ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

ERGON ENERGY CORPORATION LIMITED AND ITS CONTROLLED ENTITIES ABN 50 087 646 062

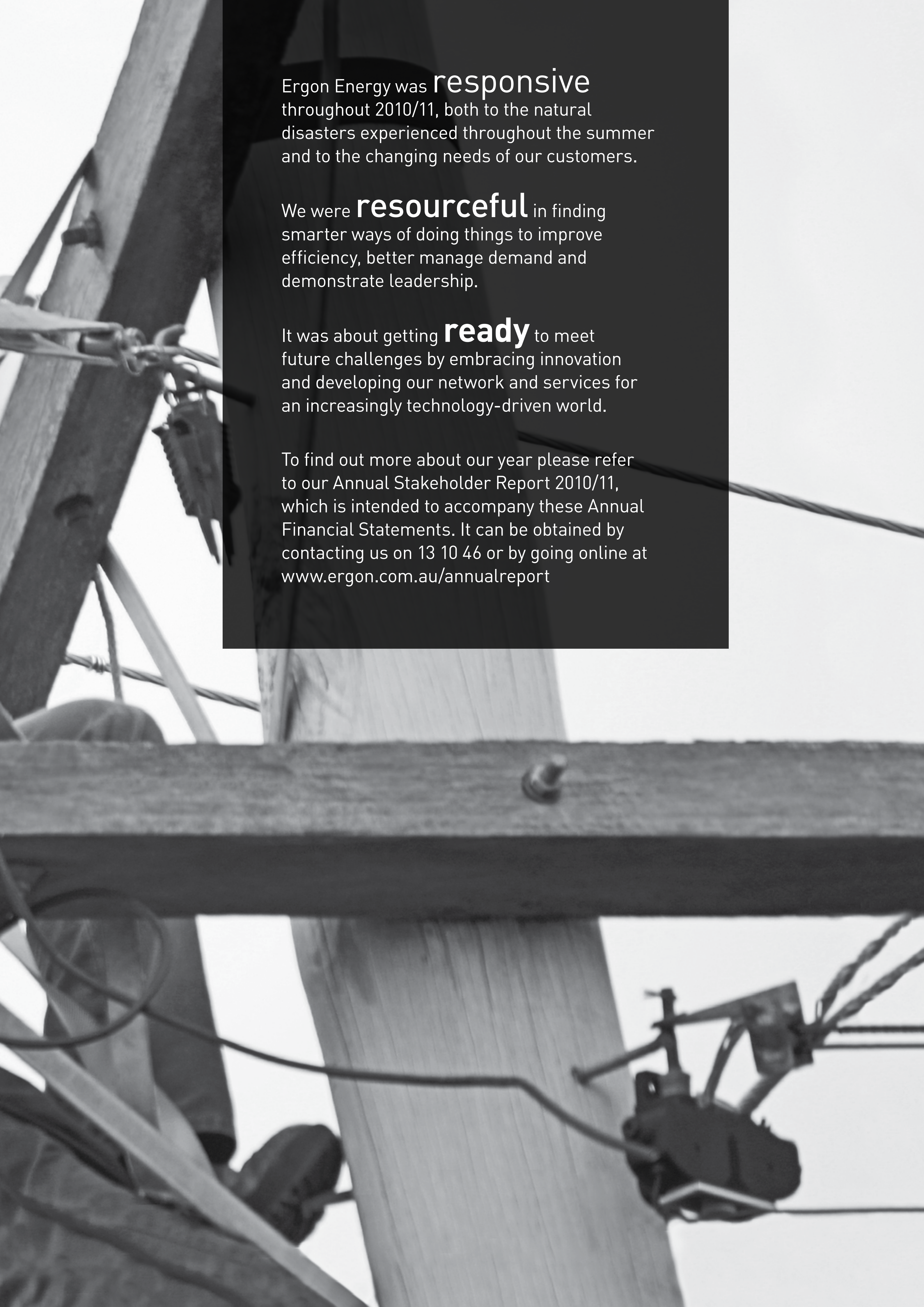
ERGON ENERGY

Ergon Energy was **responsive** throughout 2010/11, both to the natural disasters experienced throughout the summer and to the changing needs of our customers.

We were **resourceful** in finding smarter ways of doing things to improve efficiency, better manage demand and demonstrate leadership.

It was about getting **ready** to meet future challenges by embracing innovation and developing our network and services for an increasingly technology-driven world.

To find out more about our year please refer to our Annual Stakeholder Report 2010/11, which is intended to accompany these Annual Financial Statements. It can be obtained by contacting us on 13 10 46 or by going online at www.ergon.com.au/annualreport



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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2011

The directors present their report together with the financial report of Ergon Energy Corporation Limited (the Company) and of the consolidated entity, being the Company and its controlled entities (the Economic Entity) for the year ended 30 June 2011 and the auditor's report thereon.

Directors

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

NAME, QUALIFICATIONS AND INDEPENDENCE STATUS	EXPERIENCE, SPECIAL RESPONSIBILITIES AND OTHER DIRECTORSHIPS
Dr Ralph Craven *BE PhD FIEAust FIPENZ FAICD CPEng* Chairman Independent Non-Executive Director	One of the industry's most respected and in-demand figures, Dr Craven has a professional background which encompasses the energy and resources sector, commodity trading and regulatory complexities, bringing formidable expertise in the international energy industry to the Chairmanship. 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 in 1999 was incorporated into what is Ergon Energy today. From 2003 until 2007, Dr Craven was CEO of the New Zealand Government-owned Transpower, which owns and manages the 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 board member of the International Electrotechnical Commission, which is the leading global organisation that prepares and publishes international standards for all electrical, electronic and related technologies. Dr Craven is Chair and independent non-executive director of Tully Sugar Limited and non-executive director of Windlab Systems Pty Ltd. 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 FAIST* Deputy Chairman Independent Non-Executive Director	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 Deputy Chairman 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) FAICD* Independent Non-Executive Director	Originally trained as a banking and finance lawyer, Ms Forrester brings to the Board more than 20 years of commercial experience in the legal, governance and human resource areas, spanning the public and private sectors. This experience was gathered while in executive management roles in corporate treasury and professional services firms (legal, consulting and architecture) during which time she completed an Executive MBA with Melbourne Business School, specialising in change management and strategy. Ms Forrester serves as a non-executive director on the Boards of Shine Lawyers Ltd (where she serves on their Audit and Risk Committee), Gold Coast Parklands and the Brisbane Festival Pty Ltd. Ms Forrester is the practice leader of the strategy and executive practices of the corporate governance consultancy Board Matters Pty Ltd. She is also a member of Ergon Energy's People Committee and Audit and Financial Risk Committee.

NAME, QUALIFICATIONS AND INDEPENDENCE STATUS	EXPERIENCE, SPECIAL RESPONSIBILITIES AND OTHER DIRECTORSHIPS
Gary Humphrys *CA GAICD* Independent Non-Executive Director	Mr Humphrys brings more than 35 years of experience in the energy and mining industries to the Board. A chartered accountant, he has held senior executive roles in both the private and public sectors across a range of disciplines, including finance and accounting, treasury, taxation, IT, procurement, risk management and audit. In recent years, Mr Humphrys has undertaken Board and related committee roles in the water, energy, mining and health industries. He is currently Chairman of the SEQ Water Grid Manager and a director of St Vincent's Health Australia Ltd. He is a member of Ergon Energy's Audit and Financial Risk Committee, as well as the People Committee.
Tony Mooney *BEd BA (Hons) FAICD* Independent Non-Executive Director Resigned 20 July 2010 and reappointed on 1 November 2010	Mr Mooney brought 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 regional centre. 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. He previously served on the Local Government Superannuation Board and as a director of the Port of Townsville and NQ Water. He is a member of Ergon Energy's Operational Risk Committee.
Wayne Myers *MAICD* Independent Non-Executive Director	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 more than 30 years. Mr Myers is Chairman of Logan Development Working Group and Australian Water (Queensland) Pty Ltd. Mr Myers is a member of Ergon Energy's AER 2010 Due Diligence and Operational Risk Committees and Chair of the People Committee. Mr Myers is also Chairman of Ergon Energy Telecommunications Pty Ltd.
Helen Stanton *BE GAICD* Independent Non-Executive Director	Ingham-based engineer Ms 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.

The directors have been in office since the start of the financial year to the date of this report unless otherwise stated below:

Tony Mooney resigned as a director 20 July 2010 and was reappointed on 1 November 2010.
Ralph Craven, Wayne Myers and Tony Mooney have been appointed until 30 September 2011.
Gary Humphrys has been appointed until 30 September 2012.
All other directors have been appointed until 30 September 2013.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2011

COMPANY SECRETARY

Graeme Finlayson
BA (Hons) LLB (Hons) MBA

Graeme Finlayson commenced with Ergon Energy in the position of General Counsel and Company Secretary in 2008. Prior to this, Graeme held senior in-house commercial legal roles and worked with some of Australia's top national law firms. Graeme has also held senior executive positions and directorships with Queensland Rail and the Gold Coast City Council.

PRINCIPAL ACTIVITIES

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

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

DIVIDENDS

Dividends amounting to $252.6 million (2010: $137.5 million) have been provided for during the financial year. A final dividend of $137.5 million was paid on 31 December 2010 in respect of the 2010 financial year. The dividend for the 2011 financial year was not paid during the year.

OPERATING AND FINANCIAL REVIEW

The consolidated income statement shows a consolidated profit after income tax equivalent expense for the Economic Entity for the year of $321.6 million (2010: $166.5 million).

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

During the financial year, much of the Economic Entity's supply area was impacted by natural disasters, including state-wide flooding and several cyclones. Cyclone Yasi initially impacted over 220,000 customers and caused significant damage to the Company's electricity distribution assets, resulting in an additional operating expenditure of $45.8 million being incurred and $55.0 million expenditure on replacement assets.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER BALANCE DATE

Subsequent to 30 June 2011, local and world equity markets experienced significant falls in value triggered by concerns regarding the United States and European Union credit problems. This issue will impact the value of assets held by Ergon Energy's defined benefit superannuation fund, (as disclosed in Note 16), however at the date of this report no estimate of the financial effect can be made.

Other than the matter discussed above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Economic Entity, the results of those operations or the state of affairs of the Economic Entity in future financial years.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

The Economic Entity expects to continue its operations including distribution of electricity, non-competitive electricity retailing and provision of electricity related contracting and other services within the State of Queensland.

In July 2011, the Federal Government released the Clean Energy Futures package which included draft legislation for a carbon price mechanism.

The proposed scheme is due to start 1 July 2012. Under the proposed carbon price mechanism, organisations that have facilities that emit more than 25,000 tonnes of CO_2 will be required to purchase a permit for every tonne of carbon emitted. Current expectations are that the Economic Entity will not be directly liable under the scheme, as it has no individual facility that emits more than 25,000 tonnes of CO_2. There are likely to be immaterial financial impacts to the Economic Entity, based on expected increases in the price of fuel and electricity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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

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

No environmental breaches have been notified to any government agencies during the financial year. There have been no major non-conformances/ incidents (defined in internal policy guidelines as Class 1 or 2) reported in the financial year. For further environmental performance information, refer to the Annual Stakeholder Report which is available separately and on the website - www.ergon.com.au

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

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

DIRECTORS' SHAREHOLDING

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

DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) held during the year ended 30 June 2011 and the number of meetings attended by each director was as follows:

	BOARD MEETINGS		AUDIT & FINANCIAL RISK COMMITTEE		AER 2010 DUE DILIGENCE COMMITTEE		PEOPLE COMMITTEE		OPERATIONAL RISK COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
R Craven	20	21	6	7	2	2	5	5	4	4
J Bird	21	21	7	7	2	2			1	1
S Forrester	20	21	2	4			4	5		
T Mooney	12	13	0	1					1	2
G Humphrys	21	21	7	7			4	5		
W Myers	19	21			1	2	5	5	3	4
H Stanton	21	21			2	2			4	4

A - Number of meetings attended

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

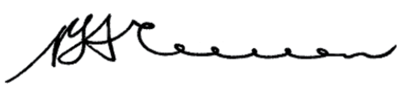
AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is on page 72 and forms part of the directors' report for the year ended 30 June 2011.

ROUNDING

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

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



Dr R Craven
Chairman

Dated at Brisbane this 26th day of August 2011.

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

		CONSOLIDATED		THE COMPANY	
	Note	2011 $M	2010 $M	2011 $M	2010 $M
Revenue	3	2,528.1	2,197.1	1,911.1	1,476.6
Other income	3	10.4	6.6	1.9	6.5
Network charges / electricity purchases		(846.2)	(925.9)	(269.4)	(235.8)
Employee expenses		(214.7)	(174.5)	(214.6)	(174.5)
Materials and services		(215.3)	(189.0)	(214.5)	(188.2)
Depreciation, amortisation and impairments	4	(314.2)	(290.9)	(308.1)	(284.5)
Finance costs	4	(293.7)	(243.4)	(292.7)	(242.6)
Other expenses		(204.0)	(145.1)	(201.2)	(135.4)
Profit before income tax equivalent expense		450.4	234.9	412.5	222.1
Income tax equivalent expense	5	(128.8)	(68.4)	(96.4)	(50.2)
Profit after income tax equivalent expense		321.6	166.5	316.1	171.9

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Note	CONSOLIDATED 2011 $M	CONSOLIDATED 2010 $M	THE COMPANY 2011 $M	THE COMPANY 2010 $M
Profit after income tax equivalent expense		**321.6**	166.5	**316.1**	171.9
OTHER COMPREHENSIVE INCOME					
Revaluation of property, plant and equipment, net of tax	21(b)	**543.2**	72.4	**543.2**	72.4
Actuarial gains/(losses) on defined benefit plans recognised directly in equity, net of tax	21(c)	**41.3**	8.8	**41.3**	8.8
Other comprehensive income for the financial year, net of tax		**584.5**	81.2	**584.5**	81.2
Total comprehensive income for the financial year		**906.1**	247.7	**900.6**	253.1
Profit attributable to:					
Owners of the Company		**321.6**	166.5	**316.1**	171.9
Total comprehensive income attributable to:					
Owners of the Company		**906.1**	247.7	**900.6**	253.1

