

ERGON ENERGY
Annual Stakeholder
Report 2011/12



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LOOKING FOR MORE INFORMATION?

This Annual Stakeholder Report and the Annual Financial Statements for Ergon Energy Corporation Limited and its Controlled Entities (including the Directors' Report and our Financial Statements), as well as previous year's reports, are available online at www.ergon.com.au/annualreport

Additional statistics, abbreviations and industry measures are provided on page 56.

Ergon Energy recognises that the rising price of electricity is a concern for our customers. Addressing this issue is at the core of our strategic plan, as well as the achievements and challenges highlighted in this report.

We are committed to doing everything we can to positively affect the price our customers pay for electricity – whether this is by managing electricity demand during peak times to make better use of our assets or reducing our own costs through business efficiency and improvements.

At the same time we know we have to keep pace with the growing demand for electricity and that our customers expect to have a safe and reliable electricity supply.

It's about finding the balance – and working together to find smarter, more efficient ways to ensure a bright future for regional Queensland.

ABOUT OUR REPORT

Our Annual Stakeholder Report 2011/12 presents a holistic insight into the organisation's overall performance for the financial year and demonstrates the contribution that Ergon Energy is making towards the broader sustainability challenges facing regional Queensland. The report covers Ergon Energy Corporation Limited and its subsidiary Ergon Energy Queensland Pty Ltd, as well as commentary on our other subsidiaries and joint venture. *p43*



WHY WE REPORT WHAT WE DO

It is our aim through this report to demonstrate to our stakeholders that Ergon Energy is a professional, accountable, outcomes-driven organisation.

Our stakeholders are our customers, the communities we work in and serve, our employees (including their representative unions), our government shareholders, the industry's regulators, our suppliers and industry associates. *p53*

Ergon Energy is active in assessing our stakeholders' needs and expectations, and feeding this understanding into business decision-making both at an operational and strategic level; these insights have been used to reassess the materiality of the information provided in this report. We are committed to continuously improving the transparency and relevance of our stakeholder communications.

At Ergon Energy we believe that reporting from both a financial and non-financial perspective helps us develop a shared understanding of our common objectives, and our broader challenges. This in turn encourages the adoption of more appropriate, sustainable practices and actions by our employees, and by our industry, and by our stakeholders more broadly.

The content of this report has also been guided by the Australasian Reporting Awards criteria for best-practice reporting, as well as the Energy Supply Association of Australia's Sustainable Practices Framework. The Global Reporting Initiative's (GRI) G3 Principles of Sustainability Reporting have also been used to enhance the comparability of our reporting. To easily locate information about specific GRI indicators in this report, refer to the index online at www.ergon.com.au/annualreport

To assist us to continually improve our reporting we invite your feedback through our online Feedback Form, also found at www.ergon.com.au/annualreport, or you can contact our Community Engagement and Advocacy team on 13 10 46.

ERGON ENERGY IN PROFILE

Ergon Energy supplies electricity across a service area of more than one million square kilometres – 97% of the state of Queensland.



ERGON ENERGY IN PROFILE

OUR BUSINESS

Ergon Energy is a Queensland Government-owned corporation. Our principal operating companies are Ergon Energy Corporation Limited, responsible for the distribution business, and the subsidiary Ergon Energy Queensland Pty Ltd, an electricity retailer.

The distribution business – the ‘poles and wires’ – largely remains a monopoly, and is regulated by the Australian Energy Regulator (AER). The AER sets the revenue Ergon Energy is allowed to collect for our distribution services. These charges are just one of the components that make up the price of electricity.

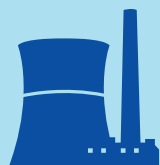
Ergon Energy’s retailer is only permitted, by legislation, to sell electricity at the Queensland Government’s Notified Prices. The Queensland Competition Authority (QCA) oversees these tariffs.

This enables Queenslanders to access the same uniform electricity tariffs, wherever they live, even though the cost to supply may be different. Customers in regional Queensland can choose, however, to purchase their electricity from another retailer in the competitive market – at a price set by that retailer – and still be supplied from Ergon Energy’s distribution network.

Ergon Energy’s other subsidiary is Ergon Energy Telecommunications Pty Ltd, trading as Nexium Telecommunications. This business services Ergon Energy’s communications needs and, as a licensed telecommunications carrier, offers the Queensland marketplace wholesale high-speed data services.

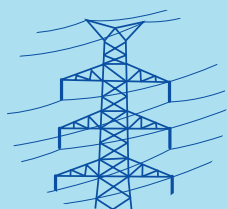
Ergon Energy is also a shareholder in a joint venture with Energex Limited (our south-east Queensland counterpart), SPARQ Solutions Pty Ltd, which provides information and communications technology (ICT) solutions and services to both organisations.

ELECTRICITY INDUSTRY SUPPLY CHAIN



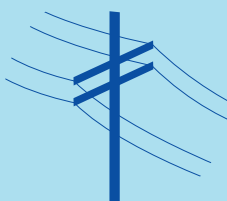
A range of energy sources (coal-fired, biomass, gas, hydro and wind) is used by private and government-owned operators to generate Queensland’s electricity.

Although not a major generator, Ergon Energy operates a 55MW gas-fired power station at Barcaldine. It supplies power into the statewide electricity grid and the National Electricity Market. We also have 33 stand-alone power stations, with local distribution networks, that supply communities isolated from the main grid in Western Queensland, the Gulf of Carpentaria, Cape York, various Torres Strait Islands and Palm Island.



The transmission network consists of lines that carry electricity from the point of generation over long distances and feed it into the distribution network.

Powerlink Queensland, as a government-owned corporation, operates the high-voltage transmission network that extends along the Queensland coastline. They utilise Ergon Energy’s regional capability to help provide and maintain these assets cost-effectively. Ergon Energy also has its own 220kV network in the Mount Isa region.



Distribution lines then carry electricity directly to Queensland’s homes and businesses.

Electricity is delivered across regional Queensland through Ergon Energy’s network of ‘poles and wires’. Around 70% of our powerlines run through rural Queensland, covering vast distances, and in many cases relatively unpopulated areas. Much of this part of our network, around 65,000 kilometres of line, uses the electricity distribution technology known as SWER (Single Wire Earth Return).



Electricity is purchased through the retailers, who also provide a range of other customer services.

A number of electricity retailers operate in regional Queensland – they buy electricity from the generators and on-sell it to customers. While Ergon Energy only offers the government-set tariffs, other retailers provide contestable market offers. Our retail business has specialist expertise in energy trading, billing and customer service, to name a few key areas.

OUR VISION

To be a high-performance, customer-driven energy business.

OUR PURPOSE

To provide safe, reliable, efficient and sustainable energy solutions to support our customers and the Queensland economy.

OUR VALUES

Success is built on our SPIRIT values of:

- Safety
- Professionalism
- Integrity
- Respect
- Innovation
- Teamwork

5,000
employees

\$10.6 billion
asset base

\$742.5 million
network investment in 2011/12

1 million
power poles

150,000km
of powerlines



▲ **700,000**
customers

▲ **2,417MW**
peak demand

▼ **7,166kWh**
average household energy use

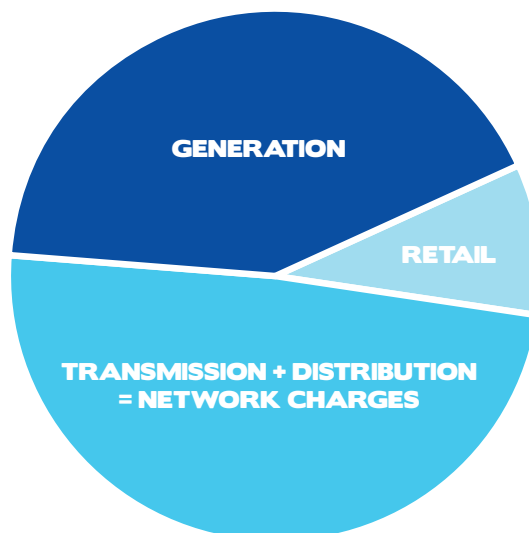
▼ **1.5 million**
customer calls in 2011/12

OUR STRATEGIC GOAL

At the pinnacle of Ergon Energy's strategic plan is the goal to limit increases to network charges (the main component of the price customers pay for electricity) to less than the Consumer Price Index (CPI) over the longer term.

Our aim is to mitigate further pressure on the end price. In regional Queensland during 2011/12 the typical household quarterly electricity bill was around \$372.

ELECTRICITY SUPPLY COSTS



THE YEAR IN SUMMARY

OUR HIGHLIGHTS

Helped our customers save on their electricity bills – more than 8,000 pool owners took up our ‘Save a Bomb’ offer, and our isolated community *powersavvy* schools are saving up to 60%. *p16*

Advanced our ability to manage network demand with non-network solutions – enabling the deferral of \$428 million in network investment – placing us on track to reach more than 100MW in reductions by 2015. *p24*

Continued to deliver improved reliability performance – despite significant flooding and bushfire impacts throughout the summer season. *p27*

Made real savings across our operations, \$40 million above the savings already built into our five-year plan, with further efficiency and effectiveness initiatives on the way. *p28*

Began mobilising a blueprint for an information-enabled future, including the advancement of our remote observation advanced modelling economic simulation (ROAMES) capability. *p30*

Delivered a strong 28% improvement in our All Injuries Frequency Rate for employees, through a continued focus on workplace health and safety. *p33*

Reduced our revenue requirement for the next three years by \$99.2 million – through targeted reductions in planned capital expenditure in line with reduced demand. *p39*

Exceeded our financial commitments with a Net Profit After Tax of \$319.8 million, delivering a Return on Assets of 7.6%. *p39*

THE SUSTAINABILITY CHALLENGE

Our contribution to sustainability in regional Queensland is in two primary areas:

- addressing the cost of living through a focus on electricity affordability
- supporting economic development through the efficient and timely delivery of critical electricity infrastructure.

Ergon Energy also has other important corporate responsibilities around:

- reliability and security of supply
- our role in disaster response
- workforce and community safety
- energy and resource conservation
- responding to climate change
- protecting the environment
- providing local employment opportunities
- supporting workplace diversity and social inclusion.

		2011/12	2010/11	2009/10	2008/09	2007/08
Net Profit After Tax (\$million)	↓	319.8	321.6	166.5	129.3	162.9
Total Assets (\$million)	↑	10,603.1	9,974.9	8,698.3	8,011.3	7,100.5
Total Capital Investment (\$million)	↑	869.8	830.5	806.1	844.3	841.4
Dividends Provided For (\$million)	↑	255.9	252.6	137.5	116.6	118.4
Return on Average Assets	↓	7.6%	8.0%	5.7%	5.3%	5.7%
Return on Average Equity	↓	9.7%	10.8%	6.4%	5.1%	6.6%
Gearing (including reserves)	↑	59.3%	56.6%	59.8%	59.1%	54.3%
EBITDA to Interest Cover (times)	—	3.6x	3.6x	3.2x	3.1x	3.7x

FOR MORE ON OUR FINANCIAL PERFORMANCE SEE PAGES 39–42.

OUR PERFORMANCE OVERVIEW

Ergon Energy's performance targets for 2011/12 are detailed in our Statement of Corporate Intent (SCI). This document, our annual performance agreement with our shareholding Ministers, is tabled in Parliament with this corresponding report. The performance targets, shown here against our strategic themes, are discussed in more detail throughout this report. This section also provides an overview of our challenges and aspirational goals for the 2010-2015 planning period.

STRATEGIC THEMES 2010-2015	PERFORMANCE TARGETS 2011/12
CUSTOMER-DRIVEN P14	Increase customer value: by working with our customers to better understand and anticipate their needs while providing them with an electricity service that is cost-efficient and dependable. Better than peer average as measured by 'Value to Customer' survey¹ Guaranteed Service Levels – Network Reliability $\leq 1,433$ claims accepted $\leq \\$148,979$ claims paid Guaranteed Service Levels – Other $\leq 2,961$ claims accepted $\leq \\$130,635$ claims paid
ASSET MANAGEMENT EXCELLENCE P22	Improve our asset management practices as a basis for providing a more cost-efficient and reliable service. This will see us using technologies that extend our ability to remotely control the network, which will also help us to mitigate and adapt to climate change impacts. Supply Reliability Indicators: Duration (SAIDI): - Urban ≤ 148 - Short Rural ≤ 418 - Long Rural ≤ 948 Frequency (SAIFI) - Urban ≤ 2.0 - Short Rural ≤ 3.9 - Long Rural ≤ 7.3 Demand management reductions of $\geq 25\text{MW}^1$
HIGH-PERFORMANCE ORGANISATION P28	Ensure our people have the knowledge, information, tools, skills and leadership they require to carry out their work safely, effectively and efficiently. Operational Expenditure per Route Kilometre $\leq \\$2,331$ Network Maintenance Costs/Regulated Asset Base $\leq 3.1\%$ Scheduled Performance Index and Cost Performance Index ≥ 1 for capital projects $> \\$75\text{m}$ regulated and $\\$60\text{m}$ unregulated. Employee 'Have Your Say' survey – Employee Engagement $\geq 70\%^1$ All Injuries Frequency Rate – Employees ≤ 13.3 Compensation Claims Frequency Rate – Employees ≤ 3.7 Lost Time Injuries Frequency Rate – Employees ≤ 2.6 Lost Time Injuries Frequency Rate – Contractors ≤ 1.0 Environment – Nil Class 1 EPA Breaches
ECONOMIC AND FINANCIAL PERFORMANCE P39	Drive increasing economic value through the efficiency of our service delivery within a sound corporate governance framework. Net Profit After Tax $\geq \\$277.6$ million³ Return on Average Assets $\geq 7.0\%^3$ Return on Average Equity $\geq 8.5\%^3$ Actual operating expenditure within regulatory allowance $\leq 39\%$ Actual capital expenditure within regulatory allowance $\leq 30\%$

1. An additional corporate (non-SCI) measures and results.

2. To allow comparison, the same base route kilometre used in the target was used to calculate the result. Total actual route kilometres have reduced with data improvements.

3. The financial performance measures in our Statement of Corporate Intent 2011/12 were revised in December 2011 to reflect the asset valuation.

PERFORMANCE RESULTS 2011/12

FUTURE CHALLENGES AND GOALS 2010-2015

'Value to Customer' ratio score five points above parity ✓
with a score of 105¹

Guaranteed Service Levels – Network Reliability ✗
2,942 claims paid, valued at \$305,916

Guaranteed Service Levels – Other ✗
7,178 claims paid, valued at \$270,981

Service – deliver quality, cost, value and choice as appropriate to each customer segment.

Customer Satisfaction – maintain strong customer relationships and work together to identify and meet their future needs.

Supply Reliability Indicators:

Duration (SAIDI):

- Urban 136 ✓
- Short Rural 393 ✓
- Long Rural 1,042 ✗

Frequency (SAIFI)

- Urban 1.4 ✓
- Short Rural 3.6 ✓
- Long Rural 7.0 ✓

Realised peak demand reductions of 36MW¹ ✓

Reliability – meet Minimum Service Standards and secure optimal Service target Performance Incentive Scheme results.

Demand Management – reduce peak load growth to defer capital expenditure on our network.

