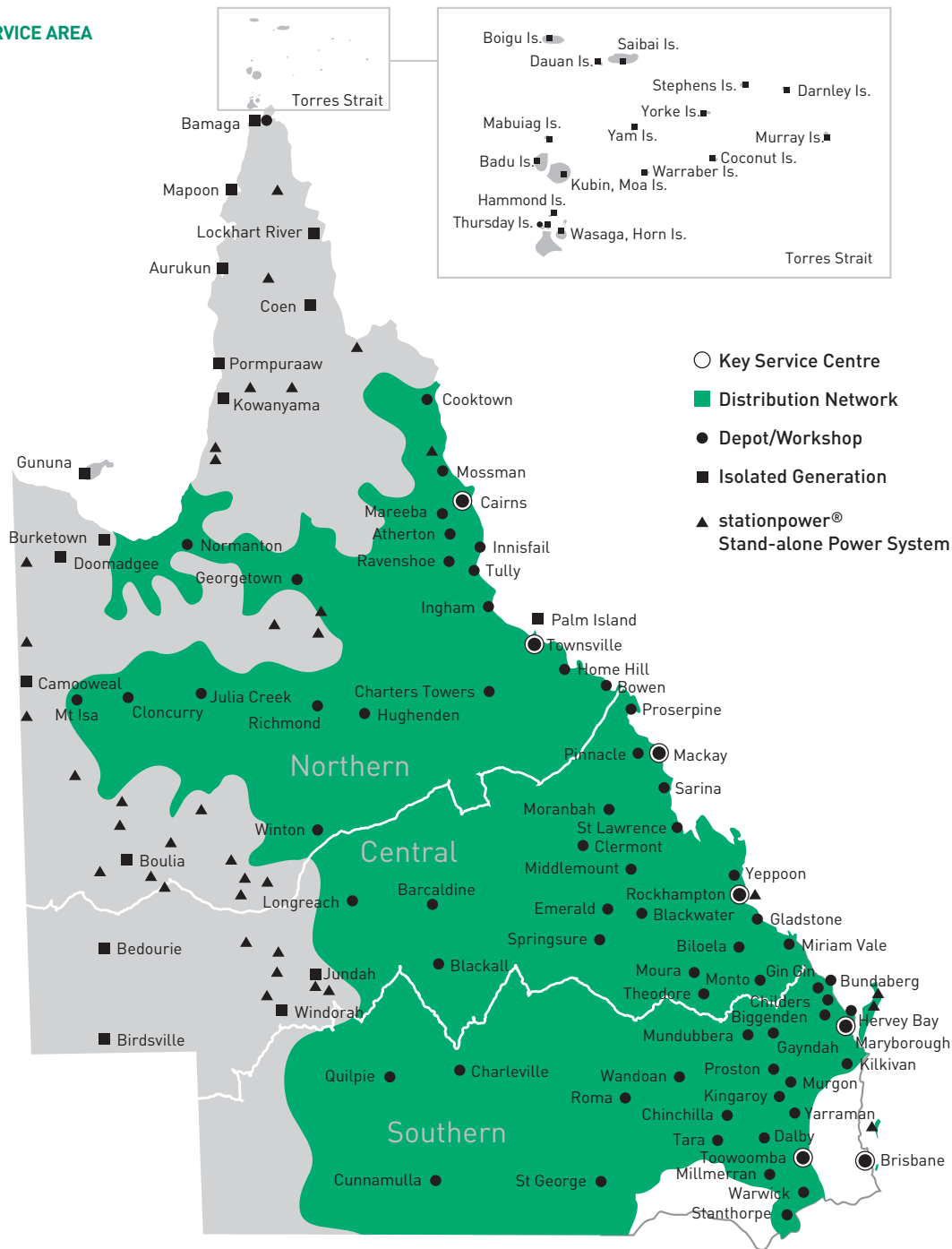
Integrity

Respect

Innovation, and

Teamwork

OUR SERVICE AREA



OUR STATISTICS

Customers Total	653,220	Bulk Supply Points	21
Area Served	1.7 million km ²	Zone Substations	366
Customers Per Km of Powerline		Major Transformers (33kV to 132kV)	561
- Eastern Network	12/km	Distribution Transformers	88,650
- Western/Mt Isa Network	1/km	Power Poles	1 million
Employees	4,634	Overhead Powerline	
Electricity Distributed¹	15,736GWh	- High voltage - Subtransmission	15,000km
Maximum Demand	2,427MW	- High voltage - Distribution	110,000km
Electricity Generated	119GWh	- Low voltage - Distribution ²	20-25,000km
Power Stations	34	Underground Power Cable	6,000km

¹ Total energy input into the network.

² Estimate only as not all overhead low-voltage line has been measured.

THE YEAR IN SUMMARY

While affordability remains a key issue for our customers (pgs 19-20), initiatives like the **Townsville: Queensland Solar City project made progress engaging with the community on how to use energy wisely.** (pg 28)

Recertification through International **Customer Service Standard holds our position in the top 5% globally.** (pg 20)

2,000 customers went solar, and can now export renewable green energy into the electricity grid. (pg 24)

A record 2,306 weather related events were responded to in December alone, highlighting the resilience of the network to the storm season. Despite this success, we did not achieve our network performance goals – primarily due to significant operational constraints put in place to respond to safety concerns. (pg 28)

Collaborative demand management in Townsville already achieving a **10MVA reduction in demand.** (pg 29)

3 new substations commissioned, as part of a **168MW increase** in transformer capacity. (pg 30)

Operational partnership established with **Google Earth to support our response capability.** (pg 33)

\$30 million reduction in discretionary costs supports our economic performance. (pg 34)

Partnership with Energex strengthened with **Joint Working initiatives delivering efficiencies.** (pg 35)

\$134.6 million for a high speed telecommunications network announced as a future platform for improvements to reliability and responsiveness. (pg 36)

More Indigenous employees with the number in entry level positions and senior level positions both more than double what they were in 2007. (pg 39)

260 people underwent leadership development, as part of the Work Group Leader Program refocusing effort at the frontline. (pg 41)

Lost Time Injury Frequency Rate reduced 25% to 4.08 and the Dangerous Electrical Event Frequency Rate for employees is down 45%. Disappointingly, we did not meet our targeted All Injuries Frequency Rate. (pg 42)

70% reduction in construction industry electrical safety incidents involving our powerlines. (pg 44)

\$100,000 community investment launched through a special Envirofund. (pg 45)

\$4.6 million solar concentrator now generating power in Windorah – part of numerous alternative energy success stories. (pg 53)

Emissions associated with **air travel down 7%,** as part of our climate change response. (pg 54)

Regulatory Proposal prepared for submission to the new Australian Energy Regulator – for determination of our funding framework for 2010 to 2015. (pg 55)

\$129.3 million profit result exceeds our shareholder commitment, a 5.4% Return on Assets. (pg 56)

FINANCIAL SNAPSHOT		% Change	2008/09 \$M	2007/08 \$M	2006/07 \$M ¹	2005/06 \$M	2004/05 \$M
Earnings Before Interest and Tax	↓	0.5%	\$407.9	\$410.1	\$1,537.6	\$345.2	\$243.1
Earnings Before Interest, Tax, Depreciation and Amortisation	↑	4.2%	\$685.7	\$658.1	\$1,789.0	\$585.3	\$445.3
Operating Profit Before Income Tax	↓	19.8%	\$184.5	\$230.0	\$1,283.7	\$213.0	\$141.9
Net Profit After Tax	↓	20.6%	\$129.3	\$162.9	\$1,198.1	\$144.2	\$98.8
Total Assets ²	↑	12.6%	\$7,994.2	\$7,100.5	\$7,261.5	\$6,298.0	\$5,339.9

		2008/09	2007/08	2006/07 ¹	2005/06	2004/05
Return on Average Assets	↓	5.4%	5.7%	22.7%	5.9%	6.0%
Return on Average Equity	↓	5.1%	6.6%	47.7%	5.8%	4.8%
Gearing	↑	73.4%	68.4%	64.0%	59.6%	42.3%
Interest Cover (times)	↓	3.1x	3.7x	7.0x	4.4x	4.4x

For further discussions on the above results, refer to pages 56 - 57.

¹ The 2006/07 results include a significant contribution from the sale of our contestable retail operations that year.

² Total Assets has been recalculated in 2007/08 to exclude deferred tax equivalent assets, which are netted off against deferred tax equivalent liabilities. This is in line with the balance sheet presentation of net deferred tax equivalent liabilities.



The dishes of the Windorah solar concentrator act like giant sunflowers, facing and following the sun to capture as much sunlight as possible to cater for the day time electricity needs of the local community.

CHAIRMAN'S MESSAGE

"Our strategic plans and Regulatory Proposal are underpinned by a clear understanding of our purpose – to enhance the economic and lifestyle aspirations of our customers through sustainable energy solutions."

SAFETY IS A BOARD PRIORITY

On joining Ergon Energy, I could not have been more impressed by the organisation's focus on its 'always safe' priority. Unfortunately, despite these efforts, the organisation has still not been able to achieve its targeted reduction in the frequency of workplace injuries. Most alarmingly, there have been three major incidents during the past year.

As a Board, we wholeheartedly support efforts to embed world-best safety practices into the business. And we fully endorse the unprecedented decision to suspend Ergon Energy's high voltage live line work to undertake a rigorous safety review following a major incident in February. It is vital that we do everything that can be done to ensure the safety of our people and the community, and the integrity of our assets.

The suspension of live line work is the main reason that the organisation did not meet this year's network performance goals.

LOOKING OVER THE HORIZON

Despite Queensland's broader economic challenges, we are pleased to have delivered an above budget Net Profit after Tax for the year of \$129.3 million, which equates to a return of 5.4%. We have also made great progress on our strategic positioning, from the perspective of our climate change response to the preparation of our Regulatory Proposal for submission to the Australian Energy Regulator (AER). These and many other achievements are detailed throughout this report.

One achievement I would like to note here specifically is the shareholder's approval of the Ubiquitous Telecommunications Network (UbiNet) project. The \$134.6 million investment planned by Ergon Energy as part of this project will see improvements in the reliability and responsiveness of the network across regional Queensland through the additional remote monitoring and control capability enabled by the establishment of a high-speed microwave communications network. It's all about applying the best technologies to enable the organisation to meet the growing electricity needs and expectations of regional Queenslanders, now and into the future.

I mention this project as it starts to paint a picture of the new 'smart', technology-driven world that we are entering. One where we see Ergon Energy's network being as much the centre of everyday life as it is today, but in ways that we may not even have imagined.

It is this vision that the new Board has thrown its support behind since coming together in October 2008. And the reason a major focus this year has been on ensuring we have the long-term funding and appropriate organisational model to be a success.

SECURING VITAL FUTURE FUNDING

As part of preparing our Regulatory Proposal for the AER, so it can determine the revenue the distribution side of our business is allowed to recover through customers' network charges, we have invested a significant amount of management effort this year fine-tuning the organisation's strategic direction.

We've asked the questions. What business are we in? What do we want to look like? And what do we need to do to get there? With the answers to these questions as inputs we have developed a Regulatory Proposal that seeks support for the expenditure levels we believe are required to prudently operate our distribution business for the next regulatory control period from 2010 to 2015.

We understand only too well that to regional Queenslanders, providing electricity means more than just keeping the lights on. They rightfully demand an electricity supply that balances affordability and dependability. They also want their supplier to help them manage their electricity use, providing them with real choices, particularly in an era where climate change and affordability are growing concerns.

It is from this understanding that Ergon Energy has developed its plans for the future, which are reflected in the Regulatory Proposal.

The proposal has now gone through its first public consultation period, and is currently in the hands of the AER along with any submissions from the public. In early November the AER will then release a draft revenue determination for further public consultation.

MEETING THE CHALLENGES HEAD ON

So what do we believe the next five years will look like? To give you an insight into our strategic direction and the types of initiatives for which we are seeking funding, I'd like to highlight for you the plans and innovative responses that we have developed to address our key challenges and opportunities.

Ultimately, these initiatives aim to ensure regional Queensland has an affordable, dependable and smart electricity network fit for the challenges of the future.

Delivering affordable solutions to address peak demand –

Over recent years, regional Queensland's main centres have experienced rapid growth in electricity demand, driven by economic and population growth, as well as the take-up of air conditioning and other electronic equipment. This rise in demand is the primary driver of Ergon Energy's network augmentation costs, and will see the current escalated levels of capital spend continue despite the economic slow-down.



Our strategy to respond to the issue of peak demand, and at the same time play our role in addressing climate change, is to significantly expand the network's functionality. This future 'smart' network will allow us to better manage electricity demand and help facilitate alternative and renewable energy solutions, as well as other innovative approaches.

In the five years from 2010, we'll lay the technology foundation to support this future functionality. We'll continue to trial smart meters, invest in the first stage of the 'UbiNet' communications network that I mentioned, and continue to expand the reach of our network monitoring and remote control systems.

In addition to technology investments, we'll also continue to engage customers to reduce their electricity use at peak times through initiatives like Townsville's Solar City project. In fact, our Regulatory Proposal includes an innovation investment that will support the development of new non-network alternatives, as well as the existing demand management projects that we have under way.

Giving customers real choices – I believe that the issues that we are currently facing around affordability and climate change present opportunities for us to use non-traditional responses, including empowering customers with greater choice around how they procure and use electricity.

We will continue to expand the range of scenarios where we can offer developers more choice. Over recent years, Ergon Energy has introduced a contestability solution for developers to design and construct urban residential subdivisions, providing them with more say in who builds their development's electrical infrastructure. This strategy is all about ensuring that this infrastructure, including street lighting and new large customers' connection assets, is available to the community at the most competitive price possible.

We'll also use our network's expanded functionality to empower our customers to control and reduce their energy use and greenhouse gas emissions. This will occur in line with the community's growing awareness of our shared sustainability challenges. Greater choice is part of our strategic response to climate change. We also intend to make it easier to connect new technology to the network, like hybrid vehicles and renewable energy alternatives such as solar generation.

Delivering a safe and reliable network – Importantly, the most basic of customer desires – a dependable power supply that keeps the lights on – will benefit from continued safety and reliability improvements.

Over recent years, Ergon Energy has invested millions to upgrade the network, reducing the frequency of power interruptions by 36% over the past five years. In the next regulatory control period our reliability standards, set by the Queensland Competition Authority, will become increasingly stringent and harder to meet. In response, our proposal scopes out investment plans for asset replacement and reliability improvements across the network.

One area in which we are struggling to meet performance expectations is on the Single Wire Earth Return (SWER) lines, which make up over 65,000 kilometres of Ergon Energy's network. This SWER technology was developed for a different era, before air conditioning and the use of sensitive electronic equipment became everyday in the lives of Queensland's rural populations. In recent years Ergon Energy has made significant progress towards developing solutions to the performance gap on the SWER network. We will continue to roll these out during the coming years.

THE BOARD IS OVERSEEING PRUDENT INVESTMENT

In the current climate of economic uncertainty, and in the context of the broader challenges outlined above, I believe sound governance is paramount.

I have every confidence that the organisation has the capability to deliver on its strategic plan and, combined with good governance, will play an important part in providing vital infrastructure necessary to secure the future of regional Queensland.

From a Board perspective, it has been my priority since joining the organisation as Chair to promote an effective, positive Board culture. Ergon Energy's directors are diverse in knowledge, gender and geography. I believe, however, that how we function as a team is as important as the perspectives we bring to our role in effectively overseeing the journey into the next strategic horizon.

I aim to foster an environment where high ethical standards, full compliance with legal requirements and prudent risk management take precedence.

I am committed to rigorous governance processes to ensure our investment decisions are prudent, and are aligned to our strategic and operational priorities. This includes using external experts where necessary to independently validate critical assumptions, especially in the area of energy demand forecasts and cost escalations.

Internal checks and processes, as well as the new incentive schemes incorporated into the new regulatory environment, will also ensure Ergon Energy's program of work is delivered efficiently and tracked against performance targets.

A PART OF TOMORROW'S REGIONAL QUEENSLAND

It has been a positive year for Ergon Energy and its stakeholders. I thank my Board colleagues and the people right across Ergon Energy for their passion and dedication to the organisation's long-term strategies and for delivering on this year's priorities.

I am confident the successes Ergon Energy has had to date, along with the current strategic direction, will lead us into an exciting future as an integral part of regional Queensland.

DR RALPH CRAVEN

CHAIRMAN

CHIEF EXECUTIVE'S REPORT

"Our focus throughout the past year has been on our four strategic priorities: taking steps to improve our operational efficiency – 'get fit', continuing the process of securing the network, lifting our safety performance, and responding to climate change."

DRIVING FOR OPERATIONAL EFFICIENCIES

Ergon Energy has had an enormously busy and challenging year right across the organisation.

We have been doing everything possible to address the affordability of electricity for our customers, while also delivering on substantial savings targets and budgeted investment returns to the Queensland Government as our shareholder.

To do this we have had to really instil the importance of cost-consciousness across the organisation to realise \$30 million in savings in our discretionary costs – a significant amount by any standards. I have also sought to simplify and reduce bureaucracy through initiatives like our Depot 3PR project. This initiative is revamping our processes, procedures and paperwork to align and streamline the operating environment in our depots before introducing field automation functionality. Another step forward is the redevelopment of the Work Group Leader position to improve this frontline role's effectiveness in delivering sustainability, safety, productivity and customer service.

We are also focusing on our operational efficiency through a program of joint working with Energex, our south east Queensland equivalent. Together we believe it is extremely important that we collaborate to standardise network asset and management solutions and amortise investment costs to ensure that we can continue to deliver what our customers want into the future at an affordable price.

Pleasingly our focus on costs, and on managing the impact of the economic downturn, has helped deliver an above budget Net Profit After Tax for the year of \$129.3 million – a sound 5.4% Return on Assets.

FACING A CHALLENGING SUMMER STORM SEASON

This summer truly was one for the record books. The extreme weather tested both our people and the network throughout the state. Not only were there widespread seasonal storm impacts across all of our regions from November onwards, there was also a prolonged stretch of hot and humid conditions in the peak of the holiday season, widespread flooding across 60% of the state, and three tropical cyclones.

Considering the challenges nature sent our way, our network stood up extremely well.

As well as the resilience of the network, I would like to recognise the professional and dedicated response by our people. Throughout the storm season they have done their utmost to maximise security of supply and to ensure the safety of our customers and communities. There were no incidents despite safety being a major issue in rising floodwaters.

The high level of resilience shown across the network, however, did not translate into strong performance results and, regrettably, we did not meet our network reliability performance targets across all categories. The primary reason was the significant impact of our decision to temporarily suspend our 'live' line works program following a major incident, and to put in place other operational restrictions – all part of our strong commitment to safety. We anticipate our full live line capability will be restored by the end of 2009.

As the cornerstone of our ability to carry out maintenance with minimal disruption to our customers, it was inevitable that the suspension of live line work would impact on our network reliability performance measures, and this impact is continuing to show itself in our 2009/10 results to date. However, we could not compromise on safety.

ALWAYS SAFE MESSAGE A PERSONAL ONE

Ergon Energy had three employees seriously injured on the job this year in separate incidents, and we did not meet our targeted reduction in our All Injuries Frequency Rate.

This year's safety outcomes only strengthen my resolve to harness the commitment that shines through in so many other areas of our business and to focus it on creating an Always Safe workplace. I have personally addressed management teams across the state to reinforce this message and I fully endorse all efforts being made, especially around our live line practices, to improve the accountability of every employee for their role in achieving our safety goals.

On the positive, the organisation's Lost Time Injury Frequency Rate has come down 25% this year to 4.08 – around industry average. We have also seen a marked drop in Dangerous Electrical Events involving employees, with the Dangerous Electrical Events Rate halved to 2.4. I believe this shows an improved level of respect for the core competencies of the electrical trade, and reflects improvements to work processes, as well as safety and testing systems. We have also seen a significant improvement to pole reliability as a result of the level of investment in the network over recent years.

Community safety is another fantastic story with our engagement activities in this area supporting a reduction of 25% in network-related accidents within the key risk industries identified, from construction to transport.

RESPONDING TO CLIMATE CHANGE

During 2008/09 we have well and truly made inroads into understanding climate change, building business resilience and proactively capitalising on the opportunities it holds.

We began generating power through our \$4.6 million solar concentrator power station at Windorah in south-west Queensland



in late 2008. Our Sustainable Poles Project also really began to grow this year, with the first trees planted at Eagle Rock, north of Toowoomba, in March 2009. Faced with a shortage of timber power poles in the future, this project is an Australian first and an environmentally and financially-sound solution to this problem.

Another highlight this year was the launch of Ergon Energy's new \$100,000 Envirofund, established to support local community projects that have an energy conservation and environmental focus.

On Magnetic Island in North Queensland we opened the Smart Lifestyle Centre. This was an initiative of the pioneering *Townsville: Queensland Solar City* project, part of the Australian Government's Solar City program, which is continuing to break new ground in the concentrated deployment of distributed solar generation and energy conservation.

We have also made exciting progress through a collaborative network demand management project with a number of organisations across Townsville, committing to projects that will achieve reductions or avoidance of over 10MVA in demand – slashing greenhouse gas emissions.

These initiatives are helping our sustainability response to climate change in their own right, but we are also able to leverage off many of them to deliver other business benefits, especially in promoting demand management. This is extremely important, as peak demand growth is driving our ongoing need to augment the network. By helping customers reduce demand we help them manage their energy costs and reduce the need for future investment to meet demand. That's a win-win for both affordability and the environment.

We have also closely examined our own operations, building the capacity to accurately measure and report on Ergon Energy's carbon emissions. In addition, we participated in the Federal Government's National Greenhouse and Energy Reporting (NGER) Pilot Group. Together this has allowed us to finalise our Greenhouse Gas Emission Management Plan, which commits us to a number of important emissions reduction targets.

LOOKING FORWARD TO THE NEXT DECADE

The end of the 2008/09 financial year saw Ergon Energy celebrate its tenth anniversary. Looking back I believe we have achieved much during the past decade and shown our ability to adapt and evolve in the face of significant growth and challenges.

Moving forward into the next decade our business is under increasing pressure from a range of factors. They include the global economic downturn, climate change policy and community

expectations, electricity affordability and competition from other energy sources, as well as our customers' desire for greater choice and control on how they source and use energy.

And at present we also face uncertainty about our operating revenue, which we will better understand when the Australian Energy Regulator (AER) publishes our draft revenue determination in November.

At this point, I would like to thank those across Ergon Energy who contributed to developing our Regulatory Proposal to the AER – one that we believe balances both cost and service delivery. It is now the AER's role to benchmark Ergon Energy against how efficiently and effectively other energy companies are operating, and then taking into consideration our unique operating environment to determine what our revenue allowance will be for 2010 to 2015.

The past decade saw peak demand, as the key driver for investment in our network, create a business with an asset base around double the size that it started with – now valued at \$7,994.2 million. This investment has increased distribution costs, and moving forward we are also anticipating extra costs associated with carbon trading and a growing investment in renewable energy and energy conservation. I believe that as an organisation it is incumbent on us to minimise the impact of these costs on our customers.

The future will also see a significant shift in the purpose of our network. Traditionally, our network has transported energy one way, from bulk suppliers to consumers. In the next decade we'll see an increasing number of our customers choosing to generate power themselves, using existing and new renewable energy technologies. Energy will flow both outward to consumers and increasingly backward from them along our network.

WE ARE IN A STRONG POSITION

While the AER's decision will heavily influence the way in which we do business from 2010 to 2015, our next strategic 'horizon' is clear.

The way we see it, we need to do everything in our power to 'get fit' and seize the new opportunities that are there for our business, while retaining our focus on delivering an affordable, dependable and smart electricity supply for regional Queensland. While we appreciate the rising price of electricity is impacting on our customers, I truly believe the billions of dollars we are investing in regional Queensland's electricity supply is absolutely critical to meeting the community's service expectations. Long-term much of this investment, especially into new technologies, will also reduce our operating costs and help to mitigate price rises in the future.

With the work done in recent times to fine tune our organisation's strategic direction, operating model and organisational structure, along with the momentum for transformation, I am confident that our capability as an organisation is at a tipping point. The future will see us dramatically lift our performance as regional Queensland's energy supplier.

In closing, I want to acknowledge the Board for the support provided to the management team, as well as sincerely thank the people of Ergon Energy for their dedication and can-do attitude.

I am looking forward to the coming years, with a commitment to creating a bright future for regional Queensland, and being Always Safe.

IAN McLEOD

CHIEF EXECUTIVE

OUR PERFORMANCE SCORECARD

Ergon Energy documents its performance commitment for each financial year within its Statement of Corporate Intent (SCI). As a Government Owned Corporation, this document is fundamentally a performance agreement that outlines our corporate objectives, strategies and targets for our shareholding Ministers – Treasurer and Minister for Employment and Economic Development and Minister for Natural Resources, Mines and Energy and Minister for Trade. Our performance against our 2008/09 SCI targets are summarised here, as an overview, and then discussed in more detail for each of our Key Result Areas in the following Review of Operations.

KEY RESULT AREA	PERFORMANCE AGREEMENT 2008/09	PERFORMANCE RESULTS 2008/09
CUSTOMERS AND COMMUNITY PG 19-24 Meet reasonable customer expectations for service delivery and choice while delivering economic and social benefits to the community.	Value to Customer $\geq 7.3^1$	A below target average Value to Customer 7.1 result was a result of economic downturn and electricity price perceptions. <div>X</div>
ASSETS AND NETWORK PERFORMANCE PG 25-29 Drive network performance improvement across security, quality, reliability and availability of supply balancing both commercial and customer perspectives without sacrificing safety.	Supply Reliability Indicators: Duration (SAIDI) – Urban ≤ 180 , Short Rural ≤ 500 & Long Rural $\leq 1,040$ Frequency (SAIFI) – Urban ≤ 2.3 , Short Rural ≤ 4.5 & Long Rural ≤ 7.8	Supply reliability performance was impacted by work safe constraints and the storm season: Duration (SAIDI) – Urban 217 Short Rural 609 Long Rural 1,108 Frequency (SAIFI) – Urban 2.33 Short Rural 4.93 Long Rural 7.73 <div>X</div>
WORKS MANAGEMENT AND DELIVERY PG 30-33 Deliver works program on time and on budget through innovation, technology, standardisation, design and packaging.	Priority 'alpha' projects delivered, as per the Network Management Plan, on time and on budget $\geq 85\%$	89% on time and on budget. All projects that had their First Capacity Available milestone due have been delivered on time and on budget. <div>✓</div>
OPERATIONAL EXCELLENCE PG 34-36 Target best practice productivity through improved information management, simplified processes and innovation.	Achievement of Agreed Key Joint Working Milestones	All agreed Joint Working milestones were met. <div>✓</div>
OUR PEOPLE PG 37-41 Be a preferred employer in regional Queensland with a high performance professional, values-based culture.	Employee 'Have Your Say Survey' Index ≥ 12	The Employee 'Have Your Say Survey' Action Plan is on track. A full census HYSS result is not available. ² <div>✓</div>
HEALTH AND SAFETY PG 42-44 Target zero injuries within our workplace and wider community.	20% reduction on the 2007/08 All Injuries Frequency Rate ³ of 11.2; a target of ≤ 9.0 20% reduction on the Dangerous Electrical Events Frequency Rate – Employees of 4.7; a target of 3.8 ≤ 384 Dangerous Electrical Events (DEEs) – Unassisted Asset Failure	All Injuries Frequency Rate ³ of 11.8 continues to be a concern. However, we have had positive results in our: Dangerous Electrical Events Frequency Rate – Employees; halved to 2.4 Dangerous Electrical Events (DEEs) – Unassisted Asset Failure; 342, down 5% <div>X</div> <div>✓</div> <div>✓</div>
ENVIRONMENTAL PERFORMANCE PG 45-49 Deliver best practice environmental outcomes.	AS/NZS/ISO/14001 Accreditation maintained	Accreditation maintained in 2008/09, with no significant environmental incidents. <div>✓</div>
CLIMATE CHANGE RESPONSE PG 50-54 Address climate change as both a social responsibility and business strengthening opportunity.	Achievement of Agreed Key Milestones of Climate Change Response Action Plan	All major milestones achieved, including the development of our Greenhouse Gas Emissions Management Plan. <div>✓</div>
ECONOMIC PERFORMANCE AND GOVERNANCE PG 55-58 Be high performing and commercially focussed organisation delivering economic value within a sound corporate governance framework.	Net Profit After Tax $\geq \$112.6$ million Total Return on Assets $\geq 4.7\%$	A solid Net Profit After Tax \$129.3 million, exceeding our commitment despite cost impacts. Total Return on Assets 5.4%. <div>✓</div> <div>✓</div>

¹ The Value2Customer metrics provides a measure out of 10 for the value provided to the customer by Ergon Energy, taking into account Electricity Supply, Customer Interaction Experience, Corporate Social Responsibility and Cost/Affordability.