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

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2011

		CONSOLIDATED		THE COMPANY	
	Note	**2011 $M**	2010 $M	**2011 $M**	2010 $M
CURRENT ASSETS					
Cash and cash equivalents	6	**279.2**	284.2	**210.8**	218.8
Trade and other receivables	7	**436.8**	392.6	**297.9**	261.0
Inventories	8	**93.2**	95.7	**93.2**	95.7
Financial assets	9	**163.1**	314.6	**-**	-
Other assets	10	**39.4**	41.1	**0.1**	21.0
Total current assets		**1,011.7**	1,128.2	602.0	596.5
NON-CURRENT ASSETS					
Trade and other receivables	7	**132.9**	59.8	**132.9**	59.8
Inventories	8	**1.7**	1.5	**1.7**	1.5
Financial assets	9	**-**	-	**2.5**	2.5
Property, plant and equipment	11	**8,775.5**	7,495.0	**8,775.5**	7,495.0
Intangible assets	12	**14.3**	13.8	**4.1**	7.4
Employee Benefits	16	**38.8**	-	**38.8**	-
Total non-current assets		**8,963.2**	7,570.1	**8,955.5**	7,566.2
TOTAL ASSETS		**9,974.9**	8,698.3	**9,557.5**	8,162.7
CURRENT LIABILITIES					
Trade and other payables	14	**546.5**	437.1	**471.1**	376.9
Interest bearing liabilities	15	**19.9**	17.3	**0.1**	1.9
Employee benefits	16	**143.9**	138.3	**143.9**	138.3
Provisions	17	**37.6**	59.8	**37.0**	59.3
Financial liabilities	18	**154.8**	308.8	**-**	-
Other liabilities	19	**64.4**	73.7	**41.5**	54.9
Total current liabilities		**967.1**	1,035.0	**693.6**	631.3
NON-CURRENT LIABILITIES					
Trade and other payables	14	**1.0**	1.0	**1.0**	1.1
Interest bearing liabilities	15	**4,314.7**	3,962.9	**4,314.7**	3,962.9
Employee benefits	16	**15.3**	53.8	**15.3**	53.8
Provisions	17	**16.3**	16.0	**13.7**	13.5
Net deferred tax equivalent liability	13(c)	**1,345.4**	967.4	**1,308.4**	936.7
Other liabilities	19	**0.2**	0.8	**0.2**	0.8
Total non-current liabilities		**5,692.9**	5,001.9	**5,653.3**	4,968.8
TOTAL LIABILITIES		**6,660.0**	6,036.9	**6,346.9**	5,600.1
NET ASSETS		**3,314.9**	2,661.4	**3,210.6**	2,562.6
EQUITY					
Share capital	20	**942.4**	942.4	**942.4**	942.4
Other owners' contributions	21(a)	**(10.6)**	(10.6)	**(1.1)**	(1.1)
Reserves	21(b)	**1,831.6**	1,288.4	**1,831.6**	1,288.4
Retained profits	21(c)	**551.5**	441.2	**437.7**	332.9
TOTAL EQUITY		3,314.9	**2,661.4**	3,210.6	**2,562.6**

The statements of financial position are to be read in conjunction with the notes to the financial statements

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	SHARE CAPITAL $M	OTHER OWNERS' CONTRIBUTIONS $M	ASSET REVALUATION RESERVE $M	RETAINED PROFITS $M	TOTAL EQUITY $M
CONSOLIDATED					
Changes in equity for 2010					
Balance at 1 July 2009	942.4	(10.6)	1,216.0	403.4	2,551.2
Dividends	-	-	-	(137.5)	(137.5)
Total comprehensive income for the financial year	-	-	72.4	175.3	247.7
Balance at 30 June 2010	942.4	(10.6)	1,288.4	441.2	2,661.4
Changes in equity for 2011					
Dividends	**-**	**-**	**-**	**(252.6)**	**(252.6)**
Total comprehensive income for the financial year	**-**	**-**	**543.2**	**362.9**	**906.1**
Balance at 30 June 2011	**942.4**	**(10.6)**	**1,831.6**	**551.5**	**3,314.9**
THE COMPANY					
Changes in equity for 2010					
Balance at 1 July 2009	942.4	(1.1)	1,216.0	289.7	2,447.0
Dividends	-	-	-	(137.5)	(137.5)
Total comprehensive income for the financial year	-	-	72.4	180.7	253.1
Balance at 30 June 2010	942.4	(1.1)	1,288.4	332.9	2,562.6
Changes in equity for 2011					
Dividends	**-**	**-**	**-**	**(252.6)**	**(252.6)**
Total comprehensive income for the financial year	**-**	**-**	**543.2**	**357.4**	**900.6**
Balance at 30 June 2011	**942.4**	**(1.1)**	**1,831.6**	**437.7**	**3,210.6**

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	Note	CONSOLIDATED 2011 $M	CONSOLIDATED 2010 $M	THE COMPANY 2011 $M	THE COMPANY 2010 $M
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**2,611.7**	2,230.8	**1,900.4**	1,471.5
Payments to suppliers and employees		**(1,772.2)**	(1,472.2)	**(1,107.4)**	(765.0)
Interest received		**20.6**	17.6	**13.7**	14.2
Interest paid		**(287.1)**	(242.7)	**(286.3)**	(241.6)
Dividends received		**-**	-	**48.4**	29.0
Net cash from operating activities	28	**573.0**	533.5	**568.8**	508.1
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		**7.5**	11.6	**7.5**	11.6
Payments for property, plant and equipment		**(795.0)**	(778.1)	**(794.0)**	(775.0)
Payments for intangible assets		**(7.4)**	(10.0)	**(2.8)**	(9.8)
Net cash from investing activities		**(794.9)**	(776.5)	**(789.3)**	(773.2)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		**356.3**	275.1	**351.9**	274.9
Repayment of borrowings		**(1.9)**	(1.9)	**(1.9)**	(1.9)
Dividends paid		**(137.5)**	(116.6)	**(137.5)**	(116.6)
Net cash from financing activities		**216.9**	156.6	**212.5**	156.4
Net increase / (decrease) in cash and cash equivalents		**(5.0)**	(86.4)	**(8.0)**	(108.7)
Cash and cash equivalents at the beginning of the financial year		**284.2**	370.6	**218.8**	327.5
Cash and cash equivalents at the end of the financial year	6(a)	**279.2**	284.2	**210.8**	218.8

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Ergon Energy Corporation Limited (the Company) is a public company limited by shares and is domiciled in Australia. The consolidated financial statements of the Company for the year end 30 June 2011 comprises the Company and its controlled entities (collectively referred to as the Economic Entity) and the Economic Entity's interest in associates and jointly controlled entities.

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

Registered Office
22 Walker Street
Townsville Queensland 4810

Principal Place of Business
34-46 Dalrymple Road
Garbutt Queensland 4814

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

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

The financial statements were authorised for issue by the directors on 26th August 2011.

(A) Statement of compliance

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

(B) Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

The preparation of financial statements in accordance with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Economic Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2 to the financial statements.

Consistent accounting policies

The accounting policies have been consistently applied to all years presented, unless otherwise stated. No material reclassifications to comparative information have been made to the current year's financial statement presentation.

Early adoption of standards

The Company has not elected to adopt any standards or interpretations in advance of their effective dates.

(C) Basis of consolidation

A subsidiary is an entity over which the Company has the power to govern the financial and operating policies. This power generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, liabilities incurred or assumed and equity instruments issued at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Company's share of the net assets of the subsidiary acquired, the difference is recognised immediately in the income statement.

(D) Investments in associates

Associates are all entities over which the Company has significant influence but not control. Investments in associates are initially recognised at cost by the Economic Entity and subsequently accounted for using the equity method. The Company's investment in associates is the cost identified on acquisition net of accumulated impairment losses.

The Economic Entity's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Economic Entity's share of losses in an associate equals or exceeds its interest in the associate, the Economic Entity does not recognise any further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Economic Entity and its associates are eliminated to the extent of the Economic Entity's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Economic Entity.

(E) Jointly controlled entities

The Company has a 50% interest in jointly controlled entity SPARQ Solutions Pty Ltd as at the end of the financial year. The equity method of accounting is applied by the Economic Entity, as described in the Economic Entity's policy on accounting for associates.

(F) Foreign currency translation

Foreign currency transactions of the Economic Entity are translated into Australian dollars, being the functional currency and presentation currency of the Economic Entity, using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(G) Revenue recognition

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

(i) Regulated network business

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

The Company is subject to a revenue cap that can be earned on its regulated assets. The regulated return is recognised in accordance with the revenue cap.

Regulated network prices are determined and initially invoiced based on estimates. Actual revenue allowed by the Regulator may vary from that estimated, resulting in a direction by the Regulator to the Company to increase / (reduce) prices in the succeeding periods to recover / (refund) amounts under or over charged. Amounts recovered or refunded are recognised in the income statement in future periods.

(1) *Regulated network revenue*

Regulated network revenue and electricity sales revenue are disclosed as sales revenue.

(2) *Non-refundable capital contributions*

Non-refundable contributions of cash or non-current assets are recognised as revenue (up to an amount determined by the Regulator) when the network has been extended or modified consistent with the terms of the contribution. Any amounts received in excess of the capped amount are recognised in the provision for system usage charge over-recovery. The amount of the revenue and the asset recognised for non-refundable contributions of non-current assets is the fair value of the contributed assets at the date on which the Economic Entity gains control of the contribution.

(ii) Electricity retail business

(1) *Electricity sales revenue to franchise customers*

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

(2) *Community Service Obligations*

As part of the Queensland electricity market reforms introduced in the late 1990's, the Queensland Government made a commitment that state-wide uniform retail tariffs would apply to franchise customers and that no franchise customer would be adversely affected by ongoing electricity market reforms. From the 2001/02 financial year, the Queensland Government determined that a fixed gross margin, adjusted for allowed energy costs, would apply to sales of electricity to franchise customers. Payments received primarily represent the shortfall in the margin received by the Economic Entity.

(iii) Dividend revenue

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

(iv) Other non-regulated revenue

Non-regulated revenue comprises revenue (net of discounts and allowances) mainly from the provision of electricity-related services. Revenue for the provision of services is recognised by reference to the stage of completion of the transaction. Revenue for the sale of goods is recognised on delivery of the goods to the customer. Interest income is recognised in the income statement as it accrues, using the effective interest rate method.

(H) Expenses

(i) Cost of sales

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

(ii) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(iii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(iv) Finance and related costs

Finance costs are recognised as expenses in the period in which they are incurred except where borrowings have been taken to fund a qualifying constructed asset.

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

(l) Income taxes

(i) Tax equivalents

The Economic Entity is liable to make tax equivalent payments on its taxable income to the Queensland Government. Any taxation payments that it is required to make will be made pursuant to Section 129(4) of the *Government Owned Corporations Act 1993*. To date, the Economic Entity has not made any tax payments since its inception because of its tax loss profile.

The Economic Entity's tax liability is administered by the Australian Taxation Office (ATO) under the National Tax Equivalent Regime (NTER). The NTER broadly utilises the provisions of the *Income Tax Assessment Act 1936*, the *Income Tax Assessment Act 1997* and associated legislation, the NTER Manual as well as Rulings and other pronouncements by the ATO, in order to determine the tax payable by the Economic Entity (refer Note 5).

The Economic Entity is not required to maintain a franking account.

(ii) Current tax equivalents payable

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

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

(iii) Deferred tax equivalent assets and liabilities

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

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

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;
- Differences relating to investments in subsidiaries and jointly controlled entities to the extent that the Economic Entity is able to control the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Differences arising on the initial recognition of goodwill.

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

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

- Items recognised directly in equity, in which case that portion is recognised in equity; and
- Acquisitions of entities or operations, in which case that portion is recognised in goodwill.

Deferred tax equivalent assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, where they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(iv) Income tax equivalent expense

Income tax equivalent expense for the reporting period consists of current tax expense and deferred tax expense.

(v) Tax consolidation

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

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

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

Any current tax liabilities/assets and deferred tax equivalent assets arising from unused tax losses and tax credits assumed by the head entity from the subsidiaries in the tax-consolidated group are recognised by the Company in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution to or distribution from the subsidiary.

The Company recognises deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses and tax credits assumed from subsidiaries are recognised by the head entity only.

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

The members of the tax-consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any tax loss or tax credit deferred tax equivalent asset assumed by the head entity, results in the recognition of an inter-entity receivable/(payable) in the separate financial statements of the members of the tax-consolidated group equal in amount to the tax liability/(asset) assumed. The inter-entity receivable/(payable) is at call.

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

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

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

(J) Cash and cash equivalents

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

(K) Trade and other receivables

Trade and other receivables are recognised when the Economic Entity has a legal right to receive cash, cash equivalent or economic benefit.

Trade and other receivables are measured at amortised cost less provision for impaired receivables.

The recoverability of trade and other receivables is reviewed on an ongoing basis. A provision for impaired receivables is established when there is objective evidence that the Economic Entity will not be able to collect all amounts due according to the original terms of receivables and hence the receivables are impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired. The recoverable amount is discounted at the effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The movement in the provision is recognised in the income statement.

(L) Inventories

Inventories disclosed as current assets of the Economic Entity are used in the maintenance and construction of electricity supply system assets and are not for resale. Inventories that will not be available for use within 12 months of reporting date are disclosed as non-current inventory.

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(M) Energy certificates

From 1 January 2011 renewable energy certificates (RECs) were reclassified into two certificate types, large-scale generation certificates (LGCs) and small-scale technology certificates (STCs). RECs existing at 1 January 2011 have been reclassified as LGCs. LGCs held for trading purposes are measured at fair value at the end of the financial year, adjusted for known market forces with changes in fair value recognised in the income statement. LGCs are disclosed in the financial statements as other assets.

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

LGCs and STCs used solely to satisfy retail sales commitments and surrender obligations are measured at cost. They are disclosed in the financial statements as other assets.

Gas electricity certificates on hand (including forward purchase agreements) are acquired for the Economic Entity's acquittal purposes and are measured at cost. They are disclosed in the financial statements as other assets.

(N) Property, plant and equipment

(i) Recognition and measurement

The cost of property, plant and equipment constructed by the Economic Entity includes the cost of materials, direct labour and other associated costs and, where appropriate, borrowing costs. If payment for an item of property, plant and equipment is deferred beyond normal credit terms, the difference between the cash price equivalent at the date of recognition and the total payment is recognised as interest over the period of credit.

All regulated assets are measured at fair value less any subsequent depreciation. Items included in this category are regulated electricity supply system and other regulated plant and equipment.

Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Valuations are undertaken annually to ensure that the carrying value of the asset does not differ materially from that which would be determined using fair value at the reporting date.

Fair value is determined on the basis of an income approach using discounted future cash flows. The fair value of regulated assets was determined as at 30 June 2011 by the directors based on an independent valuation undertaken by Ernst & Young.

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

All other items of property, plant and equipment are measured at fair value. Non-regulated power station assets comprising isolated generation and distribution systems were subject to an independent valuation as at 31 March 2007 undertaken by Sinclair Knight Merz Pty Ltd using the Depreciated Optimised Replacement Cost methodology. In subsequent years, the isolated generation and distribution systems have been revalued based on a weighted average of indices which estimate the change in cost of replacing those assets.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the income statement, the increment is recognised immediately as income in the income statement.

Revaluation decrements are recognised immediately in the income statement, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same asset, they are debited directly to the asset revaluation reserve.

(ii) Depreciation

Depreciation is calculated on the straight line basis by reference to the useful life and residual value of each item of property, plant and equipment, other than freehold land and easements which are not depreciated. An assessment of useful lives is performed annually. Major spare parts and standby equipment purchased specifically for particular plant are capitalised and depreciated on the same basis as the plant to which they relate. Items of property, plant and equipment which relate to the supply of electricity to a specific mine or facility will be depreciated over the operational life of the mine or facility.

Major depreciation periods are:

	MEASUREMENT BASIS	DEPRECIATION PERIOD
Supply systems	Fair value	7 to 60 years
Power stations	Fair value	5 to 40 years
Buildings	Fair value	40 years
Other plant and equipment	Fair value [1]	3 to 40 years

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

(iii) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of the acquisition plus incidental costs directly attributable to the acquisition.

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

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

(v) Maintenance and repairs

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

(O) Intangible assets

(i) Internally generated assets including, expenditure on research and development

Internally generated intangible assets are measured at historical cost less accumulated amortisation and accumulated impairment losses. All costs directly attributable to the creation of the asset from the point when it first meets the recognition criteria are capitalised into the value of the asset.