Operational Expenditure per Route Kilometre \$2,639² ✗

Network Maintenance Costs/Regulated Asset Base 3.3% ✗

UbiNet project – Scheduled Performance Index 1.00 ✓
Cost Performance Index 0.96 ✗

Employee 'Have Your Say' survey – ✓
Employee Engagement 71%¹

Annualised Staff Turnover 8.1% ✓

All Injuries Frequency Rate – Employees 9.9 ✓

Compensation Claims Frequency Rate – Employees 2.0 ✓

Lost Time Injuries Frequency Rate – Employees 2.7 ✗

Lost Time Injuries Frequency Rate – Contractors 1.8 ✗

Nil Class 1 breaches ✓

AS/NZS ISO14001 Environment Standard and ✓
AS4801/ISO 18001 Safety Standards maintained¹

Prudent and Efficient – prudently invest and efficiently deliver the capital expenditure and operating expenditure programs.

Information – integrate a spatial model into business processes to enable our people to improve work practices and efficiency.

Skills and Culture – build and foster a resilient and adaptable organisation with the skills and culture required to manage increasingly sophisticated networks, information systems and renewable energy solutions.

Safety – make sustained progress towards 'no one gets hurt today' in ensuring a safe workplace for our people and the broader community.

Net Profit After Tax \$319.8 million ✓

Return on Average Assets 7.6% ✓

Return on Average Equity 9.7% ✓

Regulated operating expenditure was slightly ahead ✗
of target, at 42% of five-year allowance

Regulated capital expenditure was within the target ✓
range, at 29% of five year allowance

Network Charges – drive network charges to less than the CPI over the long term.

Financial Targets – consistently achieve financial targets that meet or better our regulatory allowance and achieve a commercial return on assets.

Unregulated Business – increase unregulated revenue while improving core business.

CHAIRMAN'S MESSAGE



"As the Chair, I am focused on delivering greater efficiency, and a prudent investment approach."

The people of Queensland voted for significant change in March 2012. This warrants, I believe, a completely fresh approach to the management and governance of Ergon Energy.

Our clear focus now is to stamp out wasteful practices, focus on core business, continue to encourage cost-saving innovations, maintain security of supply and keep safety as a top priority. We need to provide safe, reliable, competitively priced power to the people and businesses of regional Queensland.

Since joining Ergon Energy at the end of May 2012, I can assure you that the Board and the executive management team have been committed to driving efficiencies and reducing costs wherever possible. Many members of the broader management team have also made valuable suggestions to assist with significant cost reductions and process improvements.

MEETING THE DEMAND CHALLENGE

The energy sector faces significant challenges, not the least of which is to provide adequate reliable power in extreme conditions.

Ergon Energy's network is designed to cope with peak demand on the hottest six or so days of the year. These peaks are sometimes 90% above normal summer peaks, and have risen over the past decade at a greater rate than energy use overall. As a result, the network is being under utilised for much of the year and as a direct result pricing has increased. To address this challenge, we need to work closely with our customers to find innovative solutions.

I'm delighted to report that the Ergon Energy team is well advanced in this area, having developed a major demand management program aimed at driving significant capital investment deferrals. With smart metering, extensive customer engagement and the appropriate incentives the organisation will continue to develop this approach for the benefit of regional Queenslanders.

FUNDING THE UNIFORM TARIFF

Ergon Energy faces some unique challenges servicing its remote areas in that the cost of providing power greatly exceeds the price under the uniform tariff in place across the state. Whilst Ergon Energy meets the prudential requirements of a public company, it does so with the financial support of all Queenslanders.

For the year ended 30 June 2012 the Queensland Government provided \$415.2 million to the company by way of a 'Community Service Obligation' payment to primarily assist Ergon Energy meet the costs of supply. However, this was offset in part by the Ergon Energy dividend payment provided for of \$255.9 million. It is also worth noting that the company borrowed an additional \$480.0 million to fund its capital programs. So, in total, Ergon Energy's operations required \$639.3 million in supplementary funding in 2011/12.

I must also point out that, although cost reduction is centre stage today, it will be important to keep innovation, research, safety and training high on the agenda.

Ergon Energy aims to be a high-performance, customer-driven, sustainable energy business.

Finally, I would like to acknowledge and thank Dr Ralph Craven for his dedication and efforts during his chairmanship.

MALCOLM HALL-BROWN
CHAIRMAN

CHIEF EXECUTIVE'S REPORT

I trust this report provides the confidence that Ergon Energy is, as an organisation, focusing on the dimensions that our many stakeholders value and expect.

As Ergon Energy's Chief Executive I can reassure you that we're doing everything possible to keep electricity affordable. That we are striving to give our customers the service they expect, especially in terms of connecting to the network, as well as the energy advice, support and solutions they need generally. We are focused on delivering value for money, being there for regional Queensland in times of natural disaster, and ultimately on providing a reliable and safe power supply day in day out.

ELECTRICITY PRICES A CHALLENGE AUSTRALIA WIDE

As an industry, we face significant challenges associated with escalating electricity prices and the impact on the cost of living.

Recent rises have been largely due to the cost of the capital investment required to respond to rapid increases in peak demand (largely due to the take up of air conditioning and other lifestyle appliances) and growing regulatory standards around service connection and reliability of supply, and increases in the cost of debt.

In response, Ergon Energy has at the core of its strategic plan an overarching goal to limit increases to network charges to less than the CPI over the longer term. These charges make up around half of the cost of our customers' bill – so this is the area where Ergon Energy has the greatest influence. The strategic initiatives that we are progressing to achieve this range from implementing tariff reform, and other demand management related projects, to driving efficiencies through our operational and capital programs.

Reform is at the centre of affordability long term

During the year we were actively involved in the Queensland Government's review of its gazetted retail tariff. This saw us engaging with the government and dedicating significant resources to the activities required to enable us to be ready for the government's move to a new tariff structure on July 1.

The reform path is seeing tariffs become more cost reflective – Ergon Energy considers that the transparency that this will provide will ultimately encourage customers to use electricity more appropriately, and allow market forces to support more efficient outcomes overall.

It has been Ergon Energy's aim through this reform process to ensure future pricing structures best support our regional Queensland customers and positive economic outcomes.

We also put in a significant effort this year into driving improved customer service outcomes in line with the proposed introduction of a National Energy Customer Framework.

PRUDENCY IN INVESTMENT IS A PRIORITY

As a result of a combination of economic and other mitigating factors, during the year Ergon Energy was able to put forward a \$709 million reduction in our 2010-2015 capital works program, which with government support is now seeing \$99.2 million of savings being passed on to customers through a reduction in our revenue requirement from electricity sales over the next three years.

The factors which allowed this included; the success of our energy conservation and demand management programs and support for the use of more cost-effective alternatives (to duplicating assets for redundancy) to achieving appropriate levels of security of supply, as well as a slower than anticipated recovery in connections and electricity consumption.

In the alternative energy solutions areas, initiatives like the Townsville: Solar City project, which came to the end of its operational phase this year, have helped deliver 53MW of peak demand reductions – putting us well ahead of this year's target and on track to reach a reduction in peak demand of 103MW by 2015. This success has allowed us to defer \$428 million in proposed network augmentations to date.



"Our strategic plan is built up around a commitment to do what we can to address rising electricity prices."

CHIEF EXECUTIVE'S REPORT (CONTINUED)

We are currently exploring the potential for further reductions in the scale of our works program, where prudent to do so, in line with the current slow down in demand. This will depend on the pace of economic recovery, particularly in the energy resources sector. Where savings are possible, this will help to ease electricity prices further.

Excellence in asset management recognised

In the Queensland Government's Electricity Network Capital Program Review 2011, which assessed the network performance and capital works programs of Ergon Energy, as well as Energex and Powerlink, we were seen to have achieved significant improvements in a range of areas including network management planning, network control and improved outage response times. The review also found broad improvements in preventative maintenance, demand management and in the operation of our contact centres.

The review panel also recognised significant improvements in the reliability and robustness of Ergon Energy's network over recent years. This trend has been maintained in this year's final network performance frequency and duration supply interruption outcomes, which are outlined in this report.

These results were supported by the effort that went into restoring supply to the communities across regional Queensland that were impacted by this year's floods and bushfires, as well as to the suburbs in Townsville that were devastated by the extreme tornado like weather event.

Although the storm season was not as dramatic as 2010/11, I am proud of the way our people once again rose to the challenges Mother Nature sent our way, doing everything in their power to help get the communities impacted back on track.

DELIVERING AS A HIGH PERFORMANCE ORGANISATION

Another pleasing performance outcome this year has been our safety result – a 28% improvement in our All Injuries Frequency Rate for our employees, which incorporates a 15% improvement in our Lost Time Injury Frequency Rate. This builds on the turnaround achieved the previous year and takes us one step further towards our goal of being in the top quartile of the electricity distribution industry's safety performance.

It is an outcome that has only come about through the priority placed on building a safety culture across the business – and the commitment and professionalism shown by our employees.

Improved efficiencies and effectiveness

While challenging we are also having success around our efficiency and effectiveness goals. In addition to the savings built into our current plans, through a strong sense of responsibility to our customers and shareholders, we have also delivered an additional \$40 million in operational savings for 2011/12.

This has supported a Net Profit After Tax of \$319.8 million – which will enable dividends of \$255.9 million to be paid to the Queensland Government in 2012/13.

We intend to take our 'cost saving' agenda even further during 2012/13 with a formal efficiency and effectiveness program now in place to drive specific outcomes.

Longer-term, I am also confident, that the investment we are making now towards becoming an information-enabled organisation will become increasingly central to ensuring the services we deliver are economically sustainable.

A highlight this year is the continued development of our 'ROAMES' initiative, which is now seeing purpose built observation aircraft in the air capturing precision network-related condition data. This will enable us to drive efficiencies across the asset management program.

THE REVIEW INTO OUR INDUSTRY

As this report was being finalised Ergon Energy was participating in an industry review into Queensland Government-owned electricity entities. The objectives of the review are aligned with the clear message we have been hearing from our stakeholders for sometime – find ways to improve service levels and at the same time reduce costs.

Ergon Energy has a lot to contribute to these priorities, particularly around addressing our customers' cost of living. This focus is not new – it's already at the heart of our vision, our purpose statements and our strategic plan.

I believe Ergon Energy has a strong foundation from which we can drive further improved customer outcomes, efficiency and cost savings.

THANK YOU FOR YOUR SUPPORT

In closing, I would like to thank our customers and other stakeholders for their support throughout the year. I would also like to thank the people of Ergon Energy for their professionalism and the passion they show towards the communities who depend on us.



IAN McLEOD
CHIEF EXECUTIVE

REVIEW OF OPERATIONS

The following Review of Operations is divided into our three strategic themes.

OUR STRATEGIC GOAL

To limit increases to network charges to less than the CPI over the longer term.

OUR STRATEGIC THEMES

CUSTOMER-DRIVEN

Understanding customers' needs and offering the right balance of products, service, cost and quality is considered core to addressing affordability concerns and delivering service delivery excellence; and to reducing peak demand and growing our unregulated revenue.

ASSET MANAGEMENT EXCELLENCE

To limit increases to network charges over the long term we're focusing on our asset management capability. This is about realising greater value from the existing assets, and delivering new assets prudently and efficiently while maintaining network health and reliability.

HIGH-PERFORMANCE ORGANISATION

Being a high-performance organisation is about ensuring our people have the personal engagement, skills, information, technology and leadership support they need to carry out their work safely, effectively and efficiently, and to achieve the strategic objectives.



REVIEW OF OPERATIONS: CUSTOMER-DRIVEN

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CUSTOMER SERVICE IMPROVEMENTS	17
ENGAGING WITH THE COMMUNITY	20

Our focus on being 'customer-driven' has put electricity affordability at the centre of our strategic plan. It has seen a focus on ensuring reforms support sustainable outcomes for regional Queensland's electricity supply arrangements. And us working together with our customers to help them save on their bills and improve our demand management capability. It is also driving an organisation-wide focus on our efficiency and effectiveness.

Ergon Energy's 700,000 customers range from 'mums and dads' to large industrial energy users. They are not only geographically dispersed, they have different expectations regarding 'service levels'. This diversity, coupled with the different way they use electricity, means we need to work hard to achieve the right balance of service quality, cost and choice for all of our customers.

ADDRESSING AFFORDABILITY

LISTENING TO OUR CUSTOMERS

Since 2001, we have been using a 'value to customer' research program as the primary tool to track what is important to our customers. This year's research again clearly highlighted rising electricity prices as the key issue for our customers.

This research provides a metric that allows us to monitor how both our residential and business customers judge value in terms of what they receive versus the price they pay. While the overall value score from our residential customers remained low at 6.5 out of 10 (the same as in the previous year and again as a result of customers' perceptions around cost and affordability), Ergon Energy has benchmarked slightly up on where we were last year (at 105 where 100 is parity compared to 103 in 2010/11) when compared to the peer suppliers we review. The overall value to business score, is sitting at 6.0 out of 10 compared to 6.1 in 2010/11. p18

Above: During the year our powersavvy initiative was expanded to help more customers reduce their electricity use and save money. Residential Program Coordinator Michael Miller is shown here conducting a home consultation in Mapoon, one of the communities now being targeted with the help of a partnership with the local council.

In addition, a comprehensive piece of research was undertaken to help develop actionable strategies to address the challenges of affordability among customers in, or at risk of, hardship.

We also began to develop our customer segmentation capability to help us better place the customer at the centre of decision-making and ensure that the allocation of resources delivers optimum customer and business value. This work is ongoing.

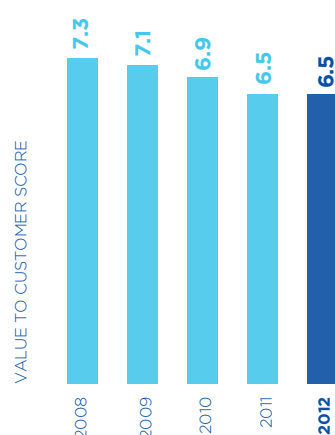
The role of our Customer Council also continued to develop, allowing us to keep abreast of the issues of potential concern to our customers. Established in 2011, it operates as a consultative forum for customer-related challenges and opportunities by bringing together representatives from Ergon Energy and nine peak organisations from across regional Queensland.

STRATEGIC INITIATIVE	ACHIEVEMENT	
Develop our customer segmentation capability to better place the customer at the centre of decision-making and ensure that the allocation of resources delivers optimum customer and business value.	Segments have been identified and data enhancements have been scoped. Research will now be used to determine, by segment, customer priorities, service performance targets, product/service requirements, and the value of differentiated service offerings. <i>p14</i>	➡
Participate in the Queensland Government's retail tariff review to ensure future pricing structures best support regional Queensland and our customers.	A significant system build was delivered to enable the introduction of the new tariffs by July 2012, and the government's tariff decisions have been implemented. Government engagement is expected to continue as further reforms progress. <i>p15</i>	...
Build the capability to deliver on the requirements of the National Energy Customer Framework (NECF) and improve service standards around connections, supply interruptions, life support, billing and support for those in hardship.	Despite the introduction of NECF being postponed, the system investment and the supporting training and process changes have improved service standards in a number of key areas. <i>p17</i>	...
Deliver a program to better understand the cost to serve our customers in order to provide improved service delivery, while also improving cost effectiveness.	Progress has been made in benchmarking our service delivery activities. Due to competing priorities (tariff reform and NECF) this program will be delivered in the coming year. <i>p17</i>	➡

These community service, environmental management and business sector organisations are informing and influencing Ergon Energy's business decisions, and helping to facilitate wider community consultation.

Our commitment to placing the customer at the centre of our decision making and being a responsible provider is reflected in the strategic initiatives highlighted throughout this report.

RESEARCH CONFIRMS FOCUS ON AFFORDABILITY



Our overall value score from our residential customers remained low at 6.5 out of 10. This is a direct result of customers' perceptions around cost and affordability, and is the reason for our strategic focus on efficiency.