² After five annual surveys, it was decided to move to a biennial interim survey this year, with a full census planned for 2009/10.

PERFORMANCE HIGHLIGHTS 2008/09

- Hardship program delivering vital support to those experiencing financial difficulties, with 39% increase in participants (pg 19).
- International Customer Service Standard rating of 7.6 out of 10 held our position in the top 5% of organisations globally (pg 20).
- International accreditation for complaints handling recognised the strength of our policies, systems and customer focus (pg 21).
- Invested \$6.9 million into the community through our Community Powerline Projects fund, along with a \$1.9 million contribution from sponsorship and donations (pgs 22-23).

- The network proved resilient over the summer's varied and prolonged weather events (pg 25).
- Extended the coverage of our network monitoring and control capability (pg 26).
- In addition to commissioning a new bulk supply point and three new zone substations, we lifted security of supply at our existing substations (pgs 26-27).
- Achieved major demand management milestones in the *Townsville: Queensland Solar City* project and a Commercial/ Industrial Pilot Project, as well as the Cloncurry SWER Trials (pgs 27-29).

- Successfully delivered an \$844.3 million capital investment program (pg 30).
- Fast tracked the vegetation management to address a backlog in rural areas (pg 31).
- Undertook a major Works Delivery Improvement Program with more than a dozen corporate-wide works enablement improvements now operational (pg 32).
- Improved the integration of our planning with local government with town planning land-zoning maps now being layered onto our GIS (pg 33).
- Utilised Google Earth Enterprise™ to provide a 3D visualisation of the network in location to aid works planning (pg 33).

- Delivered over \$30 million in savings across our discretionary expenditure (pg 34).
- Redeveloped the Work Group Leader position to support improved safety performance, productivity improvement and service delivery (pg 34).
- Continued to drive benefit realisations from the \$75 million investment in an Ellipse Enterprise Resources Planning (pg 35).
- Scoped a Smart Meter Pilot Project and initiated the first phase of a \$134.6 million investment into a telecommunication infrastructure platform (pg 36).

- Placed a renewed focus on communicating with our people with a whole of business review of all internal communications channels (pg 38).
- Ergon Energy and SPARQ Solutions Union Collective Agreements were replaced in September 2008 and January 2009 respectively (pg 38).
- Increased the number of Indigenous employees in our workforce (pg 39).
- Invested over \$5 million in developing our people, from apprenticeship to leadership opportunities (pgs 39-41).

- Undertook a rigorous review of our live line management structures, practices and documentation to address serious safety concerns (pg 42).
- Reduced the organisation's Lost Time Injury Frequency Rate by 25% (pg 42).
- Our community electrical safety awareness efforts helped achieve a 25% reduction in network related incidents (pg 43).

- Ergon Energy's new Envirofund was launched with grant funds of \$100,000 now available for community energy conservation initiatives (pg 45).
- Increased employee engagement with the environment through our Green Team – in its fifth year, participation has increased 34% (pg 45).
- Invested in layering vital cultural heritage information onto our GIS to ensure it is considered at the works planning phase and in real time in the field (pg 46).
- Began addressing contamination issues associated with old power stations sites (pg 49).

- Enhanced our emission reporting capability, with targets established (pg 50).
- Developed a Sustainable Procurement Policy, formalising efforts to seek mutually beneficial emission reduction opportunities with our suppliers (pg 52).
- Our \$4.6 million solar concentrator in Windorah began generating power, part of numerous successes this year around solar and alternative energy generation (pg 53).
- Engaged employees around the climate change challenge, with reductions in emissions from air travel, electricity use and passenger and light commercial vehicles (pg 54).

- Financial performance will enable a dividend of \$116.6 million to be paid to the Queensland Government, ultimately benefiting the people of Queensland (pg 55).
- Prepared a comprehensive Regulatory Proposal to the Australian Energy Regulator for 2010 to 2015 (pg 55).
- Conducted an independent Organisation Design Review to help eliminate duplication, establish clearer accountabilities and streamline processes (pg 58).

CHALLENGES AND TARGETS 2009/10

In the current economic environment and with cost pressures on electricity related to potential regulatory reset impacts, increased climate change compliance costs, and the eventual introduction of the Australian Government's Carbon Pollution Reduction Scheme, our challenge is to deliver:

- Value to Customer ≥ 7.1

Our plans are about meeting our customers growing expectations around network performance, as well as the increasingly challenging minimum service standard around supply reliability required under the Electricity Industry Code:

- Duration (SAIDI) – Urban ≤ 150
Short Rural ≤ 430
Long Rural ≤ 980
- Frequency (SAIFI) – Urban ≤ 2.0
Short Rural ≤ 4.0
Long Rural ≤ 7.5

We will continue to focus on works delivery improvements so that we can deliver on our commitments made in the Network Management Plan. We will deliver the:

- Priority 'alpha' projects, on time and on budget $\geq 85\%$
- Network Maintenance Plan $\geq 95\%$.

We aim to continue our 'get fit' priority – targeting best-practice productivity through improved information management, simplified processes and innovation. Ergon Energy's Business Plan includes initiatives to help us move towards best practice productivity and efficiency (targeting 90% plan completion).

With significant organisation change underway, there is a strong commitment to addressing employee satisfaction issues and developing our position as a preferred employer:

- Employee Have Your Say Survey Index ≥ 12

With a number of serious incidents this year, safety remains our utmost priority. Our aim is to reduce:

- AIFR; DEEF – Employees; and DEEs – Unassisted Asset Failure.

We are committed to being an environmental leader in the electricity industry and, through a series of pledges, deliver best practice environmental outcomes:

- AS/NZS/ISO/14001 Accreditation maintained with zero 'C' Recommendations.

We will continue to engage the community and, through the deployment of our Greenhouse Gas Emissions Management Plan, focus on reducing emissions associated with our own operations:

- $\leq 43,297$ Tonnes of CO₂-e Emitted⁴

To deliver economic value to the Queensland Government, and our broader stakeholders, we are focusing on operational efficiency and our future revenue allowance to maintain our long-term viability. Next year, we are committed to a:

- Net Profit After Tax $\geq \$94.7$ million

³ The All Injuries Frequency Rate (AIFR) includes Lost Time Injuries (LTIs) and Medical Treatment Injuries (MTIs).

⁴ This is a new measure for 2009/10 and covers emissions from fleet, air travel and property energy usage only.

THE BOARD OF DIRECTORS



DR RALPH
CRAVEN

JOHN
BIRD

SUSAN
FORRESTER

TONY
MOONEY

WAYNE
MYERS

HELEN
STANTON

DR KEITH
HILLESS

TERRI
HAMILTON

ANDREW
ROBERTSON

BARRY
TAYLOR

The Board is appointed by Queensland's Governor-in-Council, in accordance with the *Government Owned Corporations Act 1993*, with membership for a set term of office. This acts as a review mechanism for enhancing Board performance, allowing new members to be selected for their expertise and ability to contribute on behalf of the regional Queensland customer base.

Their role in representing regional Queensland is also reflected in the number of Board meetings held regionally over the past year. These events allow the Directors a greater degree of access to Ergon Energy's employees, as well as opportunities to engage with local community representatives.

DR RALPH CRAVEN BE PhD FIEAust FIPENZ FAICD CPEng
CHAIRMAN
Independent Non-Executive Director

First Appointed 1 October 2008 – Term in Office 1 Year

Dr Ralph Craven brings to the Chairmanship formidable experience gained from a professional background that encompasses the energy and resources sector, commodity trading and regulatory complexities.

From 1995 until 1997, he was the CEO of the energy retailing company established to enable Ergon Energy's predecessors to enter the competitive electricity retail markets, which was incorporated into today's Ergon Energy in 1999. From 2003 until 2007, Dr Craven was CEO of the New Zealand Government-owned Transpower, which owns and manages their national grid and also operates the wholesale electricity market. He was Executive Director of NRG Asia-Pacific, responsible for its investments in the Asia-Pacific region, and served Shell Coal as General Manager of its international power and energy portfolio. For a four year period to the end of 2007, Dr Craven was Chair of d-cypha Trade Ltd, a company which has exclusive management rights to all Sydney Future Exchange energy-related futures and options products used by participants in the Australian National Electricity Market. Dr Craven is a director of Arrow Energy Limited. He is also a director of Ergon Energy Telecommunications Pty Ltd and a member of all of Ergon Energy's Board Committees.

JOHN BIRD FCPA FAICD FTIA
DEPUTY CHAIRMAN
Independent Non-Executive Director

First Appointed 9 November 2006 – Term in Office 3 Years

As a Registered Company Auditor, Mr Bird provides considerable experience and direction to Ergon Energy in his role as Deputy Chairman and Chairman of the Board's Audit and Financial Risk Committee, as well as Chairman of the AER 2010 Due Diligence Committee. Mr Bird is also a director of Ergon Energy Telecommunications Pty Ltd. He was formerly a Managing Partner in Brown and Bird Certified Practising Accountants in Mackay. Mr Bird is Chair of the Queensland Labor Group of Companies and of ESI Financial Services Pty Ltd and is a director of Electricity Supply Industry Superannuation (QLD) Ltd. He previously served as Deputy Chairman of the electricity retailer Ergon Energy Pty Ltd for a period of seven years.

SUSAN FORRESTER EMBA BA LLB (Hons)
Independent Non-Executive Director

First Appointed 1 October 2008 – Term in Office 1 Year

Susan Forrester brings to the Board more than 20 years of experience in the legal, commercial and change management fields, spanning the public and private sectors. Trained as a banking and finance lawyer, Ms Forrester is Chief Executive of The CEO Institute, a professional development forum for CEOs and business leaders. Previously, she was General Manager of a leading architectural services firm, and HR Director with the Queensland Treasury Corporation and Allens Arthur Robinson Lawyers. Ms Forrester's expertise in governance and strategy development and implementation also supports her directorship with the National Foundation for Australian Women and role as a member of the Corporate Governance Advisory Board to the Department of Primary Industries and Fisheries. Ms Forrester is also a member of Ergon Energy's People Committee.

TONY MOONEY BEd BA (Hons) FAICD
Independent Non-Executive Director

First Appointed 1 October 2008 – Term in Office 1 Year

Tony Mooney brings extensive experience in infrastructure, economic development, community engagement and regional government to Ergon Energy's Board. Mr Mooney served the Townsville City Council as an elected representative for more than 30 years. During his 19 years as Mayor, Mr Mooney oversaw a period of unprecedented sustainable urban and infrastructure development which transformed Townsville into a booming northern metropolis. As Mayor, he championed a partnership with Ergon Energy which helped win the bid to be part of the Australian Government's Solar Cities Program. Mr Mooney currently sits on the Premier's Climate Change Council and, until recently, served on the Local Government Superannuation Board and as a director of the Port of Townsville. He is also the Ergon Energy representative on the Townsville Enterprise Limited Board. Mr Mooney is a member of Ergon Energy's Audit and Financial Risk Committee and Operational Risk Committee.

WAYNE MYERS MAICD
Independent Non-Executive Director

First appointed in 5 July 2001 – Term in Office 8 Years

Mr Myers is currently the Managing Director of Dinorden Pty Ltd, a business consulting service. He has worked in the Information Technology and Telecommunications industry for over 30 years. Mr Myers is a Member of the Australian Institute of Company Directors. He is the Chairman of Stadiums Queensland, a Queensland Government Authority that owns and operates the major stadiums in Queensland. He is also a director of John Paul College. Mr Myers is a member of Ergon Energy's AER 2010 Due Diligence, Operational Risk and People Committees. Mr Myers is also a director of Ergon Energy Telecommunications Pty Ltd.

HELEN STANTON BE GAICD
Independent Non-Executive Director

First appointed in 1 July 2005 – Term in Office 4 Years

Ingham-based engineer Helen Stanton is an independent business improvement consultant, specialising in strategy implementation, business process analysis and change management. Previously a Senior Operations Engineer and Six Sigma Leader at BHP Billiton, she has had responsibilities ranging from managing major engineering projects to coordinating business improvement and strategy development. Ms Stanton is a member of the Australian Institute of Mining and Metallurgy and Australian Institute of Company Directors. She chairs Ergon Energy's Operational Risk Committee and is a member of Ergon Energy's AER 2010 Due Diligence Committee.

Directors Holding Positions During the Reporting Period

DR KEITH HILLESS AM BE (Elec) DUnivQUT FIEAust FAIM MAICD
Resigned as Chairman on 30 September 2009

First Appointed 1 July 2002 – Term in Office 6 Years

Dr Keith Hilless brought to the role of Chairman more than 50 years experience gained from a career in the electricity supply industry. Prior to taking up the role as Chairman, Dr Hilless held the position of Managing Director with international energy corporation NRG Asia Pacific Ltd for five years. He served as the Queensland Electricity Commissioner with oversight of electricity generation, transmission, distribution and regulation in Queensland from 1991 to 1994. Throughout his career, Dr Hilless also held a number of engineering and executive roles with the Queensland Transmission and Supply Corporation and Ergon Energy's predecessor organisations, SWQEB and NORQEB. He is currently a member of the Council of Queensland University of Technology and Chairman of Queensland University of Technology Enterprise Holdings Pty Ltd. On Australia Day 2008, he was appointed a Member of the Order of Australia in recognition of his service to the electricity supply industry in Queensland, particularly through his contribution to restructuring and fostering improved relationships, to regional development, and to the community. Dr Hilless was a member of all Ergon Energy Board Committees.

TERRI HAMILTON LLB DipFP FAICD
Resigned as Director 30 June 2009

First appointed in 1 July 2005 – Term in Office 4 Years

Ms Hamilton is currently a consultant in the financial services industry. In the last 23 years, she has held senior management positions within the financial services sector and has extensive experience in regulatory, compliance, risk management and governance issues. Ms Hamilton is a member of ASIC's Queensland Regional Liaison Committee and is an independent director of the Board of Teachers' Union Health. Ms Hamilton chaired Ergon Energy's People Committee and was a member of Ergon Energy's Audit and Financial Risk Committee.

ANDREW ROBERTSON BCom CA FAICD
Resigned as Director on 30 September 2009

First Appointed 10 June 1999 – Term in Office 9 Years

Andrew Robertson, as director of ABN AMRO Morgans Limited, brought to the Board expertise in the areas of finance and investment. He holds a Bachelor of Commerce degree, is an Affiliate of the Australian Stock Exchange Ltd, and a fellow of the Australian Institute of Company Directors. He is also a director of several of ABN AMRO Morgans Limited subsidiary companies. Mr Robertson was a member of Ergon Energy's Audit and Financial Risk Committee.

BARRY TAYLOR MAICD
Resigned as Deputy Chairman 30 September 2008

First Appointed 10 June 1999 – Term in Office 9 Years

Barry Taylor is a lawyer and Notary Public who developed a legal firm known as Suthers Taylor and now practises with Emanate, Townsville. Mr Taylor has more than 25 years corporate, business and legal experience practising throughout Queensland, together with a range of commercial interests in the property development, quarrying and entertainment industries. He has extensive experience in corporate, commercial, property law, and planning and environmental law. Mr Taylor holds numerous directorships and memberships and chaired Ergon Energy's Operational Risk Committee and was a member of the Audit and Financial Risk Committee.

THE EXECUTIVE MANAGEMENT TEAM



IAN
McLEOD

GREG
EVANS

PETER
BILLING

MAL
LEECH

PAUL
JORDON

JIM
CHISHOLM

JUSTIN
FITZGERALD

GRAEME
FINLAYSON

IAN McLEOD FAIM CHIEF EXECUTIVE

Responsible for overall business direction and priorities and, ultimately, for meeting the financial and service delivery expectations of our customers, the community and our shareholders. Since he joined in 2000, Ian McLeod has brought extensive electricity industry experience to Ergon Energy, gained through management roles in the private contracting industry, Powercor Australia and the State Electricity Commission of Victoria. With a strong focus on people management, over recent years Ian has been instrumental in the delivery of Ergon Energy's record works program and asset management objectives. Ian is a director of Energy Supply Association of Australia and is Chairman of Ergon Energy Queensland Pty Ltd and SPARQ Solutions Pty Ltd.

GREG EVANS B Bus (Acctg) M Bus (Fin & Acctg) CPA CHIEF FINANCIAL OFFICER

Responsible for managing and improving the profitability and sustainability of all aspects of the business through the provision of finance, asset owner, risk and reporting, strategy development, and regulation functions. Over the past nine years with Ergon Energy, Greg Evans has delivered in a number of senior roles, including General Manager Corporate Strategy and Finance and Group Manager Planning and Treasury. His in-depth understanding of Ergon Energy is strongly complemented by extensive commercial experience in the private sector, including senior financial roles at Qantas Airways Limited and Coal and Allied Operations Pty Ltd. Greg is a director of Ergon Energy Queensland Pty Ltd and SPARQ Solutions Pty Ltd.

Greg resigned, as of the 28 August 2009 and his replacement is being finalised.

The Executive Management Team is in transition. Where possible, the responsibilities have been provided in line with the new structure (pg 58).

PETER BILLING
ACTING CHIEF OPERATING OFFICER

Peter Billing brings a wealth of industry, leadership and change management experience from trade roles to management. He was directly involved in the transformation of the electricity industry in South Australia through deregulation and the associated organisational restructuring. He is active in the central Queensland community, and is on the boards of a number of regional development bodies.

The responsibilities of the Chief Operating Officer's role are being transitioned into two new executive positions:

EXECUTIVE GENERAL MANAGER ASSET MANAGEMENT

This role will be responsible for all asset strategy and for defining asset investments and the associated program of work across the distribution business, in order to maximise the efficient and effective management of the assets.

EXECUTIVE GENERAL MANAGER OPERATIONS

This role will be responsible for all aspects of the delivery of the Program of Work and includes work for external parties, such as Powerlink. The business unit also ensures that Asset Management planning is brought to fruition and ensures the operational effectiveness of Ergon Energy's distribution business.

MAL LEECH GradDipBusAdmin BEng
EXECUTIVE GENERAL MANAGER EMPLOYEE
AND SHARED SERVICES

Responsible for business improvement and cultural change through leading all 'people-related' functions including health and safety, human resources, industrial relations, training and development, environment, change management, business improvement initiatives and administration services. Mal Leech has more than 10 years' industry experience following a career in human resources, management consulting and engineering. Mal is a director of SPARQ Solutions Pty Ltd.

PAUL JORDON
ACTING EXECUTIVE GENERAL MANAGER CUSTOMER SERVICE

Responsible for leading customer service; ensuring the delivery of high quality customer services to Ergon Energy's distribution and retail customers, in order to maximise customer satisfaction. The business unit includes the operation of our National Contact Centre, as our major customer interface, as well as our retail operations and trading. Since joining Ergon Energy's predecessor organisation, Capricornia Electricity Corporation, in 1996, Paul has demonstrated his management expertise in a variety of operational and customer service roles, taking on the role of General Manager Operations Southern in 2004, before moving into his secondment to Customer Service in 2008.

JIM CHISHOLM BE Hons MBA DipFS Dipl&C MAICD
EXECUTIVE GENERAL MANAGER ENERGY SUSTAINABILITY
AND MARKET DEVELOPMENT

Responsible for the identification, assessment and development of business opportunities and arranging their transition into the core business or into purpose built commercial vehicles. The business unit includes our renewable energy offers, major demand management initiatives and our telecommunications business. Jim Chisholm has more than 40 years' experience in generation, transmission and distribution in both public and private sectors of the electricity industry. Jim is a director of Ergon Energy Queensland Pty Ltd.

JUSTIN FITZGERALD MComm GradDipStats BBus
EXECUTIVE GENERAL MANAGER CUSTOMER
AND STAKEHOLDER ENGAGEMENT

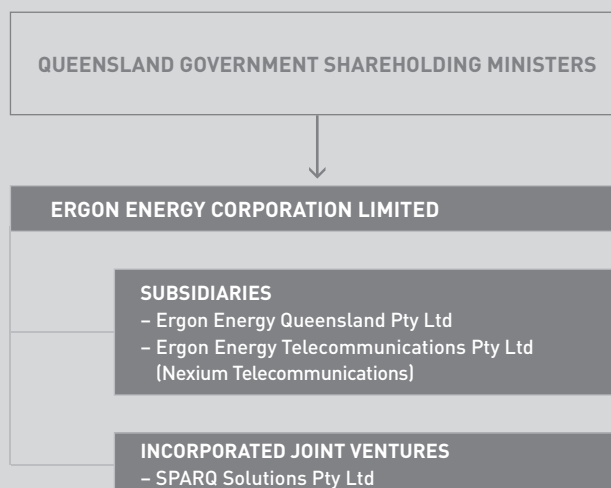
Responsible for the delivery of corporate strategy by supporting customer and other stakeholder engagement, promoting customer and stakeholder understanding and insights, championing the brand and corporate reputation and delivering consistent, timely and integrated communications to internal and external stakeholders. Justin Fitzgerald has had experience in a broad range of roles. He brings this breadth of knowledge, along with a strong appreciation of stakeholder expectations, to Ergon Energy's strategic challenges and social responsibility agenda, especially in the area of disaster management and the business's response to climate change. Justin is a director of Ergon Energy Queensland Pty Ltd.

GRAEME FINLAYSON BA(Hons)/LLB(Hons) MBA
GENERAL COUNSEL AND COMPANY SECRETARY

Responsible for managing the requirements of the Ergon Energy Board, providing risk management and legal services, and monitoring high level compliance functions across Ergon Energy. Graeme Finlayson joined Ergon Energy in 2008 and brings with him broad-ranging private and public sector experience. Graeme has held senior in-house commercial legal roles and worked with some of Australia's top national law firms. In addition to his formal qualifications as a company secretary, Graeme has held senior executive positions, operational roles and directorships in some of Australia's largest and fastest growing organisations, including Queensland Rail and the Gold Coast City Council.

Our Corporate Governance Statement, pages 2-14 on the attached CD, provides more details about our Directors, Executive Management Team and company structure, as well as our broader corporate governance framework.

OUR OPERATING COMPANY STRUCTURE



REVIEW OF OPERATIONS

The following sections detail our performance in each of our Key Result Areas, which form the basis of our performance agreement with our shareholding Ministers.

By utilising this balanced scorecard approach, with defined performance areas and measures, we are able to focus on the diverse expectations of our many stakeholders, addressing our key sustainability issues in an integrated way.

Our Key Result Areas are:

CUSTOMERS AND COMMUNITY	19
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ASSETS AND NETWORK PERFORMANCE	25
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WORKS MANAGEMENT AND DELIVERY	30
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OPERATIONAL EXCELLENCE	34
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OUR PEOPLE	37
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HEALTH AND SAFETY	42
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ENVIRONMENTAL PERFORMANCE	45
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CLIMATE CHANGE RESPONSE	50
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ECONOMIC PERFORMANCE AND GOVERNANCE	55
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CUSTOMERS AND COMMUNITY

Ergon Energy is strongly committed to meeting its customers' expectations for value, service delivery and choice. As an organisation, we also play an important role in delivering economic and social benefits to the broader community. We're an integral part of life across regional Queensland.

As a provider of a vital service and a major regional Queensland employer, Ergon Energy is helping sustain the diverse lifestyles of around 1.4 million people across regional Queensland communities. Ergon Energy also strengthens local economies and communities through infrastructure investment, employment and everyday actions, such as local purchasing.

KEEPING CUSTOMERS CONNECTED

The current financial crisis – together with price increases across the board, including electricity – is making it challenging for people to meet their everyday expenses. This is evident by the jump in participation rates in our financial hardship program. At the end of the year, we had more than 1,250 customers involved in the Keeping Customer Connected program, a 39% jump compared to the same time last year. These customers' combined account balances shows a 70% increase. The two main reasons for customers becoming part of the program are loss of income and unemployment.

One of the ways we support our customers is through the Centrepay bill payment option, which allows people who are receiving income support payments from Centrelink to pay their household bills in small amounts, making it easier to budget. Although it has been available to Ergon Energy customers for some time, the service was brought in-house in August 2008. Since then, the response has been overwhelming with over 12,000 people – an average of 130 customers per week – signing up to pay their electricity accounts this way.

The Keeping Customers Connected program not only helps customers with difficulties pay their electricity bill, but offers them a direct referral to Lifeline Community Care Queensland. This enables customers on lower incomes who are facing genuine financial hardship to access additional support. Since the program was introduced in June 2006, more than 60% of participants leaving the program are managing their financial commitments and electricity usage better.

The program, along with other changes in credit management practices and processes, has also contributed to a 23% reduction in disconnections for non-payment of account, from 2.2% of customers being disconnected to 1.7%. There has also been a 60% drop in the number of credit-related complaints being escalated to Queensland's Energy Ombudsman.

This year, we added a number of new elements to the program, one being free of charge access to the Queensland Government's \$50 *ClimateSmart Home Service* for certain categories of customers. The service has great environmental benefits and can help our customers in need save up to \$250 on their bills a year.

MITIGATING FUTURE PRICE IMPACTS

Looking forward, Ergon Energy and ultimately its customers face further price pressures as a result of potential regulatory reset impacts, increased climate change compliance costs, and the eventual introduction of the Australian Government's Carbon Pollution Reduction Scheme.

In anticipation of these price pressures, Ergon Energy has developed an Affordability Plan to mitigate the impact of rising electricity costs on our customers and our business. Our aim is to educate our customers and give them the tools to better manage their electricity usage and electricity bill. These efforts include:

- maintaining best-practice in our bill payment options, such as direct debit
- helping our customers better understand their energy use through programs such as bill benchmarking, which allows customers to see in a graph what they are using compared to others in their region, and our energy conservation communications, such as the 'air-con smart' and 'energy sense' campaigns (pg 51)
- leveraging government programs, such as the insulation rebate and solar energy assistance (pg 24)
- providing energy advice by developing our customer communication channels, such as our National Contact Centre, website, and proactive engagement in the community
- continuing to invest in research and other initiatives that help us understand what our customers value most
- reviewing our customer hardship strategies to ensure our programs are providing the utmost support possible to our customers. This has been a key focus of our Customer Advocate.



GAINING SUPPORT FOR OUR AFFORDABILITY RESPONSE

In addition to working with our customers, we are also engaging with our stakeholders more broadly to help them understand the future price impacts and the strategies that we are deploying to mitigate them.

Ergon Energy does not set electricity prices, and our operations are only a component of the final price that our customers see on their bill (pg 55). However, we are working with stakeholders across the industry and with government to ensure the views of our customers are understood. This includes providing technical assistance and insights from our customer feedback mechanisms.

We are also collaborating with our stakeholders on a number of energy conservation initiatives. The Solar City project (pg 28), Isolated Communities Energy Savings pilot (pg 53) and the Energy Conservation Communities program (pg 29) are all examples of efforts being made now to help find new ways to holistically incorporate energy conservation and demand management into Queenslanders' everyday behaviours.