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

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

(ii) Licences

Licences that have a finite useful life are measured at cost less accumulated amortisation on a consumed basis. Licences that have infinite useful life are measured at cost less accumulated impairment losses and are subject to impairment review on an annual basis or more frequently if events or changes in circumstances indicate that it might be impaired.

(iii) Software

Software is measured at historical cost less accumulated amortisation and accumulated impairment losses.

(iv) Amortisation

The cost of intangible assets is amortised on a straight-line basis over the estimated useful life of the assets unless such assets have indefinite useful lives. Major amortisation periods are:

	MEASUREMENT BASIS	AMORTISATION PERIOD
Software	Cost	2 to 10 years
Licences	Cost	1 to 10 years

(P) Impairment of assets

Assets that have an indefinite useful life are not subject to depreciation or amortisation and are tested annually for impairment or more frequently if events or changes indicate that they might be impaired.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(Q) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

An impairment loss is recognised for the write-down of an asset to fair value less costs to sell.

An operation is classified as a discontinued operation when it has been disposed of or meets the criteria to be classified as held for sale and it represents a major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively for resale.

(R) Trade and other payables

(i) Trade and other payables

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

(ii) Dividends payable

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

(S) Borrowings

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

(T) Employee benefits

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

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

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

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

(ii) On-costs and superannuation contributions on leave balances

On-costs, including payroll tax and workers' compensation insurance, are recognised and included in liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

On-costs are measured at their nominal amounts unless the effect of the time value of money is material. If the effect of the time value of money is material, the on-costs are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

On-costs are not employee benefits and are excluded from employee benefits expense. Provisions for on-costs are disclosed in the financial statements as employee benefit on-cost provisions.

Superannuation contributions relating to leave balances are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Superannuation contributions are disclosed as employee benefit expenses and as employee benefit liabilities.

(iii) Superannuation

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

A defined contribution plan is a superannuation plan under which the Company pays fixed contributions.

The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

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

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

(U) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. Where material, the increase in the provision due to the passage of time is recognised as interest expense.

(i) Onerous contracts

A provision for an onerous contract is recognised when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

(ii) Restoration and rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably. The estimated future obligations include the costs of restoring the affected area.

(V) Share capital

Ordinary shares are classified as equity.

(W) Lease commitments

(i) Operating leases

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

(ii) Finance leases

Leases in which substantially all of the risks and rewards of ownership are transferred to the lessee are classified as finance leases. A finance lease asset and a finance lease liability are recorded on the statement of financial position. The lease asset and the lease liability are established at the fair value of the asset or, if lower, at the present value of minimum lease payments. Lease payments are allocated between the finance charge and the reduction of the outstanding liability over the life of the lease.

(iii) Lease incentives

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

(X) Contingent assets and liabilities

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

(Y) Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and the Economic Entity will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match the grants with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(Z) Derivative financial instruments

(i) Hedge accounting

The Economic Entity used derivative instruments to hedge foreign exchange and interest rate exposures arising from its activities. In accordance with treasury policy, hedge accounting is applied where a designated hedge relationship exists.

Where the derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on a derivative financial instrument is recognised direct in equity as a reserve.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the forecast transaction subsequently results in the recognition of a non-financial asset or liability, or the forecast transaction of a non-financial asset or liability, the associated cumulative gain or loss is removed from equity and included in the initial cost of the associated asset or liability.

If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or liability, such as a debt instrument, the associated gains or losses that were recognised directly in equity are reclassified into the income statement in the same period during which the asset acquired or assumed affects the income statement.

For cash flow hedges other than those noted above, associated cumulative gains or losses are removed from equity and recognised in the income statement in the same period during which the hedged forecast transaction affects the income statement. The ineffective part of any gain or loss is recognised immediately in the income statement.

Where the hedging instrument expires or is sold, terminated or exercised, or the Economic Entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedge transaction is no longer expected to occur, the cumulative unrealised gain or loss is transferred from equity immediately to the income statement.

(ii) Fair value accounting through the profit and loss

Derivatives are recognised at fair value at the date that a derivative contract is entered into (trade date) and is subsequently measured at fair value at each reporting date. A positive revaluation amount is reported as an asset and a negative revaluation amount is reported as a liability. The resulting gain or loss is recognised in the income statement immediately.

The following transactions are classified as derivative financial instruments and measured at fair value through the profit and loss.

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

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

2) *Power purchase agreements (PPAs)*

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

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

3) *Long-term Energy Procurement (LEP) Agreement*

   The LEP Agreement is a component of the Community Service Obligation (CSO) and Energy Procurement Deed (Deed). Its purpose relates to the management of the risk exposure from electricity price volatility experienced by the Economic Entity on franchise load. The counterparty to the Deed is the State of Queensland and the Deed was initially due to expire on 31 December 2007. Since this date, the Economic Entity has been maintaining the existing terms based on a formal exchange of letters with the Queensland Government agreeing to the extension of the Deed, including the framework already established as part of the existing LEP Agreement.

   The LEP Agreement consists of a tiered pricing structure with a cap and floor provision. The LEP Agreement represents a derivative financial instrument that is measured at fair value through the profit and loss.

   Fair value is determined using a combination of data sources including the Deed, trades executed by the Economic Entity, the SFE, ICAP and other market intelligence.

4) *Embedded derivatives*

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

(AA) Power purchase agreements

PPAs that are entered into for the Economic Entity's own use are not considered to be financial instruments and are therefore accrual accounted.

(AB) Goods and services tax

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

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

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

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

(AC) Other owners' contributions

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

(AD) Application of new Accounting Standards and interpretations

The Australian Accounting Standards Board (AASB) has published certain new accounting standards and interpretations in the current year. The Economic Entity has adopted all of the new and revised standards and interpretations that are relevant to its operations and effective for the current reporting period.
The adoption of these new and revised standards and interpretations does not have a material impact on the result or disclosure of the Economic Entity in the current reporting period.

The AASB has also published certain new accounting standards and interpretations that are not mandatory for 30 June 2011 reporting periods and which the Economic Entity has not early adopted. The Economic Entity's assessment of the initial impact of the following standards and interpretations either do not apply to the Economic Entity or are not expected to have an impact on the financial report of the Economic Entity:

STANDARD / INTERPRETATION	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED TO THE FINANCIAL YEAR ENDING
AASB 9 *Financial Instruments* AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 and* AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*	1 January 2013	30 June 2014
Revised AASB 124 *Related Party Disclosures and* AASB 2009-12 *Amendments to Australian Accounting Standards*	1 January 2011	30 June 2012
AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement*	1 January 2011	30 June 2012
AASB 2010-2 *Amendments to Australian Accounting Standards arising from reduced disclosure requirements and*	1 July 2013	30 June 2014
AASB 1053 *Application of Tiers of Australian Accounting Standards*	1 July 2013	30 June 2014
AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13)*	1January 2011	30 June 2012
AASB 2010-5 *Amendments to Australian Accounting Standards*	1 January 2011	30 June 2012
AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets*	1 July 2011	30 June 2012
AASB 2010-8 *Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets*	1 January 2012	30 June 2013
AASB 2010-9 *Amendments to Australian Accounting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters and*	1 July 2011	30 June 2012
AASB-10 *Further Amendments to Australian Accounting Standards - Removal of Fixed Dates for First-time Adopters*	1 January 2013	30 June 2014
AASB 2011-1 *Amendments to Australian Accounting Standards - arising from the Trans-Tasman Convergence Project (AASB 1,5,101,107,108,121,128,132, and 134 ; and Interpretations 2,112,113)*	1 July 2011	30 June 2012
AASB 2011-2 *Amendments to Australian Accounting Standards - arising from the Trans-Tasman Convergence Project - reduced disclosure requirements (AASB 101 and AASB 1054)*	1 July 2013	30 June 2014
AASB 2011-3 *Amendments to Australian Accounting Standards - Orderly Adoption of changes to the ABS GFS Manual and related amendments (AASB 1049)*	1 July 2012	30 June 2013

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(A) Critical accounting estimates and assumptions

The Economic Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

(i) Defined benefit superannuation fund obligations

Various actuarial assumptions are utilised in the determination of the Economic Entity's defined benefit superannuation fund obligations. These assumptions are discussed in Note 16.

(ii) Electricity financial instruments measured at fair value

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

- Future price and volume estimation using in-house and off-the-shelf valuation models; and
- Discounting for time value of money.

(iii) Energy certificates

Like financial instruments measured at fair value, LGCs held for trading are measured at fair value. The Economic Entity determines the fair value of these certificates using market based valuation methods as outlined in Note 1. It has taken into account the conditions existing at balance date and has used its judgement in determining the fair value.

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

(B) Critical judgements in applying the Economic Entity's accounting policy

The Economic Entity has made critical judgements in applying the Economic Entity's accounting policies. Listed below are the areas where critical judgement has been applied.

(i) Employee benefits

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

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

(ii) Impairment of trade receivables

The Economic Entity recognises a provision for impaired receivables in accordance with the requirements with AASB 139 *Financial Instruments: Recognition and Measurement*. In some cases, due to the high volume, low value of such trade receivables, management has exercised judgement in determining the provision for impaired trade receivables based on evidence of significant financial difficulties of the debtor and probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency. In addition to these indicators, the Economic Entity considers evidence of the trends of bad debts experienced within certain levels of aged receivables.

(iii) Property Plant and Equipment

As detailed under note 1(N) regulated assets are measured at fair value on the basis of an income approach with revaluation increments and decrements recognised respectively either in the income statement or revaluation reserve as appropriate.

The useful life and residual value of each item of property, plant and equipment, other than freehold land and easements is reassessed annually with depreciation rates and expense appropriately adjusted.

NOTE 3: REVENUE AND OTHER INCOME

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
REVENUE				
Sales revenue				
Sales revenue - controlled parties	**-**	-	**1,198.5**	1,035.5
Sales revenue - other parties	**1,954.7**	1,852.6	**433.0**	270.3
Other revenue				
Community service obligations	**399.3**	251.6	**-**	-
Non-refundable capital contributions	**112.2**	44.9	**112.2**	44.9
Interest received	**20.6**	17.6	**13.7**	14.2
Dividend Income - controlled entities	**-**	-	**70.2**	48.6
Other operating revenue	**41.3**	30.4	**83.5**	63.1
Total revenue	**2,528.1**	2,197.1	**1,911.1**	1,476.6
OTHER INCOME				
Fair value gains on financial instruments at fair value	**8.5**	-	**-**	-
Fair value gains on energy certificates at fair value	**-**	0.1	**-**	-
Gain on disposal of property, plant and equipment	**1.9**	6.5	**1.9**	6.5
Total other income	**10.4**	6.6	**1.9**	6.5

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 4: EXPENSES

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
Profit before income tax equivalent expense includes the following specific expenses:				
Finance costs				
Interest paid or payable	**293.7**	243.4	**292.7**	242.6
Total finance costs	**293.7**	243.4	**292.7**	242.6
Depreciation				
Supply system assets	**221.8**	200.6	**221.8**	200.6
Power station assets	**16.4**	15.1	**16.4**	15.1
Buildings	**8.4**	7.8	**8.4**	7.8
Other plant and equipment	**55.1**	52.5	**55.1**	52.4
Total depreciation	**301.7**	276.0	**301.7**	275.9
Amortisation				
Intangible assets	**6.8**	10.1	**6.1**	9.5
Total amortisation	**6.8**	10.1	**6.1**	9.5
Impairment				
Trade receivables	**5.9**	5.4	**0.3**	(0.9)
Recovery of impairments	**(0.2)**	(0.6)	**-**	-
Total impairment	**5.7**	4.8	**0.3**	(0.9)
Total depreciation, amortisation and impairment	**314.2**	290.9	**308.1**	284.5
Loss on disposal of non-current assets	**1.9**	1.7	**1.9**	1.7
Increase in provisions	**71.4**	55.7	**70.7**	54.7
Rental expense on operating leases				
Minimum lease payments	**9.2**	9.1	**9.2**	9.1
Total rental expense on operating leases	**9.2**	9.1	**9.2**	9.1
Fair values losses				
Fair value losses on financial instruments measured at fair value through profit and loss	**-**	7.7	**-**	-
Fair value losses on energy certificates measured at fair value through profit and loss	**0.3**	-	**-**	-
Total fair value losses	**0.3**	7.7	**-**	-

NOTE 5: TAXATION

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
(A) INCOME TAX EQUIVALENT EXPENSE				
Deferred tax expense	**128.8**	68.4	**96.4**	50.2
Income tax equivalent expense	**128.8**	68.4	**96.4**	50.2
Deferred income tax expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (refer Note 13(A))	**53.5**	(77.6)	**(3.7)**	(47.9)
Increase/(decrease) in deferred tax liabilities (refer Note 13(B))	**80.6**	147.2	**105.6**	99.3
Under/(over) provision in prior years	**(5.3)**	(1.2)	**(5.5)**	(1.2)
Income tax expense attributable to profit from continuing operations	**128.8**	68.4	**96.4**	50.2
(B) NUMERICAL RECONCILIATION OF INCOME TAX EQUIVALENT EXPENSE TO PRIMA FACIE TAX PAYABLE				
Net profit before income tax equivalent expense	**450.4**	234.9	**412.5**	222.1
Prima facie income tax equivalent expense on operating profit at 30% (2010: 30%)	**135.1**	70.5	**123.7**	66.6
Decrease in income tax equivalent expense:				
Dividends receivable	**-**	-	**(21.0)**	(14.6)
Deductible depreciation	**(0.5)**	(0.4)	**-**	-
Non-assessable income	**-**	-	**-**	-
Increase in income tax equivalent expense:				
Non-deductible expenses	**(0.5)**	(0.5)	**(0.8)**	(0.6)
	134.1	69.6	**101.9**	51.4
Under/(over) provision in prior years	**(5.3)**	(1.2)	**(5.5)**	(1.2)
Income tax equivalent expense	**128.8**	68.4	**96.4**	50.2
(C) DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY				
Revaluation property, plant and equipment	**231.5**	31.0	**231.5**	31.0
Recognition of defined benefit surplus/(deficit)	**17.7**	3.7	**17.7**	3.7
Deferred tax recognised directly in equity	**249.2**	34.7	**249.2**	34.7

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 6: CASH AND CASH EQUIVALENTS

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
Cash at bank and on hand	**15.3**	25.5	**6.7**	17.9
Short term deposits	**263.9**	258.7	**204.1**	200.9
Total cash and cash equivalents	**279.2**	284.2	**210.8**	218.8

(A) RECONCILIATION TO CASH AT THE END OF THE FINANCIAL YEAR IN THE STATEMENTS OF CASH FLOWS

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statements of cash flows:				
Cash and cash equivalents	**279.2**	284.2	**210.8**	218.8
Total cash and cash equivalents	**279.2**	284.2	**210.8**	218.8

NOTE 7: TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
CURRENT				
Trade receivables	**298.6**	292.7	**44.8**	29.1
Less provision for impairment of receivables	**(9.7)**	(10.1)	**(0.6)**	(0.6)
Total net trade receivables	**288.9**	282.6	**44.2**	28.5
Community service obligations	**103.6**	60.5	**-**	-
Receivables due from controlled entities	**-**	-	**212.1**	186.5
Receivables due from jointly controlled entities	**37.5**	40.5	**37.5**	40.5
Other receivables and prepayments	**6.8**	9.0	**4.1**	5.5
Total current trade and other receivables	**436.8**	392.6	**297.9**	261.0
NON-CURRENT				
Other receivables and prepayments	**85.7**	0.3	**85.7**	0.3
Loans to jointly controlled entities	**47.2**	59.5	**47.2**	59.5
Total non-current trade and other receivables	**132.9**	59.8	**132.9**	59.8

(A) IMPAIRED TRADE RECEIVABLES

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

	GROSS	IMPAIRMENT	GROSS	IMPAIRMENT
	2011 $M	**2011 $M**	2010 $M	2010 $M
CONSOLIDATED - AGEING OF IMPAIRED RECEIVABLES				
Less than one month overdue	**25.3**	**1.1**	23.1	1.7
One to two months overdue	**6.2**	**1.2**	5.0	1.9
Two to three months overdue	**2.0**	**0.7**	1.7	1.1
Over three months overdue	**7.3**	**6.7**	5.7	5.4
	40.8	**9.7**	35.5	10.1
THE COMPANY - AGEING OF IMPAIRED RECEIVABLES				
Less than one month overdue	**1.3**	**-**	0.4	-
One to two months overdue	**0.1**	**-**	0.3	-
Two to three months overdue	**0.2**	**-**	0.2	-
Over three months overdue	**0.8**	**0.6**	0.6	0.6
	2.4	**0.6**	1.5	0.6

NOTE 7: TRADE AND OTHER RECEIVABLES (CONTINUED)

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
Movements in the provision for impairment of receivables are as follows:				
Carrying amount at the beginning of the financial year	**10.1**	9.6	**0.6**	1.8
Provision for impairment recognised during the financial year	**5.9**	6.5	**0.3**	0.3
Receivables written off during the financial year as uncollectible	**(6.3)**	(4.8)	**(0.3)**	(0.3)
Unused provision reversed	**-**	(1.2)	**-**	(1.2)
Carrying amount at the end of the financial year	**9.7**	10.1	**0.6**	0.6

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

(B) PAST DUE BUT NOT IMPAIRED

As at 30 June 2011, trade receivables of $1.3 million (2010: $0.9 million) of the Economic Entity and $1.2 million (2010: $0.9 million) of the Company were past due but not impaired. These debtors have not been provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable.