SUPPORTING TARIFF REFORM

Ergon Energy is seeking greater cost reflectivity of electricity tariffs, as part of our efforts to ensure the efficient and sustainable supply of electricity.

"Addressing customer concerns around affordability and value is central to our strategic plan – from our customer service initiatives to our longer-term efficiency targets."

During the year we have been actively involved in the Queensland Government's retail tariff review, where our aim was to ensure future pricing structures best support regional Queensland and our customers.

This review led to the outcomes in the QCA's Final Price Determination on Regulated Retail Electricity Prices for 2012/13. This determination replaces the previous Benchmark Retail Cost Index approach to adjusting regulated retail electricity prices.

To support the review, including the government's modelling requirements, and manage the significant system build that was required to deliver the introduction of the new tariffs on 1 July 2012, a project team was established with significant dedicated resources.

Ergon Energy provided submissions in response to the QCA's November 2011 Draft Methodology Paper for the proposed regulated retail electricity tariff changes and the March 2012 Draft Determination.

Throughout this process Ergon Energy strongly advocated the need for reform and supported the general direction in which the reform had progressed. Separating the network (N) and retail (R) components, introducing time-of-use price signals and removing obsolete tariffs will enhance the cost reflectivity of electricity prices.

This is needed to encourage customers to use electricity more appropriately, and allow market forces to support more efficient outcomes.

Ergon Energy also expressed its view that the pace of change proposed for some of the tariffs presented significant challenges to specific customer segments, notably large energy users and the farming sector. Our aim was to seek a transitional period that allowed time for customers to understand and adjust to the new price signals. Many of the issues raised by Ergon Energy were resolved in the final determination.

In addition to the above, the new Queensland Government, with the aim of relieving cost of living pressures, made a commitment to freeze the residential Tariff 11. This means the new inclining block tariff for residential customers, which had been proposed as part of the draft determination, has not been introduced. Tariff 11 will continue to be charged at the 2011/12 flat rate plus the Australian Government's carbon price of 2.4 cents per kWh.

A new voluntary time-of-use tariff was made available from 1 July, 2012. Under this tariff, customers pay more for electricity during the specified peak period, and less during off-peak or shoulder periods. This allows high energy using customers, who can choose when they use power, to potentially achieve the lowest cost option. This tariff is expected to be attractive to customers in future years.

Ergon Energy is expecting engagement with the government to continue as further reform of both residential and network tariffs progress.

HELPING OUR CUSTOMERS SAVE

During the year we continued our 'energy sense' campaign to help educate customers on how to save energy, and ultimately cut the cost of their power bills.

The campaign consisted of a number of elements including television, radio and press advertisements, outdoor advertisements, website promotion and our Energy Sense guide; with energy saving tips and helpful information on appliance running costs and tariff options.

We also continued to promote direct debit as a useful tool to help manage high bills, especially for those in lower socio-economic areas or medium-to-high electricity users.

In a joint initiative with Energex, we also developed the content for a new website which now provides all Queenslanders with a single reference point for accurate, reliable, and impartial information on energy conservation and demand management. The site, yourpowerqld.com.au provides our residential customers with tips, checklists, calculators as well as a single source for all rebates and rewards across Queensland.

To help customers save on their pool running costs we rolled out a major incentive program to encourage customers to use Tariff 33, our economy, off-peak tariff, for pool equipment and to purchase energy efficient pool pumps *p24*. Initiatives like this deliver immediate savings to our customers, while helping us improve the utilisation of our assets and reduce what we need to invest in the network, which longer term takes pressure off prices.

Another highlight in this space was the ongoing success of the isolated communities' energy saving program, known as *powersavvy*. Created in 2009 to target residential, school and commercial electricity use in Queensland's isolated communities, the initiative was expanded this year into the remaining communities across the Torres Strait and Cape York Peninsula, as well as to Palm Island. It also continued in the initial pilot communities to help sustain the energy usage behavioural changes achieved to date.



Our advertising campaign – *You don't pay quarterly for milk or petrol. So why pay quarterly for electricity?* – encouraged customers to consider if direct debit was right for them.

At the same time *powersavvy* is helping us to reduce the fuel costs associated with the diesel-fired generation that is used to supply these communities *p36*. The education element of the program, which uses E-learning and a range of other tools, continues to be the stand-out success, with school campuses realising significant reductions in electricity use – in the order of 50-60% for a number of schools over a three-month period (compared with the same period the previous year).

Customers are also making savings through a range of other initiatives in our demand management program. *p24*

ASSISTANCE FOR THOSE IN HARDSHIP

The number of customers benefiting from our Customer Assistance Program has increased to 5,600 (from 3,900 in June 2011). This equates to approximately 0.8% of our customer base.

In response to the growing difficulty our customers are experiencing in making ends meet, we have expanded our capacity to deliver the hardship program and, through products and services, improved our ability to assist and educate customers on how to manage their electricity costs and avoid debt-related disconnection.

The success of these efforts has seen the number of customers being disconnected for debt drop by 11% compared with last year, to a five-year low.

Our Customer Assistance Program gives general advice on how to reduce electricity consumption, organises payment plans and alternative payment methods, and provides direct referral to Lifeline Community Care Queensland if counselling is needed to build a customer's long-term capacity to pay.

The team has also worked with a number of other community groups to help promote the Customer Assistance Program to 'vulnerable' or 'at risk' customers and to improve their energy literacy so they can also directly support their clients to better manage electricity bills.

We have also lifted the rigour around the program's reporting framework, as part of preparations for the introduction of the National Electricity Customer Framework *p17*; which will allow us to more proactively assist vulnerable and disadvantaged customers. We have also been looking at how we can extend hardship provisions appropriately to customers who are using prepayment meters and to our small business customers.

In addition, we are reviewing the way we manage our customers' credit path in line with the implementation of system improvements. Together with an increased focus on proactively identifying customers at risk and the development of targeted products, services and channels, these measures will help us better provide sustainable access to electricity.

CUSTOMER SERVICE IMPROVEMENTS

2011/12 has been about finding ways to do what we do better, and more efficiently.

NATIONAL ELECTRICITY CUSTOMER FRAMEWORK

Significant resources were dedicated to introducing service improvements in line with the proposed July 2012 introduction of the National Electricity Customer Framework (NECF). Developed by the then Ministerial Council on Energy, NECF aims to provide a single, consistent set of rules for interactions between energy customers and their retailer and the distributor that supplies them, including a range of energy-specific consumer protections.

While the introduction of the framework was delayed in May 2012, where there were strong customer benefits and consistency with our Electricity Industry Code obligations, we continued with the implementation of the key service improvements in line with the original timeline.

NECF presented an opportunity to improve services to our Life Support customers. It also saw us redesign the bill our customers receive by adding additional information and making it easier to understand.

It also reinforced the priority already being placed on streamlining our processes to make it easier for customers to arrange new connections to the network. The improvements will see customers better informed when making an application, which will help ensure we receive everything we need at application time to reduce processing timeframes. The management of the timeframes for making an offer and for customers to accept the offer has also been improved through better monitoring and communication mechanisms (see Scorecard).

With the work achieved to date, Ergon Energy is well placed for when NECF formally commences in Queensland.

FOCUS ON MAJOR NETWORK CONNECTIONS

To ensure we deliver for our large customers we established a Major Projects business unit in late 2011, to better manage the demand for major customer connections, fuelled in large part by activity in Queensland's resources sector. This team is driving significant changes to the way we approach large customer connections to provide better customer service, increased communication with the customer and a better understanding of their operations *p51*. Customer satisfaction research is being used to benchmark our service in this area, and to track and evaluate any changes that are implemented.

We have also introduced a new pricing model and service classification that provides large customers with the choice as to whether they want Ergon Energy or another approved supplier to construct customer-specific assets.

BENCHMARKING SERVICE LEVELS AND COSTS

During the year we began using advanced external benchmarking to better target service delivery enhancements and improve the cost of serving our customers. These results have provided insight into opportunities to maintain or improve service levels at best practice cost. The associated transformation plan will see us continue to improve our access to information about our customers, which will in turn provide us with the ability to tailor service levels to our customers' needs.

Improvements to the service related element of our distribution business, such as the management of power interruptions (both planned and unplanned) and service order dispatch practices, are being realised through a focus on our service culture, performance measurement, cost to serve and resourcing. This work is already addressing the lack of consistency in practices and service delivery across the different regions. In the future it will enable us to realise the full benefits of the technology investment planned as we transition from the service order dispatch model, introduced this year, to a field force automation model *p30*.



CUSTOMER EXPERIENCE SCORECARD

CONTACT CENTRE GRADE OF SERVICE SOUND

Throughout the year Ergon Energy's Contact Centre consistently delivered a monthly 'grade of service' result above the targeted 70% of calls answered in 30 seconds. This helped maintain a high level of overall customer satisfaction – averaging 86%.

While the summer storm season was largely uneventful from a call volume perspective, day-to-day the centre was challenged by the continued growth in customers experiencing energy hardship, as well as the significant increase in customers applying to connect solar energy systems.

To address the centre's resourcing challenges, we recruited additional part-time and casual employees who now make up 65% of all phone answering staff. This flexibility, together with the 'Ergon Mates' program, which allows skilled staff from other areas of the business to be called on in times of need, enables the centre to operate at 140% of its normal capacity during major events, like the weather events experienced in 2010/11.

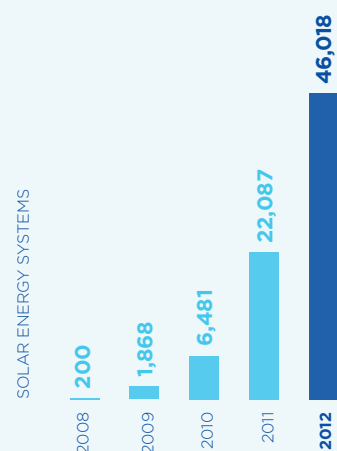
MEETING DEMAND FOR SOLAR CONNECTIONS

Over the past year applications to connect solar photovoltaic systems to Ergon Energy's network continued to escalate. More than 10,000 applications arrived in June alone in the lead up to the reductions in the Australian Government's Solar Credits multiplier and the Queensland Government's feed-in tariff.

Early in the year, we established a dedicated team to manage applications and assist both customers and the solar industry, and we reallocated resources to maximise our ability to install the required meters. A significant focus was also placed on educating the solar industry sales consultants and installers on Ergon Energy's business and network requirements so they could advise their customers appropriately.

Customers have increasingly opted for larger systems, as system prices have fallen, with 2.6kW the average system size now installed. Through the Queensland Government's Solar Bonus Scheme – the 44 cent feed-in-tariff – we credited almost \$28 million to eligible customers' accounts for the renewable energy their systems exported back into the grid during 2011/12.

SOLAR ENERGY SYSTEMS CONNECTED DOUBLES



By the end of June there were more than 46,000 systems feeding electricity into Ergon Energy's network – helping Queensland surpass New South Wales as the state with the most solar energy systems with a total generation capacity of more than 122MW, a third of which was added in the last six months.

CUSTOMER SERVICE DELIVERY			2011/12	2010/11	2009/10	2008/09	2007/08
Value to Customer – Residential Research Parity	Target ≥100 (peer average)	↑	105	104*	106*	103*	103
Value to Customer – Residential Research Score		—	6.5	6.5	6.9*	7.1	7.3
Value to Business (research score)		↓	6.0	6.1*	6.5	na	na
Call Volumes to Contact Centre		↓	1.46 million	1.67 million	1.55 million	1.45 million	1.39 million
Contact Centre – Customer Satisfaction	Target ≥85%	↓	86%	88%	91%	90%	89%
Contact Centre – Calls Answered in 30 Seconds	Target ≥70%	↑	72%	64%	71%	71%	74%
New Connections – Average Time from Contract to Commissioning	Target ≤170 days	↓	170 days	218 days	162 days	165 days	173 days

*Corrections from previous reports..

DELIVERING ON OUR CUSTOMER CHARTER

As part of our Customer Charter, Ergon Energy has a range of Guaranteed Service Levels (GSLs). These cover the distribution GSLs around the notification of planned interruptions and network reliability standards, as well as new connections and reconnections timeframes, wrongful disconnections, the resolution of hot water supply matters and appointments, as well as the retail GSL for billing errors. These performance commitments allow payments to be made to our customers as compensation for performance failure. The increase in payments during 2011/12 has been largely attributable to reliability performance (2,942 payments) and failure to notify of planned interruptions in the appropriate timeframe (6,635 payments) as a result of data integrity issues, notification calculation errors (partly relating to public holidays) and works program priorities.

COMPLAINTS MANAGEMENT STRONG

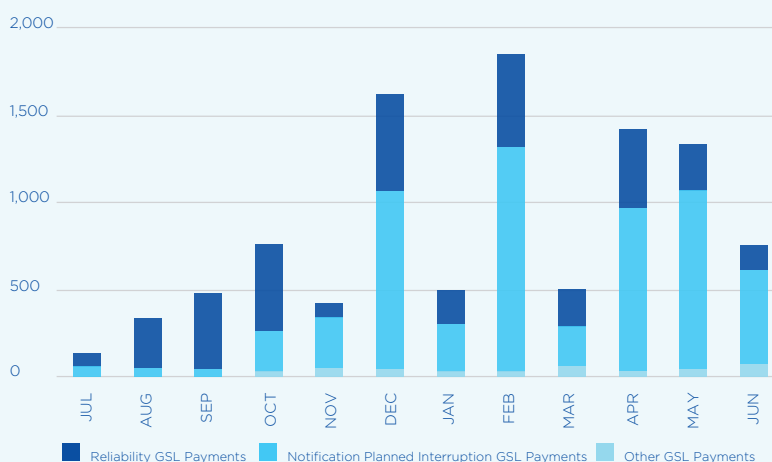
During the year we continued to improve our complaints handling practices, strengthening our position regarding complaints escalated to the Energy and Water Ombudsman – Ergon Energy now only accounts for approximately 3% of all of Queensland's energy retail and distribution escalated complaints (down from an already low 6% in 2010/11) despite serving a third of Queensland households.

During 2011/12 Ergon Energy also achieved a high level of conformance in an independent review against the International Standard on Complaints (AS ISO 10002). At the same time, however, in our own customer research, overall satisfaction with the complaints management process was down slightly to 58% (from 62%). This is being monitored.

SERVICE FAILURE	2011/12		2010/11*	
	CLAIMS	PAYMENTS	CLAIMS	PAYMENTS
Network Reliability GSLs	2,942	\$305,916	1,099	\$114,296
Notification Planned Interruption GSLs	6,635	\$203,827	3,216	\$107,283
Other GSLs	543	\$67,154	486	\$58,178
TOTAL	10,120	\$576,897	4,801	\$279,757

*2010/11 figures have been adjusted to be consistent with 2011/12 disclosures.

SERVICE LEVEL PAYMENTS FOCUS EFFORTS



During the year we experienced a number of spikes in payments for the 'notification of planned interruption' GSLs. Recent system enhancements are now providing an alert when the notification times allowed do not meet requirements to reduce customer inconvenience and payments in this category.

ENGAGING WITH THE COMMUNITY

OUR COMMITMENT TO OUR INDIGENOUS COMMUNITIES

Ergon Energy supplies the majority of regional Queensland's Indigenous communities with electricity, either through the grid via stand-alone power stations and local distribution networks, or through small stand-alone power supply systems. Our aim is to contribute to the economic and social well-being of these communities through both our service delivery and our engagement efforts.