MEASURING WHAT CUSTOMERS VALUE

The main measure we use for monitoring what customers value is our Value to Customer (V2C) metric. This research looks at how customers judge value in terms of what they receive versus the price they pay. It helps us focus on what is important to our customers.

In 2008/09, the overall V2C score was below target at 7.1 out of 10. The year started out relatively strongly, achieving an on target performance of 7.3. However, the effects of the economic downturn and electricity price rises saw a low of 6.9 measured in May 2009.

Our focus on delivering value is also driving our operational efficiency program (pgs 34-36) and a growing focus on demand management (pgs 27-29).

The V2C score represents the four key areas of: Electricity Supply, Customer Interaction Experience, Corporate Social Responsibility and Cost/Affordability. The metric also ranks Ergon Energy against like business operations – our performance generally is comparable to the average of the five companies benchmarked.

The results showed Corporate Social Responsibility, as the strongest value driver, increasing in importance this year. It means our customers believe we have a responsibility to help them manage their energy consumption. Our performance in this area also saw us rank particularly high for 'placing safety first'. Predictably, with the current economic conditions, the Cost/Affordability area also increased in importance. Ergon Energy has been measuring what customers value in this way since 2001.

At the same time, Ergon Energy's brand has remained resilient throughout 2008/09, providing an important foundation to maintain community support for our efforts in addressing affordability and for our strategic direction.



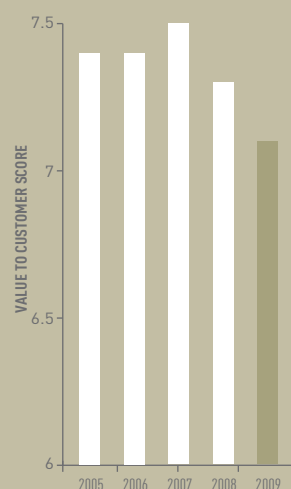
As the trusted brand for energy conservation advice, we launched our 'Energy Sense' campaign during the year, providing energy-saving hints through the media, and at community events to help our customers save.

INTERNATIONAL RATING IN TOP 5%

Ergon Energy has maintained its best-practice International Customer Service Standard (ICSS) rating of 7.6 out of 10. This holds our position in the top 5% of organisations certified to the standard globally. The annual recertification is an external review process, which included a desktop audit in March. Field visits to depots in Home Hill and Townsville in May 2009 were included to test the service improvements put forward and assess the consistency of our service standard throughout the business. This was Ergon Energy's fifth assessment for its ICSS accreditation rating, covering our performance in service, financial, operational and learning and growth areas. The ICSS recertification process is administered by the Customer Service Institute of Australia.

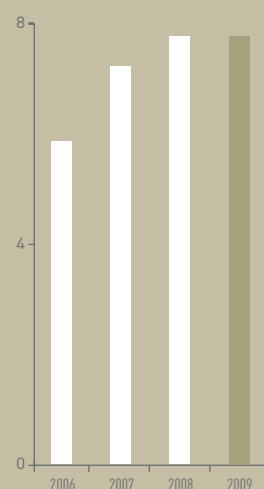
As well as this important assessment, Ergon Energy monitors customer satisfaction with the performance of our National Contact Centre, our claims and complaints management, and delivery against our Guaranteed Service Levels.

RESEARCH REINFORCES FOCUS ON AFFORDABILITY



The economic downturn and rising electricity prices saw a drop in the value our customers see in our service. The research also sent a clear message that our customers want us to play an even greater role in helping them manage their energy consumption.

INTERNATIONAL CUSTOMER SERVICE STANDARD RATING SUSTAINED



Ergon Energy is in the top 5% of organisations certified through the International Customer Service Standard rating. We maintained our best-practice score of 7.6 out of 10 in 2008/09.

CUSTOMER SATISFACTION REMAINS HIGH

Overall, customer satisfaction with general telephone enquiries has shown a positive trend throughout the year, achieving a 90% satisfaction rating – 5% above the target. Recent benchmarking against other utility contact centres also confirmed that Ergon Energy's National Contact Centre (NCC) remains one of the leading centres for customer service excellence.

The Grade of Service target of 70% of calls answered in 30 seconds was achieved, with an overall result of 71%. This result reflects an appropriate balance throughout the year between delivering consistent and acceptable wait times for our customers, with being operationally 'fit' and resourcing to meet requirements.

At the end of the year, satisfaction with complaints management was also above the 70% target at 72%. During the year, there was also a 43% decrease in complaints escalated to Queensland's Energy Ombudsman, which indicates effective internal case management (see improvements across). Customer satisfaction with the management of their claims and Guaranteed Service Levels promises have also consistently outperformed their 70% targets, achieving an excellent average result of 83%.

MAKING IT EASIER FOR OUR CUSTOMERS

During 2008/09, we focused on providing a greater level of self service choice to customers through the internet and the Interactive Voice Recognition (IVR) system, known as 'Sophie'. This focus will continue into 2009/10, aiming to provide a broader range of fully automated transactional capabilities that allows our customers to choose how they interact with Ergon Energy, while reducing our cost to serve. The first suite of transaction options was being implemented as this report was being published.

During the year, we also upgraded the IVR system in Townsville to ensure it can manage a call capacity of 30,000 calls per hour. This capacity is vital for dealing with major emergencies and natural disasters. In addition, an enhanced Disaster Assistance Program was established with Energex, enabling each business to handle fault calls for each other in times of need. These efforts ensure greater business resilience, as well as contingency, should any of our sites be overloaded or inoperable for a period.

We are also investing in a new content management system (CMS) for our internet site, which is being built around our customers' needs, as well as those of our business. The CMS will be launched in 2009/10 with a site redesign to follow progressively. This investment will give our customers a better experience, allow new content to be published quickly, and reduce the costs associated with maintaining the site. It will also cater to different types of visitors, including users with disabilities. Ergon Energy's website is a key channel for servicing our customers' needs, receiving around 30,000 visits each month.

COMPLAINTS MANAGEMENT SYSTEM MEETS INTERNATIONAL STANDARD

During 2008/09, a business-wide project team reviewed our complaints management efforts to ensure we were meeting best-practice. These efforts supported successful accreditation to the international AS ISO 10002 Complaints Handling standard in March 2009. This accreditation recognised the strength of our policies, systems and customer focus throughout all stages of the complaints handling experience.

To help improve that overall customer experience, the project deliverables included an upgrade to the Feedback and Claims Tracking System (FACTS) to enable more efficient recording and retrieval of information such as correspondence, maps and photographs. Online and face-to-face training modules were also developed and deployed to around 500 employees, providing them with the skills to achieve excellence in complaints management and meet the high standard set by the International Organisation for Standards (ISO). The training covered the use of FACTS and its enhancements, the complaints process, and how to better manage conflict resolution. This was supported by the new Complaint Management Guidelines and Policy. A new investigation forum was also established to analyse specific complaints and the areas of customer dissatisfaction. Ergon Energy was invited to present the lessons learnt around root cause analysis of complaints to the Society of Consumer Affairs Professionals Australia symposium, the network for consumer professionals, in Sydney in August.



For the second year running, Ergon Energy won the State/Federal Government category of the prestigious Australian Service Excellence Awards. It was accepted by Paul Jordon (right) as the acting Executive General Manager Customer Service, while Ergon Energy's Fraser Power was named the Customer Advocate of the Year.



*Saying it with flowers:
Ergon Energy apprentice
Nigel I'Anson and florist
Lyn Southerden preparing
for Toowoomba's Carnival of
Flowers. The premier local
event is part of our state-
wide community sponsorship
program, which is helping us
engage with the communities
we serve, and in this case
also providing a real local
economic boost.*

SERVICE GUARANTEES EXPANDED

In late 2008, Ergon Energy implemented additional Guaranteed Service Level (GSL) around our retail billing performance. These, and our existing suite of GSLs, form part of our Customer Charters to ensure that we maintain a strong customer focus across our key service areas.

If GSLs for new connections, reconnections, wrongful disconnections, appointments, planned interruptions, reliability and hot water supply, and now incorrect bills, are not met, Ergon Energy pays between \$15 and \$320 to affected customers.

The introduction of the retail billing GSLs required system and process enhancements, as well as training. Pleasingly, since measuring our performance in this way, we have had very few valid claims in this area. For 2008/09, we only paid a total of \$450 to our customers for retail GSLs.

For our distribution GSLs, we paid a total of \$84,510 to our customers for not meeting our guarantees – an increase of 8%. The increase on the previous year was largely due to increased customer education around GSL claims. Meeting GSLs is an important tool for driving service improvement and we will continue to learn from any failure to meet our obligations to our customers.

A significant amount of work was done in 2008/09 to ensure our retail service standards meet Electricity Industry Code requirements. These efforts have seen both the independent and internal audits of our performance show a high standard across areas such as instalment plans, disconnection processes and application of retail GSLs. There has also been an outstanding and sustained improvement in service order compliance for activities such as new connections and special meter reads.

CORPORATE RESPONSIBILITY MEASURED

To monitor and help drive progress in fulfilling Ergon Energy's social responsibilities, Ergon Energy again participated in the Corporate Responsibility Index (CRI), maintaining a Bronze star rating. The CRI looks at an organisation's corporate responsibility policies and strategies and resulting programs, as well as the ability to measure, analyse and report on their effectiveness.

The CRI enabled us to benchmark our social responsibility performance with other companies, especially those in our industry, and also helped create a shared definition within the organisation of its social responsibilities.

Ergon Energy again performed strongly in the areas of Corporate Strategy and Integration, and Marketplace, and improved its

Community and Environment scores, outscoring the Australian industry averages in eight of eleven sections in these categories. Although we continue to implement significant employee programs and systems, our Workplace score dropped, primarily due to changes in the evaluation system. We are implementing many new initiatives to address the opportunities for improvements, including a suite of Sustainability Principles, a holistic Community Strategy and a Waste Management Strategy.

COMMUNITY INFRASTRUCTURE IMPACT

In line with its stakeholder engagement framework, Ergon Energy is committed to engaging with the community to ensure our infrastructure is built in line with their expectations, as far as practicable. We recognise and appreciate that community members can have significant concerns about the impact of our infrastructure, be it existing, proposed or under construction, and that improved engagement can help address these concerns.

Community consultation has become an essential component of the planning process for major works such as new substations or high-voltage lines. In 2008/09, we changed our major asset planning and construction processes to include better identification of community impact and engagement requirements for major works, as well as improved engagement before and during construction.

Better processes not only help empower communities, but also capture community input that helps achieve better solutions to the often conflicting constraints of affordability, visual and environmental factors, line route, and construction types.

Where our new consultation processes have been applied, we have found them effective in mitigating community concerns. However, inadequate legacy processes have exacerbated community concerns and caused project delays while issues are addressed, such as in Belgian Gardens in Townsville and Merinda near Bowen.

While the lessons from these cases deepen our commitment to more effective community engagement, they do not lessen the challenges. As a service provider responding to increasing customer demand driven by lifestyle factors, population and industrial growth, Ergon Energy faces increasing requirements to build and upgrade electricity infrastructure in urban areas. This is a major challenge for Ergon Energy and for utilities in growth areas elsewhere.

Ergon Energy also demonstrated its community commitment in this area through our successful Community Powerline Projects fund, investing \$6.9 million in 2008/09 – up from \$5.4 million in 2007/08 – to assist local communities relocate, underground or



Our sponsorship of the Beef Australia 2009 in Rockhampton is also part of our state-wide community sponsorship program. As a signature event for the nation's beef industry, our support is helping to create a positive industry forum for dialogue, action and trade outcomes. Ergon Energy's Sel Williams was one of the willing volunteers that made this event a success.

replace overhead powerlines as part of our community-based projects to improve the visual amenity in areas of environmental, historic or scenic significance, or in high pedestrian areas. In 2008/09, major works were undertaken in Townsville, Emerald, Mt Isa, Bowen, the Whitsundays, Barcaldine and Mackay, in addition to smaller projects in other regional Queensland cities and towns.

A key part of our asset planning and delivery includes engaging with local councils, community and business groups and other infrastructure providers so that we can deliver an infrastructure program in line with community needs (pg 33).

COMMUNITY SUPPORT REMAINS STRONG

Ergon Energy continued to inject funds into regional Queensland through its engagement activities with an increasing alignment to community-focused sponsorships. In 2008/09, our sponsorships and corporate donations saw us invest more than \$1.9 million towards targeted social and environmental initiatives.

A highlight this year was the launch of Ergon Energy's new Envirofund in May 2009 with total funds of \$100,000 now available each year to community groups and not-for-profit organisations to undertake projects with an energy conservation and environmental focus in their local community. (pg 45)

Thanks to our customers we are about to hit the \$4 million donation milestone for the Royal Flying Doctor Service (Queensland Section). Ergon Energy's partnership with the RFDS began in 2000, with the formation of a voluntary donation scheme that offers our customers and employees the opportunity to donate a regular nominated amount of \$2 or \$5 to the RFDS. All donations are wholly received by the RFDS and assists with the Aircraft Replacement Program and updating essential medical equipment.

Ergon Energy's Power Aid program has also seen more than \$1.42 million donated to hundreds of charity groups over the past five years, with \$261,000 donated in 2008/09. The Power Aid initiative is a simple concept that involves work teams accruing points for safe work practices. Ergon Energy then converts the points to cash for distribution to nominated charity groups (pg 43).



In one of the latest Power Aid handovers, the Agnes Water Surf Life Saving Club accepted a \$2,000 donation from work groups in the Callide Curtis area, including the depots of Miriam Vale, Gladstone, Monto, Biloela, Moura and Theodore. Miriam Vale's Work Group Leader Larry Halbert and Safety Representative David Yates made the presentation to club Vice-President Steve Adamson (right) and Patrol Captain Luke Cunningham.

TOP 10 POWER AID CHARITIES SINCE 2004

1. Queensland Cancer Council	\$100,000
2. Royal Flying Doctor Service	\$74,000
3. Blue Care	\$73,000
4. Camp Quality	\$64,000
5. Victorian Bushfire Appeal 2009	\$59,000
6. Meals on Wheels	\$58,000
7. Rural Fire Brigades	\$54,000
8. Angel Flight	\$44,000
9. Ronald McDonald House	\$39,000
10. Prostate Cancer Foundation	\$39,000

During the year, our employees also dug deep following the devastating Black Saturday bushfires in Victoria and the record flooding across North Queensland. The payroll deduction appeal saw more than \$100,000 donated to the Premier's North Queensland Flood Appeal and Victorian Government's Bushfire Fund. These funds were matched by Ergon Energy dollar-for-dollar, up to \$100,000.

Ergon Energy also became a major industry partner of the UDIA (Urban Development Institute of Australia) culminating in the sponsorship of the 2009 UDIA Suncorp Qld Awards for Excellence. The awards were held in Brisbane in early 2009 to recognise excellence and innovation in the development industry as one of the state's critical industry groups. We also continued our Tidy Towns sponsorship (pg 45).

Our sponsorship of Netball Queensland continued to provide an opportunity to engage with grassroots communities of regional Queensland. The Ergon Energy Championships, as a tier of the State League Competition, and the Ergon Energy Regional Netball Academy both provide a development pathway for talented regional Queensland athletes to develop their skills.

WORKING WITH INDIGENOUS COMMUNITIES

During the year, we stepped up our engagement with Queensland's Aboriginal and Torres Strait Islander (A&TSI) communities as part of the roll out of our inaugural A&TSI Apprentice program (pg 41). Our relationships with these communities are important as we aim to contribute to their economic, social and educational well-being. As such, we formalised our efforts through the development of an A&TSI Community Engagement Strategy.

Ergon Energy supplies the majority of regional Queensland's Indigenous communities with power, either through the grid, via stand-alone power stations and local distribution networks, or through smaller stand-alone power supply systems.

In late 2008, Ergon Energy was invited by the elders and leaders of the Woorabinda Community in central Queensland to assist them in delivering a community energy education awareness program around electrical safety, as well as energy use and conservation. As part of the engagement, Ergon Energy employees participated in onsite cultural training, which was extremely valuable. The interaction is assisting in the development of an integrated Indigenous school and community program by providing Ergon Energy with a pilot opportunity that could see the initiative taken up by other Indigenous communities.

The Woorabinda Community has also talked with us about ways we can assist with their community's Sustainable Housing initiative aimed at developing housing that is more culturally sensitive and affordable due to the inclusion of sustainability and resource efficiency features.

During 2008/09, Ergon Energy also continued its support of The Silver Lining Foundation established by the National Indigenous Centre for Enterprise Development near Wondai, three hours' drive north west of Brisbane. The foundation aims to cultivate success in young Indigenous people by offering them on-the-job training opportunities. Ergon Energy is funding a native tree nursery established as part of the company's Indigenous Employment Program.



TOWARDS SUSTAINABILITY

On Magnetic Island alone Ergon Energy has installed over 60 solar systems, under the supervision of Dean Condon, Ergon Energy's Installation Manager for the 'Townsville: Queensland Solar City' project. In addition to the solarplus systems that we have installed on our customers' homes and businesses across the state, we have also installed 14 systems on our own buildings. (pg 52)

Solar, Growing as a Popular Choice

This year saw a dramatic rise in the number of solar energy systems connected to Ergon Energy's electricity grid, reaching around 200 new installations per month by June/July as regional Queenslanders rushed to take advantage of the Australian Government rebate for residential solar. That equates to seven Queenslanders going 'green' every day.

These systems are essentially a mini power station on the roof generating power from the sun. If the household needs more power than the system generates, it is provided through the electricity grid. If there is excess power generated by the solar system, the renewable power is exported back into the electricity grid and Ergon Energy pays the household 44 cents per kilowatt hour for that electricity.

Ergon Energy also sells its own premium **solarplus** grid-connected system as part of its commitment to offering customers smarter energy choices.

As this report was being published, the solar rebate was transitioning to the Australian Government's new Solar Credits scheme, which we anticipate will facilitate ongoing community support for solar energy.

Sustainability benefits created:

- with more than 2,000 systems now connected to our network, greenhouse gas emissions created by the state's predominantly fossil fuel electricity generation are being reduced by about 4,000 tonnes annually, the equivalent of taking 1,000 cars off the road
- as well as providing households power for their own needs, Ergon Energy is now paying around \$45,000 per month through the feed-in tariff for the renewable energy exported into the grid, ultimately supporting solar's economic viability
- as an icon of sustainability, solar is also helping to engage our customers more generally on how to make smarter energy conservation choices
- the growth in solar systems on the network, especially in the 'Solar Suburb' of Magnetic Island, is also enabling us to learn more about how distributed generation interacts with the network.

To find out more about Ergon Energy and solar, see our in-depth sustainability case study available online. @

ASSETS AND NETWORK PERFORMANCE

Ergon Energy is driving network performance improvement across security, quality, reliability and availability of supply, balancing both commercial and customer perspectives. This objective is central to our asset management planning and ultimately to our social responsibilities as a service provider.

Ergon Energy's Network Management Plan and Summer Preparedness Plan are public documents published online each year, which provide our many stakeholders with a detailed insight into our network planning and operations.

This section outlines the highlights of these plans, as well as our asset and network performance achievements, from demand management through to performance against our service standards. The next section provides details around the delivery of our works program.

SUMMER PREPAREDNESS A SUCCESS

Ergon Energy's Summer Preparedness Plan was well and truly tested in 2008/09 by an extended season of storms and flood disasters impacting across regional Queensland. We responded to a record 2,306 weather related network events in December 2008 alone – 5% above the January 2006 record.

Our network stood up extremely well, showing that the record expenditure on network improvement, augmentation and maintenance over recent years has significantly improved its resilience to storms and other weather events.

The challenging summer season began early with the first major storm impact felt in Brisbane in mid-November. While this severe storm cell was outside our operational area, the devastation it caused provided a strong demonstration of our ability to join a

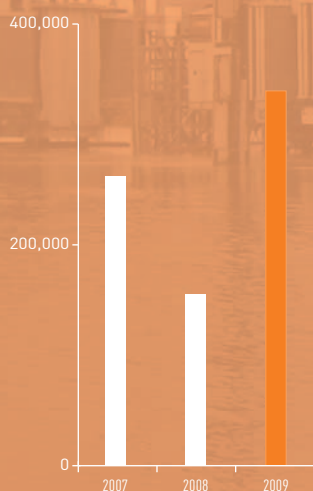
co-ordinated response to widespread power loss. Ergon Energy crews were mobilised to assist Energex, our south-east Queensland counterpart, to restore power to more than 200,000 homes. This reinforced the learnings of our desktop disaster exercises held every year in all regions, and now also held in conjunction with our industry partner Powerlink Queensland.

In early December, a particularly destructive storm with more than 2,000 lightning strikes hit Townsville. The storm caused widespread flash flooding, damaged two major substations and other electrical infrastructure, and interrupted supply to 25,000 customers. Power was restored to most customers the same day. Only six days later some of the same crews responded to another fierce electrical storm that impacted from Ingham through to Bowen.

During the Christmas period, there were lessons to be learned in better preparing for the collision of extreme hot and humid conditions with peak tourist numbers in popular beachside destinations such as the Whitsunday Coast. There, peak demand called for additional on-site standby generation and subsequent restoration delays occurred. The lessons from our response here will be factored into our Summer Preparedness Plan for 2009/10.

January and February brought the big wet, with around 60% of the state affected by flood waters. The cumulative effects of the monsoonal season, including tropical cyclones Charlotte and Ellie, saw Townsville receive its entire average annual rainfall in the first

LIGHTNING STRIKES AROUND THE NETWORK



Ergon Energy's Summer Preparedness Plan was tested by an extended season of storms and flood disasters. However, it proved remarkably resilient considering the massive spike in the number of lightning strikes within a kilometre of our network compared to the past two years of available data.



For Ingham, no stranger to a monsoonal storm, the summer of 2008/09 meant the biggest floods on record. Passing by Ingham's main substation the crew of the State Emergency Service was initially focused on safety, as was Ergon Energy ... and when the water subsided, the clean up began.

six weeks of the year. The towns of Mt Isa, Ingham, smaller centres on the Burdekin and most of the Cape were isolated, if not cut-off, by floodwaters.

During this time, Ergon Energy's network withstood the test and few customers lost supply. Importantly, Ergon Energy was able to maintain supply to the water pumps in the isolated townships across Cape York, securing fresh drinking water for these remote flood-bound communities.

On 6 March 2009, Cyclone Hamish made its appearance. While remaining at sea, Hamish menaced the eastern seaboard over a number of days – at one stage reaching Category 5 status before weakening. Ergon Energy activated its three Regional Disaster Management Committees and its Executive Disaster Management Committee to ensure a coordinated and community-focused response as Hamish tracked south, marked by strong winds, rains and huge seas. The cyclone caused only minimal damage to Ergon Energy's network and any outages were localised.

There is no doubt that our extensive annual planning process was vital to mitigating the impact of these events. For 2008/09, our Summer Preparedness Plan again focused on improving the condition of our network to minimise the potential for outages; improving our preparedness to respond quickly and effectively to outages caused by extreme weather events; and keeping our communities and customers well informed of our progress in restoring supply (pg 21).

The plan also focused on safety, and although the significant investment in the network since Ergon Energy's formation has resulted in a more resilient network, the record flood levels still created real operational risks, as well as significant safety risks, that were successfully managed.

Another important part of our summer preparedness is Ergon Energy's ongoing Cyclone Area Reliability Enhancement (CARE) program (pg 33) and vegetation management (pg 31).

CENTRAL CONTROL A PLATFORM FOR RELIABILITY IMPROVEMENT

A key strategy to enhance the network's overall reliability and functionality is to extend our remote control capability further into the distribution system. The intention is to enable a more timely response to reduce the duration of outages.

Our SCADA (Supervisory Control and Data Acquisition) Acceleration Strategy is the key reliability improvement initiative within the remote control strategy. Currently, full SCADA equipment is in place at 45% of Ergon Energy's zone substations. During 2008/09, we continued to install SCADA units at key sites across the high-voltage network. A further 20% of Ergon Energy's zone substations



Reducing peak demand – between 6pm and 9pm in residential areas – and energy conservation more generally, is a smarter way to manage the network. It also helps reduce customer energy bills, and is good for the environment.

will come under full remote control over the next five years – providing coverage to 90% of Ergon Energy's customer base.

Ergon Energy's ultimate vision is to have the entire backbone of the network controlled by the state-of-the-art SCADA system. This extended coverage will assist Ergon Energy enhance network performance and at the same time deliver shareholder and customer value through operational cost reductions.

The other key reliability improvement initiative this year has been the Feeder Improvement Program, which targets our consistently poor performing feeder lines. These lines are identified through performance data analysis to prioritise improvement actions. This is a particularly important step in developing the preventative maintenance program, as part of our summer preparedness planning.

During 2008/09, our conductor replacement program continued, addressing aged sections of line, including copper conductors. More than \$20 million has been invested in this area since 2004. This investment has enabled us to effectively lower our priority on conductor refurbishment, consistent with our Electricity Distribution Service Delivery (Somerville) Report response, in preference for replacement. Despite this, the conductor refurbishment program is ongoing and will extend into the next regulatory control period.

We are also continuing to address improvements to network switching and access, as well as fault reporting and analysis, and the co-ordination of our outage response.

The Queensland Government's Operational Review of Queensland Electricity Distributors, released in June 2008, supported our asset management strategies. However, it led to a review of our efforts this year in the areas of vegetation management (pg 31), conductor refurbishment programs and the maintenance of Ring Main Units, part of the network's switchgear.

To help us to make value-based decisions on our reliability improvement investment, during 2008/09 we also completed customer segmentation research to identify the relative importance that customers place on outage frequency, duration and restoration time information. Ergon Energy intends to extend this research in future to identify the financial value that different customer segments place on supply reliability.

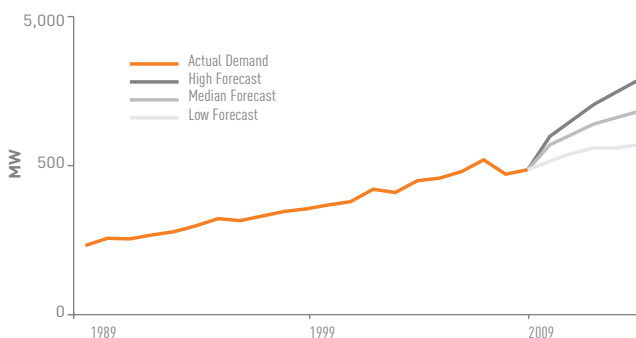
SECURITY OF SUPPLY STRENGTHENED

In addition to the new bulk supply point and the three new substations commissioned during the year (pg 30), Ergon Energy has also continued a program to improve the security of supply from its existing substations.

Senior Substations Standards Engineer Kerry Williams was in Toowoomba to farewell Nomad 3 on its maiden deployment to Miles. These revolutionary units are bolstering our ability to respond to natural disaster and maintenance requirements.

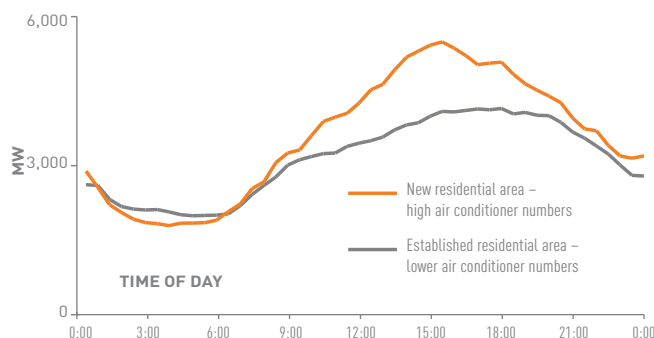


PEAK DEMAND IS DRIVING INVESTMENT



Ergon Energy's network management planning has to incorporate the potential impact of changing economic forecasts, as well as fluctuating peak demand from year to year and region to region. Peak or maximum demand, which is shown here, is currently forecast to grow around 5% a year, despite the economic downturn.