The ageing analysis of these receivables is as follows:				
Less than one month overdue	**1.1**	0.4	**1.0**	0.4
One to two months overdue	**-**	0.3	**-**	0.3
Two to three months overdue	**0.1**	0.2	**0.1**	0.2
Over three months overdue	**0.1**	-	**0.1**	-
	1.3	0.9	**1.2**	0.9

The other classes within trade and other receivables do not contain impaired assets and are not past due.

Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(C) FOREIGN EXCHANGE AND INTEREST RATE RISK

Information about the Economic Entity's and the Company's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 22.

(D) FAIR VALUE AND CREDIT RISK

Components of the CSO receivable have been discounted to reflect the time value of money.

Due to the short-term nature of the remaining current receivables, their carrying amount approximates their fair value. The fair value of non-current receivables is considered in Note 22.

Refer to Note 22 for more information on the risk management policy of the Economic Entity and the credit quality of its trade receivables.

NOTE 8: INVENTORIES

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
CURRENT				
Maintenance and construction stock, at cost or net realisable value which ever is the lower.	**93.2**	95.7	**93.2**	95.7
Total current inventories	**93.2**	95.7	**93.2**	95.7
NON-CURRENT				
Inventories	**1.7**	1.5	**1.7**	1.5
Total non-current inventories	**1.7**	1.5	**1.7**	1.5

Inventories recognised as an expense during the financial year amounted to $55.1 million (2010: $49.6 million) for the Economic Entity and the Company.

Write-downs of inventories to net realisable value recognised as an expense during the financial year amounted to $1.1 million (2010: $0.5 million). The expense has been included in materials and services in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 9: FINANCIAL ASSETS

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
CURRENT				
At fair value through profit and loss				
Electricity hedges	**32.2**	6.4	**-**	-
Long-term energy procurement	**125.1**	301.4	**-**	-
Power purchase agreement held for trading	**5.8**	6.8	**-**	-
Total current financial assets	**163.1**	314.6	**-**	-
NON-CURRENT				
Investments in controlled entities - at recoverable amount	**-**	-	**2.5**	2.5
Total non-current financial assets	**-**	-	**2.5**	2.5

NOTE 10: OTHER ASSETS

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
CURRENT				
Property, plant and equipment held for sale	**-**	21.1	**-**	21.0
Energy certificates	**39.3**	20.0	**-**	-
Other	**0.1**	-	**0.1**	-
Total current other assets	**39.4**	41.1	**0.1**	21.0

Property, plant and equipment classified as held for sale as at 30 June 2010 related to assets under construction and were sold during 2010/2011

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
SUPPLY SYSTEMS				
At independent valuation	**12,810.5**	-	**12,810.5**	-
At directors' valuation	**-**	11,173.4	**-**	11,173.4
Less accumulated depreciation	**(5,570.8)**	(4,902.8)	**(5,570.8)**	(4,902.8)
Net carrying value	**7,239.7**	6,270.6	**7,239.7**	6,270.6
POWER STATIONS				
At directors' valuation	**346.8**	324.8	**337.6**	315.6
Less accumulated depreciation	**(140.9)**	(121.8)	**(131.7)**	(112.6)
Net carrying value	**205.9**	203.0	**205.9**	203.0
LAND				
At independent valuation	**205.2**	-	**205.2**	-
At directors' valuation	**-**	164.8	**-**	164.8
Net carrying value	**205.2**	164.8	**205.2**	164.8
BUILDINGS				
At independent valuation	**241.1**	-	**241.1**	-
At directors' valuation	**-**	207.5	**-**	207.5
Less accumulated depreciation	**(121.0)**	(105.4)	**(121.0)**	(105.4)
Net carrying value	**120.1**	102.1	**120.1**	102.1
OTHER PLANT AND EQUIPMENT				
At independent valuation	**530.4**	-	**529.9**	-
At directors' valuation	**-**	481.9	**-**	481.3
Less accumulated depreciation	**(246.5)**	(197.6)	**(246.0)**	(197.0)
Net carrying value	**283.9**	284.3	**283.9**	284.3
WORK IN PROGRESS				
At cost	**720.7**	470.2	**720.7**	470.2
Total property, plant and equipment	**8,775.5**	7,495.0	**8,775.5**	7,495.0

If property, plant and equipment were stated on a historical cost basis, the carrying amount would have been:

Supply systems	**4,855.9**	4,551.6	**4,855.9**	4,551.6
Power stations	**161.2**	162.4	**161.2**	162.4
Land	**154.5**	135.2	**154.5**	135.2
Buildings	**95.4**	86.9	**95.4**	86.9
Other plant and equipment	**218.9**	237.8	**218.9**	237.8

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 11: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
RECONCILIATIONS				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
SUPPLY SYSTEMS				
Gross carrying amount at the beginning of the financial year	**11,173.4**	10,146.5	**11,173.4**	10,146.5
Accumulated depreciation and impairment at the beginning of the financial year	**(4,902.8)**	(4,668.8)	**(4,902.8)**	(4,668.8)
Carrying amount at the beginning of the financial year	**6,270.6**	5,477.7	**6,270.6**	5,477.7
Additions	**481.0**	912.2	**481.0**	912.2
Revaluation increments less decrements	**709.9**	81.3	**709.9**	81.3
Depreciation expense	**(221.8)**	(200.6)	**(221.8)**	(200.6)
Carrying amount at the end of the financial year	**7,239.7**	6,270.6	**7,239.7**	6,270.6
POWER STATIONS				
Gross carrying amount at the beginning of the financial year	**324.8**	287.2	**315.6**	278.0
Accumulated depreciation and impairment at the beginning of the financial year	**(121.8)**	(110.4)	**(112.6)**	(101.2)
Carrying amount at the beginning of the financial year	**203.0**	176.8	**203.0**	176.8
Transfer of assets between categories	**-**	0.7	**-**	0.7
Additions	**12.6**	27.4	**12.6**	27.4
Disposals	**(0.1)**	-	**(0.1)**	-
Revaluation increments less decrements	**6.8**	13.2	**6.8**	13.2
Depreciation expense	**(16.4)**	(15.1)	**(16.4)**	(15.1)
Carrying amount at the end of the financial year	**205.9**	203.0	**205.9**	203.0
LAND				
Carrying amount at the beginning of the financial year	**164.8**	109.0	**164.8**	109.0
Additions	**20.4**	53.4	**20.4**	53.4
Disposals	**(0.5)**	(0.7)	**(0.5)**	(0.7)
Revaluation increments less decrements	**20.5**	3.1	**20.5**	3.1
Carrying amount at the end of the financial year	**205.2**	164.8	**205.2**	164.8

NOTE 11: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
BUILDINGS				
Gross carrying amount at the beginning of the financial year	**207.5**	178.6	**207.5**	178.6
Accumulated depreciation and impairment at the beginning of the financial year	**(105.4)**	(97.2)	**(105.4)**	(97.2)
Carrying amount at the beginning of the financial year	**102.1**	81.4	**102.1**	81.4
Additions	**14.4**	27.7	**14.4**	27.7
Disposals	**-**	(1.0)	**-**	(1.0)
Revaluation increments less decrements	**12.0**	1.8	**12.0**	1.8
Depreciation expense	**(8.4)**	(7.8)	**(8.4)**	(7.8)
Carrying amount at the end of the financial year	**120.1**	102.1	**120.1**	102.1
OTHER PLANT AND EQUIPMENT				
Gross carrying amount at the beginning of the financial year	**481.9**	432.8	**481.3**	432.0
Accumulated depreciation and impairment at the beginning of the financial year	**(197.6)**	(181.3)	**(197.0)**	(180.6)
Carrying amount at the beginning of the financial year	**284.3**	251.5	**284.3**	251.4
Transfer of assets between categories	**-**	(0.1)	**-**	(0.1)
Additions	**82.5**	87.1	**82.5**	87.1
Disposals	**(53.4)**	(6.7)	**(53.4)**	(6.7)
Revaluation increments less decrements	**25.6**	5.0	**25.6**	5.0
Depreciation expense	**(55.1)**	(52.5)	**(55.1)**	(52.4)
Carrying amount at the end of the financial year	**283.9**	284.3	**283.9**	284.3
WORK IN PROGRESS				
Carrying amount at the beginning of the financial year	**470.2**	804.2	**470.2**	802.9
Transfer to property, plant and equipment and intangible assets	**(545.8)**	(1,049.6)	**(545.8)**	(1,047.7)
Additions	**796.3**	715.6	**796.3**	715.0
Carrying amount at the end of the financial year	**720.7**	470.2	**720.7**	470.2
Total property, plant and equipment	**8,775.5**	7,495.0	**8,775.5**	7,495.0

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 11: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Valuation of the Company's regulated assets

The majority of the Economic Entity's property, plant and equipment is employed in the distribution of electricity and subject to regulation via a revenue cap. Accordingly, the Fair Value valuation of the Economic Entity's property, plant and equipment is based on the application of a discounted cash flow (DCF) methodology. For the closing asset values, an independent income based valuation was performed by Ernst & Young.

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

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

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

Thus, the key assumptions applied by Ernst & Young and adopted by the Directors in the DCF methodology to the valuation of the Economic Entity's property, plant and equipment are:

- The quantification and assessment of the cash flow forecasts generated by the Economic Entity's property, plant and equipment during the forecast period;
- The inclusion of estimated annual capital expenditure during the forecast period;
- Assessment of terminal value (in the case of the regulated property, plant and equipment) reflecting a 1.1 times multiple of terminal year RAB (2010: 1.0 times multiple of terminal year RAB). This change of assumption results in an additional increment in the carrying value of regulated property, plant and equipment of $340 million;
- Determination of a discount rate which is used to convert the future cash flows into a present day value.
  The discount rate reflects both the time value of money and the risks inherent in the projected cash flows.

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

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
The Company's regulated assets are disclosed in the following categories:				
Supply systems – at independent valuation (2010: directors' valuation)	**7,169.0**	6,239.7	**7,169.0**	6,239.7
Land – at independent valuation (2010: directors' valuation)	**205.1**	164.8	**205.1**	164.8
Buildings – at independent valuation (2010: directors' valuation)	**120.1**	102.1	**120.1**	102.1
Other plant and equipment – at independent valuation (2010: directors' valuation)	**283.9**	284.2	**283.9**	284.2
Work in progress – at cost	**683.0**	430.3	**683.0**	430.3
Property, plant and equipment	**8,461.1**	7,221.1	**8,461.1**	7,221.1
Intangible assets – at amortised cost	**4.1**	7.4	**4.1**	7.4
Total regulated asset base	**8,465.2**	7,228.5	**8,465.2**	7,228.5

NOTE 12: INTANGIBLE ASSETS

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
Computer software - at cost	**48.4**	41.1	**37.5**	35.2
Less accumulated amortisation	**(39.2)**	(33.4)	**(34.4)**	(29.0)
Net carrying value	**9.2**	7.7	**3.1**	6.2
Other intangible assets - at cost	**2.2**	2.5	**2.2**	1.8
Less accumulated amortisation	**(1.2)**	(1.0)	**(1.2)**	(0.6)
Net carrying value	**1.0**	1.5	**1.0**	1.2
Work in progress	**4.1**	4.6	**-**	-
Total intangible assets	**14.3**	13.8	**4.1**	7.4

RECONCILIATION

COMPUTER SOFTWARE				
Cost at the beginning of the financial year	**41.1**	33.1	**35.2**	27.3
Accumulated amortisation and impairment at the beginning of the financial year	**(33.4)**	(24.0)	**(29.0)**	(20.2)
Carrying amount at the beginning of the financial year	**7.7**	9.1	**6.2**	7.1
Additions - acquisitions	**-**	0.2	**-**	0.1
Additions - internally developed	**7.7**	7.9	**2.4**	7.9
Amortisation expense	**(6.2)**	(9.5)	**(5.5)**	(8.9)
Carrying amount at the end of the financial year	**9.2**	7.7	**3.1**	6.2
OTHER INTANGIBLE ASSETS				
Cost at the beginning of the financial year	**2.5**	0.8	**1.8**	-
Accumulated amortisation and impairment at the beginning of the financial year	**(1.0)**	(0.4)	**(0.6)**	-
Carrying amount at the beginning of the financial year	**1.5**	0.4	**1.2**	-
Additions	**0.4**	1.7	**0.4**	1.8
Disposals	**(0.3)**	-	**-**	-
Amortisation expense	**(0.6)**	(0.6)	**(0.6)**	(0.6)
Carrying amount at the end of the financial year	**1.0**	1.5	**1.0**	1.2
WORK IN PROGRESS				
Carrying amount at the beginning of the financial year	**4.6**	-	**-**	-
Transfer to property, plant and equipment and intangible assets	**(5.2)**	(2.7)	**-**	-
Transfer between categories	**-**	1.3	**-**	-
Additions	**4.7**	6.0	**-**	-
Carrying amount at the end of the financial year	**4.1**	4.6	**-**	-
Total intangible assets	**14.3**	13.8	**4.1**	7.4

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 13: NET DEFERRED TAX EQUIVALENT LIABILITY