To deliver our Aboriginal and Torres Strait Islander (A&TSI) Community Engagement Strategy we have a strong governance structure that provides the executive leadership to drive appropriate service delivery. The strategy coordinates and supports service delivery and the active engagement of our most remote and isolated communities.

We have continued to progress the development of a Reconciliation Action Plan (RAP), pulling together all of the current activities across the business into a draft plan and gaining Board endorsement.

A RAP is an initiative of Reconciliation Australia, the peak national organisation building and promoting reconciliation between Indigenous and non-Indigenous Australians. It documents publicly what an organisation is doing to further reconciliation, within its realm of influence, and holds the organisation accountable for the commitments made with a requirement to report progress annually.

The initial development of our draft plan has allowed us to contribute to the Queensland Government's RAP 2012-2015 with specific commitments in four broad areas:

- **Employment:** to employ, develop and promote Indigenous people to help create a workforce that is representative of the communities in which we live, work and operate.
- **Cultural recognition and capability:** by improving our understanding of Indigenous culture, and the issues facing Indigenous Australians, we hope to better respond to their needs.
- **Energy efficiency and education:** to continue and expand the assistance we provide our Indigenous customers to reduce their energy consumption and improve financial capability.
- **Capacity building:** to build skills, through education and training, and support development programs that enhances local community capacity.

The accountability actions to which Ergon Energy has committed in the Queensland Government's RAP will form the foundation for Ergon Energy's own RAP. They are aligned to Reconciliation Australia's action themes of opportunities, relationships and respect. Reconciliation Australia will now assist us to formalise our own RAP over the coming year, with the aim of developing a plan with clear performance targets that we can report on publicly.

In addition, we are engaging directly with our Indigenous communities and undertaking formal research to map the expectations of our customers and other stakeholders. This information will be crucial to progressing the RAP, as well as specific matters, such as future metering changes.

ENGAGING ON OUR MAJOR PROJECTS AND WITH LOCAL GOVERNMENT

With communities increasingly wanting more of a say on the impact of infrastructure development, Ergon Energy strengthened its commitment to foster community understanding of the need for its major capital works program.

"Ergon Energy is committed to playing a role in closing the opportunity gap between Indigenous and non-Indigenous Queenslanders."

Four community engagement subject matter experts were appointed in locations across the state to work with existing specialists in areas such as property, environment, cultural heritage and design. These subject matter experts help the business assess the potential community impact of major infrastructure, such as substations and powerline routes, and manage the engagement with those communities to mitigate the impact.

Processes were also embedded into business practices to integrate community impact assessment and engagement 'always and early' during the project planning and design phases. The community engagement team is currently working on more than 50 projects, valued at more than \$250 million.

In this and many other areas – from energy conservation to disaster response planning and activities, to street lighting – we continued to work closely with local government to ensure we best deliver on our respective obligations to the community.

Through our Community Powerline Project fund we continued to support community-owned streetscape beautification projects, with progress on projects to relocate or underground existing overhead powerlines in Airlie Beach, Yeppoon, Richmond and Biloela. We also worked with local governments through our ongoing Cyclone Area Reliability Enhancement (CARE) program p26.

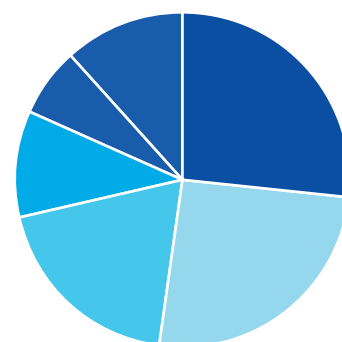
This commitment to engaging with the community is in line with our over-arching stakeholder engagement policy and framework p53.

COMMUNITY PARTNERSHIP OFFERING REAL VALUE

Ergon Energy's Community Partnership program is aimed at forming active and mutually beneficial relationships across the communities we serve. The program's partnership activities range from small school projects and local environment initiatives, to community festivals and major engagement programs. These partnerships are not merely about financial support, they also allow us to contribute and transfer skills, expertise and knowledge, to both deliver on our corporate social responsibility and realise commercial value.

A key area of its focus is on building community awareness of energy efficient behaviours. This both empowers our customers to save on their energy bills and provides valuable support to our demand management activities, such as the Energy Sense Communities initiative p25.

FOCUS OF OUR COMMUNITY PARTNERSHIP PROGRAM



The London Benchmarking Group's 2011 report captured our main community investment activities and enabled us to benchmark these investments against other companies in the energy sector, as well as more broadly. Our environment and education investment is largely targeted at achieving our energy conservation and demand management objectives.

Our Envirofund, first launched in May 2009, continued to provide benefits this year with 22 community-based groups bringing their energy conservation and environmental vision to life. Funding grants totalling \$150,000 were awarded to widely diverse projects across the state from the Hampden State School Sustainability Education Program to the Brigalow-Jimbour Floodplain Group Solar Project.

Our PowerAid program reached a milestone with \$2 million donated to not-for-profit organisations since its inception eight years ago. This initiative is a simple concept that involves work teams accruing points for safe work practices, which are then converted into donation dollars by Ergon Energy and donated to charities of our employees' choice. Since 2004, the program has aided causes such as Angel Flight, Blue Care, Meals on Wheels, Camp Quality and Cancer Council Queensland p32.

Ergon Energy's customers also continued to show outstanding generosity, having now donated a total of \$6.3 million to the Royal Flying Doctor Service through their power bills. As part of the scheme, customers can contribute via regular donations through their quarterly bill, or make larger one-off donations. Since it began in 2000, more than 100,000 customers have chosen to donate. These funds are vital to keeping the doctors flying, helping to purchase life-saving aircraft and vital medical equipment.

Ergon Energy continued to gauge the effectiveness of our community investments through the London Benchmarking Group's modelling tool. This allows us to benchmark against more than 100 companies across Australia and New Zealand to improve the management of our community involvement.

COMMUNITY ELECTRICAL SAFETY AWARENESS

Ergon Energy's Community Electrical Safety Awareness Plan has evolved each year to address the most frequent community electrical incidents, identified by analysing annual incident data, with awareness campaigns targeted at industry sectors or extreme risk activities. This has seen community electrical safety incidents halved in the past five years – an achievement our community safety team is extremely proud of.

There is no room for complacency, however, when it comes to community health and safety. While there were no fatalities in 2011/12, there were two serious electrical incidents.

Community related incidents have wide-ranging impacts. They can have tragic consequences for the individuals involved and their families; they can cause significant power supply disruption and financial strain on employers and the broader community; and they are a significant cost to Ergon Energy as a business.

In 2011/12, more than 64,000 customers had their supply interrupted due to incidents where members of the community had come in contact with the electricity network, which equated to eight million customer power supply minutes lost.

Targeting major 'at risk' industries

In response, we have again targeted the road transport industry and the building/construction industry, developing new fact sheets focused on the transportation of high loads, as well as high risk activities undertaken by plumbers, carpenters and painters. Efforts have also continued in the agricultural industry with a major focus on educating cotton and sugar workers.

Ergon Energy collaborated with a range of external organisations such as AgForce, Canegrowers, Farmsafe, the Local Government Association of Queensland, Workplace Health and Safety, Cotton Australia, the Electrical Safety Office, Energex, Dial Before You Dig and the Building Services Authority to share strategies for reducing electrical safety incidents. We also developed a community safety video in conjunction with New South Wales distributors, Essential Energy, Endeavour Energy and Ausgrid, with versions targeted at rural, urban and emergency services audiences.

We have also participated in major industry events, distributing more than 90,000 individual items of 'Look Up and Live' campaign material. 'Look Up and Live' safety presentations have been delivered in 50 different locations to approximately 10,000 people. These efforts have been supported by our mass market and targeted advertising campaigns.

Direct mail pieces were sent to 3,500 members of the risk industry groups, including aviation, agriculture, tradespeople, road transport and crane companies. This included tips to help identify the electrical hazards in each specific industry and the control measures available.

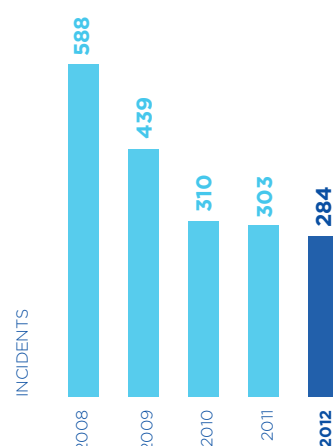
It is noteworthy that approximately 25% of all our community safety incidents were motor vehicle accident related. Our strategy in this area is to promote that 'the safest place to be is in the vehicle' and 'how to safely escape' if there is no other option, such as the vehicle being on fire, to ensure we do not have secondary fatalities (rescuers).

WireAlert monitors for danger

Another significant community safety initiative this year was the provision of WireAlert devices for use in the homes of our employees. This pilot, which saw over 4,000 WireAlert devices distributed across regional Queensland, is helping us to assess whether the device is a viable solution to help reduce public shocks and tingles that could result in equipment damage or injury.

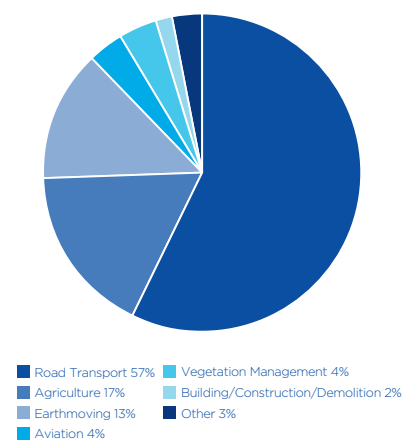
The use of the device by employees has been positive – to date one potentially dangerous electrical issue on the network and two premise-related safety issues have been detected. The program supplements our existing asset monitoring and inspections.

COMMUNITY SAFETY INCIDENTS REMAIN DOWN

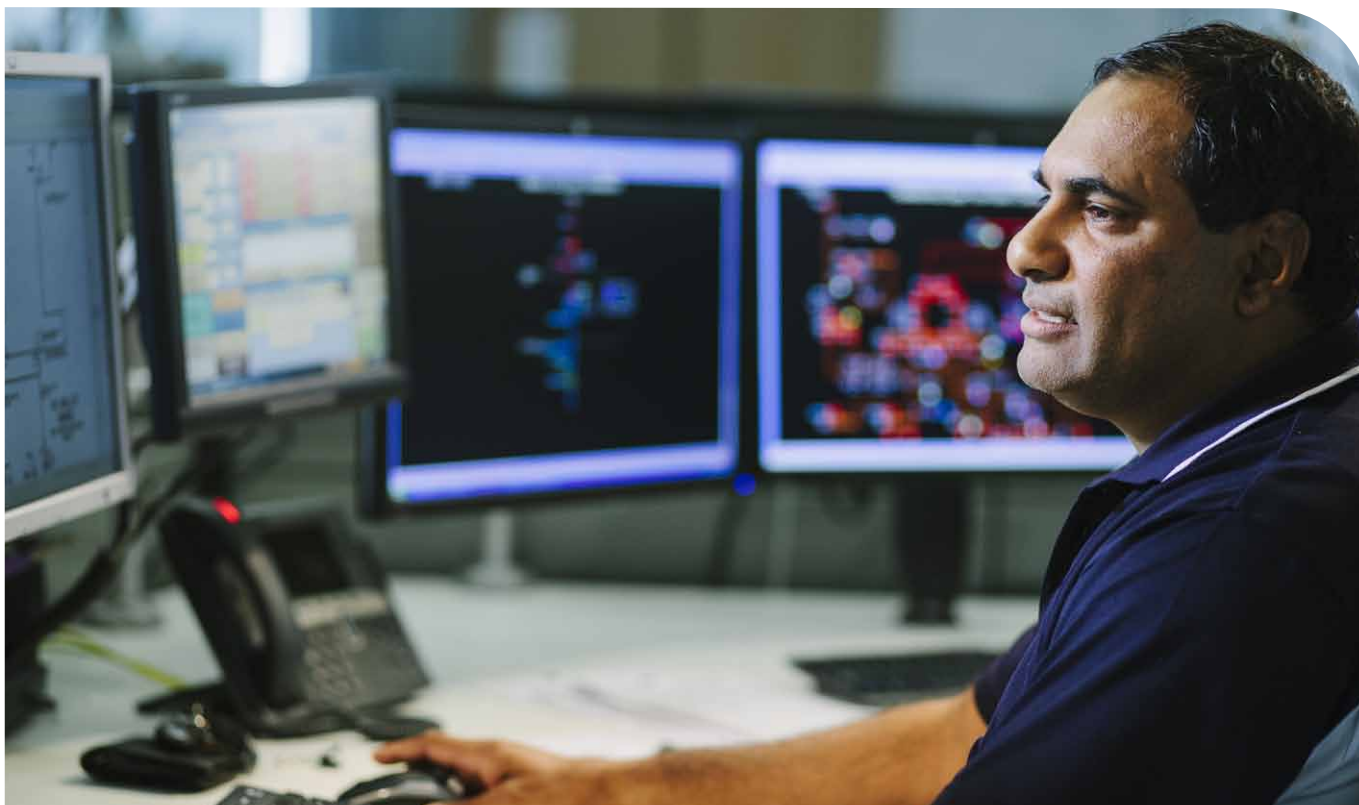


Electrical safety incidents in the community halved over recent years – by maintaining our investment in electrical safety awareness we are endeavouring to continue the positive trend.

INDUSTRIES AT RISK FROM ELECTRICITY NETWORK RELATED INCIDENTS



The major 'at risk' industries from a community safety perspective are road/transport, agriculture and earth moving. This is where we are targeting our awareness campaigns, in collaboration with the industries' peak bodies.



REVIEW OF OPERATIONS: ASSET MANAGEMENT EXCELLENCE

MEETING PEAK DEMAND 22

NETWORK RELIABILITY 26

Ergon Energy is committed to limiting future increases in network charges – and ultimately reducing the pressure on the price of electricity. This is driving our strategic focus on asset management excellence.

We're endeavouring to find the right balance between 'investing in' and 'driving value from' our asset base to ensure we deliver a reliable, efficient and sustainable electricity supply for our customers, wherever they are in regional Queensland.

We are also delivering new assets more prudently and efficiently, and making the network smarter so we can better monitor and control supply parameters to meet changing demands.

MEETING PEAK DEMAND

DEMAND REMAINS RELATIVELY STABLE

Peak demand on the network was up 2.9% on the previous summer to 2,417MW – however, both 2011/12 and 2010/11 were lower than the maximum recorded for the previous summer. While this year's peak was less than anticipated, maximum demand is still forecast to increase steadily into the future. The highest maximum demand experienced to date for the whole of Ergon Energy's grid-connected network was 2,584MW during the summer of 2006/07.

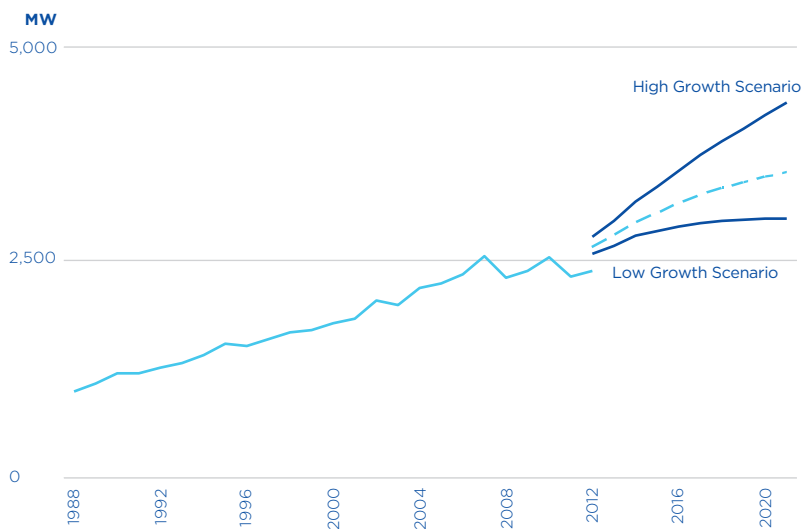
While not at historical highs the total energy distributed was also up – to 15,212GWh – despite the average household use continuing to fall.