HOW PEOPLES' POWER USAGE IS CHANGING



The impact of the take up of air-conditioning and lifestyle appliances, such as the 'plasma' television, on peak demand can easily be seen when you compare the daily load curve of a new residential area with an established area where usage patterns have not changed as dramatically. Since 2004 air conditioning penetration in regional Queensland has increased around 14% to 69% in 2008.

During 2008/09, we lifted overall security of supply of our bulk supply substations with 15 of the networks 21 bulk supply substations now having N-1 level of security. This is a higher standard of security than what was previously applied, ensuring supply can be maintained in the event that a single element of the system fails.

Ergon Energy plans to build eight new bulk supply substations in the next five years, as well as continue to improve security of supply across all of our existing substations. This also includes lifting the security of supply of the majority of our zone substations to the higher security standard within five years.

To reinforce supply security, during 2008/09 Ergon Energy also commissioned two additional mobile substations, known as NOMAD 2 and 3. We have already used the new and improved substations several times to minimise the customer impact of transformer replacements. The refurbishment of NOMAD 1, which experienced a major operational fault in early 2008, is also underway so that all three mobile units will be fully operational for the upcoming 2009/10 storm season.

QUALITY OF SUPPLY A FOCUS

Ergon Energy has continued its focus on improving quality of supply with a specialist power quality group now at full strength. This team is responsible for investigating, analysing and reporting on quality supply issues. Through their efforts, the time taken to resolve quality of supply issues continued to improve during 2008/09.

Power quality, encompassing issues such as voltage dips and surges, is an issue that has grown in importance with the take-up of sensitive electronic consumer goods and electronic controls within industry.

In response, Ergon Energy is leading Australia in the number of power quality meters installed on its network to monitor and report power quality performance. This proactive monitoring, combined with efforts to better manage voltages and improve power quality planning to accommodate new customer loads, has reduced the number of reported power quality issues in 2008/09.

We have also continued to work with the Energy Networks Association (ENA) Reliability and Power Quality Committee and the Queensland Government on power quality indices and issues.

ISOLATED COMMUNITIES BENEFIT FROM CAPITAL INVESTMENT

Ergon Energy faces additional challenges around supplying regional Queensland remote communities, which are isolated from the main electricity grid. In response, we are deploying a strategy that includes reducing reliance on diesel-based generation by improving efficiency; implementing alternative generation technologies

and demand-side management; reducing investment periods for generation assets to cut investment risks associated with stranded assets; and conducting research and development in applying emerging technologies suitable for isolated community applications.

We achieved considerable success in this area during the year, including installing a concentrated solar photovoltaic farm at Windorah (pg 53) and replacing generating sets at Coen, Bedourie, Doomadgee and Gununa power stations.

We are also achieving reliability improvements through significant distribution line reconductoring works within the St Paul's and Kubin communities on Moa Island and in Badu Island communities. Fuel storage improvements have also been made at Coen, Aurukun, Bedourie and Birdsville power stations.

THE DEMAND MANAGEMENT ALTERNATIVE

Traditionally we have planned and built our infrastructure to a level of capability and redundancy to service peak demand, based upon forward demand forecasts. However, peak coincident demand on Ergon Energy's distribution system has been steadily increasing due to strong economic conditions and ongoing population growth.

Peak demand is now a major consideration in our asset management task. Lasting for only short intervals, predominantly over the summer months, and fluctuating year to year, this demand is being driven by the penetration of air conditioning and other lifestyle appliances, as well as industry. This year's summer demand was 2,427MW, representing an increase of 4.4% over the previous summer, but still 6.0% less than the 2006/07 peak of 2,570MW. However, despite not exceeding peak demand for the network as a whole, four of Ergon Energy's six regions did exceed the 2006/07 summer peak.

If we do nothing, by 2020 peak electricity demand in regional Queensland could increase by over 60% from where we are today. This potentially requires expenditure in the order of \$15 billion in electricity infrastructure, which means the community could ultimately pay considerably for an investment that may only be required in some areas for only a handful of days per year.

Ergon Energy is aiming to work with the community to intervene and provide our customers with opportunities and incentives to manage their electricity peak demand. This non-traditional approach will reduce the actual capital expenditure required and assist in mitigating related price increases.

Over the past year, Ergon Energy has committed significant resources to developing its capability in non-network alternatives. These efforts have been predominantly around the four projects highlighted on the next page.

Townsville Network Demand Management (NDM) Commercial and Industrial Pilot Project – This has involved Ergon Energy entering into contracts with commercial and industrial customers to contribute financially to the customer's capital works program in return for the opportunity to implement technical and commercial NDM arrangements. To date, this has achieved a commitment to projects that will achieve reduction in demand of more than 10MVA, significantly reducing greenhouse gas emissions (pg 29).

Townsville: Queensland Solar City – The project is part of the Australian Government's Solar City program trialling sustainable business models for the concentrated deployment of distributed generation (solar photovoltaic) and demand management through energy efficiency, load management, smart meters and new tariffs, along with innovative community engagement techniques promoting sustainable behavioural change. This work is developing our capability in this area, as well as demonstrating future replication opportunities for demand management.

Townsville and Magnetic Island Residential Air Conditioning Direct Load Control – This ongoing pilot has involved homes across Townsville and Magnetic Island operating with controls on their air conditioning compressors. This allows us to assess the potential uptake of this type of control mechanism and to demonstrate the opportunity for peak load reduction. Results to date have been positive with little impact on our volunteers' comfort perceptions, even in the tropical environment.

Cloncurry North SWER NDM Trials – This trial reduced demand by putting timers on hot water pumps and air conditioners, as well as installing ceiling insulation and solar hot water systems on the Cloncurry North Single Wire Earth Return (SWER) system. We are now analysing the data collected from this small number of customers to determine which interventions worked best to support the deferral of more than \$2 million of planned augmentation work, while at the same time helping our customers save on their bill.

NETWORK PERFORMANCE SUMMARY

The network's overall reliability performance for 2008/09 has been impacted significantly by the continuing suspension of live line work and a major network operation restriction, both put in place for safety reasons. Performance was also impacted by the extended wet season experienced across the state.

Ergon Energy took the unprecedented step in February 2009 of suspending all live line work to address an increase in live line-related safety incidents (pg 42). The suspension has had an adverse effect over the final quarters of 2008/09, with a notable increase in the impact of planned outages on our overall reliability performance.

The effect of this suspension was exacerbated by an unrelated network operation restriction arising from the in-service failure of several models of Air Break Switch (ABS). The models that are experiencing premature failures account for around a third of those in service across the network, so the potential for injury, loss of supply and damage to electrical equipment when they were operated made the restriction absolutely necessary. Work is currently under way to rectify the issue.

Since February 2009, the Planned SAIDI for the Urban network increased by 163% as a result of the suspension of live line work and the limitations placed on the operation of the Air Break

Switches – across the entire network planned outage durations increased by 142%.

Despite the network showing resilience, the extended storm season discussed on pages 25-26 also challenged network performance. Elevated flood waters led to lengthy power supply interruptions as a result of precautionary steps taken to make safe any high-voltage overhead powerlines that breached statutory clearances. We also had to disable auto-reclosing functionality on any distribution feeders that traversed floodwaters to minimise the potential risk to the public from fallen powerlines. The widespread flooding also delayed field staff accessing and repairing faults on the network.

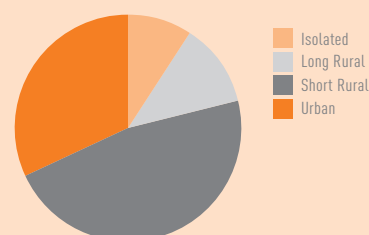
As a consequence of these challenges, Ergon Energy's outage duration measure (SAIDI) for all three feeder categories and the outage frequency measure (SAIFI) for the Urban and Short Rural category were unfavourable to the Electricity Industry Code's Minimum Service Standards (MSS). Long Rural SAIFI remained favourable.

Ergon Energy expects the positive trend in network performance seen across all three feeder categories over recent years to return once network operation restrictions end and live line work practice is fully restored.

NETWORK RELIABILITY PERFORMANCE	2008/09 MSS	2008/09 Result	2007/08 Result	2006/07 Result	2005/06 Result	2004/05 Result
Duration Index (SAIDI)						
– Urban Distribution	≤180	217 X	179	172	219	196
– Short Rural Distribution	≤500	609 X	457	448	593	532
– Long Rural Distribution	≤1,040	1,108 X	1,030	957	1,331	1,074
Frequency Index (SAIFI)						
– Urban Distribution	≤2.3	2.33 X	1.85	1.82	2.26	2.0
– Short Rural Distribution	≤4.5	4.93 X	3.49	3.71	4.96	4.5
– Long Rural Distribution	≤7.8	7.73 ✓	6.40	6.60	9.57	7.7

*Reporting based on the Minimum Service Standard (MSS) exclusion criteria outlined in the Electricity Industry Code.

PROFILE OF DISTRIBUTION FEEDER POWERLINES



Unlike most other Australian electricity distribution networks that predominantly supply urban area, around 70% of our feeder powerlines are non-urban, spanning vast distances and servicing one of the lowest customer densities of any network in the western world.

We plan to incorporate the successful interventions into a broader program of initiatives for rural customers.

Work has also started on energy saving projects for Mt Isa and Northern Mackay, as well as our isolated communities (pg 53). Ergon Energy is also working on a technological solution to overcome the barriers to connecting pool pumps to existing controlled load tariffs.

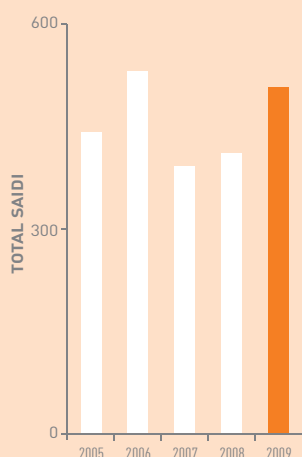
We see our efforts in this area as vital to meeting both our economic and climate change objectives. As a result, we have incorporated a \$50 million investment in demand management initiatives into our Regulatory Proposal to the AER for 2010 to 2015, in addition to the \$5 million already approved as a Demand Management Innovation Allowance to undertake further energy conservation and demand management development work.



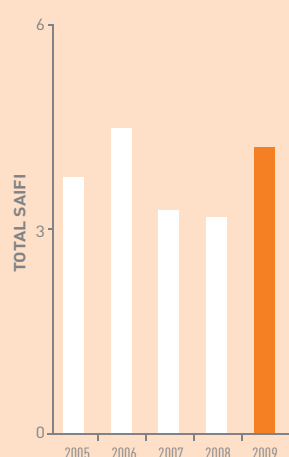
TOWARDS SUSTAINABILITY

The new energy efficient chilled water plant at James Cook University includes the central thermal storage tank (shown here) – the largest built in Australia – that runs overnight on off-peak power then air conditions the campus during the day. It's part of an innovative pilot to reduce demand on the network.

DURATION OF POWER INTERRUPTIONS UP

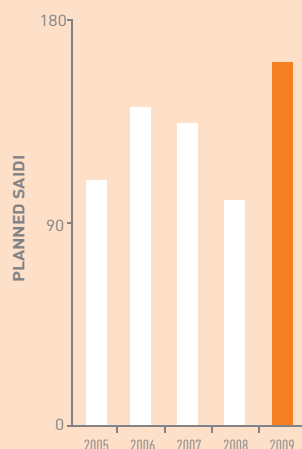


FREQUENCY OF POWER INTERRUPTIONS UP



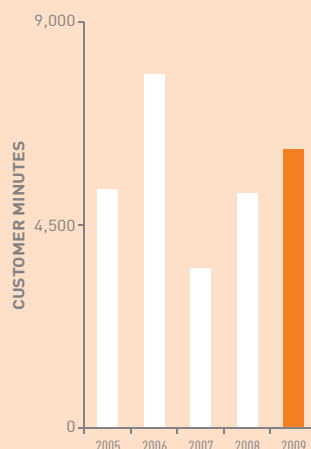
The duration of power interruptions (SAIDI) and the frequency (SAIFI) were adversely impacted by a suspension of live line work and a major network operation restriction, as well as the extended wet season. Performance of our Long Rural feeders was within the Minimum Service Standard.

SAFETY PRIORITY INCREASES PLANNED INTERRUPTIONS



Planned power supply interruptions contributed to 32% to the overall duration performance index. This impact was due largely to a decision to suspend all live line work on our high voltage assets, as well as a major network operating restriction in place, while safety issues were addressed.

IMPACT OF WEATHER EVENTS UP



The impact on network reliability of the 2008/09 storm season was notable, compared to recent years, with December alone experiencing 2,303 weather related events, a monthly record for the past five years.

Some of Our Less Demanding Customers

Our Network Demand Management Commercial and Industrial Pilot Project taking shape in Townsville will help deliver significant reductions in demand on Ergon Energy's electricity network.

James Cook University was the first to join the pilot project, with major changes to their campus buildings' air conditioning arrangements already delivering the benefits of using less electricity.

More of Ergon Energy's large commercial customers have also joined the pilot project, such as The Good Shepherd Nursing Home, Jupiter's Casino, Townsville Airport, the Townsville District Hospital and the Townsville City Council. As part of the pilot, Ergon Energy is providing financial support to help them undertake individual commercial capital projects with the goal of reducing demand on the network and, at the same time, reducing greenhouse gas emissions.

Sustainability benefits the project is creating:

- peak network demand reduction of 20MW in Townsville by 2012, avoiding potentially \$30 million in electricity infrastructure costs along the supply chain
- a reduction of more than 30,000 tonnes of greenhouse gas emissions annually, the equivalent of taking 7,500 cars off the road
- economic benefits to participants from electricity savings, which, in the case of local and state government operations, can be redirected into local community capacity building initiatives
- the pilot demonstrates demand management to the community as a viable alternative to increasing electrical network infrastructure for other sites.

WORKS MANAGEMENT AND DELIVERY

Ergon Energy's objective is to deliver its works program on time and on budget through innovation, technology, standardisation, design and packaging. We recognise the role electricity plays as a vital service and we strive to exceed community expectations.

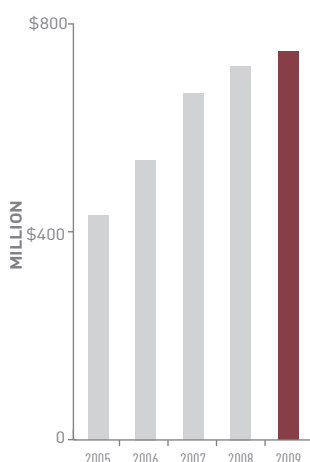
THE CAPITAL PROGRAM DELIVERED

Ergon Energy faced a number of challenges this year from a works management perspective, which required a highly flexible response. Despite the challenges, the organisation successfully delivered an \$844.3 million capital program with its key 'alpha' projects largely on time and on cost target, scoring 89% compared to a target of 85%. The highlights included:

- an increase of 168MVA of installed transformer capacity at the network's bulk supply points, including augmenting the Oakey network by establishing a new 110/33kV bulk supply point
- an increase of 231MVA of installed transformer capacity at the network's zone substations, including three new zone substations at Cairns North in the Far North, Agnes Water in Central Queensland and Kearneys Spring in Toowoomba
- significant progress on the new Bundaberg City and Jubilee Pocket zone substations and the refurbishment of the Gayndah zone substation
- significant progress converting the Rosedale SWER scheme in the Wide Bay region to three-phase supply
- significant investment in our remote community power supply infrastructure (pg 27).

Ergon Energy's 2008/09 capital expenditure on network augmentation was 70% higher than what it was just five years ago, despite the overall program being below budget. This was due to a number of factors, including a delay in major project approvals, a reduction in customer works, flooding, labour constraints and an underspend in proposed non-system expenditure (such as land).

INVESTMENT IN STRENGTHENING THE NETWORK CONTINUED



The escalating levels of investment over the past five years – including a \$741.1 million 'system' investment in 2008/09 – has seen over \$3 billion injected into the network to meet demand and improve the resilience of the network.

REGIONAL INVESTMENT SUMMARY

Far North: \$123.0 million

- Completed the \$65 million Cairns North supply reinforcement project. This includes a new zone substation and 132kV underground cabling.
- Substantially completed work on an \$8.5 million substation at El Arish to provide a more reliable power supply to Mission Beach area.

North: \$139.6 million

- Began work on a \$27 million program of new power infrastructure into Abbott Point in the Bowen area.
- Started work on a combined \$43 million spend on major projects in Townsville, including the new Belgian Gardens and Oonoonba substations and an upgrade to the Rasmussen substation.
- Began a \$22 million project to redevelop the Clare substation, near Home Hill.
- Continued work on a \$20 million project to augment the Black River substation near Townsville.

Central: \$229.0 million

- Began supply reinforcement works valued at more than \$125 million to help meet booming demand for power in Mackay.
- Carried out the first stage of a \$23 million zone substation at Jubilee Pocket (near Airlie Beach) and high-voltage feeder project.
- Continued work on a power reinforcement project valued at approximately \$26 million, with the construction of the new Berserker zone substation in North Rockhampton.
- Continued work on \$23 million in projects on the first stage of substation-related projects at Tanby.

Wide Bay: \$123.0 million

- Continued work on the:
 - new \$28.7 million Bundaberg Central substation
 - \$17 million upgrade to the Gayndah substation
 - \$21 million redevelopment of Mundubbera substation outside the town area
 - \$10.4 million upgrade to Isis bulk supply point
 - \$9.6 million upgrade of Childers zone substation.
- Completed work on the \$26 million project to erect high-voltage powerlines from Maryborough to a new substation site at Nikenbah at Hervey Bay.

South West: \$126.0 million

- Began the complete rebuild of the Dalby bulk supply substation and the Dalby Central distribution substation, projects costing a total of \$65 million.
- Continued work on a \$36 million program to upgrade the bulk supply network to Warwick.
- Started work on a new \$12 million substation at Cawdor to cater for continued growth in the Highfields area.
- Design work began for a \$42 million upgrade to the Roma bulk supply network.



Work is well advanced on the new \$26 million Berserker zone substation that will boost electricity supply to the rapidly growing North Rockhampton area, with civil works commencing in March and the 50 tonne transformers now lifted into position.

CUSTOMER-INITIATED WORKS DOWN

One of the major areas where we have had to adjust our program of work in 2008/09 has been in customer-initiated capital works. This area of our capital program was forecast to rise 16% for 2008/09. However, in the second half of the year demand dropped dramatically as a direct result of the financial downturn.

Despite the slow down, we still delivered a substantial \$289.3 million customer-initiated capital work program for 2008/09. The scale of these works is continuing to be the major contributor to the investment above the amount forecast above the Queensland Competition Authority allowance.

The portion of work (based on the number of lots offered and accepted) for which developers have elected to use alternative providers for the design and construction of new subdivisions has also seen a decline of 13% compared to 2007/08, which will lead to a corresponding increase in the percentage of work being delivered by Ergon Energy. In general, however, overall demand for new works is expected to remain soft during 2009/10 and then rebound once an end to the current weak global financial situation is in sight.

This year, we also successfully consolidated efforts to maintain customer connection times for these new works, with an average cycle time of 164 days, well within our 180 days target. Customer satisfaction for this area of our service delivery is also high at 74% and satisfaction with the process is above target.



Resource Manager Tim O'Neill and Work Group Leader Matt Pearson look over the new Pampas feeder line. The \$5 million project, completed below budget and well ahead of schedule before the 2008 storm season, has improved quality of supply for about 1,600 customers around Millmerran. The 27 kilometre concrete overhead has been designed to allow for future upgrades.

The 'contestable' elements of this program will be expanded in 2010 to include major commercial and industrial customer connections. Ergon Energy is also currently considering other options to expand 'contestability' to give customers more choice around their providers for the design and construction of the infrastructure necessary for connection to the supply network.

VEGETATION 'FAST TRACK' PLAN CONTINUES

In addition to our capital works, we delivered a \$312.0 million operating and maintenance program, including asset inspection and defect management, vegetation management and preventative maintenance. In 2008/09, vegetation management was the focus of significant attention in terms of reviewing and updating our forward management strategy.

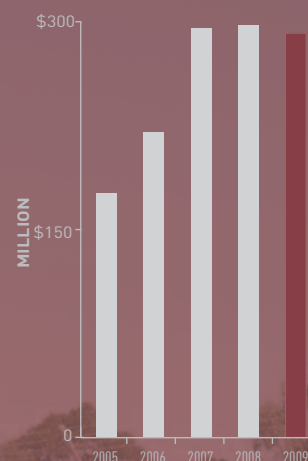
Ergon Energy's five-year Vegetation Management Strategy was first developed in 2005 to address vegetation encroaching on overhead powerlines. This long-term strategy has now been updated as part of a comprehensive review of our overall approach to vegetation management across regional Queensland.

In August/September 2008, we enlisted a specialist vegetation management company to assess the acknowledged backlog of vegetation around Ergon Energy's overhead network. Over seven weeks, they inspected a sample of almost 200,000 overhead spans across various regions on 21% of the network. The combination of aerial and field assessment provided the data accuracy to determine future workloads, and the platform for both a revised operational strategy and budget moving forward.

The review found that clearances in urban areas are generally to a high standard, with recommendations provided around resource utilisation for cost efficiencies. In regard to rural vegetation maintenance, it found a number of areas that required vegetation clearance before the next scheduled maintenance period.

Our accelerated vegetation management program, which has seen an investment in the order of \$80 million per annum over recent years, is now embracing the new strategy with improved managerial reports to monitor progress. In addition, Ergon Energy has moved to variable maintenance cycles for rural and urban vegetation management based on biodiversity modelling. A further outcome of the review is the establishment of a project to implement system and process improvements. Two deliverables have been the Vegetation Management Standard and the Vegetation Clearing Profile replacing the Vegetation Code of Practice. The new clearing profile is based on a risk assessment methodology to ensure efficient and effective utilisation of resources.

CUSTOMER-INITIATED WORKS SLOWED



While our customer-initiated capital works has slowed slightly with the economic downturn, due to the growth rate in customer connections over recent years, this area has been the major contributor to the investment that has been required above the Queensland Competition Authority five-year allowance to June 2010.

BETTER WORKS PLANNING SUPPORT DELIVERY

During 2008/09, we improved our works management by closely examining how we operate, gaining a better view of the program of work with the level of granulation needed to be effective with our planning, optimising resource utilisation, and being more responsive to customer needs.

The Works Delivery Improvement Program saw more than a dozen corporate-wide works enablement improvements become operational. These included a scope review and revaluation of all major projects, implementation of an improved set of works forecasting and visibility solutions, and a pilot material forecasting solution to provide greater efficiency in long-term major procurement acquisitions.

There were also a number of initiatives with the Ellipse Enterprise Resource Planning (ERP) solution (pg 35), including deployment of new documentation and training for Asset and Operations teams, and implementation of the new web-based work request solution for the National Contact Centre. This solution reduced work request errors by more than 75%.

We have also been working with a number of Australian electricity supply companies to identify and implement best-practice estimating governance across Ergon Energy. The outcome of this work will include establishing a centralised estimating function to drive continuous improvement in quality, accountability and visibility for all Ergon Energy project estimates.

Improvements in our works management systems to date have already allowed us to better understand our capacity to deliver work and set budgets moving forward. We have also had a greater capacity to adjust our resources to suit changing demands, and revised our contracting strategy to optimise the volume and structure of future contract work.

The works program is also being supported by procurements and logistics service and efficiency improvements and greater cross functional co-operation. During 2008/09, 'delivery-on-time-and-in-full' (DOTIF) of materials was maintained at exceptional levels, consistently above 90%. We are now aiming to leverage both the Depot 3PR project (pg 34) and joint workings initiative with Energex (pg 35) to pursue further horizontal supply chain efficiencies.

The new high voltage Granite Creek substation is part of a multi-million dollar upgrade to the power network on the Discovery Coast.

SYSTEM INVESTMENT AIDS WORKS PLANNING

To improve Ergon Energy's ability to forecast and manage network load, during 2008/09 we completed the first phase of implementing a \$2.6 million energy information system. The system provides estimates of the demand at any point in the distribution network by using energy information from customers' meters, demand information from our systems and interval metering at customer installations and within the network. Phase two of the project will provide a continuous update of this energy usage information to enable ongoing analysis of distribution substation utilisation and significantly improve our ability to plan and manage load.

Ergon Energy has also partnered with Google Earth to create a three-dimensional visualisation of the locations of powerlines, as well as what kind of terrain or areas of a town or city they run through. This is now changing how we manage our operational response and works planning. The benefits that the Google Earth Enterprise™ system provides are showcased on page 33.

WORKS DELIVERY PART OF A GREATER VISION

Central to our works program is our Network Vision, which aims to ensure that today's decisions around the technological development of Queensland's electricity distribution network enable us to meet the community's needs for the next 20 years.

To ensure a common long-term strategic view for the state's network development, during 2008/09 we undertook extensive consultation with Energex around our Network Vision to 2020. A key part of our vision is an increasingly intelligent network, one very different to what we have today, with new, innovative products, processes and services. Within this vision is our challenge to balance our response to growing customer expectations and rising electricity demand with affordability, along with other potential impacts.

This vision drives Ergon Energy's Asset Management Plan (AMP) – as the key guiding document for our works program – and a range of other plans (@ pg 8). This year, our planning has been a critical input into the Regulatory Proposal (pg 55). The Asset Management Plan sets out our core principles (around customer expectations; external obligations and requirements; network performance and asset conditions; and forecast demand and connections) that guide the management of the network. These principles place a high priority on customer and community input. This is a commitment that is driving a proactive program of customer and community engagement around appropriate service levels and product offerings (@ pg 10), as well as on our social, environmental and community obligations.



WORKING WITH LOCAL GOVERNMENT PLANNING

During the year, Ergon Energy worked closely with the Local Government Association of Queensland (LGAQ) to target improved communications and planning in relation to major capital projects, particularly in the area of customer-initiated capital works. Through the LGAQ, Ergon Energy has been working to improve communications and the level of support from local government across regional Queensland around keeping projects moving and working together towards common goals.

In line with this, Ergon Energy this year established the Integrated Planning Infrastructure Project, which is one of a number of initiatives to drive greater efficiencies in network planning. Ergon Energy is leading the program, in collaboration with the Department of Infrastructure and Planning.

The project is seeking cooperation to obtain and collate GIS-based land-zoning maps from local government town planning schemes across Queensland. Improved access to these documents and associated spatial data is important if Ergon Energy is to continue providing a safe, reliable and cost-effective electricity service to regional Queensland in a sustainable way well into the future.

At the local government level, we also continued to undertake consultation around our Community Powerline Project works (pg 22) and our ongoing Cyclone Area Reliability Enhancement (CARE) program.

As an important part of our summer preparedness, Ergon Energy's CARE program invested \$5 million this year in undergrounding key strategic overhead lines in our cyclone-prone communities, as well as other enhancements to critical areas of the overhead network supplying power to essential community and emergency service facilities. The major projects progressed are:

- Ergon Energy's McLeod Street Depot, Cairns, and the Cairns City Council Depot with other emergency and essential services: \$3.2 million
- Edmonton township, as well as Bentley Park School and other essential services: \$3.7 million
- Heatley High School, Townsville, as a designated evacuation centre: \$1.1 million
- Ayr's town centre, including a designated evacuation centre: \$4.8 million
- Francis of Assisi Aged Care Home, Mackay: \$4.9 million.

2008/09 saw the completion of the \$65 million Cairns North supply reinforcement project, now augmenting supply to the northern inner city area. The \$23 million substation received a regional commendation at the Australian Institute of Architects' 2009 Far North Queensland Regional Architecture Awards as an example of good urban architectural design.