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
(A) DEFERRED TAX EQUIVALENT ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in income statement				
Provisions	**62.4**	71.3	**52.7**	62.7
Tax losses	**323.1**	336.7	**362.9**	350.5
Derivatives	**46.6**	92.8	**-**	-
Accrued expenses	**1.7**	1.8	**1.7**	1.8
Unearned revenue	**7.7**	7.1	**7.7**	7.1
Other	**6.5**	0.1	**6.0**	2.0
Defined benefit	**-**	(1.5)	**-**	(1.5)
	448.0	508.3	**431.0**	422.6
Tax losses utilised by wholly owned entities	**-**	-	**(41.0)**	(22.4)
Tax losses originating from wholly owned entities	**-**	-	**1.1**	8.6
	448.0	508.3	**391.1**	408.8
Amounts recognised directly in equity				
Recognition of defined benefit deficit	**-**	13.6	**-**	13.6
Deferred tax equivalent asset	**448.0**	521.9	**391.1**	422.4
(B) DEFERRED TAX EQUIVALENT LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in income statement				
Property, plant and equipment	**1,013.0**	917.2	**1,013.0**	919.2
Derivatives	**93.2**	132.6	**-**	-
Accrued income	**0.3**	0.5	**0.3**	0.5
Defined benefit	**7.6**	-	**7.6**	-
Other	**14.7**	10.0	**14.0**	10.4
	1,128.8	1,060.3	**1,034.9**	930.1
Amounts recognised directly in equity				
Recognition of defined benefit surplus	**4.1**	-	**4.1**	-
Revaluation of property, plant and equipment	**660.5**	429.0	**660.5**	429.0
Deferred tax equivalent liabilities	**1,793.4**	1,489.3	**1,699.5**	1,359.1
(C) TOTAL NET DEFERRED TAX EQUIVALENT LIABILITY				
Deferred tax equivalent assets	**448.0**	521.9	**391.1**	422.4
Deferred tax equivalent liabilities	**(1,793.4)**	(1,489.3)	**(1,699.5)**	(1,359.1)
Net deferred tax equivalent liability	**(1,345.4)**	(967.4)	**(1,308.4)**	(936.7)

NOTE 14: TRADE AND OTHER PAYABLES

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
CURRENT				
Trade payables	**110.1**	94.2	**88.4**	73.6
Accrued interest and charges	**64.9**	58.7	**64.9**	58.7
Dividends payable	**252.6**	137.5	**252.6**	137.5
Electricity hedges payable	**21.2**	18.0	**-**	-
GST payable	**4.1**	5.1	**4.1**	5.1
Unearned income	**27.8**	53.1	**25.8**	52.5
Other payables and accruals	**65.8**	70.5	**35.3**	44.4
Amounts payable to controlled entities	**-**	-	**-**	5.1
Total current payables	**546.5**	437.1	**471.1**	376.9
NON-CURRENT				
Other payables	**1.0**	1.0	**1.0**	1.1
Total non-current payables	**1.0**	1.0	**1.0**	1.1

Foreign exchange and interest rate risk

Information about the Economic Entity's exposure to foreign currency risk and interest rate risk is provided in Note 22.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 15: INTEREST BEARING LIABILITIES

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
CURRENT				
Unsecured liabilities				
Customer and other repayable deposits	**19.9**	15.4	**0.1**	-
Secured liabilities				
Finance lease liabilities	**-**	1.9	**-**	1.9
Total current interest bearing liabilities	**19.9**	17.3	**0.1**	1.9
NON-CURRENT				
Unsecured liabilities				
Queensland Treasury Corporation loans	**4,314.7**	3,962.7	**4,314.7**	3,962.7
Customer and other repayable deposits	**-**	0.2	**-**	0.2
Total non-current interest bearing liabilities	**4,314.7**	3,962.9	**4,314.7**	3,962.9

(A) QUEENSLAND TREASURY CORPORATION LOANS

The market value of Queensland Treasury Corporation (QTC) loans at 30 June 2011 was $4,483.5 million (2010: $4,130.5 million). The market value of the QTC loan is the price that the bonds could be bought for at balance date as advised by the QTC.

(B) CUSTOMER AND OTHER REPAYABLE DEPOSITS

Customer and other repayable deposits include security deposits received by the Economic Entity in relation to electricity supply to certain customers. Interest is paid on the deposits and credited to the customers account annually.

(C) FINANCE LEASE LIABILITIES

Information about the Economic Entity's and the Company's lease commitments is provided in Note 24.

(D) FINANCING ARRANGEMENTS

The Economic Entity has access to the following lines of credit:

	CONSOLIDATED 2011 $M	CONSOLIDATED 2010 $M	THE COMPANY 2011 $M	THE COMPANY 2010 $M
Working capital facility				
Facility not utilised at the end of the financial year	**300.0**	300.0	**150.0**	150.0
Total facility available	**300.0**	300.0	**150.0**	150.0

(E) INTEREST RATE AND LIQUIDITY RISK

Information about the Economic Entity's and the Company's exposure to interest rate risk and liquidity risk is provided in Note 22.

NOTE 16: EMPLOYEE BENEFITS

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
NON-CURRENT ASSETS				
Retirement benefit asset	**38.8**	-	**38.8**	-
Total non-current employee benefit asset	**38.8**	-	**38.8**	-
CURRENT LIABILITIES				
Employee benefits	**143.9**	138.3	**143.9**	138.3
Total current employee benefits liability	**143.9**	138.3	**143.9**	138.3
NON-CURRENT LIABILITIES				
Employment benefits	**15.3**	13.2	**15.3**	13.2
Retirement benefit liability	**-**	40.6	**-**	40.6
Total non-current employee benefits liability	**15.3**	53.8	**15.3**	53.8

The current provision for employee benefits for the Economic Entity and the Company includes $89.5 million of annual leave, vested long service leave and on-cost entitlements accrued but not expected to be taken within 12 months (2010: $72.6 million).

EMPLOYEES RECEIVING PERFORMANCE PAYMENTS

FINANCIAL YEAR	AGGREGATE AT-RISK PERFORMANCE REMUNERATION $M	TOTAL FIXED SALARIES AND WAGES PAYMENTS $M	EMPLOYEES RECEIVING PERFORMANCE PAYMENTS NUMBER	EMPLOYEES AT THE END OF THE FINANCIAL YEAR NUMBER
2011	**3.3**	**35.7**	**218**	**4,624**
2010	3.7	36.4	232	4,513

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

Performance payments

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

To be eligible for payment, employees must have a formal performance review every six months within the performance period, based on agreed performance and behaviour targets. The at-risk performance scheme is designed to focus employees on the achievement of business performance targets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16: EMPLOYEE BENEFITS (CONTINUED)

(A) DEFINED BENEFIT OBLIGATION

Entities within the Economic Entity contribute to an industry multiple employer superannuation fund, the Energy Super Fund. The Energy Super Fund was formed on the 1 April 2011 with the merger of the Electricity Supply Industry Superannuation Fund (Qld) and SPEC Super. Members, after serving a qualifying period, are entitled to benefits from this fund on retirement, resignation, retrenchment, disability or death.

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

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

The Economic Entity may at any time, by notice to the Trustee, terminate its contributions. The employer has a liability to pay the monthly contributions due prior to the effective date of the notice, but there is no requirement for an employer to pay any further contributions, irrespective of the financial condition of the Fund.

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

The Economic Entity expects to contribute $16.7 million to its defined benefit plans in 2012.

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

	CONSOLIDATED AND THE COMPANY				
	2011 $M	2010 $M	2009 $M	2008 $M	2007 $M
Present value of funded defined benefit obligations	**(488.8)**	(513.0)	(497.3)	(441.3)	(411.5)
Present value of plan assets	**527.6**	472.4	428.5	459.7	526.6
Net asset/(liability) arising from defined benefit obligations	**38.8**	(40.6)	(68.8)	18.4	115.1
Experience adjustments gain/(loss) - plan liabilities	**15.7**	(2.8)	2.8	(18.2)	(4.8)
Experience adjustments gain/(loss) - plan assets	**11.5**	20.5	(59.5)	(81.1)	23.5

	CONSOLIDATED AND THE COMPANY	
	2011 $M	2010 $M
Movements in the present value of the defined benefit obligations are as follows:		
Opening present value defined benefit obligation	**513.0**	497.3
Current service cost	**20.8**	21.0
Interest cost	**20.7**	21.8
Member contributions	**6.2**	6.1
Actuarial losses/(gains)	**(47.5)**	1.2
Benefit payments, expenses and tax	**(24.4)**	(34.4)
Closing present value defined benefit obligation	**488.8**	513.0

NOTE 16: EMPLOYEE BENEFITS (CONTINUED)

	CONSOLIDATED AND THE COMPANY	
	2011 $M	2010 $M
Movements in the present value of plan assets are as follows:		
Opening present value of plan assets	**472.4**	428.5
Expected return on asset	**27.9**	25.3
Actuarial gains/(losses)	**11.5**	13.8
Contributions by employer	**34.0**	33.1
Contributions by members	**6.2**	6.1
Benefit payments, expenses and tax	**(24.4)**	(34.4)
Closing present value of plan assets	**527.6**	472.4

	CONSOLIDATED AND THE COMPANY	
	2011	2010
The major categories of plan assets as a percentage of total plan assets are as follows:		
Cash	**5%**	5%
Fixed interest	**15%**	15%
Australian shares	**28%**	28%
Alternatives	**20%**	20%
International equities	**22%**	22%
Unlisted property	**10%**	10%
Total	**100%**	100%

	CONSOLIDATED AND THE COMPANY	
	2011 $M	2010 $M
Employee expenses recognised in the income statements are as follows:		
Current service costs	**20.8**	21.0
Interest on obligation	**20.7**	21.8
Expected return on plan assets	**(27.8)**	(25.3)
Total expenses recognised in the income statements as employee expenses	**13.7**	17.5
Actual return on plan assets	**39.4**	45.8

	CONSOLIDATED AND THE COMPANY	
	2011 $M	2010 $M
Amounts recognised in other comprehensive income		
Actuarial gain/(loss) on defined benefit obligations	**47.5**	(1.2)
Actuarial gain on plan assets	**11.5**	13.8
Total actuarial gains/(losses) recognised in other comprehensive income	**59.0**	12.7

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16: EMPLOYEE BENEFITS (CONTINUED)

	CONSOLIDATED AND THE COMPANY	
	2011	2010
The principal actuarial assumptions at the end of the financial year (expressed as weighted averages) are:		
Discount rate at the end of the financial year	**4.4%**	4.3%
Expected return on plan assets at the end of the financial year	**6.0%**	6.0%
Future salary increases – year one	**3.5%**	4.5%
Future salary increases – long term	**3.5%**	4.0%

The overall expected long-term rate of return on assets is 7.0% per annum. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Refer to Note 32 in relation to the probable impact of subsequent events on the value and return on assets.

(B) DEFICIT OF DEFINED BENEFIT SUPERANNUATION FUND

Deficit

The following is a summary of the most recent financial position of the Energy Super Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*:

	LAST REPORTING DATE	$M
Accrued benefits	30/06/2010	**(687.1)**
Net market value of plan assets	30/06/2010	**671.6**
Net surplus / (deficit)	30/06/2010	**(15.5)**

Employer contributions

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three yearly intervals. An actuarial assessment as at 30 June 2010 has been completed and from 1 July 2011 it has been recommended that the Company pay 15% (2011 29%) of defined benefit members' salaries.

Contribution recommendation assumptions

Contribution recommendations are based on a funding method. Under this method, future contributions are determined so that their present value is expected to be sufficient to fund the difference between:

- The value of all future benefits for existing defined benefit members; and
- The value of fund assets attributable to defined benefit members.

	LAST REPORTING DATE	$M
The principal economic assumptions used in making these recommendations include:		
Expected return on plan assets in year 1	30/06/2010	**10.0%**
Expected return on plan assets	30/06/2010	**7.0%**
Future salary increases	30/06/2010	**5.0%**

(C) DEFINED CONTRIBUTION PLANS

The Company makes contributions to defined contribution schemes in various superannuation funds. The amount recognised as expense was $24.0 million for the year ended 30 June 2011 (2010: $21.9 million).

NOTE 17: PROVISIONS

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
CURRENT				
System usage charge over recovery	**15.5**	41.6	**15.5**	41.6
Competitive neutrality	**11.6**	2.6	**11.6**	2.6
Employee benefit on-cost provisions	**6.4**	5.6	**6.4**	5.6
Rehabilitation	**2.2**	2.7	**2.2**	2.7
Other	**1.9**	7.3	**1.3**	6.8
Total current provisions	**37.6**	59.8	**37.0**	59.3
NON-CURRENT				
Systems usage charge over recovery	**-**	12.1	**-**	12.1
Employee benefit on-cost provisions	**0.7**	0.6	**0.7**	0.6
Rehabilitation	**4.7**	3.3	**2.1**	0.8
Service Target Performance Incentive Scheme (STPIS)	**10.9**	-	**10.9**	-
Total non-current provisions	**16.3**	16.0	**13.7**	13.5

The current balance for other provisions for both the Economic Entity and the Company includes $5.5 million of provisions for workers compensation and payroll tax on employee benefits that are not expected to be paid within 12 months (2010: $4.5 million).

RECONCILIATIONS

Reconciliations of the carrying amounts of each class of provision, except for employee entitlements, are set out below:

	CONSOLIDATED 2011 $M	CONSOLIDATED 2010 $M	THE COMPANY 2011 $M	THE COMPANY 2010 $M
System usage charge over recovery				
Carrying amount at the beginning of the financial year	**53.7**	55.7	**53.7**	55.7
Provision made during the financial year	**3.4**	-	**3.4**	-
Provisions used during the financial year	**(41.6)**	(2.0)	**(41.6)**	(2.0)
Carrying amount at the end of the financial year	**15.5**	53.7	**15.5**	53.7
Competitive neutrality				
Carrying amount at the beginning of the financial year	**2.6**	4.5	**2.6**	4.5
Provision made during the financial year	**44.8**	12.4	**44.8**	12.4
Provisions used during the financial year	**(35.8)**	(14.3)	**(35.8)**	(14.3)
Carrying amount at the end of the financial year	**11.6**	2.6	**11.6**	2.6

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 17: PROVISIONS (CONTINUED)

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
Employee benefit on-cost provisions				
Carrying amount at the beginning of the financial year	**6.2**	5.9	**6.2**	5.9
Provision made during the financial year	**1.6**	0.9	**1.6**	0.9
Provisions used during the financial year	**(0.7)**	(0.6)	**(0.7)**	(0.6)
Carrying amount at the end of the financial year	**7.1**	6.2	**7.1**	6.2
Rehabilitation				
Carrying amount at the beginning of the financial year	**6.0**	5.4	**3.5**	3.3
Provision made during the financial year	**1.7**	2.5	**1.7**	2.1
Provisions used during the financial year	**(0.8)**	(1.9)	**(0.9)**	(1.9)
Carrying amount at the end of the financial year	**6.9**	6.0	**4.3**	3.5
Service Target Performance Incentive Scheme (STPIS)				
Carrying amount at the beginning of the financial year	**-**	-	**-**	-
Provision made during the financial year	**10.9**	-	**10.9**	-
Provisions used during the financial year	**-**	-	**-**	-
Carrying amount at the end of the financial year	**10.9**	-	**10.9**	-
Other				
Carrying amount at the beginning of the financial year	**7.3**	6.7	**6.8**	6.0
Provision made during the financial year	**9.0**	39.9	**8.3**	39.3
Provision used during the financial year	**(14.4)**	(42.8)	**(13.8)**	(42.0)
Net transfer between categories	**-**	3.5	**-**	3.5
Carrying amount at the end of the financial year	**1.9**	7.3	**1.3**	6.8

(A) System usage charge over recovery

The system usage charge over recovery provision is used to record the decrease in revenue that the Economic Entity will be able to earn in the future financial years as a result of over-recovering DUOS and capital contribution revenue in the current and prior financial years, as determined by the regulator.