Above: We are expanding our remote control of the network to allow us to operate more efficiently and effectively. This functionality is increasingly allowing our operational control centre teams, including Network Operations Officer Kelly James, shown here at work, to monitor the system and provide a more timely response to outages and, in some cases, avoid an outage entirely.

Ergon Energy is continuing to analyse major influences of peak demand, including regional Queensland's economic drivers (especially in the areas being stimulated by increased mining activity), climatic conditions and any changes to energy usage behaviour as a result of electricity prices/energy conservation awareness. This will help us to understand the potential impacts on future network augmentation and develop strategies to manage and reduce peak demand into the future.

STRATEGIC INITIATIVE	ACHIEVEMENT
Deliver the Energy Conservation and Demand Management program of non-traditional solutions to address areas of network constraint.	A demand reduction of 36MW has been achieved during 2010/11, in addition to 17MW delivered in 2009/10, taking us halfway to the overall 103MW reduction target for the 2010-15 period. <i>p24</i> ➔
Pilot a range of demand management techniques and technologies through the Energy Sense Communities program in Townsville.	A range of 'smart asset management' and 'network of the future' initiatives have commenced, building on the demand management successes to date. <i>p25</i> ➔
Outwork the Reliability Improvement Plan to ensure Ergon Energy is able to deliver against the network performance service standards for 2010-2015.	The focus has been on both operational practices and investing in the functionality of the network. Priority is being placed on the areas of greatest benefit. <i>p26</i> ➔
Advance our asset risk assessment capability to better prioritise network maintenance and augmentation.	Risk categories and assessment methodologies have been developed. Once data gathering is complete this will provide both a quantitative and visual view of network risks. <i>p26</i> ➔
Implement a Distribution Management System to extend the network's connectivity and automation.	Implementation has been postponed to 2013/14 due to competing information technology priorities and the pre-work required. ✕

OUR NETWORK DEMAND FORECAST



Peak demand on the network during 2011/12 was below forecast at 2,417MW. Ergon Energy monitors the major influences of peak demand, including Queensland's economic drivers, climatic conditions and changing energy usage behaviour, to assist with developing our five-year capital works plans. At present we are anticipating a low growth scenario and reviewing our works program accordingly.

MAKING THE NECESSARY INVESTMENT

To meet the rate that peak demand was growing dramatically only a few years ago, we have been investing at record levels in our asset base. While this significant investment has been vital to meeting higher security, reliability and safety standards, the situation is not sustainable. Together with the drop in average household energy use, this is the primary reason for the rising per unit price of electricity.

In response to the challenge to reduce electricity costs for our customers, Ergon Energy put forward a \$709 million reduction in our 2010-2015 capital works program, which is being passed on to customers through reduced network prices *p39*. This included \$450 million in capital savings achieved by approved changes to network security standards; implementing alternative energy solutions; and developing an enhanced forecasting capability.

We are also strengthening the governance discipline around our capital investment program to improve the prioritisation and optimisation of Ergon Energy's capital investment program *p57*. This, and the inclusion of econometric methods and temperature corrected values in our forecasting, is currently supporting a further review of the capital works program.

Despite this, during 2011/12 the network-related capital works program saw \$742.5 million investment into the network, up 12% on the previous year. Ergon Energy-initiated projects totalled \$526.1 million – 18% (\$79.7 million) higher than 2010/11 – with a significant investment made in replacing ageing assets, network augmentation works (although below budget) and reliability improvement.

ENERGY USAGE SNAPSHOT		2011/12	2010/11	2009/10	2008/09	2007/08
Population of Ergon Energy's Service Area	↑	1.54 ¹ million	1.52 million	1.50 million	1.47 million	1.44 million
No. of Customers	↑	700,989	690,708	680,095	667,502	653,640
Average Electricity Use per Household	↓	7,166kWh	7,242kWh	7,623kWh	7,978kWh	7,893kWh
Household Air Conditioning Penetration ²	—	79%	79%	79%	71%	67%
Maximum Coincident 'Peak' Demand	↑	2,417MW	2,349MW	2,542MW	2,406MW	2,333MW
Electricity Distributed	↑	15,212GWh	14,544GWh	15,678GWh	15,722GWh	15,547GWh
Electricity Generated by Ergon Energy	↑	118GWh	117GWh	114GWh	112GWh	178GWh

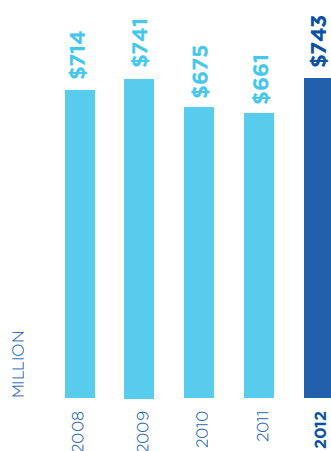
1. Estimate based on trend. 2. Queensland Household Energy Survey

Key Ergon Energy initiated capital projects included:

- extension of our remote control capability further into the network with the latest Supervisory Control and Data Acquisition (SCADA) system established in 16 zone substations. This investment is part of an accelerated program that is enabling our operational control centres to monitor loads and other system parameters and to carry out remote switching.
- establishment of new 11kV powerlines to augment supply to the townships of Springsure in Central Queensland (an investment of \$8 million) and Seaforth in the Mackay area (\$2.4 million).
- an increase of 35MVA of installed transformer capacity with \$8.9 million in works at the Kelsey Creek zone substation, near Proserpine, and \$1.7 million at the Mundubbera zone substation, in the Wide Bay-Burnett region.
- commissioning of the \$5 million redevelopment of the Lannercost zone substation at Ingham, and progress on the \$37 million redevelopment of the Dalby Central zone substation and the \$37 million Roma Bulk Supply Point, which are both nearing completion. Together this investment will provide an additional 23.5MVA of capacity.
- replacement of ageing generation equipment at Pormpuraaw, Gununa, Camooweal, Bedourie, Birdsville, Dauan Island and Stephens Island.

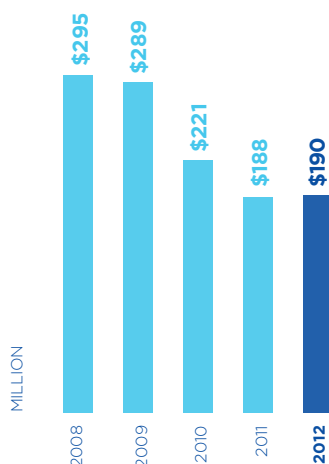
Network connections initiated by our customers saw an additional \$190.1 million invested into the network. While this is comparable to 2010/11, the scale of the program was lower than anticipated due to the economic conditions across regional Queensland.

NETWORK INVESTMENT REMAINS VITAL



To ensure we continue to meet demand and our customer's electricity supply expectations, \$742.5 million was invested into the network this year. Despite being at record levels, this was below forecast largely due to lower than forecast customer demand for new connections.

CUSTOMER-INITIATED WORKS REMAIN DOWN



While demand for new network connections by our customers lifted slightly to \$190.1 million, the level of investment has remained at its post Global Financial Crisis levels due to the prevailing economic conditions across regional Queensland.

DEMAND MANAGEMENT PROVING SUCCESSFUL

A major element of our strategy to reduce the pressure on electricity prices is to engage the community on the way electricity is used to improve the load profile of our network.

For our region, daily peak demand is generally between 4pm to 8pm. Annual peak demand occurs mostly during the summer months, lasting for only short intervals and fluctuating from year to year.

Peak demand is a key driver of network infrastructure upgrades and associated increases in electricity prices. Around 10% of the money we have invested in our assets is there solely to meet demand for only a few days each year. In response to this reality, we are focusing on improving the utilisation of our assets through alternative energy solutions.

Since 2010, our Energy Conservation and Demand Management Plan has delivered 53MW (62MVA) of peak demand reductions from non-network alternative initiatives – 36MW (42MVA) in 2011/12, against a target of 25MW – placing us on track to reach 103MW (121MVA) by 2015. This success in implementing alternative energy solutions has allowed us to defer \$428 million in proposed network augmentations, which is supporting the reduction in network prices that is now flowing on to our customers p39.

Commercial and industrial customer participation in our demand management programs has been critical to the success of these initiatives. We have continued to broaden their participation this year, notably through the power factor correction pilot.

In the Toowoomba region this pilot has delivered 4.1MVA of peak demand reductions and helped us build our understanding of costs and benefits of implementing demand management solutions.

This year also saw engagement begin around the development of a district cooling project in Townsville. This has the potential to take significant pressure off the network, by supplying chilled water for the air conditioning requirements of a number of the city's CBD buildings. It will build on the success of James Cook University's central cooling system that has been servicing its campus since 2009.

Another highlight has been the Townsville: Solar City project, which came to the end of its operational phase this year. Since 2007, this project has been actively trialling customer energy efficiency engagement and load management interventions, distributed solar technology, smart meters and cost reflective pricing in Magnetic Island's grid-connected urban environment. The success of the project has:

- reduced peak demand by 12% from the 2008 maximum. The daily peak demand is currently back to 2005 levels; 44% below the forecast prior to the project's intervention.
- deferred the requirement for a third \$17 million underwater electricity supply cable by eight years. The deferral equates to an interest saving of \$1.65 million per annum, or the equivalent of \$7,000 per customer on Magnetic Island over the eight-year period.
- reduced the island's overall electricity consumption by 16% – back to 2005 levels – despite ongoing island development. This has seen savings of more than \$925,000 on our customers' bills.

We have also had success with our mass-market initiatives. Since the launch in September 2011 of our 'Save a Bomb' pool program more than 8,000 pool owners have taken advantage of the program's cash back offers – of between \$150 to \$250 – by either changing to off-peak tariffs or purchasing energy efficient pumps. This initiative is saving pool owners, on average, between \$250 and \$300 a year, and has helped reduce peak demand by more than 3.7MW.

We are also working with air conditioner suppliers to manufacture systems incorporating sophisticated demand management technology for Ergon Energy to access – this is seen as an important step in addressing the impact residential air conditioning has on peak demand.

Improvements have also been made to our load management capability, which is supported by the off-peak economy tariffs, by changing the way we operate this technology in North Queensland. Changes to the switching times for electricity supply to hot water systems in the region has seen a 15MW reduction in peak demand, and plans to extend the switching regime over the coming months will deliver further reductions.

To support our demand management objectives, and the take up of the economy tariffs, we also engaged with more than 600 electrical contractors and representatives from the industry through a series of Residential Electrical Contractor Engagement Sessions, 'RECESS'. These sessions, which were held across the state, also covered regulatory matters, emerging technologies and connection issues.



Magnetic Island residents John Kuit and Danielle Ryan have reduced the cost associated with running their pool pump, and saved money on their electricity bill in the process, by participating in our demand management program.

They are part of our Solar City Project, which has tested a community-based energy behavioural change model, as well as specific innovative customer engagement techniques, that are now being used to influence energy usage behaviour in other areas of Ergon Energy's operations.

BUILDING THE NETWORK OF THE FUTURE

In addition to engaging with our customers, we are also developing technology solutions to meet our asset management challenges.

Like most electricity distribution companies, Ergon Energy is finding it challenging and increasingly cost prohibitive to power a modern world using networks, technologies, and management tools from the last century. This is not sustainable and is consequently driving our investment towards an increasingly intelligent network – one with greater connectivity and automation.

Leading the way in this area is our Energy Sense Communities program, which is part of a joint smart grid program with Energex. The integrated program includes 33 'smart asset management' and 'network of the future' initiatives with either an objective to deliver specific capital deferral outcomes or to trial new technologies.

The program, which is a global demonstration site in the Electric Power Research Institute smart grid demonstration program, is about finding sustainable solutions to deliver the community's future energy requirement. The initiatives include demand management techniques, solar power, energy storage, network automation, smart customer appliances and community engagement programs. Initially focused in Townsville, the program is placing a significant importance on knowledge management to help support the rollout of similar solutions in other areas of the state.

One of the most visible initiatives is the electric vehicle (EV) trial, which is providing a real life picture of the challenges we would face if EV sales suddenly took off. In addition to the five vehicles in the trial, we are using hi-tech lithium-ion batteries to simulate what it might be like if 60% of the homes in an area had an EV plugged in at the same time. The trial is being undertaken in areas with different types of infrastructure and different proximities to the CBD. The households involved in the first location, typically drove about 360 kilometres a week, recharged the car for two to three hours per night at a total cost of around \$13 in electricity each week.

This is just one area where new technologies will change demand patterns. We are currently managing the take up of solar energy systems, which is already having a significant network impact p18.

In another initiative, we are asking businesses to collaboratively work with us to reduce electricity during peak periods. This trial is the first commercial trial in Australia of the technology being used for automated demand reduction. It involves an interactive system that combines building automation and dynamic messaging that asks customers in advance to reduce electricity on forecast peak demand days. During the demand response events to date, the maximum peak demand reduction recorded across the sites participating was about 20%.

Technology advancement is also central to our Single Wire Earth Return (SWER) Improvement Plan.

Ergon Energy has more than 65,000 kilometres of SWER lines across our rural network. These are single wire powerlines with limited capacity that radiate out over long distances and, subsequently, have a greater likelihood of reliability and quality of supply issues. We are currently upgrading some of the more obsolete SWER networks to new technology 'isolated' systems, and we are working with a number of universities to help develop and trial intelligent solutions.

The integration of new technologies has also included extending the Distribution System Automation program into the SWER network, to improve monitoring and control, as well as the ongoing roll out of over 1,000 advanced low voltage regulators to improve power quality.

Our Grid Utility Support Systems (GUSS) prototypes, featured in last year's report, have been operationalised and moved into areas of the SWER network where significant power quality issues need to be addressed. These units are designed to provide a more efficient upgrade option for reducing overloaded SWER systems.

These initiatives have been progressed through an end-to-end process that is now being used formally for the integration of new and developing technologies into the network. It allows ideas to move from concept to business as usual with modifications made based on the lessons learnt.

NETWORK RELIABILITY

ADDRESSING FUTURE RELIABILITY

In order to meet reliability targets for the current regulatory control period to 2015, Ergon Energy is deploying a coordinated, whole-of-business Reliability Improvement Plan.

This has seen a continued focus on operational practices around unplanned outages to improve the response times.

Responding to unplanned outages

Our unplanned outage response has included improvements to reporting processes and tools, reviewing fault crew resourcing and comparing restoration performance by location to identify improvement opportunities. A greater emphasis has also been placed on returning key out-of-service plant to service and responding to network risk.

Weather forecasting services are also being used increasingly to support fault response preparedness and aerial patrols are being used to speed up restoration.

We have also continued our preventative maintenance program. A major component of this is our \$94 million vegetation management program. This year we completed the accelerated clearing and treatment program that was addressing a backlog in rural vegetation identified in 2008. In future years we are expecting the rural program to be more stable. Our ability to accurately measure both corridor widths and tree heights and identify trees at risk of in-fall to the line going forward through the 'ROAMES' project will also help us apply risk management techniques with greater certainty p30.