TOWARDS SUSTAINABILITY

The location of Ergon Energy's high and low voltage networks have been 'fused' into Google Earth's virtual 3D 'flyable world'. It allows our people – at the touch of a computer's mouse – to see an almost exact representation of where Ergon Energy's powerlines run.

Revolutionary Mapping Guides Work Planning

Ergon Energy has partnered with Google Earth to create a mapping system that is now helping to better manage the electricity network.

As the first of its kind for an electricity utility in Australia, the Google Earth Enterprise system provides a 3D visualisation of powerline locations, as well as the kind of terrain or areas of a town or city they run through.

Delivered after three years of work to map Ergon Energy's network over the existing Google Earth Enterprise™ system, it is an infinitely quicker and more efficient way for network planners, controllers, field crews and other Ergon Energy staff to view the company's vast network. The system is on the verge of revolutionising the way electricity networks and other large scale utilities view the locations and distribution of their infrastructure.

Sustainability benefits created:

- better information about the location and terrain of a network problem enables faster outage restoration times, as well as improved use of resources
- improved site specific information supports safe work practices, especially after significant network events or natural disasters
- the network and works planning improvement opportunities it enables support operational efficiencies and a high degree of integration with other infrastructure
- in the future it could even provide the advantages of a real time view of the network, the movement of storms and lightning across our service area, or even of our field crews to better manage our community service response.

OPERATIONAL EXCELLENCE

Ergon Energy's strategic 'get fit' priority is all about achieving operational efficiencies, targeting best-practice productivity through improved information management, simplified processes and innovation. It's about being able to deliver the service that our customers expect into the future – at a price they can afford.

During 2008/09, Ergon Energy was under significant cost pressures from unbudgeted expenditure resulting from the global economic downturn, as well as operational cost associated with our response to the severe wet weather experienced throughout the state and to addressing the vegetation management backlog (pg 31). At the same time, we continued our focus on achieving operational efficiencies, incorporated into our budgets as part of our strategic priority to 'get fit' operationally.

Our aim is to enhance Ergon Energy's long-term viability as a business for the benefit of all stakeholders – our people, our customers and regional Queensland communities.

As well as highlighting a focus on achieving everyday efficiencies, this section outlines specific initiatives deployed in 2008/09 to enable us to become more efficient in what we do, and to deliver more effective, innovative energy solutions for our customers.

KEEPING COSTS DOWN

During 2008/09, we have been able to deliver more than \$30 million in savings across our discretionary expenditure such as recruitment, travel, entertainment, contractors/consultants and communications. This has included leveraging improvements in works delivery to reduce contractor costs, and new communications technology to help reduce travel (pg 54) – initiatives vital to delivering on our financial commitments this year.

We succeeded in this area through a strong management focus, and by instilling a culture of cost-reduction (pg 37).

This focus has also included benchmarking Ergon Energy's operational efficiencies. An independent review of capital expenditure unit rates by Sinclair Knight Merz (SKM) found that Ergon Energy's costs of delivering work were generally efficient compared to SKM's own estimates for similar work on a like-for-like basis.

ENTERPRISE TRANSFORMATION DELIVERS

Ergon Energy's Enterprise Transformation 2010 (ET2010) program has continued to simplify how we work. The program has delivered substantial benefits in service delivery capability and organisational efficiency during 2008/09, including:

Redevelopment of the Work Group Leader position – As a vital frontline position in the organisation, these efforts are about improving the role's effectiveness through a revised position profile, supported by a consistent and structured coaching and career development program (pg 41). Deployment of the revised position profile, the capability evaluation, and the coaching

program is well underway. Accompanying this are efforts to clarify expectations and strengthen the leadership focus of those taking up the positions, especially in regards to sustainable and improved safety performance, productivity improvement and service delivery.

The Depot 3PR Project – Commencing in September 2008, it aims to simplify the depot environment (particularly the 3P's: processes, procedures and paperwork) to reduce 'waste', or lost time. By understanding where waste is occurring, we can then act to free up time for managers and supervisors to focus their efforts on coaching, mentoring and scoping work. This, in turn, will improve field work efficiency and safety on the job. The first two phases of deployment are now complete across our Northern operations, with the rollout now underway in our Central and Southern regions. The final step is to use our new Management Control System to embed the improved ways of working. Ultimately it's about becoming more productive, which is good for our customers and key to the sustainability of our business.

Pole assets information improvement – These efforts have delivered a major boost to our network asset data quality by resolving core system interface issues, clearing backlog errors, creating integrated reports, and launching a tool to ensure field pole inspections improve data quality over time. Better visibility of the pole asset base has delivered the confidence needed for effective operational reporting, decisions making and, ultimately, productivity improvement.

Document simplification – A collaborative approach has taken paperwork from a burden to a breeze for the team which manages Ergon Energy's large customer contracts for Transmission and Distribution Services. The initiative reviewed 281 documents from the team's quality management system – cutting procedural documentation in half. The document principles and tools, which helped simplify and clarify responsibility for essential processes, have proven a catalyst for significant business improvement. Other parts of our business are now following.

Process and system interface improvements – Collaborative efforts through the business led to a new data entry screen for National Call Centre-initiated work requests. Launched in September 2008, the screen has enhanced work request quality by drawing data from a range of sources and defining mandatory fields. For example, the error rate for requests for customer-initiated works has been reduced by 70%. Further enhancements to the process are planned.

Other ET2010 initiatives included the Management Information System Project (over) and the Estimating Framework (pg 32).

In the coming year, the ET2010 program will be absorbed into Ergon Energy's broader transformation agenda.

CAPITALISING ON THE ELLIPSE INVESTMENT

As part of our focus on developing our information management systems, we have continued driving benefit realisations from the \$75 million investment in an Ellipse Enterprise Resource Planning (ERP) solution made in 2006.

This has been a significant year for reviewing 'how work is done' across the functions integrated into the ERP system (assets and works management, human resource, payroll, financial, health and safety, and environmental and logistics functions). We have also delivered two major ERP enhancement releases during the year to support the ongoing benefits obtained through:

- increased efficiency and labour utilisation resulting in reduced overtime and contracting costs
- improved fleet utilisation resulting in reduced fleet costs
- better integration of management reporting to enable more effective decision making.

JOINT WORKING DELIVERS REAL GAINS

Our proactive approach to identifying and capitalising on joint working opportunities is also helping place us in a strong position for the future. In particular, we are focusing on achieving operational efficiency through a program of joint working with Energex, our South East Queensland counterpart. It's all about leveraging value to deliver what our customers want at an affordable price.

The respective Boards of Ergon Energy and Energex approved a formal Joint Working program in late 2008. This program is around asset management; works management; strategic procurement and logistics improvement; contact centres; smart meter pilot project and Information and Communications Technology (ICT) governance. The aim is to achieve greater financial efficiency, reduce duplication of investment and deliver better outcomes for our government shareholders and customers. Many of these projects have made good progress in 2008/09. We:

- made changes in the Contact Centre Disaster Assistance Plans to enable each business to handle fault calls for each other if required in the event of a significant emergency or disaster (pg 20)
- transitioned a number of functions from the Office of the Chief Information Officer (OCIO) to our joint venture SPARQ Solutions to increase ICT alignment with Energex and provide approximately \$0.5 million in efficiency savings per annum
- developed a Network Technology Roadmap that will articulate the long-term strategic plan for the technological development of the Queensland electricity distribution network
- implemented processes to facilitate joint procurement of power cables and distribution transformers
- jointly completed and submitted the proposed scope for Smart Metering pilots in Queensland to the Department of Employment, Economic Development and Innovation (see over).

The Joint Working program is now at the mid-point of the implementation phase. We have undertaken the first of several change readiness assessments and a program health check, along with a number of enhancements around the program's governance to ensure we realise the project benefits.

These efforts continue to build on our long-term collaborative relationships established across the industry. Ergon Energy's workshop at Banyo, which constructs modular substations, capacitor banks and other electricity network components for use both within Ergon Energy's own network and by Energex, has now delivered its one hundredth modular substation for Energex. The focused improvements achieved as part of these operations are also delivering significant operational efficiencies.

Our joint venture with Energex and SPARQ Solutions (@ pg 3), which provides ICT support services to both Ergon Energy and Energex, has continued to support the business's strategic priorities and to help reduce operating costs. Its focus throughout the year has been around:

- improving service delivery in terms of ICT problem resolution times and consistency of outcomes
- efficiently delivering the ICT program of work to achieve Ergon Energy's business plan outcomes
- continuing to develop the joint ICT Roadmap with Ergon Energy and Energex which has been the main source of information into the ICT component of the AER submission.

We also continued to provide network services to the state's transmission company Powerlink Queensland, with a new Service Level Agreement established.

INNOVATION SHINES THROUGH

Ergon Energy's Innovation Program is continuing to encourage employees to 'think outside the square' and devise more efficient and effective ways to achieve our goals and add value to the business. During the year, the web based Innovation and Ideas Forum has seen 222 ideas put forward by staff about the environment, safety, customer service and improvements to workplace communications. As part of these efforts, the program's first guided innovation campaign asked to submit ideas to Ergon Energy's Innovation and Ideas Forum on how we could reduce emissions with actions in the workplace.

During a two-week challenge in mid-2009, employees were asked to submit ideas on how we could reduce emissions with actions in the workplace. The result was 65 new ideas and, in return, one tree was planted for each idea.



Ergon Energy is also actively participating in numerous external innovation networks focused on enhancing organisational innovation and identifying opportunities for cross-collaboration. That includes playing a leading role in establishing the Brisbane Innovation Network, which includes Brisbane City Council, Suncorp, Roche Pharmaceuticals, GHD and the University of Queensland.

To ensure our innovation framework aligns with our strategic and operational objectives, we have enlisted innovation experts from the University of Queensland to review the program. The aim of the review is to assess current approaches, frameworks and future roadmaps and ultimately help enhance the program further.

INVESTING IN SMART TECHNOLOGY

Investing in intelligent technologies is a key strategy for us to achieve operational excellence moving forward. Ergon Energy will always have poles and wires, but these will not be the sum of the network. We expect the way in which electricity is generated and managed across the network will change. Those parts of our network which actively manage and co-ordinate the flow of this electricity will become increasingly important.

A key initiative in this area is the Smart Meter Pilot Project. This Joint Working initiative with Energex aims to confirm the costs, benefits and risks of implementing smart meter infrastructure in Queensland. This will be achieved through a comprehensive cost benefit analysis based on sourced knowledge, and pilot outcomes.

With the scope completed in June 2009, we are now moving into the project's set up and installation phases. This will allow us to undertake detailed customer and business benefits analysis, including a detailed assessment of how the technologies can be applied across the vast geographic diversity of Queensland. It will also consider regulatory and policy impacts, and transition requirements. This project will also enhance the learning from the smart meter roll out as part of the *Townsville: Queensland Solar City* project (pg 28) and deliver on Queensland's commitment to the Ministerial Council on Energy (MCE) in June 2008.

Telecommunications on and across our network will also become more important. They will be vital to support any form of smart metering rollout, to enable the development and connection of renewable and micro electricity generation, and to enable the development of a market for demand management.

In early 2009 Ergon Energy announced plans to invest \$134.6 million over the next three years as the first phase of developing an internal telecommunication infrastructure platform. As the primary backbone, this will enable the future deployment of a multipoint network solution to service intelligent network devices.

Overlaying the distribution network with the pervasive telecommunications network – known as the 'Ubiquitous Network', or 'UbiNet' – will also support a range of more traditional business telecommunications requirements, including network monitoring and control, fixed and mobile staff communications.

Another initiative which came to fruition this year is the Google Earth Enterprise system. It allows our people – at the touch of a computer mouse – to see an almost exact three dimensional representation of where Ergon Energy's powerlines run. The range of opportunities for operational improvements this enables are highlighted on page 33.



TOWARDS SUSTAINABILITY

Working smarter together - Ergon Energy's Manager Wholesale Telco Andrew Deme (right) with QR's Manager Signalling and Telecommunications Systems Barney Schubert. Our two government-owned organisations now have a formal alliance agreement in place that will help achieve greater infrastructure efficiencies as part of the development of a state-wide telecommunications network.

Telecommunications for the Future

Ergon Energy's \$134.6 million Ubiquitous Telecommunications Network (UbiNet) project, announced this year, will be a key enabler for Ergon Energy to meet the growing electricity needs and expectations of regional Queenslanders – now and into the future.

Overlaying the distribution network with a high-speed contiguous digital telecommunications network will enhance our monitoring and network control capability and support our other traditional business systems, as well as enable the deployment of intelligent technologies.

Due to the vast nature of the Ergon Energy network, the UbiNet project will be built and delivered in stages during the three-year construction period, starting in early 2010.

Sustainability benefits created:

- faster outage restoration thanks to improved reach, and greater security of our remote monitoring and control of the network
- more secure communications for our emergency response in times of disaster
- operational efficiencies and business system access supported by high speed telecommunications to most of Ergon Energy's regional depots, offices and substations
- support for the implementation of demand management systems, the smart metering rollout and customer connectivity in the future thanks to better telecommunications functionality
- support for the widespread deployment of distributed or remote generation, such as renewable energy systems.

OUR PEOPLE

Ergon Energy's aim is to be a 'preferred employer' with a high performance, professional, values-driven culture. Our key drivers in this regard are to motivate and develop our people to embrace a high performance culture and to provide a work environment that ensures we retain and attract suitably skilled staff to deliver on our strategic plans.

A WORKFORCE FOR THE FUTURE

Our business is under increasing pressure from a range of factors – the current economic downturn, climate change policy and community expectations and electricity affordability, to name a few. To deal with these challenges and meet our customer expectations now and in the future, we have a Strategic Workforce Plan that aims to ensure we maintain an appropriately skilled workforce throughout our regional centres.

While the economic downturn has taken some pressure off the resourcing challenges of recent years, we are maintaining our focus on retention to ensure we are able to meet our current customer demands and the demands that will undoubtedly eventuate during an economic recovery.

As we move along our strategic journey, our ongoing focus on expanding and modernising our network and leveraging on our climate change response means we will need to continually develop our people, as well as bring skilled people into the organisation, to keep pace with our changing environment. For example, our traditional 'blue collar' workforce will need the flexibility to add 'green collar' capability, with roles in renewable or alternative energy solutions. This may also influence and change the current curriculum offered in vocational areas to support this movement.

The plan also recognises the benefits of a loyal workforce where the relationship between the organisation and its people is much more than just a pay packet. Key to our preferred employer status is the sense of pride within the Ergon Energy community. This is evidenced in the continual high 'job pride' scores in our Have Your Say Survey, where staff are proud to work at Ergon Energy. Our plan also aims to provide our people with a comprehensive offering of rewards, benefits, health and wellbeing considerations and a high performance, safe work environment – all integral to maintaining our preferred employer status.

STRIVING FOR A HIGH PERFORMANCE

In 2008/09, we conducted an independent Organisation Design Review (ODR). During the next financial year, this will deliver considerable changes throughout our organisational structure, affecting some parts of the business more than others. This will mean significant personal change for many, as teams and individuals shift reporting lines to join other groups and business units, and form new teams.

The ODR has required a major focus on change management in 2009, including consultation with representative industry unions. In addition to the organisational restructure, a suite of enabling projects now in place focusing on systems, processes, policies,

performance management and operating framework will also drive change. The aim is to eliminate duplication, improve the clarity of accountabilities, and streamline processes. Details of the structural changes have been provided on page 58 and in the Corporate Governance Statement (pgs 6-7).

To support these efforts, we updated and rolled out change management guidelines and tools, now aligned with international best practice, to build our internal change management capability. As a result of this work and as an agreed Joint Workings outcome, Ergon Energy has also provided these change management guidelines and tools to Energex (pg 35).

In conjunction with the ODR, to develop an effective high performance culture across the organisation we also invested in an external review of our current culture to enable us to better target our change efforts. The result highlighted an incremental positive shift in the culture towards high performance. A particularly positive outcome was that our employees saw 'meeting customer needs' and 'keeping costs down' as important, with 'cost reduction' found to be a positive value emerging across the organisation. It also found that the current culture is driven by values that promote 'consideration of the impact on community and surroundings'.

While these results are extremely positive, other results indicate a level of frustration around perceived overly complex processes and slow decision-making channels. This frustration underlies the strong support expressed for removing the barriers to higher productive effort and increased accountability.

In line with this, during 2008/09 we initiated a coaching program targeting our workgroup leaders to support high performance behaviour (pg 41). Management team coaching, advice on major transformational programs, an upgrade of the performance management system and revitalisation of the induction program have all been successful interventions to shift mindset and behaviour and to enable improved performance. In 2008/09, there was also a significant increase in the use of performance conversations and formal agreements – more than 60% of managers now having completed performance coaching training.

Safety in the workplace is discussed in detail in the next section (pgs 42-43).

A GREAT PLACE TO WORK

Since their inception five years ago, Ergon Energy's Above and Beyond awards continue to inspire others. Our organisation is made even greater by the efforts our people put in to seek better, smarter, safer and cleaner ways of doing things.

More than 130 people and teams were deservedly nominated for the 2008 awards. This included people and teams who raise the bar on what it means to



excel in Customer Service, Innovation and Working Together, and people who set the pace in Outstanding Achievement, pursuing Environmental Excellence, and in achieving the highest level of Apprentice/Technical Trainee accomplishment. To coincide with the Green Team's fifth anniversary of building environmental awareness, we planted a tree for each person who attended the awards ceremony (pg 45).

The winners included a Dalby team that implemented the emergency response to the failure of a transformer at a major substation and a duo from Palm Island who are the first response for a community with a population of about 4,000 people. It's recognition like this that contributes to the pride our people have in working at Ergon Energy.

In 2008/09, the 'Have Your Say Survey' (HYSS) changed from an annual to a two-yearly survey with a smaller, interim survey conducted in this alternate year. This has allowed us to keep on the pulse, while focusing on delivering an action plan developed from the last census survey. Delivery against this plan is on track.

This year's interim employee satisfaction HYSS indicated that 'reward and recognition', as well as having a clear sense of direction, employee job fit, lifestyle balance, and good pay and benefits, are all integral to maintaining our preferred employer status. It found that our employees continue to believe Ergon Energy is a great place to work, compared to other organisations. This remains the core of our 'A great place to work' recruitment campaign, developed during 2007/08 to attract the best applicants to the business.

OUR COMMITMENT TO ENGAGEMENT

In 2008/09, we placed a renewed focus on effective communication with our people through multiple channels. We undertook a whole-of-business review of all internal communications channels. It showed that they had good audience reach, and helped more than 80% of employees build knowledge and understanding of the business. While largely positive, the review also highlighted opportunities for improvement.

We listened to the feedback from our employees and introduced a new bi-monthly *Team Brief DVD*, combining the best elements of the previous productions *eLink* and *Switch-on* into one DVD. This reduced the viewing time and provided more targeted content allowing each individual or team to view only relevant information depending on their area of interest. We launched a new daily email channel, *DailyMail*, to keep the workforce updated in a timely fashion on everything from safety notices and operational news to job vacancies.

Employees were again encouraged to communicate their ideas and offer feedback to management on key issues, such as health and safety, and cost efficiencies. In addition, we set up special email addresses and hotlines to make it easy for employees to provide feedback for the Organisation Design Review (pg 58) and the Swine Flu responses. We have also continued with the Listening Forums launched in 2007. Different executive team managers hosted these events at various locations across the state as part of the strategic

planning cycle, giving employees the chance to provide input into the strategic direction. (pg 10)

Employees also have the opportunity to discuss issues and outwork solutions through our union consultative committees, which regularly saw management meet with the principal unions of Ergon Energy's business environment.

After an extensive period of negotiation with the unions and endorsement from employees, the Ergon Energy and SPARQ Solutions Union Collective Agreements were replaced in September 2008 and January 2009 respectively. By working together effectively during the negotiations, Ergon Energy was able to minimise the impacts on our customers from the industrial action taken. The final result is an agreement that is fair and reasonable to our employees, customers and the Queensland Government as shareholders, and positions us well to move forward and achieve our strategic priorities.

The employee benefits of the endorsed agreement include:

- annual 4.5% pay increase (including 1% productivity component) over the three-year life of the agreement
- increased Electricity Distribution Service Delivery (EDSD) allowance and payments
- an increase in maternity leave ex-gratia payments to 14 weeks
- an increase in the amount that can be salary sacrificed for the electricity rebate
- a safety net for a further wage increase, in the event that pay rises are below the Consumer Price Index
- improved employment conditions.

The range of productivity improvements agreed upon included employee contribution to delivering Ergon Energy's business plans, contractor high-voltage switching, and the implementation of agreed single-person tasks.

In addition, our Industrial Relations Team together with our Energex counterparts coordinated the National Energy Sector Employer Group submissions to the Australian Industrial Relations Commission on the development of a new Federal Energy Sector Award as a part of the award modernisation process.

DIVERSITY PROVIDES NEW PERSPECTIVES

We have a social responsibility to bring greater diversity to Ergon Energy's workforce and create an authentic inclusive culture. Not only will diversity at Ergon Energy more adequately reflect Queensland's large and diverse population as we move forward – thereby supporting better service delivery – it is integral to us being a genuine 'preferred employer'. Diversity also creates a pool of different perspectives when approaching challenges and, ultimately, supports better business outcomes.

Providing flexible work choices, a supportive workplace, career development opportunities, family friendly and inclusive policies and practices, mentoring and support programs and educational programs are part of what makes Ergon Energy attractive to applicants from under-represented groups.

We have also made great inroads around the effectiveness of our management of diversity, which is delivering business benefits well beyond its mere presence in the workforce, as some of the following results show:

- our employee survey showed the greatest improvement in satisfaction the areas of diversity, Equal Employment Opportunities and reduced bullying
- we partnered with the Central Queensland Institute of TAFE in Mackay to provide work experience for Indigenous women in a trade

- we implemented a range of initiatives to provide targeted support for our employees, including targeted Employee Assistance Programs, Sexual Harassment and Anti-Discrimination Officer (SHADO) networks, and pre-vocational programs and diversity education
- we introduced a women in management mentoring program for female succession pool members, 97% of whom have had an opportunity to act in another role
- we introduced flexible work policies and guidelines including Transition to Retirement, Job Sharing, Part-Time Employment, Flexible Work Hours and Working from Home. We also completed a major review of our Parental Leave Guidelines.

Our most notable step forward has been our work in the Aboriginal & Torres Strait Islander (A&TSI) diversity area. The number of A&TSI employees has significantly increased. Since 2007, we have doubled both those in entry level positions (from 24 to 57) and senior level positions (five to 11). We also introduced an Indigenous Buddy Program to support Indigenous employees and the inaugural A&TSI Apprentice program that filled five positions (pg 41).

We are also making progress around other targets established in our Equal Employment Plan (2007-2010). As we exceeded the target set earlier last year with our women in middle management target increased to 25% this year from 20%.

Diversity Goals	Target 2007-10	Progress 2009
Women in middle management	≥25%* middle management	20%
Women in upper management	≥14% upper management	13%
Women in non-traditional roles (engineering & technical roles)	≥4% non-traditional roles	2.5%
Aboriginal & Torres Strait Islanders (A&TSI) in the workforce	≥2.4% of total workforce	1.9%
A&TSI employees in senior positions (ie. grades 9.0 to 16.5)	≥5 additional employees	6 additional employees
A&TSI in entry level positions, eg. apprenticeships and Casual Power Station Attendants	≥50 additional employees	33 additional employees
Employees from a Non-English Speaking Background (NESB)	≥6 additional employees	40 additional employees identified as NESB

*Target increased to 25%, as the 20% target established in 2007 was exceeded.

DEVELOPING OUR PEOPLE A PRIORITY

Ergon Energy invests more than \$5 million each year in developing its people. Our workforce requires a high level of technical training, including trade-based training, regulatory training and apprentice training. The most notable undertaking this year was the five-day training program needed to reinstate our live line work capability. As a result of safety requirements to revise our work practices and training manuals for undertaking live line work, we determined that every one of our live line workers needed to undergo refresher training before recommencing live line work. To carry out this huge undertaking, we had to source additional external trainers so that we could deliver five courses concurrently each week and complete the program in the desired timeframe (pg 42).

Another significant training project undertaken this year was the field switching and access project, which included upgrading the skills and qualifications of specialist trainers to deliver comprehensive switching and access training to relevant employees in a purpose-built training facility.

We also make an extensive corporate training investment in IT programs and systems training to help our employees better use these systems, as well as training in communication, interpersonal skills, customer service and general management skills. A highlight this year was the rollout of the complaints management training program (pg 21). During the year, we also made significant progress developing our online training, with almost 30% of our training courses now being delivered this way.

Apprenticeships and graduate opportunities – Despite the economic downturn, Ergon Energy continues to invest heavily in its apprenticeship program, an effort applauded by the Queensland Apprenticeship Services. In July 2008, they awarded Ergon Energy for its commitment to fostering Queensland apprentices, whose employment has increased by more than 60% in four years.

At the start of 2009, there were more than 360 apprentices indentured by Ergon Energy, including 68 from the 2009 intake. These apprentices will help ensure we have the right workforce for the future to underpin successful delivery of our substantial network and customer works programs. The high number of graduating apprentices retained by the business each year demonstrates the success of the apprenticeship program. We are maximising opportunities to transition existing apprentices into permanent roles after they graduate.

Mark Cooper from Toowoomba, Sandra Monaghan from Dalby, and Shane Bohan from Brisbane graduated during the year from the Management Foundations Program—part of our suite of leadership development programs.



General Manager Operations
Central Steve Simpson (centre)
welcomes this year's apprentice
intake (front) Jacob Burton,
Mitchell Butler, Rajendra Prasad,
Tim Bradley; (second row)
Nathan Zaghini, Joel Kilpatrick;
(back) Michael Goody,
Sam Michell, Paul Eaton,
Ben Scott, Troy Sheumack
and Brett Griml.

THE WORKFORCE PROFILE

	Power Worker (including apprentices)	Technical Service- person (including apprentices)	Supervisor	Electrical System Designer/ Advisor	Para- Professional	System Operator or Control	Administrative employee	Professional and Managerial	Senior Manager	Grand Total
Employees	314	1,273	338	104	549	54	1,097	841	64	4,634
Region										Total
Northern	141	485	128	33	231	30	404	335	20	1,807
Central	66	306	95	28	180	24	359	193	10	1,261
Southern	89	403	100	43	126	0	239	110	4	1,114
Brisbane	18	79	15	0	12	0	95	203	30	452
Gender										
Female	4	5	5	5	41	0	823	248	7	1,138
Male	310	1268	333	99	508	54	274	593	57	3,496
Age Group										
<25	11	251	4	16	38	1	135	28	0	484
25 – <35	52	397	42	24	141	13	321	173	1	1,164
35 – <45	80	266	107	21	132	19	252	273	20	1,170
45 – <55	86	252	127	27	151	14	249	264	29	1,199
55 – <65	80	98	56	16	79	7	123	95	14	568
>65	5	9	2	0	8	0	17	8	0	49

In addition to the apprentice program, Ergon Energy is currently developing more than 80 technical trainees as future designers and technicians.

We have also expanded our graduate program to 30 graduates covering the disciplines of Electrical Engineering, Accounting, Customer Service, Human Resources and Civil Engineering. Graduates are tertiary qualified individuals who have recently completed a bachelor degree. Many are using their academic understanding for the first time or embarking on the next phase of their career. Ergon Energy gives them an opportunity to build their practical expertise and experience.

Leadership central to our success – We are prioritising the development of our frontline work group leaders as a critical element in the continued success of our operations, supported by a consistent and structured coaching and career development program. The aim is to develop their confidence and performance, and better position them to take accountability for all aspects of leadership, safety performance, improved productivity and service delivery. In 2008/09, more than 260 work group leaders attended one or more leadership programs.