(B) Competitive neutrality

The competitive neutrality provision is used to record the liability owed to Queensland Treasury under the requirements of the Code of Practice for Government Owned Corporations' Financial Arrangements. The calculation of the provision is derived from the Economic Entity's borrowings and is intended to remove any unfair advantage obtained from borrowing at a lower interest rate than the private sector.

(C) Employee benefit on-cost provisions

The employee benefit on-cost provisions consist primarily of provisions for workers compensation and payroll tax on employee benefits.

(D) Rehabilitation

The rehabilitation provisions are an estimate of the amounts required to rehabilitate specifically identified sites occupied by substations, power stations and workshops.

(E) Service Target Performance Incentive Scheme (STPIS)

The Australian Energy Regulator (AER) has introduced a scheme in the form of financial rewards for meeting service targets for all Distribution Network Service Providers. The financial rewards are variables in the methodology used to calculate future revenue caps for each service provider. The scheme was effective from 1 July 2010 for the Economic Entity's 2010-2015 regulatory period.

NOTE 18: FINANCIAL LIABILITIES

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
CURRENT				
At fair value through profit and loss				
Electricity hedges	**154.7**	308.1	**-**	-
Power purchase agreement held for trading	**0.1**	0.7	**-**	-
Total current financial liabilities	**154.8**	308.8	**-**	-

Changes in fair values of financial liabilities at fair value are recorded in other income or other expenses in the Economic Entity's income statement.

NOTE 19: OTHER LIABILITIES

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
CURRENT				
Unearned capital contributions	**40.6**	54.1	**40.6**	54.1
Environmental certificate acquittal	**22.6**	18.5	**-**	-
Lease incentives	**0.6**	0.6	**0.6**	0.6
Other	**0.6**	0.5	**0.3**	0.2
Total current other liabilities	**64.4**	73.7	**41.5**	54.9
NON-CURRENT				
Lease incentives	**0.2**	0.8	**0.2**	0.8
Total non-current other liabilities	**0.2**	0.8	**0.2**	0.8

Unearned capital contributions

Unearned capital contributions comprises funds received from customers for the Company to construct distribution substation transformers, high voltage cables and switchgear and other assets required to supply electricity to new urban residential developments. As the constructed assets are completed, unearned capital contributions are recognised as revenue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 20: SHARE CAPITAL

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
SHARE CAPITAL				
Fully paid ordinary A class shares	**-**	-	**-**	-
Fully paid ordinary B class shares	**942.4**	942.4	**942.4**	942.4
Total share capital	**942.4**	942.4	**942.4**	942.4

	CONSOLIDATED AND THE COMPANY			
	2011 Shares	2010 Shares	**2011 $M**	2010 $M
MOVEMENT IN SHARE CAPITAL				
Ordinary A class shares				
Carrying amount at the beginning of the financial year	**26**	26	**-**	-
Carrying amount at the end of the financial year	**26**	26	**-**	-
Ordinary B class shares				
Carrying amount at the beginning of the financial year	**1,172,151,523**	1,172,151,523	**942.4**	942.4
Carrying amount at the end of the financial year	**1,172,151,523**	1,172,151,523	**942.4**	942.4

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

Fully paid ordinary B class shares do not carry the right to vote but carry rights to dividends. The shares have no par value.

NOTE 21: OTHER OWNERS' CONTRIBUTIONS, RESERVES AND RETAINED PROFITS

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
(A) OTHER OWNERS' CONTRIBUTIONS				
Other owners' contributions	**(10.6)**	(10.6)	**(1.1)**	(1.1)
Movements:				
Carrying amount at the beginning of the financial year	**(10.6)**	(10.6)	**(1.1)**	(1.1)
Carrying amount at the end of the financial year	**(10.6)**	(10.6)	**(1.1)**	(1.1)
(B) RESERVES				
Asset revaluation reserve	**1,831.6**	1,288.4	**1,831.6**	1,288.4
Total reserves	**1,831.6**	1,288.4	**1,831.6**	1,288.4
Movements:				
Carrying amount at the beginning of the financial year	**1,288.4**	1,216.0	**1,288.4**	1,216.0
Revaluation of property, plant and equipment	**774.7**	103.4	**774.7**	103.4
Deferred income tax relating to revaluation of property, plant and equipment	**(231.5)**	(31.0)	**(231.5)**	(31.0)
Carrying amount at the end of the financial year	**1,831.6**	1,288.4	**1,831.6**	1,288.4
(C) RETAINED PROFITS				
Retained profits	**551.5**	441.2	**437.7**	332.9
Movements:				
Carrying amount at the beginning of the financial year	**441.2**	403.4	**332.9**	289.7
Actuarial gains/(losses) on defined benefit plans recognised directly in equity	**59.0**	12.7	**59.0**	12.7
Deferred income tax relating to actuarial gains/(losses) on defined benefit plans	**(17.7)**	(3.9)	**(17.7)**	(3.9)
Net profit for the financial year	**321.6**	166.5	**316.1**	171.9
Dividends	**(252.6)**	(137.5)	**(252.6)**	(137.5)
Carrying amount at the end of the financial year	**551.5**	441.2	**437.7**	332.9

(D) NATURE AND PURPOSE OF RESERVES

Asset revaluation reserve

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 22: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

Financial risk management

(A) Credit risk

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

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

Where it is appropriate, collateral in the form of a cash deposit is obtained from customers as a means of mitigating the risk of financial loss from defaults. At the end of the financial year, the Economic Entity held collateral of $19.8 million (2010: $15.4 million). Note 25 provides details of guarantees held by the Economic Entity. At the end of the financial year, the Company did not hold any collateral.

The Economic Entity manages its credit settlement risk associated with electricity market trading by maintaining a Wholesale Trading Credit Assessment Policy. Credit settlement risk is controlled by maintaining approved counterparty credit limits. The values of Counterparty credit limits are determined by reference to each counterparty's credit rating, as determined by a recognised credit rating agency or, if the counterparty does not have a credit rating, by reference to the results of a detailed credit analysis. Where considered appropriate, the Economic Entity requires counterparties who have not been rated by a credit rating agency to provide appropriate letters of credit or bank guarantees. These letters of credit and bank guarantees reduced the Economic Entity's exposure to credit risk by $4.19 million as at 30 June 2011.

The Economic Entity trades with wholesale counterparties, principally large banks and other electricity corporations. In order to meet its liability under the Renewable Energy Target the Economic Entity also trades with non-wholesale market entities. The Economic Entity takes no credit settlement risk with such entities and trades solely via spot transactions.

At 30 June 2011, there were no significant concentrations of credit risk other than those disclosed below. The maximum exposure for both the Economic Entity and the Company to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statements of financial position.

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

	2011	2010
Counterparty classification		
Queensland Government-owned electricity entities	**77%**	76%
Entities with a Standard & Poors credit rating AA	**4%**	5%
Entities with a Standard & Poors credit rating BBB	**8%**	2%
Other entities	**11%**	17%

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

(B) Interest rate risk

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

The Economic Entity's income and operating cash flows are substantially independent of changes in short-term market interest rates. The Economic Entity borrows exclusively from QTC. Long-term borrowings from QTC are structured to approximate a fixed rate loan over the term of the Economic Entity's regulatory period. The interest rate charged on long-term borrowings is derived from debt instruments issued by QTC and a competitive neutrality fee designed to remove any unfair competitive advantage obtained from borrowing at a lower interest rate than the private sector by virtue of the Economic Entity's Government ownership. Last financial year, QTC refinanced the debt instruments used to establish the interest rate charged on the Economic Entity's existing borrowings and aligned the new debt term to five years to match the Economic Entity's current regulatory period from 1 July 2010 to 30 June 2015. At the same time QTC hedged a portion of the Economic Entity's future borrowings for the current regulatory period by entering into Forward Starting Loans and fixing the interest rate to be charged on these additional borrowings. During the 2010/11 financial year, Forward Starting Loans totalling $352 million settled and the interest rates achieved on these new borrowings were incorporated into the book interest rate at the time of settlement. Movements in book interest rates on this facility largely reflect the prevailing interest rates at the time of the refinancing and hedging. The book interest rate will also be affected by additional unhedged borrowings and the results of active management on the debt portfolio.

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

Sensitivity analysis

At 30 June 2011, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Economic Entity's net profit and equity would increase or decrease by $2.7 million (2010: $2.9 million) and the Company's net profit and equity would increase or decrease by $2.2 million (2010: $2.4 million).

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

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

	FLOATING INTEREST RATE	FIXED INTEREST RATE	WEIGHTED AVERAGE INTEREST RATE
	$M	$M	%
CONSOLIDATED			
2011			
Financial assets			
Cash and cash equivalents	**279.2**	**-**	**5.28**
Receivables due from jointly controlled entities	**11.6**	**63.2**	**8.22**
Total financial assets	**290.8**	**63.2**	
Financial liabilities			
Repayable deposits	**19.8**	**0.1**	**4.06**
Loans	**-**	**4,379.6**	**7.14**
Total financial liabilities	**19.8**	**4,379.7**	
2010			
Financial assets			
Cash and cash equivalents	284.2	-	4.02
Receivables due from jointly controlled entities	22.9	71.6	7.92
Total financial assets	307.1	71.6	
Financial liabilities			
Repayable deposits	15.4	0.2	2.79
Finance leases	-	1.9	6.24
Loans	-	4,021.5	6.30
Total financial liabilities	15.4	4,023.6	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 22: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

	FLOATING INTEREST RATE	FIXED INTEREST RATE	WEIGHTED AVERAGE INTEREST RATE
	$M	$M	%
THE COMPANY			
2011			
Financial assets			
Cash and cash equivalents	**210.8**	**-**	**5.29**
Receivables due from jointly controlled entities	**11.6**	**63.2**	**8.22**
Total financial assets	**222.4**	**63.2**	
Financial liabilities			
Repayable deposits	**-**	**0.1**	**9.20**
Loans	**-**	**4,379.6**	**7.14**
Total financial liabilities	**-**	**4,379.7**	
2010			
Financial assets			
Cash and cash equivalents	218.8	-	3.99
Receivables due from jointly controlled entities	22.9	71.6	7.92
Total financial assets	241.7	71.6	
Financial liabilities			
Repayable deposits	-	0.2	9.78
Finance leases	-	1.9	6.24
Loans	-	4,021.5	6.30
Total financial liabilities	-	4,023.6	

NOTE 22: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) Price risk

Electricity

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

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

The Economic Entity uses derivative financial instruments to manage its electricity price risk, consumer variable volume risk and cash flow risk as well as hedge exposure to pool price fluctuations and against the committed and anticipated electricity purchases. The hedge contracts are designated against the forecast mass-market electricity load. The hedge contracts are valued at fair value through profit and loss - hedge accounting is not employed. The hedge portfolio consists predominantly of swaps, caps and option contract types.

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

	+10% 2011 $M	+10% 2010 $M	**-10% 2011 $M**	-10% 2010 $M
Profit / (loss) before tax	**1.2**	5.7	**(4.8)**	(5.7)
Equity	**1.2**	5.7	**(4.8)**	(5.7)

The Company does not hold any financial assets or liabilities that are exposed to electricity price risk.

Large-scale generation certificates

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

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

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

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

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

	+10% 2011 $M	+10% 2010 $M	**-10% 2011 $M**	-10% 2010 $M
Profit / (loss) before tax	**6.8**	6.9	**(6.8)**	(6.9)
Equity	**6.8**	6.9	**(6.8)**	(6.9)

The Company does not hold any financial assets or liabilities that are exposed to LGC price risk.

(D) Liquidity risk

Liquidity risk is the risk that the Economic Entity will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the dynamic nature of the underlying businesses, the Economic Entity aims to maintain flexibility in funding by keeping committed credit lines available. Available lines of funding are disclosed in Note 15.

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

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

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

Under the funding arrangements entered into between the Company and the Treasurer (via QTC), the Company seeks approval from the Treasurer (via QTC) for funding requirements for the coming year on an annual basis. These approved borrowings form part of the Government Owned Corporations borrowing programme undertaken by the State of Queensland. For the year ending 30 June 2011, the Company has secured approval for additional borrowings to meet forecast operational requirements. Should further additional funds beyond this requirement be needed to maintain liquidity and/or meet operational requirements, approval for additional funds must be sought from the Treasurer (via QTC).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 22: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	LESS THAN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS	CARRYING AMOUNT
	$M	$M	$M	$M	$M
CONSOLIDATED					
2011					
Electricity hedges	**125.1**	**63.2**	**-**	**188.3**	**154.7**
Power purchase agreements held for trading	**1.9**	**9.5**	**-**	**11.4**	**0.1**
Financial guarantees	**352.0**	**-**	**-**	**352.0**	**-**
Non-interest bearing	**453.8**	**1.0**	**-**	**454.8**	**454.8**
Variable rate	**19.8**	**-**	**-**	**19.8**	**19.8**
Fixed rate	**310.8**	**1,240.6**	**4,373.0**	**5,924.4**	**4,379.7**
Total	**1,263.4**	**1,314.3**	**4,373.0**	**6,950.7**	**5,009.1**
2010					
Electricity hedges	178.8	176.0	-	354.8	308.1
Power purchase agreements held for trading	2.8	12.7	-	15.5	0.7
Financial guarantees	352.5	-	-	352.5	-
Non-interest bearing	437.1	1.0	-	438.1	438.1
Variable rate	15.4	0.2	-	15.6	15.6
Fixed rate	288.1	1,145.7	3,965.6	5,399.4	4,021.4
Total	1,274.7	1,335.6	3,965.6	6,575.9	4,783.9
THE COMPANY					
2011					
Financial guarantees	**352.0**	**-**	**-**	**352.0**	**-**
Non-interest bearing	**380.4**	**1.0**	**-**	**381.4**	**381.4**
Variable rate	**-**	**-**	**-**	**-**	**-**
Fixed rate	**310.8**	**1,240.6**	**4,373.0**	**5,924.4**	**4,379.7**
Total	**1,043.2**	**1,241.6**	**4,373.0**	**6,657.8**	**4,761.1**
2010					
Financial guarantees	352.5	-	-	352.5	-
Non-interest bearing	376.9	1.0	-	377.9	377.9
Variable rate	-	0.2	-	0.2	0.2
Fixed rate	288.1	1,145.7	3,965.6	5,399.4	4,021.4
Total	1,017.5	1,146.9	3,965.6	6,130.0	4,399.5

NOTE 22: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) Foreign currency risk

The Economic Entity's trading operations are based in Australia and consequently it is not exposed to significant foreign currency risk. The only entity within the Economic Entity exposed to foreign currency risk is Ergon Energy Corporation Limited.

Exposure to foreign currency risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

It is the Group's policy that hedging be maintained within established limits and transaction exposure be monitored to ensure that the management strategy continues to be appropriate.

At a minimum, effectiveness must be assessed, prospectively and retrospectively, at reporting date and relevant approvals be sought and reports prepared in accordance with the Code of Practice for Government Owned Corporations' Financial Arrangements.