From an unplanned outage perspective the most challenging period for us is the summer storm season. In response, we undertake a dedicated planning process pre-summer each year. As in previous years, our Summer Preparedness Plan for 2011/12 focused on:

- investing in the network to minimise the potential for outages, and enable a more effective response. This includes the deployment of well developed asset inspection and defect maintenance and preventative maintenance programs.
- enhancing our emergency response capability. This ranges from our specific scenario planning activities to ensuring contingency plant and equipment is available.
- keeping our customers and communities informed of the challenges experienced over the summer period. This drives much of our safety communications p27, as well as our customer and stakeholder communications during a response to major disasters.

Managing planned outages

The Reliability Improvement Plan is also focused on improving the management of planned outage events through efficient work scheduling to optimise the outcomes and minimise the impact on our customers.

Since the reinstatement of live-line work practices – following a ban for safety reasons from February to November 2009 – we have delivered continual improvement in the area of planned outage performance. The results have been achieved despite the challenges associated with addressing the outstanding planned works that were deferred due to remediation works post Cyclone Yasi in 2010/11.

Our ability to manage the customer impact from planned outages is also being addressed by the progressive replacement of defective line and substation air break switches (see below). At present the operating restrictions in place, due to the in-service failures of certain models of this device, are continuing to reduce our ability to isolate sections of the network to carry out planned work, and fault restoration.

We have also been dedicating additional field resources and expenditure to use temporary generation to mitigate the customer impact of planned outages.

Investing in reliability improvement

Ergon Energy is also progressing reliability improvement strategies through the capital works program.

We are currently working to replace the potentially defective air break switches in 65 substations and in 1,500 locations across the state. We are anticipating further improvements to the reliability of supply as this is achieved.

We are also nearing completion of an accelerated program to extend our remote control capability, through the Supervisory Control and Data Acquisition (SCADA) system, into 55 regional substations – with 51 now complete with this functionality. We are also expanding the auto reclose functionality at our zone substations, initially in the North Queensland region before extending the strategy to other regions.

The remote control functionality on the thousands of existing automatic circuit reclosers across the distribution supply network is also being expanded. Additional automatic circuit reclosers are also being installed on the distribution feeders that are not performing.

We are also deploying new and emerging technologies that have the potential to improve reliability performance, such as intelligent remote controlled gas switches, communications capable line fault indicators and fuse savers.

In monitoring this investment, we are constantly reviewing the benefits to ensure that the reliability improvement provides real customer value, and the cost for each 'power interruption minute' saved is consistent with the expectations of our regulators on this matter.

ADOPTING A RISK BASED APPROACH

To ensure we allocate expenditure for optimum security and reliability of supply outcomes, we are continuing to move towards a more risk-based approach.

During the year, further joint work has occurred with Energex to establish a common maintenance asset management framework. This will result in significant changes to the established routine substation inspection and maintenance program. Concurrently, a risk-based asset renewal methodology has been delivered through another joint workings initiative to support future asset renewal decisions, with the initial focus on the replacement and refurbishment programs for substation equipment.

These programs are being supported by the use of a mobile computing in the field, to improve efficiency, data flow and quality, and the configuration of the Enterprise Resource Planning system.

These initiatives are significantly enhancing our understanding of how assets perform and their requirement for refurbishment or replacement; ultimately this will enable us to achieve future network performance in the most cost-effective way. This approach is critical to managing the growth in expenditure on replacing assets that are approaching the end of their viable lives.

We have also developed our risk assessment capability through the development of standard risk categories and assessment methodologies. This will help confirm the initiatives prioritised for implementation in the Network Adaption Plan, developed jointly with Energex, which outlines our response to the risks associated with climate change.

By way of example, the potential for more frequent extreme weather events is being addressed by our ongoing Cyclone Area Reliability Enhancement (CARE) program. This program has continued to progressively underground key distribution assets in the cyclone-prone areas of northern Queensland. Over the past decade, \$65 million has been invested through this program, with projects completed this year in Cooktown, Cairns North, Kirwan and Cranbrook in Townsville, East Ayr and West Mackay.

For further details on our asset management policies, strategies and specific initiatives refer to Ergon Energy's Network Management Plan available online.

NETWORK PERFORMANCE SCORECARD

Network reliability has remained steady this year, consolidating the significant improvement achieved since the Queensland Government's Electricity Distribution and Service Delivery review in 2004. Since 2005/06 the overall duration of outages has been reduced by 28% and the frequency by 31%.

This trend has seen performance for 2011/12 positive for five of the six Minimum Service Standards (MSS) limits set by the Electricity Industry Code of Queensland, overseen by the QCA. These limits have become more stringent over recent years.

This year's results have been achieved despite significant weather related impacts and a dramatic increase in the number of bushfire related incidents. The compound effect of these were most visible in the long rural System Average Interruption Duration Index (SAIDI) result – which was unfavourable to the MSS limit. This category of the network includes a significant proportion of our SWER lines.

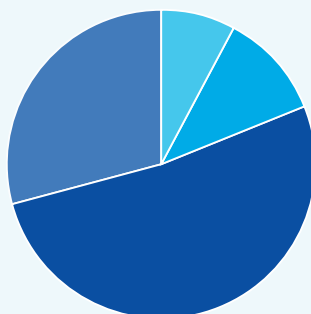
The impact of early monsoon season flooding, with access issues causing extended interruption durations, saw this category experience its worst December performance for the past five years.

During 2011/12, three extreme weather days resulted in Major Event Days being recorded. In October 2011 there were extensive storms, hailstorms and bushfires across all regions. In March there was heavy rain, damaging winds and flash flooding in the southern region. On 20 March 2012 a mini tornado hit Townsville.

Running parallel with the MSS is the AER's Service Target Performance Incentive Scheme (STPIS). This framework provides a financial incentive for improved unplanned outage performance, as well as delivery against customer service targets (capped at 2% of total regulated revenue across the STPIS parameters). While the impact of the summer season saw only three out of six of these reliability targets achieved, due to the strength of our customer service Ergon Energy will benefit from an increase in its revenue allowance for 2013/14.

Our reported reliability performance data to the regulators is reviewed annually by independent auditors.

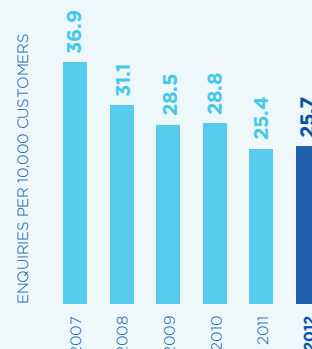
PROFILE OF DISTRIBUTION NETWORK (FEEDER LINES)



Isolated 8%
Long Rural 11%
Short Rural 52%
Urban 29%

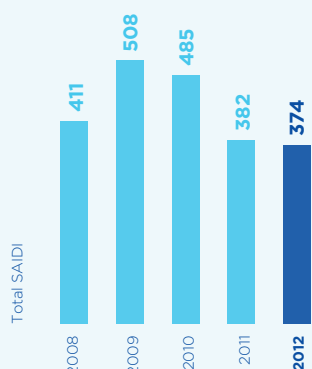
Ergon Energy operates the longest distribution network in Australia. Our reliability challenges are both common to the industry and unique – with less than a third of our customers living in urban areas, the majority are supplied through radial lines with limited redundancy in the event of a fault. Our network has around 0.4 customer connections per square kilometre compared to the national weighted average of 3.1.

QUALITY OF SUPPLY CONCERNS CONTINUE DOWNWARD TREND



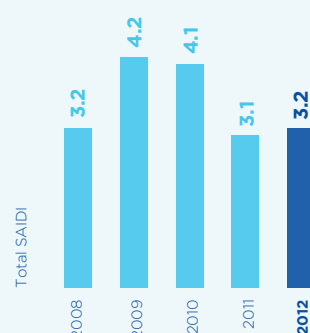
As an indicator of improvement, the number of customers expressing concern about quality of supply has continued the downward trend. These relate to issues such as low and high supply voltage, voltage dips, voltage swell, voltage spike, wave form distortion or unbalance, TV or radio interference or unbalance and noise from appliances.

DURATION OF OUTAGES DOWN DESPITE FLOODING



Both a focus on operational practices and ongoing investment in the network's functionality is supporting an improving trend overall in the duration of outages.

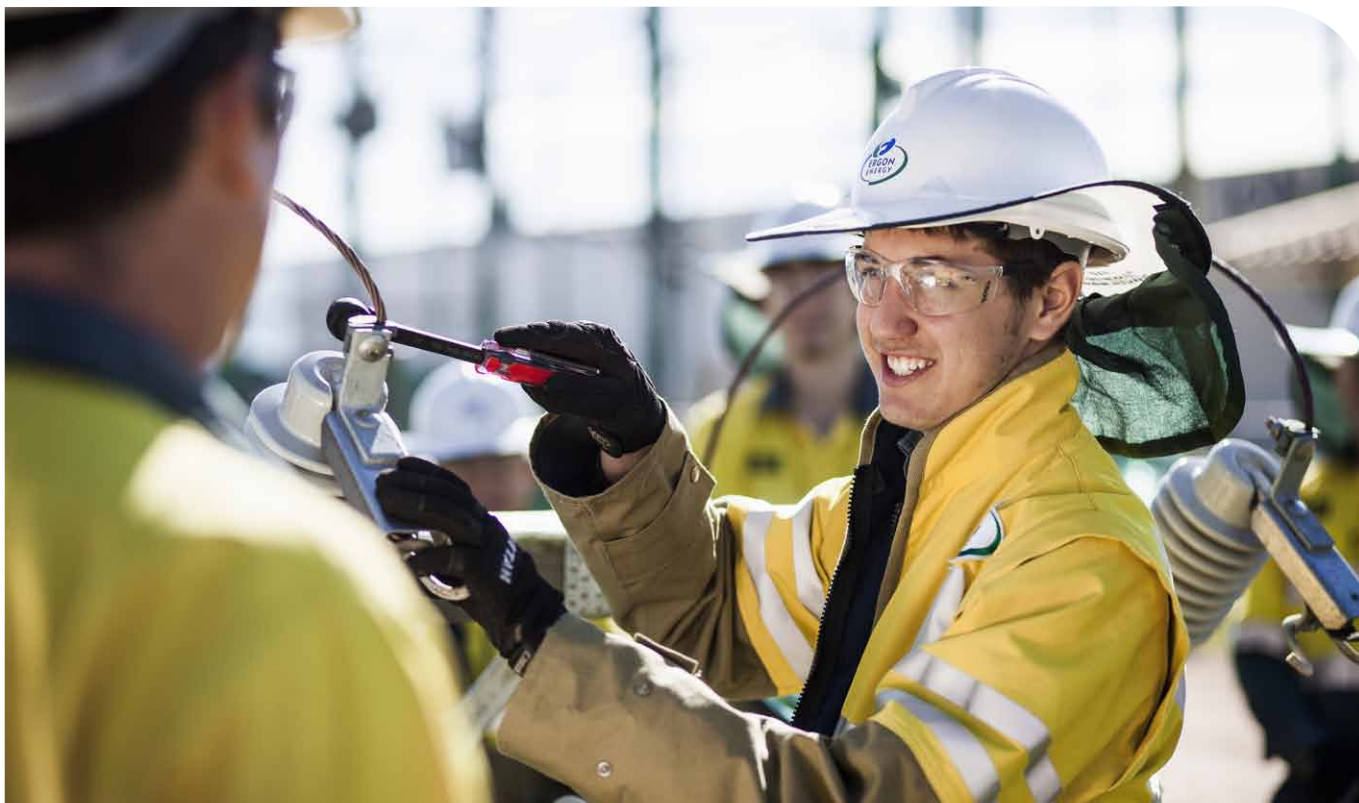
FREQUENCY OF OUTAGES MAINTAINS IMPROVEMENT



The frequency of outages is being addressed by reducing planned outages, through live-line work or the use of temporary generation, as well as preventative maintenance.

RELIABILITY PERFORMANCE	2011/12 MSS		2011/12 Result	2010/11 Result	2009/10 Result	2008/09 Result	2007/08 Result
Duration Index (SAIDI)							
- Urban Distribution	≤148	↓	136	149	222	217	179
- Short Rural Distribution	≤418	↓	393	426	544	609	457
- Long Rural Distribution	≤948	↑	1,042	828	999	1,108	1,030
Frequency Index (SAIFI)							
- Urban Distribution	≤2.0	↓	1.4	1.6	2.3	2.3	1.9
- Short Rural Distribution	≤3.9	↑	3.6	3.5	4.6	4.9	3.5
- Long Rural Distribution	≤7.3	↑	7.0	5.3	7.2	7.7	6.4

* Reporting based on the Minimum Service Standard (MSS) exclusion criteria outlined in the Electricity Industry Code <http://www.qca.org.au/files/ER-Industry-Code-DME-EICV12-0612.pdf>



REVIEW OF OPERATIONS: HIGH-PERFORMANCE ORGANISATION

EFFICIENCY AND EFFECTIVENESS	28
A SKILLED, SAFE WORKFORCE	31
PROTECTING THE ENVIRONMENT	36

Being a high-performance organisation is vital to delivering on our purpose – to providing safe, reliable, efficient and sustainable energy solutions for the benefit of Queensland.

Our strategic initiatives in this area are all about ensuring our people have the personal engagement, skills, information, technology support and leadership they need to carry out their work safely, effectively and efficiently.

Our goal is to be an organisation that is responsive, resourceful and ready to adapt and thrive in a changing world – one that is a preferred employer, with a professional, values-based culture, achieving best-practice outcomes across our key performance areas.

EFFICIENCY AND EFFECTIVENESS

DELIVERING REAL SAVINGS

To respond to our role in rising electricity prices, Ergon Energy has had a corporate wide focus on operational efficiency for a number of years, both in the lead up to, and through the delivery of, our operational plans for the 2010-2015 regulatory control period.

Working jointly

Since 2007, we have been collaborating with Energex on a range of joint working initiatives to deliver efficiency and effectiveness benefits. The program started with a wide range of deliverables and then moved into phase two with a focus on the areas of strategic procurement, logistics and asset management.

Above: To maintain a highly skilled workforce, across the technical trades to the managerial professions, Ergon Energy makes a significant investment in learning and development. This has seen around 600 qualified tradespersons complete their apprenticeship with Ergon Energy in cities and towns across the state over the past decade. Here system electrical apprentice Alexander Romeo is taking guidance from Vocational Programs Field Officer Brett Olsen.

Over the past year, during phase three, 10 initiatives have been progressed, ranging from a review of the optimum electricity network topology to the development of shared standards including underground cables, protection, switchgear and substation design utilising modular buildings, along with the ongoing development and implementation of a common asset maintenance framework p26.

This program is expected to deliver significant ongoing savings, which were included in our regulatory submission.

STRATEGIC INITIATIVE	ACHIEVEMENT	
Continue the Joint Workings program of activities with Energen to deliver economies of scale and other efficiencies, as well as improved safety and compliance outcomes.	The Joint Workings program moved into Phase 3; this program is expected to deliver significant ongoing benefits. <i>p28</i>	→
Initiate a formal Efficiency and Effectiveness Program by identifying and developing business wide options for more effective and efficient resources management.	The first wave of initiatives has been designed and implementation has commenced. Savings will be realised in the coming year. <i>p29</i>	→
Implement a Works Delivery Improvement Program, using a works management solution to support resource optimisation and works delivery outcomes.	Significant governance improvements have been achieved through an end-to-end view of the program. Our estimating and resource planning capability has also been improved. <i>p29</i>	→
Initiate an Information and Communications Technology (ICT) investment plan, aligned with both Ergon Energy and Energen's business strategies, which will sustain the business through the next regulatory period.	The '2015 Future State Blueprint' investments plan (across our assets, works, operations and customer management systems) was formalised in December 2011, and is now mobilising. <i>p30</i>	→
Develop our remote observation, automated modelling, and economic simulation capabilities (ROAMES) to drive efficiencies across our asset management activities.	Since February, the program has been capturing high precision data to, initially, support efficiencies in our vegetation management program. <i>p30</i>	→
Develop our property strategies to lift the efficiencies of accommodation and facilities delivery to support high performance outcomes.	Progress has been made across the property portfolio, most notably around our workplace facilities arrangements in Townsville and Brisbane. <i>p30</i>	→

Through a range of other business decisions, we have also delivered an additional \$40 million in operational savings for 2011/12 (excluding the financial impact of a Voluntary Separation Program undertaken at the close of the financial year to help reduce future staffing costs in the non-field, non-customer facing areas of the business).