Ergon Energy's Succession Management Program also continued as a whole-of-business initiative to provide the pool of high-potential employees across the business with targeted learning experiences to enhance their leadership capabilities. The participants underwent leadership development programs, as well as experiential learning opportunities through secondments and project opportunities.

During 2008/09, we offered four leadership development programs tailored to Ergon Energy's requirements and delivered in partnership with a number of training providers recognised for excellence in leadership and management development.

- **Crew Leader:** introduced in 2007, the program equips crew leaders with supervisory skills necessary in their roles. The program is contextualised for Ergon Energy and provides Certificate III in Business (Frontline Management).
- **Management Foundations Program:** delivering nationally accredited outcomes of Certificate III, Certificate IV in Business (Frontline Management) and Diploma in Management. Ergon Energy partnered with Chifley Business School to deliver two programs across three regional centres for 125 participants.
- **Leadership Development Program:** designed for middle managers and emerging leaders, it explores topics including personal effectiveness, emotional intelligence, coaching and change management. Ergon Energy partnered with the Australian Graduate School of Management to deliver four programs in a one-week residential format.
- **Senior Leadership Development Program:** Ergon Energy partnered with the Australian Graduate School of Management to deliver this program to 50 senior leaders. The program consisted of two four-day residential workshops, with a focus on strategic thinking, building and maintaining relationships, innovation and creativity and stakeholder influencing.



TOWARDS SUSTAINABILITY

For Ergon Energy's Danny Sebasio, being named National NAIDOC Apprentice of the Year was the icing on the cake – the cake being the day he got his trade certificate.

Apprenticeships Lead Growth in Diversity

Apprentice numbers and diversity in Ergon Energy received a boost with five new Indigenous apprentices now part of the business.

Their recruitment as part of our inaugural Aboriginal & Torres Strait Islander (A&TSI) Apprentice program followed a series of open days which successfully raised awareness about the employment opportunities we offer and the work that Ergon Energy does across regional Queensland's local communities.

Our Indigenous apprentices go through the same recruitment process as other apprentices, including the assessment process run as part of the open days, which incorporated activities in team work, problem solving, communication and conflict management. They have since graduated with flying colours from a tailored, eight-week Pre-Vocational Program. The program, created to give them the confidence to slot straight into their apprenticeships, covers computer, communication, report writing and mathematics skills, along with the safe use of hand and power tools which are integral to the trades.

The new apprentices are following the lead from Ergon Energy's Danny Sebasio; a 36-year-old mechanical fitter from Thursday Island. Danny attained his Certificate III in Engineering (Mechanical Fitting) in mid-December 2008, which he describes as his proudest professional achievement. He joined Ergon Energy as a power station attendant at Hammond Island in 2001, and pursued an apprenticeship until an opening appeared on Thursday Island nearly four years later. His professionalism and "exceptional dedication" to our customers and the communities in the Torres Strait led to him being recognised by the prestigious award—National NAIDOC Apprentice of the Year.

Sustainability benefits created:

- Indigenous employment; as part of an overall increase of A&TSI employees those in entry level positions have gone from 24 to 57.
- allows Ergon Energy to better service its Indigenous customers with the help of employees from the same cultural background – providing a better understanding of their needs and expectations.
- builds links with the local Indigenous community and increasing awareness of employment opportunities to grow the diversity of the applicant pool when recruiting for roles in the future.
- provides role models for the wider community – shining examples of how diversity in the workplace contributes to sustainability benefits across the spectrum.

HEALTH AND SAFETY

We are only too aware that electricity can be deadly, which is why safety remains one of our key strategic priorities. Ergon Energy's objective is to 'target zero injuries within our workplace, as well as the wider community'. Our belief that an injury-free workplace is within our control sits behind our 'Always Safe' message.

SERIOUS INJURIES BRING HOME THE INHERENT DANGERS

During 2008/09, three serious workplace injuries occurred within Ergon Energy. The incidents took place in the field and tragically resulted in serious long-term injury to the employees involved. One occurred while an employee was operating a crane. The other two were electrical incidents and resulted in two employees receiving serious burns when they made inadvertent contact with energised 11kV conductors. We undertook comprehensive investigations after each event and implemented remedial actions.

Following the second electrical incident, Ergon Energy took the unprecedented step of suspending all live line work on our high voltage assets while we undertook a rigorous internal review of our operations. This was not a decision made lightly. However, strong and decisive action was necessary to ensure the issues were properly investigated and addressed.

Since then, we have reviewed the full gamut of our live line management structures, practices and documentation, including the organisational framework for managing live line capability, our manuals, training arrangements (pg 39) and the standardisation of equipment. External auditors were also engaged to bring fresh eyes to our live line activities, and to develop and roll out a training regime to reinstate our live line capability. The process of reinstating live line work is now underway with our full capability expected to be restored by late 2009. The suspension meant we had to use planned outages on the high voltage network to carry out all the work normally completed using live line techniques. Unfortunately, this has affected power supply reliability, but this was necessary to clearly demonstrate Ergon Energy's strong commitment to a workplace free of injury (pgs 28-29).

OUR OVERALL SAFETY PERFORMANCE

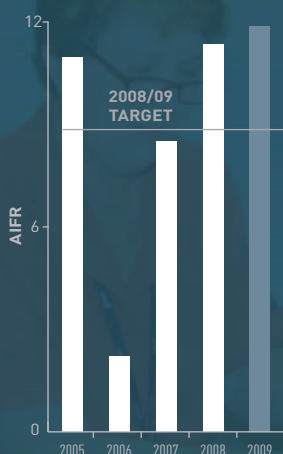
This year saw our All Injury Frequency Indicator (AIFR) at 11.8, which has not met our target of reducing injuries so that we can achieve our vision of a workplace free from injury. As our key performance indicator, the AIFR is particularly challenging because it includes the lead indicator of Medical Treatment Injuries (MTIs) combined with the more common industry measure of Lost Time Injury Frequency Rate (LTIFR). Our commitment to using the more stringent measure remains strong. It is about ensuring that every employee and manager remains focused on the need to eliminate injury from the workplace.

On a more positive note, Ergon Energy's Lost Time Injury Frequency Rate (LTIFR) is down 25% to 4.08 – from 5.47 in 2007/08 when the industry average was 4.21³. The industry comparison is based on an external review of 14 Energy Networks Association members, some of which have workforce profiles that are less field based than Ergon Energy's, and who use slightly different definitions for the indicator. Despite these differences, it is a valuable benchmark.

Dangerous Electrical Events involving employees also fell dramatically as a result of a sustained focus in this area over recent years. In fact, over a five-month period there were no such events, demonstrating that safe, incident-free work is achievable. Ergon Energy finished the year with a Dangerous Electrical Event Frequency Rate (for employees) of 2.4, down 45% on the 4.7 from the previous year.

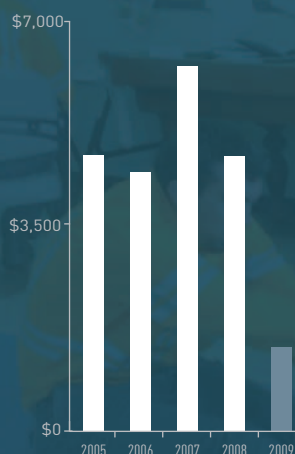
The number of worker's compensation claims has also dropped significantly, down 30%. A more proactive approach to managing injuries and the return to work notably reduced the average cost per claim.

WORKPLACE INJURIES REMAIN A CONCERN



This year's All Injuries Frequency Rate, as a challenging lead performance indicator, shows that safety remains an area of major concern. However, we are seeing positive results in our Lost Time Injury Frequency Rate and Dangerous Electrical Events Frequency Rate.

AVERAGE COST OF WORKER'S COMP CLAIMS DROPS



Improvements in managing injuries and the return to work have reduced the average cost per claim from \$4,862 in 2007/08 to \$1,432 in 2008/09.

³ Based on the Energy Networks Association's 2007/08 Occupational Health and Safety Performance Report.

Together, this has delivered savings of more than \$1 million in worker's compensation costs, illustrating that safety is a performance issue with a significant financial impact as well as a personal burden.

Ergon Energy maintained both the mandatory certification for the Electrical Safety Office and certification against AS/NZS 4801 Occupational Health and Safety Management systems.

ALWAYS SAFE MESSAGE TAKES HOLD

Ergon Energy is continuing to focus on the behavioural change needed to support a culture where everyone takes personal responsibility for safety.

As an enabling strategy, we continued to roll out the 'Always Safe' message to support our safety initiatives. This has moved to the underlying pillars of the campaign in an effort to keep the message strong and relevant. The key focus of the campaign in 2008/09 has been on the role of the passive observer with the message *ALWAYS speak up – don't look the other way*. This has included getting staff who have been involved in a significant accident to re-enact the event and share their experience in our employee communications to help stimulate the safety discussions by their work mates that are critical to reframing a person's safety approach.

In a step forward, we have seen a 10% increase in participation in our health and safety reward recognition program, Power Aid. The initiative is a simple concept that involves work teams accruing points, which Ergon Energy then converts to cash. Points are earned by safe behaviour and reporting incidents. Each work team then nominates a local charity of their choice to donate their accrued Power Aid cash. It has been an all-round winner, effectively promoting the 'Always Safe' message in the workplace, with the added bonus of the tangible benefits flowing to the 111 charities receiving donations this year (pg 23).

During 2008/09, we have also been targeting management levels to address issues identified in leadership and supervision with strategies to set clear expectations regarding safety performance and safe behaviour. It has been about enlisting a personal resolve to ensure that we achieve zero tolerance to unsafe behaviour.

The efforts of our Work Group Leader Development Project (pg 34) and the Depot 3PR Project (pg 34) are also helping our field staff take accountability for safety performance by giving better clarity to their role. This enables Work Group Leaders to spend more of their time coaching, mentoring and scoping work in order to improve safety on the job.



We are also continuing to deploy the Zero Incident Process (ZIP) training program across the company, with up to 72% of employees now having taken part. ZIP is designed to empower staff. It is a psychologically-based program that provides tools to help people understand how they think and how to stay safe.

In addition, during 2008/09 Ergon Energy implemented the Health and Safety Regulatory Framework to provide a systematic and streamlined approach to Health and Safety risk management. This provides the business with a streamlined statutory interpretation and impact assessment service to assist us to understand and meet Health and Safety statutory compliance requirements. This will also be supported by the Organisational Design Review (pg 58), which will bring safety management into a central business unit to help drive a consistent, 'one' business approach.

POWERING UP OUR HEALTH INITIATIVES

In response to injury and illness trends and the need to address fitness for safe work issues, this year we began to roll out the comprehensive health and wellbeing program, *PowerUp*. The program, piloted the previous year, aims to reduce health risks and prevent injuries and illness both at home and at work through 'healthy lifestyle' education.

The nearly 500 employees participating received an individual health report and action plan following a physical assessment, as well as an allied health practitioner referral if required.

PowerUp has been developed specifically for Ergon Energy to cost-effectively meet the needs of our diverse workforce and remote localities. It is also helping to integrate our suite of ongoing proactive health programs including:

- Board, Executive and Senior Manager Health Assessment Programs
- the skin cancer screening program (available to all employees)
- flu vaccination program (1,718 employees were vaccinated in this program's seventh year).

The most notable health risk this year, from a business productivity and continuity perspective, has been Swine Flu (H1N1). While the symptoms and severity of this strain remained similar to normal influenza, we treated the risk of dramatic increases in the number of people affected in the community very seriously. We established an Incident Response Committee and provided appropriate advice to our employees.

Ergon Energy is also finalising a Drug and Alcohol program for implementation in late 2009.

AWARENESS LIFTS COMMUNITY SAFETY

Ergon Energy's Community Electrical Safety Awareness Plan (CESAP) continued to drive significant improvements in community electrical safety with the number of incidents down 25%. Significant decreases across a number of the key 'at risk' industries contributed to an overall improvement; the best results coming in building/construction (pg 44).

Despite this success, there is no room for complacency. Tragically, during 2008/09 a father trying to retrieve a child's kite from a powerline was electrocuted in regional Queensland after contact with overhead powerlines.

A further two people sustained electrical injuries and four high voltage near misses were recorded bringing the total number of Serious Electrical Incidents (SEIs) involving customers contacting Ergon Energy electrical assets to seven.

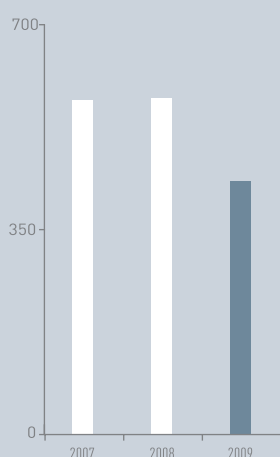
Health checks are part of ensuring that we support our employees from a health and wellbeing perspective from the time they start with Ergon Energy to the time they leave.



While protecting community wellbeing is our overwhelming priority, the accidents that cause deaths, injuries and near misses also often disrupt the power supply and damage the network. In 2008/09, 106,559 customers had their supply interrupted through community impacts on Ergon Energy's network. The total cumulative amount of time that power was interrupted as a result was more than 10 million customer minutes⁴. Significant resources are also dedicated to restoring supply.

It is the multiple impacts on our regional Queensland communities that continue to drive the deployment of our Community Electrical Safety Awareness Plan (CESAP). Throughout 2008/09, the safety message was presented directly to over 7,000 people, with around 70,000 individual items of 'Look Up and Live' and other safety support collateral distributed to community stakeholders. Through these activities – as well as reinforcement through a major investment in mass market communication campaigns based around a range of community activities identified as 'at-risk' – Ergon Energy has increased the circulation of key safety messages, such as 'Look Up and Live', to areas where we have never before had the opportunity. The program's success in the building/construction industry is showcased in the case file across.

COMMUNITY SAFETY INCIDENTS DOWN



2008/09 saw community electrical safety-related electrical incidents down 25% to 439 in total. This is a positive result that is providing tremendous encouragement to our Community Health and Safety team who are actively engaging with the community to spread Ergon Energy's commitment to being 'Always Safe'.

Accurate data is only available since the Community Electrical Safety Awareness Plan (CESAP) was formulated in 2007.

⁴'Customer minutes' is a measure of the number of customers interrupted times by the duration of a power outage or outages.

This year, we revitalised our community safety campaign, highlighting the dangers of activities around the home, aligning it with our internal 'Always Safe' commitment.



TOWARDS SUSTAINABILITY

Aaron Smith, Ergon Energy's Senior Advisor Community Health and Safety, helps pass on our safety message to the construction industry with a focus on talking face-to-face with representatives of the industry.

Construction Industry a Safer Place

In a phenomenal electrical safety success story, in partnership with representatives of the building and construction industry, we have achieved a dramatic 70% reduction in incidents where members of this industry have come into contact with our electrical network.

One of the core strategies of our Community Electrical Safety Awareness Plan (CESAP), which is seeing us invest around \$1.3 million each year across all of our awareness building activities, is to target at-risk groups through face-to-face engagement. This has included proactive site visits and participation in industry-related events where we have provided tailored safety information packs incorporating 'hard hitting' data to help garner support from within the industry to reduce at risk behaviours, such as operating equipment within powerline exclusion zones.

The program aims to build relationships with industry to help us gain deeper insights into why incidents occur, as well as to gain feedback on the best ways to make a difference. It's about building the trust and credibility vital to ensure a receptive ear for our safety messages. The good news is that the industry is now starting to take ownership and approaching us for help – and even proposing innovative ways to get the electrical safety message into their own workplaces.

Sustainability Benefits:

- from a peak of 38 incidents in 2007/08, including a construction industry network-related fatality, the number has dropped to just 11 this year
- this success potentially means we have avoided power interruptions to somewhere in the order of 10,000 customers over the year – together with the broader economic and social impact that could have been associated with these outages
- by comparing approaches to community electrical safety, and sharing insights about our program with the electricity industry Australia-wide, we are also providing real leadership and undoubtedly helping to save lives.

To find out more about our Community Electrical Safety Awareness Plan, see our in-depth report available online. @

ENVIRONMENTAL PERFORMANCE

Ergon Energy is committed to being an electricity industry leader in protecting our environment. We have pledged to continuous improvement in protecting the environment with the goal of delivering best-practice outcomes.

OUR PLEDGE TO THE ENVIRONMENT

During 2008/09, we continued to focus on the pledges we made in early 2008 through Ergon Energy's Environment Policy. The pledges relate to our performance in this section and the Climate Change Response section next (pgs 50-54).

OUR CUSTOMERS – OUR PEOPLE

We will be leaders in energy conservation and be the trusted brand for energy conservation advice.

We will enrol our customers and the community in reducing the local environmental impact of our operations.

We will inspire and incentivise all of the people who work for us to champion our environment pledges.

WORKPLACE

We are committed to pursuing efficient resource and energy utilisation.

We are committed to striving for operational excellence and delivery of operational improvements in every Ergon Energy workplace.

ACCOUNTABILITY

We are committed to progressing from environmental compliance to 'environmental responsibility'.

EVOLVING TOWARDS A MORE SUSTAINABLE BUSINESS

We are committed to developing more sustainable customer and business solutions.

FUNDING OUR COMMUNITIES TO GO GREEN

Ergon Energy kicked off a \$100,000 grants program, Envirofund, this year to assist community groups and not-for-profit organisations across regional Queensland with their energy conservation and environmental initiatives. The fund offers grants from as little as \$200 up to \$20,000, depending on the size and merit of individual projects, with preference given to projects with an energy conservation focus.

In addition, we continued our flagship environment sponsorship in 2008/09 – the Ergon Energy Tidy Towns competition. This year, Ergon Energy initiated a new award as part of this competition, the Energy Conservation Champions Award 2009, designed to encourage communities to become more environmentally aware and work towards sustainability by being more energy efficient. The award attracts the prize of a year's Clean Energy from Ergon Energy, which offers a real means to reducing an organisation's energy-related carbon footprint. Overall, the competition, which has been supported by Ergon Energy for 11 years, harnesses community pride and encourages environmental awareness, heritage preservation and resource reduction, helping to ensure each participating town or city is enhancing its sustainability and tourism potential.

Our 'green' sponsorships are also complemented by a broader sponsorship program benefiting communities throughout the state (pg 23).

ENGAGING OUR PEOPLE

In 2008, Ergon Energy's Green Team celebrated its fifth year as our volunteer environment program, designed to inspire the people who work for us to be champions for our environment. The success of the program this year has been marked by a significant 34% increase in membership, bringing total membership to almost 600 members. This equates to more than 14% of our workforce.

Highlights of the Green Team's year included its involvement in the Clean Up Australia Day and National Tree Day activities across Queensland. These events saw around 900 trees and other native plants planted, almost 19 tonnes of litter collected, and nearly \$9,000 raised for conservation initiatives for endangered wildlife. The Green Team's efforts also raised awareness of other environmental initiatives including National Threatened Species Day, ClimateSmart Light Switch, National Recycling Week, International Composting Awareness Week, and International Day for Biological Diversity.

Gabbinbar State School students Patrick Fogg, Alannah Groebler, Emma Storey and Felicity Bradford planted new trees with principal Brett Bizzell and Chief Executive Ian McLeod at the launch of Ergon Energy's new community grants program, Envirofund.



Our employees' passion for the environment was also recognised by the Above and Beyond employee reward and recognition program (pg 38). The winners of the Environmental Excellence category were Gary Reis and Alan Rule, who were recognised for developing and implementing the water recycling system at the Toowoomba Depot featured in last year's report.

The other nominees included individuals and teams that had assisted with implementing green programs and initiatives within their workplaces, as well as committed individuals nominated for leading their co-workers by demonstrating vigilant environmental commitment.

To build awareness of potential environmental issues, Ergon Energy also has an extensive program of environmental training programs, many of which are now delivered in an online, self-paced delivery mode to make it more convenient for employees to access them. During 2008/09, a number of these, including our Declared Plant Identification and Management course and Cultural Heritage Awareness, were also updated while being adapted to online delivery.

Our climate change response is discussed in detail in the next section (pgs 50-54).

PROTECTING OUR CULTURAL HERITAGE

Cultural heritage includes significant Indigenous and historical cultural sites, both tangible and intangible, and is particularly prevalent in our infrastructure area which extends from Northern New South Wales, throughout 97% of Queensland and incorporates large tracts of the Torres Strait Islands.

This year, our efforts have primarily centred on updating, and increasing state-wide accessibility of, our cultural heritage Processes, Training, generic awareness information and encouraging our people to consider residual cultural heritage, that is, potential cultural heritage that exists on our assets which is unknown and therefore unregistered. We have endeavoured to do this utilising our cultural heritage frontline management mantra 'Remember – Find, Stop, Notify, Manage'. Following this basic instruction will help ensure that any potential cultural heritage matters can be identified and considered in the early phases of our works planning as and during the initial field visits prior to invasive works beginning.

We have also continued and expanded efforts to layer important cultural heritage information onto our network's geographic

information system (GIS) "Smallworld". Data from the Department of Environment and Resource Management (DERM), such as registered Historic and Aboriginal / Torres Strait Islander sites, and Indigenous Land Use Agreements from the Native Title Tribunal, as well as our own entered survey data. The cultural heritage layers now mapped onto our GIS have built on our existing environmental-related data. Additionally, Smallworld and the Environment/Cultural Heritage Intranet site have also been upgraded with valuable visual and previously inaccessible, information such as photographs, copies of agreements and Cultural Heritage Management Plans, contact details and progressive technical information. These efforts have been well received – our field crews can now use this information to identify known cultural heritage potentially associated with a worksite and avoid harming it. It also creates benefits for project staff, who can now share information with other organisations such as Main Roads, enabling effective planning and avoiding delays.

During 2008/09, a series of reference documents, including the Cultural Heritage Information and Identification Portfolios, were also developed to build awareness and assist with visual field identification of cultural heritage items. In addition, the Cultural Heritage Discovery Process Field Instruction was included in our Distribution Field Manual, giving valuable direction on cultural heritage matters when constructing or maintaining our electricity assets.

To help better understand our cultural heritage risk profile, extensive consultation work was undertaken during 2008 around the Permitted Activities Risk Rule. As a result, for routine low risk jobs, the rule now enables an early opt out in the cultural heritage risk assessment, saving valuable time without an unacceptable risk.

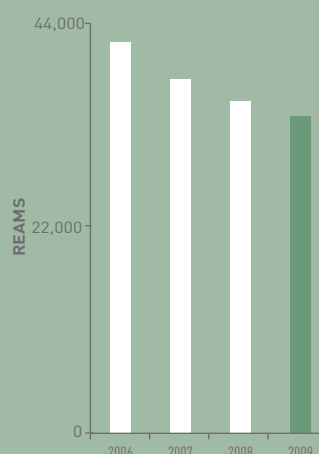
BEST PRACTICE USE OF RESOURCES

Ergon Energy is committed to implementing the 'waste management hierarchy' when it comes to waste and resource management. Our first line of defence is to avoid or reconsider whether we need an item. We then focus on those resources that are necessities, such as our core infrastructure items like poles and transformers. For these items, we try to reduce the size and amount of the materials purchased when appropriate. When we no longer have a need for an item, we recycle it by either redeploying the item internally or sending it off for recycling. We also have some items that we cannot find alternative uses for and are no longer of use to the business. In these circumstances, the materials are appropriately disposed of according to relevant legislative requirements.

To achieve the desired network, Ergon Energy provides new connections across the state and conducts extensive capital and maintenance programs. As a result, almost 10,000 new poles and 4,000 new transformers were purchased in 2008/09.

Indigenous cultural heritage is particularly rich and prevalent in our infrastructure area. These Bora Rings were identified this year under one of our powerlines in South West Queensland.

ENVIRONMENTAL AWARENESS HELPS REDUCE PAPER USE



The volume of copier paper reams purchased this year was down once again, by over 4%. This trend is just one example of our commitment to pursuing efficient resource utilisation

In 2008/09, we continued to use the pole nailing or staking technique to improve the integrity of poles in the network, with almost 4,000 poles subject to the treatment. The pole nailing technique reinforces the strength of poles, allowing them to remain in service for up to 20 years longer than if they did not receive the treatment.

This year, Ergon Energy recovered 990 tonnes of scrap metal, including copper, aluminium, and steel for recycling from its redundant infrastructure. We received a return of over \$1.2 million, despite a decline in scrap metal average price (based on gross metal and scrap) from \$1,200 to \$800 per tonne. We also recovered approximately 1,125 tonnes of scrap transformers, which provided a return of over \$400,000 to the business.

We have had a positive year in managing office consumables. Compared to 2007/08, our total A3 and A4 copier paper reams purchased decreased by more than 4% and print cartridge purchases decreased by over 18%. These results are partly due to our improved resource management. In 2008/09, Ergon Energy returned 25% more printer cartridges for recycling than it purchased in the same period. This result is largely attributable to the fact that we now only order printer cartridges on an as needed basis. Ergon Energy also continued to use paper with recycled content for daily copier and printing needs, using just over 35% – a similar consumption to 2007/08.

For external marketing materials such as our customer newsletter, *The Wire*, and this Annual Stakeholder Report, Ergon Energy prefers to use paper with at least 50% or higher recycled content. In 2008/09, we maintained an emphasis on production of electronic documentation. For example, our Environment Policy was primarily developed as an electronic document, with a number of posters printed to allow display in each workplace as per our ISO14001 requirements. Ergon Energy is also preparing to provide online billing in order to reduce the materials consumed.

Our focus on energy conservation is discussed in detail in the next section (pg 54).

OUR WATER EFFICIENCY SUCCESSES

Ergon Energy is implementing water efficiency measures across Queensland from the Wet Tropics and Torres Strait to South West Queensland. We acknowledge the necessity in conserving treated reticulated water (where it is available) and using cost-effective alternative sources. One of the many innovations that took place

in 2008/09 was at the Stanthorpe depot with the installation of a windmill to provide an additional source of non-potable water (pg 49).

New water tanks have also been installed at our Stanthorpe, Millmerran, Kilkivan and Dalby depots to supplement town water supplies as part of Ergon Energy's environmental commitment to reduce town water consumption on our sites. The rainwater will be used for toilets, wash down bays and irrigation. In addition, new projects like the townhouse being developed for employee accommodation on Thursday Island are now incorporating water saving measures such as rainwater tanks for irrigation.

A BALANCED APPROACH TO VEGETATION MANAGEMENT

Ergon Energy continued to develop innovative vegetation management strategies to balance sound environmental practices with safety and cost benefits for the community. (pg 31)

Our Plant Smart partnership with Greening Australia Queensland continues to educate the community about the management of trees near powerlines by engaging councils, nurseries, schools and community groups and informing them of low-growing species suitable for their local area. A new initiative this year involved hosting sessions at Bunnings. With more than 100 nurseries now participating in the program, we were also able to spread the Plant Smart message through nurseries.

To develop better field practices in vegetation management, we continued the Plant Smart partnership's technical studies side. This includes field surveys to monitor vegetation management techniques and measure the long-term impacts of the vegetation management program on biodiversity. For this part of the program, the priority this year was to develop a predictive model from past surveys and existing vegetation mapping to provide information on low-growing species in different regions so that contractors can then retain these species.

We also continued to develop our spatial information analysis capability to support our vegetation management planning through a partnership with the Co-Operative Research Centre for Spatial Information. During the year, the project team has been researching the best way to manage the massive streams of data available, through a range of image sources, to enable the automated measurement of distances between vegetation and network assets and identification of asset defects.

Attention is also being directed at improving the quality of vegetation management reporting to better understand the true carbon footprint of our vegetation management practices. This includes putting measures in place internally and with contractors to improve our understanding of greenhouse emissions generated



Ergon Energy hopes to be growing 50% of its poles by 2030 on around 10,000 hectares of land using sustainable practices, a plus for biodiversity, land care and carbon capture.



As the winner of our employees' children's colouring in competition for her age category, Nithnee Wanninayake (age 9) helped raise awareness of International Biodiversity Day and the plight of the Gouldian Finch.

and tonnages of vegetation removed, and to promote the adoption of world-class vegetation management practices.