(F) Fair value

The fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs.

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

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

Net fair value losses are included in other expenses in the income statement.

Fair value measurements

As of 1 July 2009, the Economic Entity has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 22: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	LEVEL 1 $M	LEVEL 2 $M	LEVEL 3 $M	TOTAL $M
CONSOLIDATED				
2011				
Assets				
Electricity hedges	-	27.7	4.5	32.2
Power purchase agreements held for trading	-	-	5.8	5.8
Long-term energy procurement	-	-	125.1	125.1
Large-scale generation certificates held for trading	-	17.1	-	17.1
	-	44.8	135.4	180.2
Liabilities				
Electricity hedges	-	(110.4)	(44.3)	(154.7)
Power purchase agreements held for trading	-	-	(0.1)	(0.1)
	-	(110.4)	(44.4)	(154.8)
2010				
Assets				
Electricity hedges	-	0.9	5.5	6.4
Power purchase agreements held for trading	-	0.8	6.1	6.9
Long-term energy procurement	-	-	301.4	301.4
Large-scale generation certificates held for trading	-	15.8	-	15.8
	-	17.5	313.0	330.5
Liabilities				
Electricity hedges	(2.1)	(291.2)	(14.8)	(308.1)
Power purchase agreements held for trading	-	-	(0.7)	(0.7)
	(2.1)	(291.2)	(15.5)	(308.8)

There were no transfers between Level 1 and 2 in the period.

NOTE 22: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	ELECTRICITY HEDGES $M	POWER PURCHASE AGREEMENTS HELD FOR TRADING $M	LONG-TERM ENERGY PROCUREMENT $M	TOTAL $M
CONSOLIDATED				
2011				
Assets				
Opening balance	**5.5**	**6.1**	**301.4**	**313.0**
Transfers into Level 3	**1.4**	**-**	**-**	**1.4**
Purchases	**0.7**	**-**	**-**	**0.7**
Settlements	**(1.8)**	**1.9**	**(180.6)**	**(180.5)**
Unrealised gains/(losses) recognised in income statement	**(1.3)**	**(2.2)**	**4.3**	**0.8**
Closing balance	**4.5**	**5.8**	**125.1**	**135.4**
Liabilities				
Opening balance	**(14.8)**	**(0.7)**	**-**	**(15.5)**
Transfers into Level 3	**(25.8)**	**-**	**-**	**(25.8)**
Settlements	**12.7**	**0.4**	**-**	**13.1**
Unrealised gains/(losses) recognised in income statement	**(16.4)**	**0.2**	**-**	**(16.2)**
Closing balance	**(44.3)**	**(0.1)**	**-**	**(44.4)**
2010				
Assets				
Opening balance	8.4	9.7	132.8	150.9
Settlements	(1.1)	(1.7)	(43.5)	(46.3)
Unrealised gains/(losses) recognised in income statement	(1.8)	(1.9)	212.1	208.4
Closing balance	5.5	6.1	301.4	313.0
Liabilities				
Opening balance	-	-	-	-
Unrealised gains/(losses) recognised in income statement	(14.8)	(0.7)	-	(15.5)
Closing balance	(14.8)	(0.7)	-	(15.5)

The value of some electricity hedges have been transferred into Level 3 in the reconciliation above. This is a result of changes in the electricity market which have led to a reduction in available observable data in outer years and a change in the valuation models used to calculate the fair value of options.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 22: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

METHODS AND ASSUMPTIONS USED IN DETERMINING FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Swaps

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

Options

(i) $300 Exchange Traded Options
$300 Exchange Traded Options are valued using the SFE $300 cap curve. Where positions are held in periods beyond the curve, the curve is extended accordingly.

(ii) Caps
$300 and $100 caps are valued using a mean reversion jump diffusion model incorporating historical pool price outcomes and quoted cap prices.

(iii) Swaptions
Swaptions are valued applying a Black Scholes 76 methodology incorporating a curve sourced from TFS. Volatility is calculated based on historical prices.

Power purchase agreements

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

Large-scale generation certificates

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

Long-term energy procurement

The LEP instrument is made up of revenue from tiered target hedging levels valued against a curve sourced from the TFS and the operation of a cap and floor arrangement with the Queensland State Government.

The following table details the sensitivity to a 10% increase and decrease in forecast load of PPAs and price of all other instruments in Level 3 with all other variables held constant:

	REFLECTED IN CONSOLIDATED INCOME STATEMENT			
	FAVOURABLE		UNFAVOURABLE	
	2011	2010	**2011**	2010
	$M	$M	**$M**	$M
Power purchase agreements	**6.5**	2.3	**(6.5)**	(2.3)
LEP and Electricity Hedges	**-**	-	**(3.6)**	-

(G) Capital management

The Economic Entity manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Economic Entity's overall strategy remains unchanged from 2010.

The capital structure of the Economic Entity consists of borrowings disclosed in Note 15 and equity comprising issued capital, owners' contributions, reserves and retained earnings disclosed in Notes 20 and 21.

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

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

QTC borrows in advance of requirements to ensure Queensland public sector entities have ready access to funding when required and also to reduce the risk associated with refinancing maturing loans. Last financial year, QTC refinanced the Economic Entity's existing borrowings and aligned the new debt term to five years to match the Economic Entity's current regulatory period from 1 July 2010 to 30 June 2015.

The Economic Entity is required to maintain minimum financial ratios under QTC's lending terms and conditions. The Economic Entity must maintain an earnings before interest, tax, depreciation and amortisation (EBITDA) interest coverage of greater than or equal to 1.5 times, except where the total debt to total capital is greater than 70% in which case the EBITDA interest coverage must be equal to or greater than 2.0 times.

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

The Economic Entity monitors capital on the basis of monthly key financial ratios for gearing, interest cover and return on equity. At 30 June 2011 and 30 June 2010 these key financial ratios were as follows:

	CONSOLIDATED		THE COMPANY	
	2011	2010	**2011**	2010
Gearing ratio	**56.6%**	59.8%	**57.3%**	60.7%
EBITDA to Interest cover (times)	**3.6**	3.2	**3.5**	3.1
Return on equity	**10.8%**	6.4%	**11.0%**	6.9%

NOTE 23: COMMITMENTS

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
CAPITAL AND OTHER EXPENDITURE COMMITMENTS				
Estimated capital and other expenditure contracted for at the end of the financial year but not recognised as liabilities is as follows:				
Not later than one year	**260.5**	46.2	**256.9**	43.6
Later than one year but not later than five years	**27.8**	24.0	**20.1**	15.3
Later than five years	**-**	0.5	**-**	-
	288.3	70.7	**277.0**	58.9
LOAN COMMITMENTS				
Commitments for future loans with QTC at a fixed average rate of 7.54% (2010: 7.57%) are as follows:				
Not later than one year	**480**	352	**480**	352
Later than one year but not later than five years	**1,372**	1,388	**1,372**	1,388
Later than five years	**-**	-	**-**	-
	1,852	1,740	**1,852**	1,740

OPERATING LEASE COMMITMENTS

Non-cancellable operating lease commitments are detailed in Note 24.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 24: LEASES

FINANCE LEASE LIABILITIES

Finance lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The finance lease liability relates to FACOM/CMS software and associated systems with a lease term of three years. The Company has the right to purchase directly or transfer to SPARQ Solutions Pty Ltd the assets for the original value of $5.3 million less accumulated amortisation to the time of transfer or sale, or if at the end of the lease term, for zero value.

	CONSOLIDATED AND THE COMPANY			
	MINIMUM FUTURE LEASE PAYMENTS		PRESENT VALUE OF MINIMUM FUTURE LEASE PAYMENTS	
	2011 $M	2010 $M	**2011 $M**	2010 $M
Not later than one year	**-**	1.9	**-**	1.9
Minimum future lease payments	**-**	1.9	**-**	1.9
Present value of minimum lease payments	**-**	1.9	**-**	1.9
Included in the financial statements (Note 15)				
Finance lease liabilities - current	**-**	-	**-**	1.9
	-	-	**-**	1.9

OPERATING LEASES

Non-cancellable operating lease commitments

	CONSOLIDATED AND THE COMPANY	
	2011 $M	2010 $M
Not later than one year	**7.4**	6.8
Later than one year but not later than five years	**9.3**	11.3
Later than five years	**0.1**	1.0
	16.8	19.1
In respect of non-cancellable operating leases the following liabilities have been recognised:		
Included in the financial statements (Note 19)		
Lease incentive liability - current	**0.6**	0.6
Lease incentive liability - non-current	**0.2**	0.8
	0.8	1.4

The Economic Entity leases various office, workshop and storage space under non-cancellable operating leases expiring within one to 17 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are re-negotiated.

The Economic Entity's significant leasing arrangements have terms of renewal of two and three years and escalation clauses of 4% per annum. There is one significant leasing arrangement in place which does not contain a renewal option.

Non-cancellable operating lease receivables		
Not later than one year	**-**	0.1
	-	0.1

NOTE 25: CONTINGENCIES

(A) Legal claims

A number of common law claims are pending against entities within the Economic Entity. In each case, a writ has been served and the entity is at various stages of defending the actions. Liability is not admitted and all claims will be defended. The total amount of these claims is $2.0 million (2010: $7.3 million). These claims are disclosed on a gross basis and exclude possible reimbursement through insurance recoveries.

(B) Guarantees

Bank guarantees amounting to $0.1 million (2010: $0.2 million) have been issued to various parties in connection with the Company's contracting services operations. These guarantees are supported by counter indemnities to QTC from the Company totalling $2.0 million (2010: $2.5 million).

In order to participate in the electricity market, entities within the Economic Entity were required to deliver acceptable security as collateral for their obligations arising as a consequence of normal trading. Security, in the form of payment guarantees totalling $140.0 million (2010: $120.0 million), have been issued by QTC to the Australian Energy Market Operator. These guarantees are supported by counter indemnities to QTC from the Company totalling $350.0 million (2010: $350.0 million).

(C) Guarantees held

The Economic Entity holds bank guarantees from customers totalling $158.9 million (2010: $166.9 million) relating to the construction of capital assets for energy customers.

(D) Environmental liabilities

The Economic Entity provides for all known environmental liabilities. While the directors believe that, based upon current information, its provisioning for environmental rehabilitation is appropriate, there can be no assurance that material provisions will not be required because of new information or regulatory requirements with respect to known sites or identification of new remedial obligations at other sites.

NOTE 26: CONSOLIDATED ENTITIES

	COUNTRY OF INCORPORATION	PERCENTAGE INTEREST HELD BY THE ECONOMIC ENTITY[1]	
		2011	2010
THE COMPANY			
Ergon Energy Corporation Limited	Australia		
CONTROLLED ENTITIES			
Ergon Energy Queensland Pty Ltd	Australia	**100%**	100%
Ergon Energy Telecommunications Pty Ltd	Australia	**100%**	100%

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

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

NOTE 27: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
Shares in associates	**-**	-	**-**	-
Shares in jointly controlled entities	**-**	-	**-**	-
	-	-	**-**	-

The Economic Entity did not recognise accumulated losses relating to SPARQ Solutions Pty Ltd totalling $2.3 million in 2010.

Service Essentials Pty Ltd was de-registered before 30 June 2011; therefore this investment is no longer disclosed in the 2011 financial statements.

Investments in associates and jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting and are carried by the Company at their recoverable amount.

The Economic Entity's share of associates' and equity accounted jointly controlled entities' expenditure commitments are:

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
Capital expenditure commitments	**2.2**	0.1	**-**	-
Lease commitments	**5.8**	7.1	**-**	-
Other expenditure commitments	**8.8**	13.6	**-**	-
	16.8	20.8	**-**	-

NOTE 27: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

NAME OF THE COMPANY	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION	REPORTING DATE	OWNERSHIP INTEREST	
				2011	2010
Associates					
Service Essentials Pty Ltd	Billing, meter reading and payment management services	Australia	30 June	**N/A**	10%
Jointly controlled entities					
SPARQ Solutions Pty Ltd	Information, communications and technology service provider	Australia	30 June	**50%**	50%

In 2010 significant influence over Service Essentials Pty Ltd was maintained, despite holding only 10% of the issued capital, due to the Economic Entity's ability to appoint two board members to the five-person board of directors.

	REVENUES 100%	PROFIT/ (LOSS) 100%	SHARE OF NET PROFIT/ (LOSS) RECOGNISED	TOTAL ASSETS 100%	TOTAL LIABILITIES 100%	NET ASSETS/ (LIABILITIES) 100%	SHARE OF NET ASSETS EQUITY ACCOUNTED
	$M	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**
2011							
Jointly controlled entities	**153.2**	**0.8**	**0.4**	**248.5**	**248.4**	**0.1**	**-**
2010							
Associates	-	-	-	-	1.1	(1.1)	-
Jointly controlled entities	139.6	-	-	250.1	254.6	(4.5)	-
	139.6	-	-	250.1	255.7	(5.6)	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 28: NOTES TO STATEMENTS OF CASH FLOWS

	CONSOLIDATED		THE COMPANY	
	2011 $M	2010 $M	**2011 $M**	2010 $M
RECONCILIATION OF PROFIT AFTER INCOME TAX EQUIVALENT EXPENSES TO THE NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES				
Profit after income tax equivalent expense	**321.6**	166.5	**316.1**	171.9
NON-CASH FLOWS IN PROFIT:				
Depreciation, amortisation and impairment	**314.2**	290.9	**308.1**	284.5
Asset Write-Off	**0.4**	-	**-**	-
Net gain/(loss) on disposal of property, plant and equipment	**(0.4)**	(4.8)	**(0.4)**	(4.8)
Changes in employee benefit and other provisions	**(11.8)**	6.4	**(14.4)**	6.3
Other non cash flow items	**127.4**	66.9	**69.4**	69.0
CHANGES IN ASSETS AND LIABILITIES:				
Trade and other receivables	**(147.8)**	(5.7)	**(67.3)**	(48.8)
Inventory	**1.3**	7.2	**1.3**	7.2
Other assets	**(53.2)**	(38.6)	**(20.3)**	(36.6)
Trade and other payables	**(14.6)**	43.1	**(22.3)**	56.3
Other liabilities	**35.9**	1.6	**(1.4)**	3.1
Net deferred income tax equivalent liability	**-**	-	**-**	-
Net cash flow provided by operating activities	**573.0**	533.5	**568.8**	508.1

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) Details of directors

The directors of the Company during the financial period ended 30 June 2011 were:

Ralph Craven	Chairman / Non-Executive Director
John Bird	Deputy Chairman / Non-Executive Director
Susan Forrester	Non-Executive Director
Gary Humphrys	Non-Executive Director
Anthony (Tony) Mooney	Non-Executive Director
Wayne Myers	Non-Executive Director
Helen Stanton	Non-Executive Director

Ralph Craven, Wayne Myers and Tony Mooney have been appointed until 30 September 2011.

Gary Humphrys has been appointed until 30 September 2012.

All other directors have been appointed until 30 September 2013.

Tony Mooney resigned as a director 20 July 2010 and was reappointed on 1 November 2010.

(B) Compensation - directors

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

The non-executive directors of the Company do not participate in any variable reward or 'at-risk' plan.