This has supported delivery against our targets for Operational Expenditure per Route Kilometre, with a result of \$2,639 (to allow comparison the same base route kilometre used in the target was used to calculate the result), and for Network Maintenance Costs/Regulated Asset Base, with a result of 3.3%. The targets are on page 8 and further expenditure detail is provided on page 40.

At the same time, however, as the scale of the capital works program going forward is expected to reduce *p23* it is necessary to make further cuts to our operating costs. To ensure we deliver value for money it is critical our costs align with the reduction in the works program and the associated impact on our revenue *p39*.

Targeting efficiency and effectiveness

Amongst other initiatives, this is being driven by a formal Efficiency and Effectiveness Program. The initial scoping of the program took place in October 2011, followed by the identification and testing of a range of options for more effective and efficient resource management and reduced support costs.

The first wave of initiatives is around:

- Overhead optimisation: simplifying reporting processes across the organisation, aligning support staffing levels with industry benchmarks, reducing external resource spend, and reviewing spans of control and organisational layers
- Labour optimisation: establishing a strategic approach to resource planning and management including the development of a strategic forecasting model, and aligning asset management with industry benchmark levels
- Improved productivity management: developing and implementing an enhanced suite of productivity metrics and associated management reporting and intervention
- Strategic sourcing: developing a strategic approach to sourcing arrangements and building this capability to improve procurement and sourcing practice
- Contracts management: developing a strategic approach to contractor management, identifying how to strengthen contractor management skills and establish an optimal contract management operating model.

The Efficiency and Effectiveness Program is part of a broader strategic enablement program that comprises 27 initiatives identified as critical to achieving Ergon Energy's Strategic Plan. The program includes work underway to increase the overall productivity and efficiency around the delivery of the capital works program.

Driving works delivery improvements

The Works Delivery Improvement Program is having success in developing and implementing an end-to-end view of the works program across the business that identifies the full set of processes, interfaces and technology we use.

It is also identifying corporate-level risks to the network, creating efficiencies in performing analysis, improving community engagement *p20* and providing a better understanding of our resource requirements.

The first phase of the program's estimating capability initiative has been completed, with the system interfaces and the business case tools finalised. Over the next six months this initiative will fully transition the business to a new way of estimating our major projects, increase the accuracy and reliability of estimates and improve planning for the delivery of the major capital works.

A significant review has also been undertaken of our asset management standards.

While there is still more to be done to help address bottlenecks and ensure the delivery of the works program, these efforts have seen connection times for new connections improve dramatically to an on target three-month rolling average of 170 days (compared to 218 in 2010/11) *p18*. This has been achieved despite the 'wet' summer and record levels of defect remediation work, particularly in Central Queensland.

INFORMATION AS AN ENABLER

Our strategic enablement program includes a suite of technology investments that are core to delivering the efficiencies targeted by our strategic plan. This investment will see us become an increasingly information-enabled organisation, one that is able to provide ready access to the business information required by our employees at all levels of the organisation to enhance decision making, business processes and organisational performance.

Blueprint now in place

This is being progressed under the 2015 Future State Blueprint, developed in collaboration with Energex, which maps out the joint major Information and Communications Technology (ICT) projects for the current regulatory period. The endorsement of the plan in late 2011 was supported by decisions around the organisations' collective priorities, the potential for convergence between the organisations' structures, processes and systems, as well as the appropriateness of the delivery methods, sequencing and dependency.

This framework, and the significant focus being placed on its program management, aims to mitigate delivery risks and ensure maximum value from our ICT investment over the coming years.

Through enhancements to our common core asset, works, finance, HR and logistics technology platform this investment will allow further synergies between our respective organisations; delivering efficiencies in our works programming and progress around our shared asset management framework.

In parallel, the blueprint proposes a transition from the ageing customer management and metering platform, known as 'FACOM' (and associated systems) to a current-generation Customer Information System (CIS) platform. The existing system is complex, costly to upgrade and requires significant manual intervention throughout our customer, metering and billing processes – increasing the cost to serve and rework.

Following these priorities, we then anticipate we will move to implement more holistic Field Force Automation and Distribution Management System capabilities.

To support the expanding use of electronic 'smart' devices across the network, we are also modernising our core network asset modelling and management systems, which will include an upgrade of Ergon Energy's 'Smallworld' GIS system.

Spatial technology to support efficiencies

In order to streamline business processes and make better informed network asset management decisions, we are also deploying a business intelligence and spatial visualisation program, which includes the use of Google's spatial technology, as well as distribution monitoring and analytics.

This will complement the ROAMES (Remote Observation Advanced Modelling Economic Simulation) initiative, which is using purpose built observation aircraft to capture precision network-related condition data using laser scanners, digital cameras and a flight assist system. The data will enable a more strategic approach to our \$94 million vegetation management program. This is expected to drive efficiencies across the program, both on the ground and at the desktop, with the most immediate benefit being the reduction in costs of scoping and auditing activities. It will also deliver safety and network reliability benefits with the data improving the prioritisation of vegetation works, with other benefits flowing into the asset inspection and access track maintenance programs p38.

The information enablement strategy is also being supported by the roll out of an all-encompassing telecommunications network, known as 'UbiNet' that will enable the future connection of information technologies to our electricity assets. The \$135 million investment in phase one of the project, which is establishing the telecommunications backbone that will link 40 depots and 90 substations, is well progressed with construction complete at 110 of the 128 new sites, and the necessary telecommunications equipment installed at over half of the 208 sites involved. The project is on schedule (with a Scheduled Performance Index of 1.00 for 2011/12). Although slightly over budget for 2011/12 (with a Cost Performance Index of 0.96) it is under budget for the total project to date.

The second phase of this project began this year, with work now well underway to replace the now obsolete analogue mobile radio network used by our employees during normal operations and during a disaster response. This is seeing GPS technology made available to our field crews in their vehicles to help improve customer response times and safety risk assessments. The initial \$17.9 million stage of this project has moved into operational mode in Toowoomba and the Darling Downs.



Ergon Energy is rolling out an all-encompassing telecommunications network, known as 'UbiNet', that will link 40 of our depots and 90 substations, including the Bundaberg substation site where Installation Deliver Manager Wayne Carr is inspecting the installation of the new telecommunications equipment.

PROPERTY STRATEGY FOCUSED ON OUTCOMES

Ergon Energy's long-term property strategy is aiming to co-locate field and office-based employees where possible and improve workplace facilities to deliver ongoing operational efficiencies and lift our service delivery capability.

This year saw the move to the Mackay building, constructed last year, consolidating staff into one central location.

A property master plan was also progressed for our Townsville operations, with concept designs for the redevelopment of the Garbutt facilities underway, which will facilitate the necessary investment approvals. The redevelopment will address core capacity issues; age-related building conditions; safety risks and associated increased traffic flows; and inadequate inventory storage. It will also help alleviate the sub-optimal arrangement where our contact centre, depot and control centre are not co-located and remove the inefficiencies associated with current site fragmentation. We are also changing our lease arrangements for our other Townsville offices to bring staff from five leased office buildings in different locations together into one leased location.

Plans are also underway to relocate our Brisbane office to facilities out of the CBD in Ann Street, Fortitude Valley. The new buildings are being designed and built with efficiency in mind. They will incorporate additional video conferencing facilities to reduce travel and support greater collaboration between staff.

STRATEGIC INITIATIVE	ACHIEVEMENT	
Determine Ergon Energy's future workforce requirements, including a detailed forecast of the specific skills capability.	A capability matrix has been formulated with a pilot group testing the implementation and development strategies. p37	➔
Continue to drive improved safety outcomes through a review of our systems and procedures against the harmonised health and safety legislation.	Ergon Energy was compliant with the new legislative regulatory regime on 1 January 2012 following operational and system changes. p32	✔
Implement and continuously improve existing talent management, peer review and succession planning, tailored to pull through leaders with key capabilities for the future.	The existing talent management, peer review and succession planning approaches were reviewed with work underway to implement changes. This is being supported by a new performance management framework. p34	➔
Continue to drive energy efficiency outcomes across the business, and extend the focus to reducing network losses as a corporate responsibility.	A comprehensive network study is underway to inform the development of the Network Losses Strategy by the end of 2012. p36	➔

A SKILLED, SAFE WORKFORCE

MAINTAINING A SKILLED WORKFORCE

Ergon Energy has around 5,000 employees (5,060 as at 30 June – including casual staff) who live and work across the breadth of Queensland. Our workforce is highly skilled, encompassing specialist fields from electrical engineering to administration, and across the technical trades.

The strategies we have in place to manage our people reflect our changing business landscape – one of rising concern around electricity prices, shifting energy consumption patterns, economic instability (strengthening in the resource sector but inconsistent in other markets) and changing technologies, to name just a few of the challenges. In this environment we appreciate that we will need to be increasingly innovative and agile to be a high-performing organisation.

In response we are building an increasingly skilled workforce that is personally engaged, along with a high performance, productivity-focused culture, in order to achieve best-practice performance, safety and customer service outcomes.

In order to do this, we have engaged with management across the organisation to clearly articulate the future skills, competencies and capabilities of all job roles in the business and begun forecasting the future skills capability requirement. This long-term planning has seen progress around the development of a capability matrix which addresses future skill and development requirement.

ENGAGING OUR EMPLOYEES

One of Ergon Energy's challenges is to foster a sense of shared direction and purpose among employees from dozens of disciplines, dispersed throughout our vast service area.

The key corporate feedback tool we use to measure employee engagement is our employee 'Have Your Say Survey'. The survey provides an opportunity for employees to say where they believe things are working well and to identify areas for improvement. It also allows Ergon Energy to gauge whether, from the employees' perspective, we are making progress towards our strategic goals and vision.

This year's results indicate employee engagement is positive and stable at 71%. Engagement is measured through how 'empowered', 'appreciated' and 'committed' employees feel.

Employee commitment to Ergon Energy remains an area of strength with employees indicating they understand the link between the work they do and the direction of Ergon Energy. Although improving, there is room for improvement when it comes to rewarding and appreciating individuals and teams.

Action planning to respond to feedback and the results of the survey is well underway. This work, which includes efforts to build on the understanding of and engagement with our strategic priorities, takes place at all levels of the organisation.

This is supported by a robust, cost-efficient internal communication program that keeps employees and teams informed about priorities and their role in the bigger picture, and also encourages a sense of connectedness.

This includes a daily email bulletin, *DailyMail*, sent each afternoon to every employee, that captures the day's news, announcements, safety alerts and operational updates, all drawn from the online newsroom.

The newsroom provides more depth and context around news and events, encouraging employee interaction and facilitating a deeper understanding of important issues.

Our other major internal communication asset is Team Brief DVD, a bimonthly channel that features an update from the Chief Executive, safety news, project updates and highlighted business activities. The DVD is played at bimonthly team meetings across the state, and is also available online, ensuring every employee, whether office or field based, has the opportunity to stay informed about what's happening in the industry, within the company, and for the benefit of our customers.

WORKPLACE SAFETY A PRIORITY

Building a safety culture

Ergon Energy is committed to ensuring the health and safety of our people and the community. A significant investment continues to be made in building a sustainable safety culture across Ergon Energy – a culture where safety is inherent in everything we do.

Our Safety Management Plan for 2010-15 is about taking the organisation's safety performance into the top quartile of the electricity distribution industry's recognised benchmarks.

To help drive positive safety behaviours, in the second year of this plan, we have continued to embed the Comprehensive Safety Indicator (CSI) launched in 2010/11. The CSI initiative uses a series of lead (proactive) and lag (reactive) indicators to measure a team's safety performance, including, as examples, the All Injuries Frequency Rate (AIFR) and important management activity such as completion of safety management plans, site visitation, identification and elimination of hazards and improvements from investigations. The aim of the CSI is to focus line management responsibility and employee engagement proactively in the safety management system as opposed to reactively after an incident or injury has occurred.

The CSI has been extended from the field teams to incorporate office staff. To help drive engagement, this measure is increasingly being used to reward safety achievement. All teams achieving Gold, Silver or Bronze performance were recognised for their efforts. It was also again used to select the crews to compete in Ergon Energy's annual Field Safety Day Champions competition.

Communication campaigns also continue to be used to foster a health and safety conscious workforce. Under the over-arching umbrella of the Always Safe campaign message, our 'No One Gets Hurt Today' campaign continued. It featured a series of posters and electronic messages of employees in their personal lives demonstrating why they value safety eliciting a sense of ownership from employees.

Communications also included a focus on a range of higher risk activities. By way of example, vehicle safety featured as a quarterly theme, with the aim of reducing road and vehicle related incidents. The topics included securing loads, towing, reversing and fatigue. Employee health and well-being was also highlighted through various communications.

Our Always Safe campaign continues to resonate with employees, with nine in ten employees having a good understanding of the associated guiding set of safety-related behaviours rewarded through this program.

We also again supported the Workplace Health and Safety Queensland's annual 'Safe Work Australia Week', building on the success of the previous year. The aim of the 2011 celebrations was to drive proactive discussions at peer-to-peer level about key health and safety issues and to continue to develop a safety culture that is not simply managed from the 'top down', but instead is built on the values of personal accountability and proactive collaboration. Ergon Energy was honoured to be short listed for the 2011 Safe Work Australia national Safety Ambassador of the Year award.

These engagement initiatives continued to be supported by the PowerAid program. This program awards points to employees for their work group's positive safety behaviours, which are then converted to charity dollars p20.

Ergon Energy's Health, Safety and Environment Integrated Management System provides a robust governance framework to ensure employees comply with policies, meet obligations and stay safe. The system has been developed in accordance with Australian and International Health and Safety standards. Ergon Energy has continued to maintain accreditation against these standards – the AS4801 and ISO 18001 Safety Standard – following independent certification audits this year.

Driving improvement in line with harmonised workplace safety laws

Throughout the year we have driven improved safety outcomes through an ongoing review of systems and procedures in accordance with Australia's new nationally harmonised workplace health and safety laws. The new *Work Health and Safety Act 2011*, which came into effect on 1 January 2012, replaced the previous *Workplace Health and Safety Act 1995* and gave rise to revised work health and safety regulations and Codes of Practice.

Prior to the 1 January 2012 introduction, Ergon Energy undertook a number of actions including assessing a large number of documents and completing all necessary updates; implementing the necessary information technology systems changes; and standardising the Daily Task Risk Management Plans across our operations. We also formally communicated with all our panel contractors advising them of the new legislation and of Ergon Energy's expectation of compliance. Contractors who did not confirm compliance in writing have had their services suspended.

Improvements to asbestos management

Ergon Energy manages a range of facilities that contain asbestos in a wide variety of types and applications. Following the introduction of the new legislative requirements, our Asbestos Management Plan was reviewed to ensure we were effectively managing and minimising asbestos related health risks either at an Ergon Energy site, or from work undertaken by Ergon Energy.