OUR POLE SUPPLY IS DELIVERING GREEN BENEFITS

Ergon Energy's Sustainable Pole Supply Project really began to grow this year, with the first trees planted at Eagle Rock, South-East Queensland in March 2009. In addition, in May 2009 Ergon Energy purchased another suitable property located near Tiaro, south of Maryborough. Faced with a future shortage of timber power poles, this Australian-first project provides an environmentally-friendly solution. The organisation will use sustainable forestry methods to grow one million native hardwood trees as the power poles of the future.

Pole supplies from our properties at Eagle Rock and Tiaro are being complemented by an agreement with Wide Bay Water Corporation to purchase timber from their effluent reuse irrigation property.

The Sustainable Poles Project will mean:

- regional Queensland's power pole supply will be renewable, affordable and secure
- the native forests will be managed sustainably through selective harvesting
- firebreaks will be restored, erosion mitigated, weeds removed, native species planted, wildlife refuges established, and riparian (water-side) zones replanted to improve water quality
- avoiding a shortage of poles, which guards against less environmentally-friendly and expensive pole options such as concrete or steel poles.

PROTECTING BIODIVERSITY

As part of our broader conservation efforts, we also have a range of other measures in place, from specific environmental management plans for our national park powerline corridors to broader bushfire mitigation and weed management strategies.

Ergon Energy operates within numerous environmentally sensitive areas. For Queensland's protected parks and forests, we operate under the Queensland Electricity Supply Industry (QESI) Code of Practice. During the year, we continued a program to map our powerline corridors in these sensitive areas. Along the 275 kilometres mapped, 18 endangered, vulnerable and rare (EVR) species were identified. The mapping is allowing us to finalise environmental management plans for these corridors, so that

individual project-specific approvals from the Department of Environment and Resource Management are not required to undertake infrastructure maintenance.

During 2008/09, as part of our Bushfire Mitigation Strategy, we aimed to identify high-risk areas and any network factors that could potentially increase the risk of Ergon Energy's assets sparking a bushfire. We then redirected our works priorities to mitigate any risks. We also took steps to formalise our relationship with the Queensland Fire and Rescue Service to help us work more closely to improve each organisation's operational efficiency and provide better outcomes for the community. This included looking at our communications, planning and operational processes, as well as the systems design improvements needed to minimise fire risk.

We also focused on our weed management strategy to ensure we minimise any potential environmental impacts when operating in the field. Although landholders have the primary responsibility for weed control, Ergon Energy takes its duty of care to limit the spread of weeds when working on other people's land very seriously. Our strategy supports the Queensland Weed Spread Prevention Strategy by limiting the introduction of declared plants and priority weeds to new areas of the network and preventing the spread of existing infestations through risk assessment, Environmental Management Plans (EMPs), and compliance with wash down protocols.

ACCOUNTABILITY REMAINS CENTRAL

Ergon Energy maintained ISO14001 accreditation to the international Environmental Management System (EMS) Standard in 2008/09, which is critical in allowing us to move from compliance to 'environmental responsibility' and ultimately leadership. It is about being accountable and proactively using continuous improvement systems and processes to achieve the best outcomes, and embracing our environmental responsibility individually and as an organisation.

To drive improvement, we have an incident management system with comprehensive investigative processes. Ergon Energy's incident management framework classifies incidents using a four-level scale. For environment or cultural heritage impacts, a Class 1 incident is a major impact involving a sensitive environment or a breach of cultural heritage legislation resulting in significant financial penalties. A Class 4 incident is classified as a minor localised impact, requiring minimal or no remediation.

As part of our incident management, Ergon Energy notifies relevant government agencies in accordance with legislative requirements.

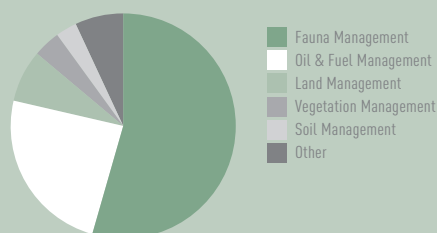
Ergon Energy had no incidents resulting in a Class 1 or 2 environmental or cultural heritage impacts during the year and, as a result, no incident notifications to government regulatory agencies were required.

Evidence of Ergon Energy's commitment to environmental responsibility is also reflected in the appointment of additional

The Mossman depot in Far North Queensland was recognised with a Master Builders Award for Innovation in Environmental Management – captured water is used for toilets, water runoff is filtered, energy-efficient lighting is used throughout and the building is fully insulated.



TYPE OF ENVIRONMENTAL INCIDENTS



Our most frequent environmental incidents involve birds and small native animals, such as snakes, contacting our powerlines. We have a number of measures in place to manage this. However, due to the random nature of these events, they are difficult to prevent.

environmental staff in all regions to support our employees in their environmental accountability. Specialist Design Support Officers were also engaged across the regions to ensure that the requirements of the Environmental Planning for Work process were implemented consistently and thoroughly during the concept and design phase.

PRUDENT RISK MANAGEMENT

Scientific evidence does not indicate that exposure to 'extra low frequency' electric and magnetic fields (EMFs) found in the home and office, as well as around powerlines is a health hazard. However, Ergon Energy practices prudent avoidance in the locating of its electrical infrastructure. During 2008/09, improvements were made to our processes for addressing community concern and complaints in this area to better meet their expectations. Our response to complaints is guided by the available scientific information and advice. Ergon Energy actively participates in industry and other forums, including the EMF Advisory Committee of the Energy Networks Association (ENA), focused on exploring the latest research and industry standards around electrical and magnetic fields.

In 2008/09, we began work on addressing site contamination issues associated with old power stations at Thursday Island, Normanton, Hughenden and Rockhampton. Following external consultant reports and consultation with the Contamination Land Unit, we are progressing with remediation plans at the respective sites. The objective of this work is eventual removal of these sites from the Contamination Land Register.

As part of a Transitional Environmental Plan (TEP) agreed with the Department of Environment and Resource Management (the part of the Department formerly known as the Environmental Protection Agency), Ergon Energy is also undertaking a formal process for the removal of scheduled Polychlorinated Biphenyls (PCB) material from transformer assets. This plan includes:

- an assessment to identify electrical equipment likely to contain scheduled PCB materials
- a testing program to determine PCB concentrations
- removal of all scheduled PCB contaminated insulating, and in some cases removal from service of the equipment from service, by June 2010
- arranging treatment and destruction of the scheduled PCB material by an approved waste handler.

Significant progress has been made in 2008/09, with 13 power transformers and one large distribution transformer addressed. One outstanding power transformer is scheduled for removal later in 2009. No further scheduled PCB-contaminated material is expected to be identified in our network.

Colin Mietzel, an Ergon Energy Green Team member, with his children, Griffin and Tamika, in Mackay taking part in one of 15 Clean Up Australia Day events the team participated in March 2009.



TOWARDS SUSTAINABILITY

With Stanthorpe township on severe water restrictions, Work Group Leader Dave McMurtrie was keen to improve environmentally responsible behaviour at the depot with a windmill. It just goes to show that innovation does not have to be high tech.

A Wind of Change Sweeps Stanthorpe

Installed in December 2008, the nine-metre windmill at Ergon Energy's Stanthorpe depot is a great example of how an employee's enthusiasm for 'a better way' has helped the business operate more sustainably.

The windmill pumps water into new and existing storage tanks from a bore sunk at the depot, supplying water for its wash down bay.

The windmill adds to the depot's existing renewable energy source – a 2kW solar energy system – already installed on the roof of the depot workshop, and provides another great example of environmental sustainability.

Sustainability benefits created:

- around 100,000 litres of town water will be saved per year, not only what was used in the wash down bay but also, as a show of partnership with the local council, the windmill also supplies the public toilets adjacent to the depot.
- using wind as a clean green energy source, instead of an electric water pump, will also save around a tonne in greenhouse gas emissions per annum.
- as a visible demonstration of sustainability in action, the innovation reinforces the objectives of the Queensland Government's ClimateSmart Living Communities project undertaken during the year in Stanthorpe.

To find out more about how Ergon Energy is reducing greenhouse gas emissions from its operations, see our in-depth sustainability case study available online. @

CLIMATE CHANGE RESPONSE

While recognising that its core business is delivering a carbon-intensive product, Ergon Energy sees responding to climate change as both its social responsibility and a business strengthening opportunity. We understand the challenges posed by responding effectively to climate change and want to lead by example by reducing our own greenhouse gas emissions.

Ergon Energy's Climate Change Response Plan 2008-2010 expresses our commitment to an effective, integrated climate change response in line with the expectations of our customers and other stakeholders. It is about creating a less carbon-intensive business in a cost-effective way. Through a range of climate change-related strategies and actions, the plan provides a framework to deliver business outcomes around understanding climate change, building business resilience, proactively engaging, and capitalising on opportunities.

UNDERSTANDING THE IMPACT OF CLIMATE CHANGE

Impact on the network – It is generally accepted that climate changes, including more severe weather events and sustained high summer temperatures, are likely to affect Queensland in coming years. This will impact our network primarily by damaging our infrastructure and increasing peak demand.

Although volatile weather will always impact network reliability, we are having success in securing the network and making it more resilient, and this focus will continue (pgs 25-26).

Increases in average summer temperatures and longer strings of hot days will cause increases in the peak demand for electricity, driven by the use of air conditioning and other cooling devices. Climate change could also affect irrigation and associated electrical pumping loads in the vulnerable agricultural sector. These impacts have significant implications for Ergon Energy's load forecasts and network augmentation investment. In addition, peaks in demand and high ambient temperatures can impact an asset's performance and life.

Carbon Pollution Reduction Scheme – If the Australian Government's Carbon Pollution Reduction Scheme (CPRS) is introduced as proposed in July 2011, it will be the catalyst for significant emissions reduction action in the energy industry. It will drive major changes to the way energy is generated, delivered and used. Ergon Energy is not directly captured by the CPRS, at least in its initial stages. However, it will be affected indirectly through the impact on our customers of any price rises in electricity, cost impacts across the business, and a requirement to capture and report emissions data.

Ergon Energy seeks to not only respond effectively to energy reform, of which the CPRS is only one manifestation, but to actively participate in and lead, where appropriate, industry discussion on a low emissions future for the Australian energy market.

Our stakeholders' expectations – As the CPRS and other drivers force electricity prices higher, customers will expect Ergon Energy to take a greater role in helping them reduce their consumption. We are rising to this challenge in innovative and engaging ways, many of which are highlighted in this section. By promoting energy conservation and harnessing our customers' willingness to respond to climate change, it will in turn enable us to operate the network more efficiently, and potentially delay costly network upgrades, mitigating some of the cost pressures.

To ensure we are delivering mutually beneficial solutions, we have evolved our customer insights program to explore climate change-related topics. In general, we have found that although our customers understand that most electricity-related emissions occur at the generation source, they do expect Ergon Energy to help them reduce their electricity use and to exert influence where it can to reduce direct emissions.

Our Queensland Government shareholders also expect us to both engage with our customers and align our emissions reduction and offsetting targets with the Government's. Throughout 2008/09, we partnered with the Government in many ways and leveraged each other's programs to maximise the value of our respective initiatives.

Our employees also expect us to empower them to respond to climate change in their work and home environments. To do this, our research with employees revealed we need to do more to make climate change 'more personally relevant and visible' to them.

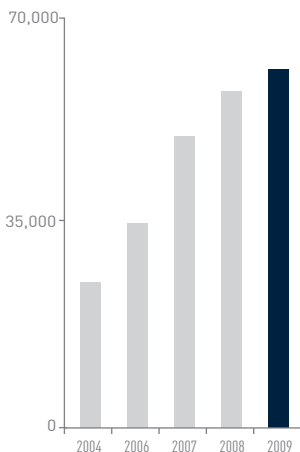
BUILDING BUSINESS RESILIENCE

Network adaptation – We are increasingly factoring climate change response action into our Asset Management Plan and Summer Preparedness Plan and in making broader business investment decisions. This will improve the resilience of Ergon Energy's network to the challenges of climate change and evolve our asset management, investment and customer product and service offerings.

Our greatest concerns arising from climate change science projections are significant increases in the average number of days over 35°C, cyclone intensity and storm surges along the Queensland coast. To minimise the potential impacts of extreme weather events on the network, we are also improving our forecasting and demand management capability (pgs 27-29) and continuing our Cyclone Area Reliability Enhancement program, established in 2001 (pg 33).

Enhancing emission reporting – Ergon Energy has significantly enhanced its emissions reporting capability as a critical step in the development of our Greenhouse Gas Emissions Management Plan to support our obligations under the *National Greenhouse and*

CLEAN ENERGY SUPPORT CONTINUES TO GROW



Support for Ergon Energy's Clean Energy product increased again this year, with the number of customers paying for the product up 6% – now more than 9% of our customer base.

Energy Reporting (NGER) Act 2007. The plan, finalised in mid-2009, clearly articulates our Queensland Government-aligned emission reduction targets and the actions we have implemented, and will implement, to achieve our goals.

Although Ergon Energy has been an active participant in the Australian Government's Greenhouse Challenge Plus program since 2001, we undertook a preliminary Greenhouse Gas Emissions Inventory in late 2007 to enhance knowledge and systems and establish baselines.

In mid-2009, a comprehensive external review of Ergon Energy's readiness for the NGER scheme was completed, which revealed all necessary systems were in place and that all required data would be available to enable us to report against our management plan.

Mitigating the cost pressures – There are still many unknown factors around the financial impact of the CPRS and climate change more broadly. However, we anticipate we'll experience significant cost pressures like any other business. There will likely be rises in fuel costs, even if they are partly subsidised in the first three years of the CPRS. Many of our major network inputs are also emissions-intensive, such as cable, transformers and concrete, so these costs will most likely rise significantly.

The opportunity lies in developing innovative ways to use less of the high-emission inputs and/or seek alternatives. Through strategic procurement practices, supplier collaboration, renewable energy generation, employee and customer education, and smart waste management, we will create new business activity models that deliver value up and down our supply chain. We are already identifying inputs likely to be affected and making investment decisions integrating the predicted costs of carbon permits.

ENGAGING OUR STAKEHOLDERS

By understanding our stakeholders' climate change priorities, and what they believe should be Ergon Energy's priorities, we can identify and articulate our shared goals. We believe we hold a highly influential position in the community's response to climate change.

Policy makers – We are actively participating in the development of policy and regulatory frameworks with the aim of leveraging the climate change issue to gain the best outcomes for Ergon Energy and regional Queensland. For example, during 2008/09, Ergon Energy played a key advisory role in the development of the Queensland Government's Renewable Energy Plan. Over the past year, we also made formal responses to the Australian Government's Green and White Papers on the CPRS and the Queensland Government's Climate Change Strategy Review.

Ergon Energy was also an active participant in the Australian Government's NGER Pilot Group, to both help us prepare for NGER requirements and ensure it considered the issues specific to the electricity industry.

Customers – Ergon Energy is seen as a trusted provider of energy conservation information, products and services, and energy conservation is often the first action for customers wanting to make a practical response to climate change. Our research indicates that close to 70% of customers see climate change as a threat and 58% are actively trying to reduce their electricity as a direct response to the issue.

Our focus is to engage those who are motivated by the challenge to reduce their electricity use and help them make better energy decisions. Under our 'Energy Sense' campaign, we continue to provide energy-saving hints via the media, an electricity emissions calculator and electricity consumption comparison guide on our website, energy conservation advice in our customer newsletter *The Wire* and usage comparisons on bills (pg 19).

In 2009, we launched Envirofund, a grants program to encourage community energy conservation initiatives (pg 45). We also continued our support for the Queensland Government's ClimateSmart Living – Communities pilot project, which in 2008/09 helped the communities of Gordonvale and Stanthorpe (pg 49) better understand electricity issues and change behaviours to conserve energy.

Our customers can elect to purchase Clean Energy, where a proportion of their electricity consumption is generated from renewable sources, such as wind, hydro and biomass. Clean Energy is fully accredited by the Australian Government's GreenPower program for renewable energy products in Australia, ensuring customers are directly supporting the growth of the renewable energy industry. By the end of 2008/09, Ergon Energy had over 61,000 subscribers to Clean Energy. We are monitoring

Here, Senior Energy Assessor Brian Kerr talks to Magnetic Island residents Stephanie and Erin Hinks about smart ways to save energy and keep Magnetic Island beautiful, as part of our 'Townsville: Queensland Solar City' project. As well as home audits, we opened the Smart Lifestyle Centre on the island to engage the local community on how to use energy more wisely.



the impact of the CPRS on these types of offset programs and will ensure the Clean Energy product evolves as necessary to meet the desires of our customers to make a difference.

Suppliers – During the year, Ergon Energy developed a Sustainable Procurement Policy as part of its broader actions associated with driving more sustainable procurement practices and outcomes. Although in its early stages of development, responding to climate change has been a key driver of this program. Through our tendering process, we now ask potential suppliers to demonstrate their commitment to measuring and reducing their emissions and to working with us to develop mutually beneficial reduction opportunities.

Employees – During a two-week challenge in mid-2009, employees were asked to submit ideas to Ergon Energy's Innovation and Ideas Forum on how we could reduce emissions with actions in the workplace. (pg 35)

As part of our sustainability education program, Lunchbox Sessions also continued to be rolled out in our major centres. The sessions cover a multitude of topics focused on helping employees live more sustainable lifestyles and also what Ergon Energy is achieving in this area. Topics have included 'How to make your lifestyle carbon neutral', 'How to make your home more energy efficient', and 'How to buy and drive a more sustainable car'.

TURNING RISKS INTO BUSINESS OPPORTUNITIES

Climate change, and the political, social, economic and environmental issues it raises, poses significant business risks. Our goal is to respond to these risks strategically in ways that create opportunities for Ergon Energy to become more efficient in its operations and more relevant to its stakeholders.

During the past year, concerns about climate change have stimulated positive interest in energy conservation and renewable energy to unprecedented levels. We are responding to that interest by helping customers reduce their energy bills and emissions, as well as influencing electricity demand patterns. Much of this effort has been focused on promoting behavioural change and technical solutions, which has also provided commercial opportunities.

Our specialist solar team had significant success marketing grid-connected solar photovoltaic system to our residential customers. The strength of sales of our **solarplus** system has been part of a dramatic rise in the total number of solar systems connected to the electricity grid – reaching around new 200 installations per month by June/July 2009. (pg 24)

Ergon Energy also remained a commercial player in the Stand-alone Power Supply (SPS) system market across Northern Australia. As well as the significant wins achieved with Queensland Parks and Wildlife Service at Dundaburra and New Laura and a major pastoral system for Retreat Station in western Queensland, the team also had success throughout the past year interstate, supplying systems to the Department of Environment and Conservation in Western Australia.

Ergon Energy practices what it preaches. After installing solar energy systems on two more of our depots, a training facility in Townsville, and five of our buildings on Thursday Island, we now have 14 systems supplying our electricity requirements. We plan to roll out installations to our other buildings and have incorporated the capacity for solar systems into all new building designs.

As an important means of reducing the reliance on fossil fuels for both financial and environmental value, we also are continuing to look to renewable energy sources to supply our isolated communities. Ergon Energy operates Australia's only low-temperature geothermal power station at Birdsville, two wind turbines on Thursday Island and now the new solar concentrator power station at Windorah in south west Queensland (pg 53). These plants are part of our alternative technology strategy to use the optimum technology and energy source for each remote generation site.

Ergon Energy is also looking at other innovative options for electricity supply to our grid-connected customers. Our hydrogen-powered fuel cell trial is using this emerging technology to demonstrate the benefits and explore the challenges of an electricity supply company owning and operating residential-sized generation systems embedded within a customer's premises. We are also trialling the RedFlow advanced battery system to help manage network peaks and improve reliability on the Western SWER (Single Wire Earth Return) network and Magnetic Island.



Through a 45-minute Queensland Arts Council performance called 'Power Trip – The Adventures of Watty and Volt', we continued to engage the next generation on electricity safety, energy conservation and sustainability. In 2008/09, almost 17,000 primary school students benefited.

Ergon Energy is also working with the Queensland Government's Office of Clean Energy to support the commercial development of a solar thermal power station in Cloncurry, using world-first technology. The project will reduce emissions and supplement the local network, potentially delaying costly infrastructure upgrades.

Our demand management initiatives are a great example of how we are leveraging climate change awareness to turn risk into opportunity. Initiatives like our *Townsville: Queensland Solar City* project, discussed on page 28, are increasing our capability to provide non-traditional solutions that facilitate emissions reduction, management of network load shape, broader customer choice, and integration of low emission and renewable energy technologies to support network capacity requirements. These initiatives are also developing our skill sets, diversifying our revenue streams, enhancing the value and performance of our assets, and ensuring ongoing alignment with customer and other stakeholder attitudes on energy requirements.

In the coming year, Ergon Energy is undertaking a \$5 million Isolated Communities Energy Savings Pilot Project with funding provided by the Office of Clean Energy. The pilot targets three of our communities powered predominantly by high-cost and high-emissions diesel generators. The pilot's objectives are to reduce electricity use by 20%, saving customers money, reducing emissions and creating local jobs. The pilot, which is being undertaken on Thursday Island, Horn Island, and in the Northern Peninsular Area, will work with the communities, local government, schools, Queensland Government and customers to maximise alignment of the program with community needs and support sustainable change in energy use.

Achieving an effective climate change response is a long-term commitment that requires ongoing learning, development, action and evolution. Evidence of changing weather patterns and stakeholder expectations and an increasingly greater emphasis on emissions reduction will continue to drive Ergon Energy towards developing and implementing more sustainable energy solutions.

We are engaging with our employees through informal Sustainability Lunchbox Sessions. As a result of these sessions, led in this instance by Manager Sustainability Dean Comber, many are realising that a more sustainable lifestyle can be cheaper and more enriching too.



TOWARDS SUSTAINABILITY

The significance of the Windorah project was marked by a visit by both the Prime Minister and Premier in December 2008 to inspect the solar farm.

The Sun Shines on Western Queensland

As part of our alternative technology strategy, the \$4.6 million solar concentrator power station at Windorah in south west Queensland began generating power in late 2008.

This strategy aims to ensure we are using the optimum technology and fuel source at each isolated generation site, with alternative fuels such as bio-diesel and further deployment of renewable energy sources like wind, solar and geothermal all being considered.

Windorah's five 14 metre-diameter solar dishes now supply much of the town's daytime power needs. The dishes act like giant sunflowers, facing and following the sun to capture as much sunlight as possible to generate up to 175kW of electricity.

Previously, Windorah's electricity was supplied solely by a diesel-fired station on the outskirts of town, consuming around 240,000 litres of diesel a year. This station continues to provide supply at night and at times of low sunlight.

Sustainability benefits created:

- up to 350 tonnes of greenhouse gas emissions will be saved annually, the equivalent of taking around 80 cars off the road
- around 53,000 litres of diesel fuel saved to July 2009, and an estimated 100,000 litres a year will be saved to significantly reduce diesel costs and emissions
- our people developed technical expertise in the integration of solar and traditional diesel stand-alone power solutions, facilitating easier application in other remote locations
- huge solar dishes visually impressive, providing a tourism opportunity for the local community and promoting solar technology more broadly as part of Queensland's energy future.

To find out more about Ergon Energy and solar energy, see our in-depth sustainability case study available online. @

REDUCING OUR GREENHOUSE GAS EMISSIONS

Ergon Energy's total direct (Scope 1) greenhouse gas emissions for 2008/09, predominantly from vehicles and generators, were calculated to be 98,100 tonnes of carbon dioxide equivalent (tCO₂-e). Indirect, or Scope 2, emissions associated with the electricity we use as an organisation added another 22,500 tCO₂-e. The remaining indirect emissions were attributable to energy losses from our network, however, they could not be calculated before this report was finalised. The previous year, network energy losses accounted for 84% of our total reportable (Scope 1 and 2) emissions. We have also chosen to report Scope 3, or voluntarily reported, emissions associated with our air travel.

In addition to focusing on reducing emissions, to support the Queensland Government's targets, during 2008/09 we have significantly increased the volume of emissions offset through various programs.

Electricity generation – During 2008/09, 119GWh of electricity was generated for use by our customers through our generation portfolio, including Barcaldine's gas-fired power plant and 33 remote diesel-fired power stations and renewable energy plants that supply electricity to communities isolated from the national grid. Remote generation accounts for around 78% of Ergon Energy's direct emissions.

Fuel for transport – Ergon Energy has a mobile fleet of around 2,350 vehicles, including cars, trucks, four-wheel drives, heavy vehicles, cranes, trailers and elevated work platforms. We replace around 450 of these vehicles annually, taking the opportunity to increase the number of our passenger and light commercial vehicles that are compliant with the Green Vehicle Guide rating requirements of the QFleet ClimateSmart Policy – 90% of these vehicles are now compliant and we have offset 100% of the emissions from the 146 non-compliant vehicles.

Petrol usage for 2008/09 was 0.77 million litres (0.9 million in 2007/08), with an additional usage of 0.3 million litres (0.3 million in 2007/08) of E10, a 10%-ethanol fuel suitable for petrol vehicles. When combined, petrol use in 2008/09 decreased by 24%. Diesel usage was 6.1 million litres, a 5% increase on the previous year (5.8 million). With all fuels combined, there was a marginal volume increase of 0.25%, however, due to a change in the Federal Government-imposed conversion factor, related emissions increased by 1.6%.

Emissions from our passenger and light commercial fleet have been reduced by 11.6%, compared with the baseline year of 2006/07. We are targeting a 15% reduction in emissions from our light commercial and passenger vehicle fleet by the end of 2010, 25% by 2012 and 50% by 2017.

In line with our commitment to progressively offset emissions from our fleet, in 2010 we will also begin offsetting 50% of the emissions from all our passenger and light commercial vehicles, and 100% from 2020.

Air travel – Emissions from Ergon Energy's air travel are relatively small in comparison to other contributors. However, we have chosen to monitor and report them as part of our strategy to significantly reduce the amount of air travel being undertaken by our people. We recognise that travel is vital due to the decentralised nature of our operations and recognise the value of face-to-face meetings. However, this year we continued to upgrade our video-conferencing capability and management of travel requests to not

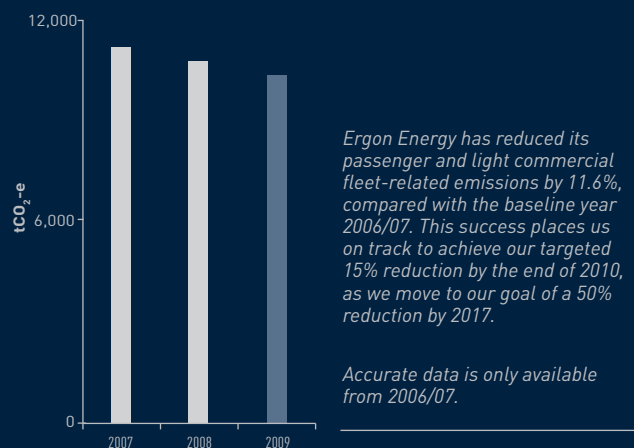
only reduce emissions, but to reduce costs, raise productivity, and minimise the time employees are away from home.

In 2008/09, the amount of air travel was down with employees and external resources flying around 26 million kilometres, bringing related emissions down 7% on last year. Our target is to reduce these emissions by 20% by 2010/11, from the 2007/08 baseline. From July 2008, we began offsetting 100% of the emissions associated with our air travel.

Electricity used in our buildings – In 2008/09, we were successful in reducing our annual emissions from electricity use by almost 3.1%, despite a 3.2% increase in employee numbers and subsequent increase in floor space. However, our target of reducing electricity consumption from the 2005/06 baseline by 5% by the end of 2009/10 remains a significant challenge. We have proven our capacity to turn this indicator around, having only established that target in September 2008, and expect further success this year.