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

In accordance with Ministerial Guidelines, details of compensation provided to directors in office during the financial period ended 30 June 2011 by the Economic Entity and the Company, are as follows:

DIRECTOR	SHORT TERM BENEFITS						POST EMPLOYMENT BENEFITS		TOTAL	
	Directors' fees		Committee fees		Other fees		Superannuation			
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000
Ralph Craven	**75**	73	**17**	16	**1**	1	**8**	8	**101**	98
John Bird	**34**	28	**15**	11	**-**	-	**4**	4	**53**	43
Susan Forrester	**29**	29	**7**	4	**-**	-	**3**	3	**39**	36
Gary Humphrys	**29**	21	**8**	5	**-**	-	**3**	2	**40**	28
Tony Mooney	**22**	29	**2**	8	**1**	3	**2**	3	**27**	43
Wayne Myers	**29**	28	**14**	13	**-**	-	**4**	4	**47**	45
Helen Stanton	**29**	28	**10**	9	**-**	-	**3**	3	**42**	40
Total compensation	**247**	236	**73**	66	**2**	4	**27**	27	**349**	333

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

The total of all amounts paid or payable, directly or indirectly, from the respective entities of which they are a director, or from any related party, to all the directors of each entity in the Economic Entity was $349 thousand (2010: $333 thousand). The above amounts exclude the value of insurance premiums made for the directors' indemnity.

(C) Compensation – Executives

The People Committee recommends executive remuneration to the Company's Board as part of an annual review. Input is sought from industry and market surveys (as deemed suitable by the shareholding Ministers) when determining the level of remuneration for these positions. Final approval is then required from the Board, ensuring that remuneration arrangements for the executives are appropriate. The shareholding Ministers are notified of the details.

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

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

Executive staff members are eligible for an 'at risk' or variable component that is directly linked to both the overall performance of the Economic Entity and their individual efforts against a range of key indicators, for example financial, operational and customer excellence, people development, risk management and growth. The Board sets the initial 'target' goals, from the annual Statement of Corporate Intent. Any 'at risk' payment is contingent upon the Board's assessment of the Company's overall performance.

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

Most executives are engaged on an outer limit contract for a period of 3 years. Three executives are engaged on tenured contracts.

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

For executives engaged on tenured contracts prior to 2005, where separation is due to redundancy, a termination payment is made comprising all entitlements accrued under the contract. The severance entitlement also includes a redundancy payment equivalent to two weeks of TFR per continuous year of service in excess of two (2) years service up to a maximum of 26 weeks. This entitlement lapses if an offer of alternative employment is received from a Queensland Government entity covered by the *Electricity Act 1994* for which the executive's competencies and vocational abilities are suited prior to termination of the executives employment with the Company.

For executives engaged on an outer limit contract, where the executive's employment terminates on the termination date, in circumstances where the Economic Entity has not offered the executive further employment beyond the termination date, the Economic Entity will pay the executive a severance payment equal to 12 weeks of the TFR. Where the Company terminates the executive's employment prior to the termination date otherwise than for unsatisfactory performance, misconduct or incapacity, the executive is entitled to a termination payment equal to the greater of:

(a) 13 weeks salary; or

(b) 2 weeks salary per year of continuous service with the Company up to a maximum 52 weeks salary; and

A separation payment, equal to the greater of:

(a) 13 weeks TFR; or

(b) A sum equal to 20% of the TFR that the executive would have earned had the employment continued from the day after the notice period ceased until the termination date.

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

EXECUTIVE	SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS	OTHER LONG-TERM BENEFITS	TERMINATION BENEFITS	TOTAL
	Salary and fees[1] $'000	Non monetary $'000	Super-annuation $'000	$'000	$'000	$'000
Chief Executive						
2011	**669**	**-**	**16**	**23**	**-**	**708**
2010	612	-	15	21	-	648
Chief Operating Officer - Energy Services[2]						
2011	**-**	**-**	**-**	**-**	**-**	**-**
2010	114	-	8	9	-	131
Chief Financial Officer[3]						
2011	**328**	**-**	**15**	**9**	**-**	**352**
2010	206	-	9	5	-	220
Chief Financial Officer[4]						
2011	**-**	**-**	**-**	**-**	**-**	**-**
2010	60	-	5	-	-	65
Acting Chief Financial Officer[5]						
2011	**-**	**-**	**-**	**-**	**-**	**-**
2010	53	-	4	4	-	61
Executive General Manager - Operations[6]						
2011	**329**	**-**	**16**	**9**	**-**	**354**
2010	221	2	9	27	-	259
Executive General Manager - Asset Management[6] [7]						
2011	**145**	**-**	**16**	**9**	**-**	**170**
2010	209	-	17	41	-	267
Acting Executive General Manager - Asset Management[8]						
2011	**183**	**-**	**10**	**4**	**-**	**197**
2010	-	-	-	-	-	-
Executive General Manager - Employee and Shared Services						
2011	**299**	**6**	**26**	**15**	**-**	**346**
2010	253	6	24	10	-	293
Company Secretary and General Counsel						
2011	**295**	**-**	**16**	**9**	**-**	**320**
2010	292	-	18	7	-	317
Executive General Manager - Customer Service[9]						
2011	**259**	**-**	**16**	**7**	**-**	**282**
2010	115	-	7	3	-	125

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

EXECUTIVE	SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS	OTHER LONG-TERM BENEFITS	TERMINATION BENEFITS	TOTAL
	Salary and fees[1] $'000	Non monetary $'000	Super-annuation $'000	$'000	$'000	$'000
Acting Executive General Manager – Customer Service [10]						
2011	**-**	**-**	**-**	**-**	**-**	**-**
2010	140	-	19	-	-	159
Executive General Manager - Energy Sustainability and Market Development[11]						
2011	**124**	**4**	**13**	**-**	**-**	**141**
2010	252	6	36	22	-	316
Executive General Manager - Energy Sustainability and Market Development[12]						
2011	**37**	**-**	**2**	**1**	**-**	**40**
2010	-	-	-	-	-	-
Acting Executive General Manager - Energy Sustainability and Market Development[13]						
2011	**158**	**-**	**17**	**9**	**-**	**184**
2010	-	-	-	-	-	-
Executive General Manager - Customer and Stakeholder Engagement						
2011	**291**	**2**	**29**	**16**	**-**	**338**
2010	210	6	34	7	-	257
Total compensation – Executives						
2011	**3,117**	**12**	**192**	**111**	**-**	**3,432**
2010	2,737	20	205	156	-	3,118

(1) Officers may also earn performance based, risk incentive bonuses that are disclosed in aggregate in Note 16 and are not shown in this table.
(2) Position was replaced by Executive General Manager - Operations and Executive General Manager - Asset Management.
(3) Officer was appointed to this position on 9 November 2009.
(4) Officer occupied this position until 28 August 2009.
(5) Officer was in an acting capacity from 28 August 2009 to 9 November 2009.
(6) These two positions were created as a result of a restructure of the Company on 2 November 2009.
(7) Officer occupied this position from 2 November 2009 to 8 October 2010 and returned to this position on 23 May 2011.
(8) Officer was in an acting capacity from 11 October 2010 to 20 May 2011.
(9) Officer was appointed to this position on 11 January 2010.
(10) Officer was in an acting capacity from 1 September 2008 to 8 January 2010.
(11) Officer occupied this position until 12 November 2010.
(12) Officer was appointed to this position on 9 May 2011.
(13) Officer was in an acting capacity from 15 November 2010 to 20 May 2011.

NOTE 29: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(D) Compensation disclosures by category:

	CONSOLIDATED		THE COMPANY	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000
Short-term benefits	**3,451**	3,063	**3,451**	3,063
Post-employment benefits	**219**	232	**219**	232
Other long-term benefits	**111**	156	**111**	156
Termination benefits	**-**	-	**-**	-
	3,781	3,451	**3,781**	3,451

(E) Transactions with related parties of key management personnel

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

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

Ian McLeod, Mal Leech, Greg Evans, John Hooper and Justin Fitzgerald were executives of the Company and directors of SPARQ Solutions Pty Ltd, a jointly controlled entity during the financial year. Greg Evans resigned as a director on 28 August 2009 and Mal Leech resigned as a director on 15 February 2010. John Hooper and Justin Fitzgerald were appointed as directors on 15 February 2010. They did not receive any remuneration for their positions as directors of this entity. During the year SPARQ Solutions Pty Ltd provided services and recoveries to the wholly owned group to the value of $73,285 thousand (2010: $74,530 thousand) and received services and recoveries from the wholly owned group of $149,453 thousand (2010: $152,994 thousand). In addition the Company sold assets to SPARQ Solutions Pty Ltd during the year totalling $nil thousand (2010: $4,211) at a gain /(loss) of $nil (2010: $nil).

Greg Evans and Justin Fitzgerald were executives of the Company and directors of Service Essentials Pty Ltd, a dormant associate company during the financial year. Greg Evans resigned as a director on 28 August 2009. No remuneration was received for their positions from this entity.

Justin Fitzgerald, an executive of the Company, is a director of Electricity Credit Union Limited. During the financial year the Electricity Credit Union Limited provided services to the wholly owned group to the value of $111 thousand (2010: $118 thousand).

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

(F) Loans to key management personnel

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 30: RELATED PARTY TRANSACTIONS

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

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

Entities subject to common control

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

Transactions with State of Queensland controlled entities

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

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

	CONSOLIDATED		THE COMPANY	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000
REVENUE				
Community service obligations and LEP revenue	**399,265**	251,608	**-**	-
Revenue from State of Queensland controlled entities	**101,762**	73,716	**101,762**	73,579
Pensioner rebate revenue from Department of Communities	**32,369**	24,797	**-**	-
Interest received on deposits with QTC	**12,799**	9,845	**6,699**	7,008
EXPENSES				
Costs paid to State of Queensland controlled entities	**286,281**	236,478	**286,281**	236,478
Interest on QTC borrowings (includes administration fees)	**252,102**	229,530	**251,877**	229,319
Competitive neutrality fee paid to Queensland Treasury	**44,838**	12,383	**44,838**	12,383
Electricity trading with State of Queensland controlled entities	**105,622**	131,064	**-**	-
Derivative transactions with State of Queensland controlled entities	**2,944**	5,157	**-**	-
ASSETS				
Deposits held with QTC	**263,941**	258,739	**204,123**	200,878
Community service obligations amounts receivable	**103,568**	60,506	**-**	-
Trade receivable from State of Queensland controlled entities	**6,152**	7,004	**6,152**	7,004
LIABILITIES				
Accrued interest and fees payable to QTC	**64,919**	58,729	**64,919**	58,729
Trade payable to State of Queensland controlled entities	**21,171**	19,874	**21,171**	19,874
Community Ambulance Cover Levy payable to Office of State Revenue	**3,676**	3,546	**-**	-
Dividends payable to Queensland Treasury	**252,640**	137,492	**252,640**	137,492
Long-term borrowings from QTC	**4,314,731**	3,962,729	**4,314,731**	3,962,729
Accrued competitive neutrality fee payable to Queensland Treasury	**11,600**	2,566	**11,600**	2,566

NOTE 30: RELATED PARTY TRANSACTIONS (CONTINUED)

	CONSOLIDATED		THE COMPANY	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000
Transactions with jointly controlled entities				
Aggregate amounts brought to account in relation to transactions with jointly controlled entities				
Purchase of information technology and telecommunications solutions and services from a jointly controlled entity	**73,285**	74,530	**73,285**	74,530
Recovery of employee expenses and other service costs from a jointly controlled entity	**149,453**	152,994	**149,453**	152,994

The wholly owned group has advanced unsecured loans to jointly controlled entities and associates. The loans are interest bearing with rates between 6.61% and 9.72 % (2010: between 5.13% and 8.50 %). The amounts outstanding at balance date were $74,826 thousand (2010: $59,516 thousand).

Amounts due and receivable from jointly controlled entities and associates are as set out in the respective notes to the financial statements.

Transactions with other related parties

During the year, the Economic Entity paid contributions of $58,038 thousand (2010: $55,013 thousand) to defined benefit and accumulation superannuation plans on behalf of employees.

Ultimate parent entity

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

Ownership interests in related parties

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

- Consolidated entities - Note 26
- Associates and jointly controlled entities - Note 27

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 31: AUDITOR'S REMUNERATION

	CONSOLIDATED		THE COMPANY	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000
Remuneration for audit and review of the financial reports of the Economic Entity and the Company:				
Auditor-General of Queensland				
Audit services				
Audit and review of financial reports	**718**	734	**557**	543
Audit and review of regulatory reports	**89**	73	**89**	73
Other audit services	**26**	28	**-**	-
	833	835	**646**	616

NOTE 32: EVENTS AFTER REPORTING DATE

Subsequent to 30 June 2011 local and world equity markets experienced significant falls in value triggered by concerns regarding the United States and European Union credit problems. This issue will impact the value of assets held by the Economic Entity's defined benefit superannuation fund (as disclosed in Note 16), however no estimate of the financial effect can be made.

DIRECTORS' DECLARATION

In the directors' opinion:

1. The financial statements and associated notes, set out on pages 6 to 68:
   - (i) Comply with the Australian Accounting Standards and Interpretations;
   - (ii) Are in accordance with the *Corporations Act 2001*; and
   - (iii) Give a true and fair view of the financial position of the Economic Entity as at 30 June 2011 and of its performance, as represented by the results of its operations and cash flows, for the year ended on that date.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2011.

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

Dr R Craven
Chairman
26 August 2011

INDEPENDENT AUDITOR'S REPORT

To the Members of Ergon Energy Corporation Limited

Report on the Financial Report

I have audited the accompanying financial report of Ergon Energy Corporation Limited and its controlled Entities ("Ergon Energy"), which comprises the statements of financial position as at 30 June 2011, the income statements, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

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

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

Independence

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

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised.

The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

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

Opinion

In my opinion -

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

 (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

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

Other Matters - Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Ergon Energy Corporation Limited and the consolidated entity for the year ended *30 June 2011*. Where the financial report is included on Ergon Energy Corporation Limited's website the company's directors are responsible for the integrity of Ergon Energy Corporation Limited 's website and I have not been engaged to report on the integrity of Ergon Energy Corporation Limited's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Timothy G.G. Biggs

(as Delegate of the Auditor-General of Queensland)

26 August 2011
Brisbane

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF ERGON ENERGY CORPORATION LIMITED AND ITS CONTROLLED ENTITIES

To the Directors of Ergon Energy Corporation Limited and its controlled entities

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

Independence Declaration

As lead auditor for the audit of Ergon Energy Corporation Limited and its controlled entities for the year ended *30 June 2011*, I declare that, to the best of my knowledge and belief, there have been –

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Timothy G.G. Biggs

(as Delegate of the Auditor-General of Queensland)

Brisbane
26 August 2011

This report is printed on certified carbon neutral paper stock.

EMS ENVIRONMENTAL MANAGEMENT SYSTEMS

ISO CERTIFICATION

ECO BLEACHING PROCESS

RECYCLED CONTENT

FOREST MANAGEMENT

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Customer Service
13 10 46
7.00am – 6.30pm, Monday to Friday

Faults Only
13 22 96
24 hours a day, 7 days a week

Life-Threatening Emergencies Only
Triple zero (000) or 13 16 70
24 hours a day, 7 days a week

Office of the Customer Advocate
Customer Advocate
PO Box 15107 Brisbane QLD 4002
customer.advocate@ergon.com.au

Ergon Energy Corporation Limited
ABN 50 087 646 062
Ergon Energy Queensland Pty Ltd
ABN 11 121 177 802

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