During the year, we began a process that will see Energy Performance Contracts established with external service providers to facilitate the major infrastructure upgrades needed to drive down the energy used at our major sites. Energy audits were also conducted at 56 of our 80 depots, revealing significant and additional savings opportunities. Tailored action plans will be implemented at each of those depots in 2009/10, with systems and knowledge to eventually spread to all sites. Technical initiatives implemented to date have included lighting and office equipment replacements, and air conditioner servicing and upgrades. To support these technical initiatives, behavioural change programs are being enhanced and implemented where required to further reduce electricity consumption.

EMISSIONS FROM PASSENGER AND LIGHT COMMERCIAL VEHICLE FLEET REDUCED



EMISSIONS FROM AIR TRAVEL REDUCED



ECONOMIC PERFORMANCE AND GOVERNANCE

Ergon Energy is only too aware of the role an affordable electricity supply has on the economy of regional Queensland. It is our objective to be a high performing and commercially focused organisation delivering economic value for our customers, our shareholders, and ultimately the wider Queensland community.

OUR ECONOMIC CONTRIBUTION

The current financial environment means that now, more than ever, we have a social responsibility to deliver affordable electricity to regional Queensland. This objective is central to our strategic 'get fit' priority. By improving our commercial focus, making better investment decisions, and improving efficiency and productivity, we will ultimately deliver greater economic value through the service we provide (pgs 34-36).

As well as providing the electricity infrastructure to support the economic growth and prosperity of regional Queensland, Ergon Energy makes a significant economic contribution in other ways. We contribute to the economy by employing around 4,500 Queenslanders, in addition to a large contractor base. We also adhere to the State Purchasing Policy, which encourages local sourcing. Through a range of partnerships, such as with the Local Government Association of Queensland (LGAQ), we also support a number of economic development initiatives. Our Community Powerline Projects fund (pg 22) and community sponsorships (pg 23) are also delivering clear economic benefits.

Our financial results for 2008/09 will enable us to pay a dividend of \$116.6 million to our shareholder, the Queensland Government, with the people of Queensland ultimately benefiting.

The rest of this section covers our Regulatory Proposal, our financial performance, and our key governance matters for 2008/09.

FUNDING SOUGHT FOR 2010 TO 2015

Ergon Energy's main source of funding is from the revenue obtained from the use of our electricity distribution network, both by our own retail business and by the retailers of contestable customers in regional Queensland. This side of our business is, for the most part, regulated by an external authority. This protects the interests of our customers by setting a service and price framework by which the distribution business is to operate. Within the framework, the price we charge for our regulated distribution services is reviewed by the regulator every five years to ensure that, as a monopoly service provider, our charges are reasonable.

During 2008/09, significant resources were allocated across the business to prepare our Regulatory Proposal for the next regulatory control period from 2010 to 2015. For this period, the responsibility for economic regulation is being transferred to the new national regulator, the Australian Energy Regulator (AER), from the Queensland Competition Authority (QCA).

The QCA continues to regulate our network's Minimum Service Standards (pg 28) and a range of Guaranteed Service Levels (pg 22), which have been reviewed for application in Queensland from 1 July 2010. These new standards are a key driver in network performance improvement strategies that form part of our Regulatory Proposal to the AER.

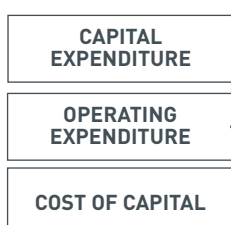
One of the notable changes as part of the new regulatory environment is the introduction of a Service Target Performance Incentive Scheme. The scheme provides a substantial financial incentive for Ergon Energy to maintain and improve its long-term network performance trends relative to a series of service targets. There is also an Efficiency Benefits Sharing Scheme, and together they ensure we have the right balance of operational efficiency and reliability.

As well as outlining an investment plan to improve reliability in line with mandatory service standards, our Regulatory Proposal has also been developed to ensure we have the necessary capital to provide the electricity infrastructure essential to keeping up with forecast population growth and other drivers of peak demand.

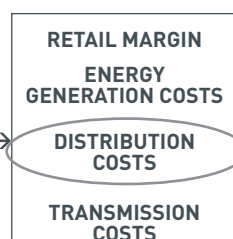
The proposal was submitted to the AER on the 30 June 2009, enabling a period of public consultation. During this time, we have been actively engaging with our stakeholders across the state to outline the plan, as well as the key issues and benefits for regional Queensland.

The Regulatory Proposal, along with public comment, is now with the AER for review before they release a draft determination in November. Ergon Energy and the broader community will then be given a chance to respond to the draft, with a final determination expected by the end of April 2010.

ERGON ENERGY'S INPUTS



COMPONENTS OF THE RETAIL TARIFF (SET BY QCA)



Our Regulatory Proposal includes the funding we believe is required to prudently operate our distribution business based on our inputs and other market factors. This expenditure is ultimately paid for by our network charges – just one of the components of what customers pay for electricity.

After this time, the QCA will include the new distribution network charges in its calculation of the new retail tariff from July 2010, when the determination takes effect. Ergon Energy's network charges are one of the four components that customers pay for in their retail electricity accounts.

Preparing for the submission of our Regulatory Proposal to the AER has been a major achievement for the organisation, with issues such as climate change and emissions trading adding to the challenge of a changing regulatory framework and new regulator. Our submission will help ensure regional Queenslanders have the electricity supply solution they need for years to come.

FINANCIAL PERFORMANCE EXCEEDS TARGET

In 2008/09, Ergon Energy exceeded its profit target, as agreed with the Queensland Government in our Statement of Corporate Intent, delivering a Net Profit after Tax (NPAT) of \$129.3 million and an Earnings Before Interest and Tax (EBIT) of \$407.9 million. The result was achieved, despite major cost impacts, through a strong business wide focus on reducing discretionary costs.

A challenging \$844.3 million capital and systems program was also delivered in 2008/09. Sustaining this level of investment in line with previous years, and in many areas escalating it, is critical to meeting the ongoing energy infrastructure needs of regional Queensland. Our capital expenditure was below budget this year for a number of reasons, most notably a decline in customer-requested capital works. (pgs 30-31)

Ergon Energy's main operating entity, Ergon Energy Corporation Limited achieved a NPAT of \$148.9 million – an excellent financial result – \$36.3 million favourable to budget. The result was supported by over \$30 million in savings achieved across discretionary spending in areas such as recruitment, travel, entertainment, contractors/consultants and communications. At the same time, additional unbudgeted operational expenditure was incurred, associated with vegetation management and our response to the severe wet weather experienced throughout the state. The impact of the global financial crisis also contributed with substantial increases in employee provisioning.

The financial results of our retailer, Ergon Energy Queensland Pty Ltd, were below expectations with an NPAT of \$10.8 million, primarily due to a decrease in Renewable Energy Certificate (REC) values and forward market movement.

OUR FINANCIAL REPORT EXPLAINED

The Annual Financial Report for Ergon Energy Corporation Limited and its Controlled Entities consists of the Directors' Report, Income Statements, Balance Sheets, Statements of Recognised Income and Expense, Cash Flow Statements, Notes to the Financial Statements, as well as the Directors' Declaration, Independent Audit Report and Auditor's Independence Declaration.

This section provides a brief commentary on the information in these reports and is not intended to be comprehensive. For full disclosures, please refer to the reports provided on CD with this document. They have been audited by Deloitte Touche Tohmatsu, as delegate of the Auditor-General of Queensland.

Where does our revenue come from?

Ergon Energy's total revenue and other income for the year was \$2,279.1 million, a decrease of \$319.2 million when compared to 2007/08. The main reason for this reduction was due to our retailer, Ergon Energy Queensland Pty Ltd, requiring a smaller Community Service Obligation payment thanks to a reduction in the cost of energy. Our Community Service Obligation revenue – this year totalling \$446.2 million – is compensation from the

Queensland Government for the cost of servicing our electricity customers that is not covered by the revenue collected from customers through the state's uniform electricity tariff schedule.

Other significant sources of revenue include energy sales of \$1,469.1 million, electricity distribution revenue of \$129.5 million and customer contributions towards the electricity distribution network of \$65.7 million.

Ergon Energy's revenue required for the use of our electricity distribution network is recovered from customers via both our retail business and the retailers of contestable customers in regional Queensland. Our allowable revenue is currently determined by the QCA, but this responsibility will transfer to the AER in 2010.

Regulated Revenue for the year was in accordance with the QCA allowance, while capital contributions from our customers continued to exceed QCA targets due to the demand for customer-initiated capital works being substantially in excess of the determination allowance. This was despite the decline experienced in this area of our program of works this year. (pg 31)

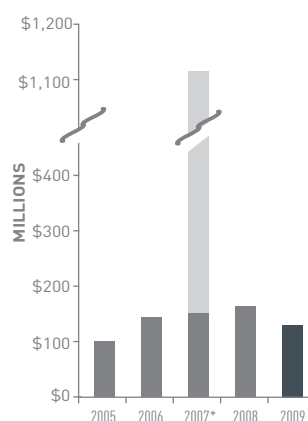
What are our main operating expenses?

For 2008/09, our total operating expenses amounted to \$555.7 million. Network charges totalled \$194.1 million and electricity purchases totalled \$843.6 million. Additional expenditure was incurred to meet operational requirements, particularly in regard to vegetation management. Forced maintenance also exceeded budget due to the severe wet weather experienced throughout the state. The impact of the global financial crisis also contributed, with substantial increases in employee provisioning (due to falling discount rates associated with the 10 year Government bond rate). This resulted in increased payroll related costs.

What are Ergon Energy's assets?

Ergon Energy's total asset base increased in value by \$973.5 million to \$7,994.2 million in 2008/09. This resulted primarily from a \$675.9 million increase in the value of Ergon Energy's total property, plant and equipment to \$6,900.6 million, which reflects the increased capital expenditure program being rolled out by the business. Property, plant and equipment are the major components of our total asset base, which includes mostly regulated electricity network assets across our electricity distribution network.

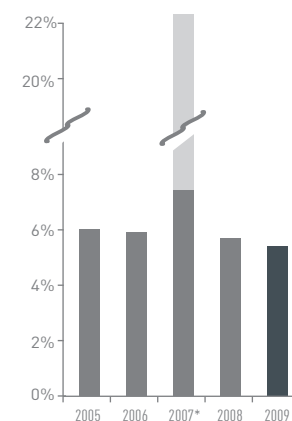
PROFIT EXCEEDS EXPECTATIONS



The \$129.3 million profit result exceeded our commitment, which was particularly pleasing given the current economic environment.

* 2006/07 had a one-off return from the sale of our contestable retail operations.

RETURN ON ASSETS SOUND



Our Return on Assets – 5.4% – has been impacted slightly this year by the growth in our asset base.

The increase in the total asset base also included a \$169.1 million increase in cash on hand, largely due to Ergon Energy's capital works programs being under budget by \$227.1 million for 2008/09. To fund the budgeted capital expenditure requirements for 2008/09, borrowings were hedged at the beginning of the financial year.

What do we owe?

Ergon Energy's total liabilities increased to \$5,443.0 million this year with funds drawn down utilised for our massive record capital works programs and cash flow requirements. The largest individual liability is our interest bearing loan with Queensland Treasury Corporation of \$3,687.7 million.

The second largest liability is the net deferred income tax liability of \$864.4 million. Some of our other main liabilities include trade payables (\$236.4 million), dividends payable (\$116.6 million) to the Queensland Government as our shareholder in 2009/10, and other financial liabilities (\$162.5 million) mainly from hedging and trading activities.

Ergon Energy's long-term corporate credit rating has been downgraded by international credit rating agency, Standard and Poor's, to AA from AA+, as a result of the global financial crisis and the impact on the Government's expected revenue.

What returns do we give to our shareholders?

Ergon Energy's solid \$129.3 million profit result for 2008/09 will enable it to pay significant dividends of \$116.6 million in 2009/10, a 5.2% increase on ordinary dividends paid this year.

Ergon Energy's dividend policy requires the Board to recommend, taking into account the investment return its shareholders expect, a dividend of 80% of profit adjusted for unrealised 'mark to market' gains or losses. This is paid on the basis of its shareholders agreeing to provide the necessary funding for approved projects, the maintenance of Ergon Energy's approved capital structure, and the organisation's operational viability.

What do our key financial ratios mean?

The ratios below are useful in analysing the financial position and trends of our business compared to others in the electricity industry.

ERGON ENERGY CORPORATION LIMITED – CONSOLIDATED ACCOUNTS SUMMARY 2008/09

INCOME STATEMENT	\$million	The Income Statement demonstrates the extent to which the shareholders' equity has been increased by the ordinary earnings of activities during the year.
Revenue and Other Income	2,279.1	
Network/Electricity Purchases	(1,037.7)	
Operating Expenses	(555.7)	
Depreciation Expense	(277.8)	
Finance Charges	(223.4)	
Earnings Before Tax	184.5	
Tax Expense	(55.2)	
Net Profit After Tax	129.3	

BALANCE SHEET	\$million	The Balance Sheet depicts the Assets and Liabilities that make up the shareholders' equity at the end of the financial year. Our total asset base has nearly doubled over the past decade due to the massive capital works programs undertaken.
Current Assets	1,013.8	
Non Current Assets	6,980.4	
Total Assets	7,994.2	
Current Liabilities	760.8	
Non Current Liabilities	4,682.2	
Total Liabilities	5,443.0	
Net Assets	2,551.2	

STATEMENT OF RECOGNISED INCOME AND EXPENSE	\$million	This Statement shows changes to the shareholders' equity arising from operating surpluses or deficits for its controlled and administered operations and the revaluation of our asset base.
Asset Revaluation	77.8	
Superannuation Actuarial	(63.1)	
Net Income Recognised Directly In Equity	14.7	
Net Profit After Tax	129.3	
Total Income and Expense	144.0	

STATEMENT OF CASH FLOWS	\$million	The Statement of Cash Flows reflects the nature of the cash inflows and outflows for all our operations – the large investing activities 'outflow' reflects the size of the capital works program undertaken during the year.
Opening Cash	198.3	
Operating Activities	416.2	
Investing Activities	(822.9)	
Financing Activities	575.8	
Cash Held	367.4	

Ratio	2008/09	2007/08	2006/07 ¹	2005/06	2004/05	Description / Formula
Return on average assets ²	↓ 5.4%	5.7	22.7%	5.9%	6.0%	Reflects the efficiency of our assets to generate earnings. = Earnings Before Interest & Tax / Average of opening and closing asset balances x 100.
Return on average equity	↓ 5.1%	6.6%	47.7%	5.8%	4.8%	This represents the returns generated on the money the Government, as our shareholder, has invested in Ergon Energy. = Net Profit After Tax / Average of opening and closing equity x 100.
Gearing	↑ 73.4%	68.4%	64.0%	59.6%	42.3%	Our gearing demonstrates the prudential level to which our activities are funded by owner's funds versus borrowed funds. = Debt / Debt + Equity (excluding reserves).
Interest cover (times)	↓ 3.1x	3.7x	7.0x	4.4x	4.4x	Shows our ability to adequately meet the interest on current borrowings. = Earnings Before Interest and Tax, Depreciation and Amortisation / Finance charges.

¹ 2006/07 ratios include the impact of the retail sale during the year.

² Return on average assets ratio revised for 2006/07 and prior years based on recalculated total assets.

BEST PRACTICE CORPORATE GOVERNANCE

Ergon Energy believes that strong leadership, superior strategies and good corporate governance are the fundamental practices that will ensure it sustains a high standard of performance across its key result areas. The organisation's high level governance framework is supported by a solid commitment to our Code of Conduct and other key internal policies, procedures and risk management tools. These measures aim to ensure that our objectives are set, transparent, monitored and delivered upon in an ethical and appropriate manner.

Details of our new Board, renewed with the appointment of three new directors in October 2008, is provided in pages 8-9. Further details of our corporate governance and risk management frameworks, as well as compliance disclosure, can be found in our Corporate Governance Statement provided on the attached CD. This section provides information on the most notable corporate governance matters for 2008/09:

- the preparation of our Regulatory Proposal for the regulatory reset
- the Organisation Design Review.

PROPOSAL A GOVERNANCE PRIORITY

As part of our preparation of our Regulatory Proposal for the next 'regulatory reset', in August 2008, a new AER 2010 Due Diligence Committee of the Board was established to support the Directors and Chief Executive in discharging their governance duties. An assessment of the reasonableness of the submission's forecasts and assumptions and the required completeness and accuracy of the proposal was needed. The committee commissioned three independent consultancies to assist them in meeting their requirements – a legal consultancy to look at the compliance with the National Electricity Rules, an engineering consultancy to verify that the operating and capital expenditure forecasts were robust, and a financial consultancy to verify the veracity of the Ergon Energy models.

Other sound corporate governance practices that supported the preparation of the Regulatory Proposal included a formal project structure including a steering committee, data room, cascading internal sign-offs and allocation of dedicated stream leads and subject matter experts. The company also briefed and sought input from key external stakeholders, shareholder representatives and industry groups in developing its submission.

A NEW ORGANISATIONAL STRUCTURE

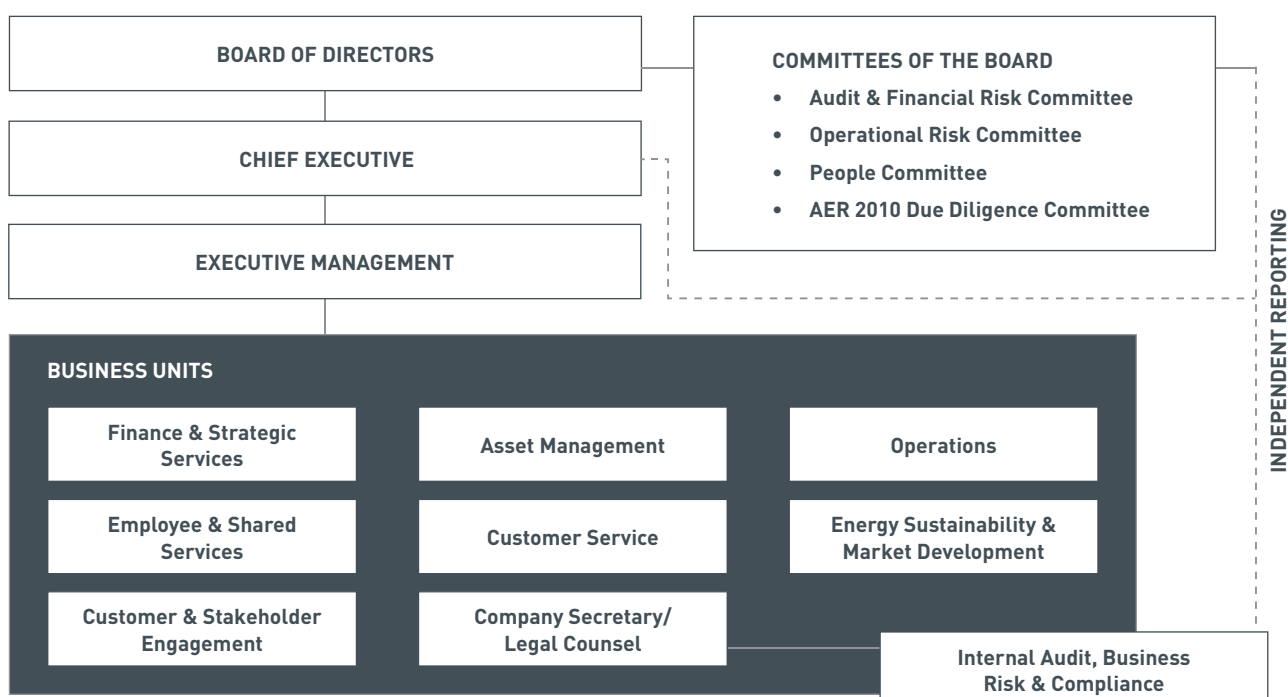
Ergon Energy's organisational structure is currently being refined to ensure we are best placed to realise our strategic plan and to more efficiently and effectively deliver benefits to our customers, shareholders and the community, now and in the future.

As well as structural change, the Organisation Design Review will also deliver a suite of enabling projects to drive changes to systems, processes, policies, performance management and operating frameworks. As a key 'Get Fit' initiative, this journey is primarily about eliminating duplication, establishing clear accountabilities and streamlining processes.

The changes at the Executive level will deliver a structure substantially aligned with the principles of the Strategic Asset Manager (SAM) business model – with the functions of Asset Owner (Finance and Strategic Services), Asset Manager (Asset Management) and Service Provider (Operations) now represented. It delivers a more balanced representation of 'core' and support network functions with an additional Executive General Manager. It also provides clearer separation of the regulated and contestable parts of the business, positioning Ergon Energy to pursue new business opportunities in a competitive market. More details of the structural changes have been provided on pages 14-15 & 37 and in the Corporate Governance Statement (@ pgs 6-7).

In conjunction with other strategic initiatives the changes, which will be fully implemented by early November, will help strengthen our position as the dependable, affordable and 'smart' energy business that our customers and our shareholding Ministers expect us to be.

ORGANISATIONAL STRUCTURE





TOWARDS SUSTAINABILITY

Powerworker Ben Andrews, flanked by Sheetmetal Workers Rob Brady and Luke Wuthrich, proudly show off one of the 100-plus modular substations Ergon Energy's Specialist Plant Services has produced for Energex.

Economic Value from Lean Manufacturing

Ergon Energy is at the forefront of supplying smarter, more affordable substation solutions to the electricity distribution industry.

Modular and mobile substations are a genuine alternative to resource-expensive and time-consuming brick-and-mortar substations. They can be built, delivered to site and commissioned quickly, allowing energy distributors to respond more swiftly to growing demand and support reliability of supply in emergency and maintenance situations.

Built at our state-of-the-art production facility in Banyo, Brisbane since 2004, the substations are manufactured with 'lean' techniques aimed at delivering cost-effective electricity supply solutions. Since then the workshop has expanded its trade profile to include boilermakers, carpenters, sheetmetal workers and fitters and turners to deliver entire substation manufacturing in-house.

Sustainability benefits created:

- cost-effective infrastructure solutions – substation output has increased three-fold over the past five years, with Ergon Energy now manufacturing 50 modular substations a year.
- Ergon Energy has adopted efficient manufacturing techniques to remove all waste from the process, increase productivity and quality, reduce costs and delivery times and improve staff morale and safety.
- lessons learnt around standardisation and process improvement can be applied to other areas of our business.
- the mobile units allow quick response to natural disasters and routine maintenance; they are fully self-contained, have stand-alone protection systems, an on-board generator, incoming and outgoing high-voltage circuit-breakers and connect wirelessly to the control centre
- the substations are manufactured under contract for other electricity distributors, providing a commercial return for Ergon Energy.

ABBREVIATIONS

ABS	Air Break Switch
A&TSI	Aboriginal and Torres Strait Islander
AER	Australian Energy Regulator
AMP	Asset Management Plan
CARE	Cyclone Area Reliability Enhancement program
CESAP	Community Electrical Safety Awareness Plan
CMS	Content Management System
CPRS	Carbon Pollution Reduction Scheme
CRI	Corporate Responsibility Index
DOTIF	Delivery-on-time-and-in-full
EBIT	Earnings Before Interest and Tax
EBSS	Efficiency Benefits Sharing Scheme
EDSD	Electricity Distribution Service Delivery (Somerville) Report
EIC	Electricity Industry Code
EMFs	Electric and Magnetic Fields
EMP	Environmental Management Plans
EMS	Environmental Management System
ENA	Energy Networks Association
ERP	Enterprise Resource Planning (Ellipse)
ET2010	Enterprise Transformation 2010
EVR	Endangered, Vulnerable and Rare
FACTS	Feedback and Claims Tracking System
GIS	Geographical Information System
GSL	Guaranteed Service Level
HYSS	employee satisfaction 'Have Your Say Survey'
ICCS	International Customer Service Standard
ICT	Information and Communications Technology
ISO	International Organisation for Standards
IVR	Interactive Voice Recognition system
LGAQ	Local Government Association of Queensland
MCE	Ministerial Council on Energy
MSS	Minimum Service Standards
NCC	National Contact Centre
NDM	Network Demand Management
NESB	Non-English Speaking Background
NGER	Federal Government's National Greenhouse and Energy Reporting
NMP	Network Management Plan
NPAT	Net Profit after Tax
OCIO	Office of the Chief Information Officer
ODR	Organisation Design Review
PCB	Polychlorinated Biphenyls
QCA	Queensland Competition Authority
QESI	Queensland Electricity Supply Industry
RECs	Renewable Energy Certificates
RFDS	Royal Flying Doctor Service
SAM	Strategic Asset Manager business model
SCADA	Supervisory Control and Data Acquisition
SCI	Statement of Corporate Intent
SEIs	Serious Electrical Incidents
SHADO	Sexual Harassment and Anti-Discrimination Officer
SKM	Sinclair Knight Merz
SLA	Service Level Agreement
SOCAP	Society of Consumer Affairs Professionals
SPS	Stand-alone Power Supply
STPIS	Service Target Performance Incentive Scheme
SWER	Single Wire Earth Return powerline
TEP	Transitional Environmental Plan
UbiNet	Ubiquitous Telecommunications Network
UDIA	Urban Development Institute of Australia
V2C	Value to Customer metric
ZIP	Zero Incident Process training

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PERFORMANCE MEASURES

SAIDI	System Average Interruption Duration Index. Network reliability performance index, indicating the total minutes, on average, that customers are without electricity during the relevant period (minutes).
SAIFI	System Average Interruption Frequency Index. Network reliability performance index, indicating the average number of occasions each customer is interrupted during the relevant period (interruptions).
Customer Minutes	Customer minutes is a measure of the number of customers interrupted multiplied by the duration of a power outage or outages, incorporating any staged restoration.
AIFR	All Injury Frequency Rate – measured as number of injuries per million hours worked. Lost Time Injuries (LTI) + Medical Treatment Injuries (MTI) x 1,000,000 / Exposure Hours.
LTIFR	Lost Time Injury Frequency Rate. Number of lost-time injuries per million hours worked over the 12 month reporting period. Lost Time Injuries (LTI) x 1,000,000 / Exposure Hours.
DEEFR	Dangerous Electrical Event Frequency Rate. A safe work practice measure that tracks Dangerous Electrical Events (DEEs) associated with work done by our employees. DEEs x 1,000,000 / Exposure Hours.

KEY SERVICE CENTRES

CAIRNS

109 LAKE STREET
CAIRNS QLD 4870

TOWNSVILLE (REGISTERED OFFICE)

22 WALKER STREET
TOWNSVILLE QLD 4810

MACKAY

CNR GORDON AND GREGORY STREETS
MACKAY QLD 4740

ROCKHAMPTON

CNR FITZROY AND ALMA STREETS
ROCKHAMPTON QLD 4700

MARYBOROUGH

97-99 ADELAIDE STREET
MARYBOROUGH QLD 4650

TOOWOOMBA

CNR SOUTH AND HAMPTON STREETS
TOOWOOMBA QLD 4350

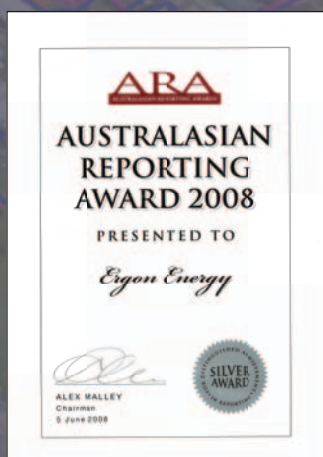
BRISBANE

61 MARY STREET
BRISBANE QLD 4000



GOVERNANCE AND ANNUAL FINANCIAL REPORT @

Turn over to find the attached CD with our Corporate Governance Statement and the Annual Financial Report for 2008/09, as well as additional information.



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ANNUAL STAKEHOLDER REPORT 2008/09

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Customer Advocate
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ABN 11 121 177 802

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