A dedicated Asbestos Manager was appointed to provide regulative and practical asbestos management advice, and to oversee the whole-of-business asbestos audit program and site register. Improvements are in the process of being made to the identification and recording of suspect customer switchboards, and to works procedures to help ensure appropriate safety precautions are taken.

Ensuring employee wellbeing

Ensuring our people are physically, mentally and emotionally 'fit for work' remains a priority. One of our most important 'fit for work' initiatives is our ongoing comprehensive drug and alcohol-testing regime.

Ergon Energy also put significant resources towards supporting employees' returning to work after injury – 60% of the rehabilitation cases we are supporting are due to non-work related injuries.

Our free flu vaccinations continued, along with other proactive health initiatives for our employees. To protect our people and support our ability to maintain services to customers throughout the flu season, 1,737 field and office employees accessed the voluntary vaccinations.

Our Employee Assistance Program also continued to give our employees, and their family members, access to professional counselling services. This service is about ensuring our employees can perform their roles effectively, safely and to the best of their abilities. During the year we also looked for other ways to assist our employees access information to help them self manage their own health.



Ergon Energy's annual Field Safety Day Champions competition was eagerly contested by crews from across the state, completing critical safety activities, from field risk management and CPR. Our Comprehensive Safety Indicator was used for the second time to select teams to compete; the growing commitment to safe work practices is evidenced by the high calibre of crews participating in the annual event. The Substation Operations team from Cairns, shown here, was crowned the 2012 Field Safety Day champion. Team members Matthew Eaton, Jurgen Bell, Shaun Gardiner and Rhett Blayney attributed their win to leadership and mateship.

OUR SAFETY SCORECARD

Ergon Energy continued to improve workplace health and safety performance, evidenced by a 28% improvement in our All Injuries Frequency Rate (AIFR) for employees. The improvement exceeded our corporate target of 13.3 – with the AIFR result moving from 13.7 in 2010/11 to 9.9. This indicator includes both Lost Time Injury Frequency Rate (LTIFR), as the more common industry measure, and the frequency rate for medical treatment injuries.

While we were just outside our target $\mu 8$, our LTIFR for employees improved by 15% – a drop from 3.2 injuries per one million labour hours in 2010/11 to 2.7 per one million hours – and our Compensable Claim Frequency Rate improved within target by 33% to 2.0.

Our Dangerous Electrical Event Frequency Rate (DEEFR) for employees also improved – from 4.9 in 2010/11 to 2.4. Our LTIFR for contractors improved slightly to 1.8, although not to the degree we were targeting $\mu 8$.

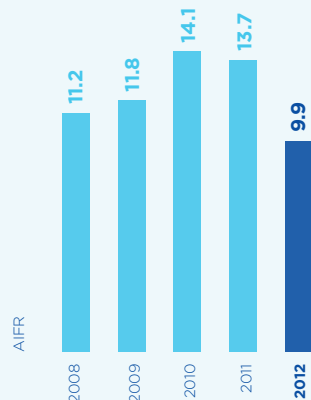
Ergon Energy incorporates the AIFR, along with other lag and lead indicators, into a Comprehensive Safety Indicator to give our people, at the work group level, a meaningful score of how they are performing from a safety perspective. From its launch in the previous year, the number of field-based teams operating at the gold benchmark has improved by 20%. The organisation overall is performing at the silver benchmark, with 455 total points allocated against a range of areas, out of a possible 600.

Our commitment to improving our performance against all these measures aligns with our goal to take the organisation's safety performance into the top quartile of the electricity distribution industry-recognised benchmarks and our aspirational goal to achieve zero injuries in our workplace.

In the Energy Networks Association's (ENA) benchmarking report, based on their definitions, Ergon Energy's LTIFR was 3.7 for 2010/11, above the industry average of 3.1. This placed Ergon Energy sixth out of the 11 participating entities; however, our performance is stronger when comparing this year's results to historical statistics. The report also showed Ergon Energy's 2010/11 Compensable Claim Frequency Rate of 4.18 as better than the industry average of 5.17 with an improvement of one place, to fourth place.

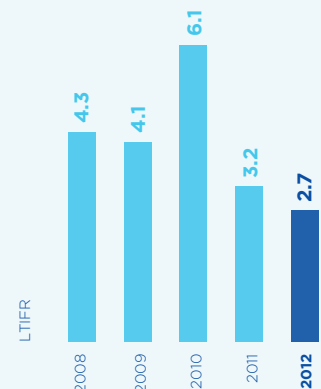
FOR INFORMATION ON COMMUNITY ELECTRICAL SAFETY SEE PAGE 21.

BEHAVIOURAL CHANGE IS DELIVERING RESULTS



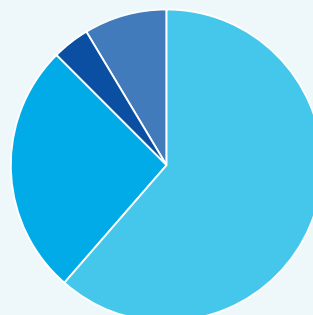
Our investment in building a sustainable safety culture across Ergon Energy – one where safety is inherent in everything we do – has delivered a 28% improvement in our All Injuries Frequency Rate.

TIME LOST TO INJURIES CONTINUES TO FALL



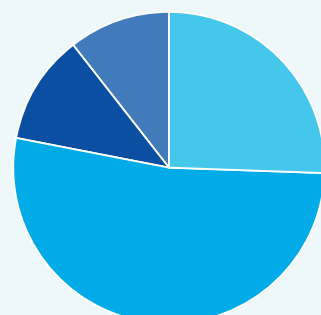
Our commitment to take the organisation's safety performance into the top quartile of the electricity distribution industry-recognised benchmarks has supported a 15% improvement in the Lost Time Injury Rate.

FOCUS ON 'GOING FOR GOLD' GROWS



OFFICE AWARDS

- Gold 62%
- Silver 26%
- Bronze 4%
- Below Benchmark 8%



FIELD AWARDS

- Gold 26%
- Silver 53%
- Bronze 12%
- Below Benchmark 10%

Our employees are increasingly demonstrating safe behaviours, with more than 61% of our office-based teams and almost 26% of the field-based teams now operating at the gold benchmark of our Comprehensive Safety Indicator.

SAFETY PERFORMANCE		2011/12	2010/11	2009/10 ¹	2008/09	2007/08
All Injuries Frequency Rate – Employees	Target ≤ 13.3	9.9	13.7	14.1	11.8	11.2
Compensable Claims Frequency Rate	Target ≤ 3.7	2.0	2.9	4.3	3.2	na
Lost Time Injuries Frequency Rate – Employees	Target ≤ 2.6	2.7	3.2	6.1	4.1	4.3
Lost Time Injuries Frequency Rate – Contractors	Target ≤ 1.0	1.8	2.2	0.6	1.6	0.5
Total Dangerous Electrical Events (DEEs)		1,168	885	894	1,037	1,143
– Unassisted Asset Failure (within Ergon Energy's control)		358	374	394	342	363
– Assisted Asset Failure (outside Ergon Energy's control)		810	511	500	695	780
Dangerous Electrical Events Frequency Rate – Employees	Target ≤ 2.9	2.4	4.9	5.3	3.2	3.6

1. 2010 result adjusted due to changes in the status of a number of injuries since the previous report.

LEARNING AND CAPABILITY DEVELOPMENT

Developing our talent pool

To ensure we continue to be an employer of choice across regional Queensland, during the year, our talent management approaches were reviewed and refined resulting in a fully developed talent strategy. Our aim is to maximise organisational performance by creating opportunities for the best talent to be challenged, developed and grown into our leaders of the future – and in return deliver a high standard of performance in a way that honours our values.

In support of our high performance focus, we also rolled out a personal development framework for our frontline leaders, and built our leadership capability through 360 degree surveys and targeted development. At the same time we continued to deliver a range of leadership development programs. A review of our leadership development framework has also commenced, which is looking at refining our leadership capability priorities and ensuring cost-effective development strategies.

We also developed a new performance management framework to drive high-performance outcomes. Through building an understanding of the performance standards and deliverable that an employee is accountable for we are increasingly driving commitment, effort and job fit. With development work completed, the new framework can be embedded during 2012/13.

Training continues to be vital

Ergon Energy continued to deliver a diverse range of high quality technical and non-technical training and development from regulations training, such as pole top rescue, resuscitation and first aid, to advanced leadership development; with an increased focus on efficiency and value for money. Approximately 10,000 training courses were delivered during the year to more than 36,000 participants. In addition, more than 22,000 online training programs were completed, covering a broad range of topics from fire safety awareness to risk management.

Our apprentice and trainee program continues to successfully grow and develop our future tradespeople. 2012 saw the commencement of 81 new apprentices, 12 of which were female, and 18 new trainees. This intake brought our total numbers to 292 apprentices and 87 trainees.

Four of the female apprentices are leading the way as the first females to commence a Distribution Linesperson Apprenticeship with Ergon Energy. We have a mix of mature-aged apprentices and school-leavers in the program, which historically achieves a 97% completion rate. 79 apprentices and 11 trainees completed their training this year and have continued in the business.

Our graduate program is continuing to develop high quality employees through a three-year program that provides mentoring, ongoing training and exposure to a variety of relevant disciplines through rotational placements across the business. We are currently supporting 22 bachelor degree graduates in the disciplines of electrical and civil engineering and customer service. In addition, we are currently supporting 11 full time students in their studies through our scholarship program.

DIVERSITY IN THE WORKPLACE

Through our Diversity Program 2010-15 we are seeking to create a workforce diverse in skills, experiences and perspectives – one where this diversity is contributing positively to our performance as an organisation. The program is about ensuring the attitudes and behaviours of our employees support an inclusive work environment, a workplace where everyone has an opportunity to fully participate and be valued for their contribution. This commitment has seen significant changes to our workforce profile over the past five years (see table).

Attracting a diverse application pool

Through a recruitment strategy that aims to increase the diversity of our applicant pool, the diversity program is creating a workforce that is increasingly representative of our customer base.

OUR PEOPLE		2011/12	2010/11	2009/10	2008/09	2007/08	2006/07
Number of Employees	↑	5,060	4,752	4,630	4,634	4,489	4,192
Employee 'Have Your Say Survey' – Employee Engagement	Target ≥70% →	71%	71%	67%	na	na	na
Staff Turnover (annualised)	↑	8.1%	6.8%	7.2%	6.6%	8.5%	13.3%
Women in the Workforce	↑	1,337	1,197	1,132	1,138	1,071	899
Women in Upper Management	↓	17%	20%	21%	13%	12%	11%
Women in Middle Management	→	21%	21%	19%	20%	21%	18%
Aboriginal & Torres Strait Islanders in Entry Level Positions	↓	67	77	66	57	41	24

WORKFORCE BY POSITION		2011/12	2010/11
Power Worker	↑	313	291
Technical Service-person	↑	1,293	1,268
Supervisor	↑	378	367
Electrical System Designer/Advisor	↑	110	98
Para-Professional	↑	620	574
System Operator or Controller	↑	69	63
Administrative Employee	↑	1,143	1,071
Professional and Managerial	↑	1,081	962
Senior Manager	↓	55	56

2011/12 has seen employee growth in our traditional technical asset management and works delivery areas to deliver the works program, as well as in our developing alternative energy solutions area (largely in Professional and Managerial positions) to enable us to deliver more cost-effective solutions to the demand challenge and defer capital expenditure p24. There was also a significant shift to casual employees in our Contact Centre to provide a more cost efficient and flexible customer service model – shown in the increase in the Administrative Employee area and in the five-year total workforce trend. Ergon Energy's Full Time Equivalent human resource measure increased this year to a lesser degree from 4,624 to 4,869.

The recruitment of Aboriginal and Torres Strait Islanders (A&TSI), as an under represented group, continued to be a target area. This saw us participate in the Former Origin Greats program to gain access to the latest information on Indigenous employment and training incentives and other state education initiatives, as well as other benefits. We also participated in National Aboriginal and Islander Day of Celebration (NAIDOC) activities to help celebrate their history, culture and achievements.

To help encourage A&TSI candidates into our apprentice intake in future years, during the year we began liaising with our industry unions, aiming to establish a pre-employment program initially targeting potential electrical apprentices. It is our intention to extend this into non-technical disciplines, such as call centre traineeships. These activities are supported by our A&TSI employment specialist and A&TSI community engagement specialist, as well as other members of the business, who are progressing the development of our Reconciliation Action Plan p20. This is part of our corporate social responsibility commitment to regional community engagement and support.

Retaining a representative workforce

The diversity program aims to assist the retention of a representative workforce, by creating an inclusive supportive culture that offers flexible work choices. To support this, in April 2012, the inaugural Ergon Energy and Union Bullying and Harassment Forum took place as a means of identifying strategies to minimise and respond to bullying and harassment.

Our Women in Leadership program also continued during the year with 11 employees from across the business participating in regular 'community of practice' sessions, a formal leadership development program and mentoring, as well as taking part in valuable networking opportunities across the business. The program aims to enable women with leadership potential to develop their leadership skills, which in turn supports retention and builds a pipeline for future female senior managers. It also assists in attracting women to the business.

We continued to monitor workplace flexibility, with the number of part-time roles seen as indication of our managers appreciating our employees' needs outside their work role.

While our female employees are mainly in administrative roles, since last year we have had some success in increasing the number of women in non-traditional roles (from 2.9% in 2010/11 to 3.6% in 2011/12).

Managing an intergenerational workplace

With the age composition of our workforce changing we are facing significant intergenerational issues. These include a 'bubble' of employees moving into retirement or wanting to work part-time, many in critical business roles, to comparatively higher separation rates for staff with one to three years' tenure.

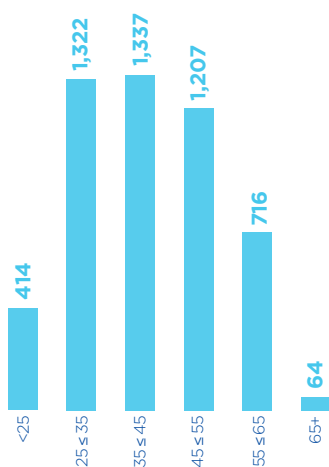
To support our ageing workforce, our Future Focus program is targeting our Operations unit. The program includes practical intergenerational and career transition initiatives, including leave management, knowledge transfer and in some cases flexible work options, which aim to both support our employees and mitigate future resourcing risks. The age profile of our workforce is provided above.

PROMOTING CONSTRUCTIVE WORKPLACE RELATIONS

Ergon Energy continues to encourage and promote constructive workplace relations with our industry unions. This saw the successful negotiation of Ergon Energy's new Union Collective Agreement during the year – the new Federal Workplace Agreement, which covers the majority of our employees (98%), now sets out employees' wages and conditions up to October 2014. At the bargaining table for the agreement there were both union representatives and nominated employee representatives. To help keep all employees up to date as negotiations progressed, regular newsletter updates were provided along with a dedicated intranet site.

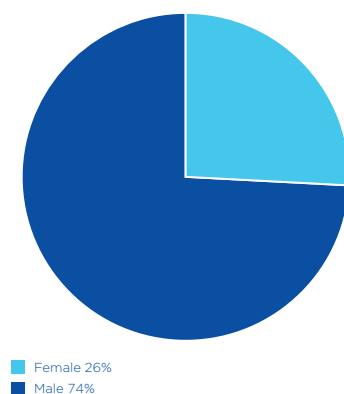
Ergon Energy's employees are represented by: the Together Queensland, Industrial Union of Employees (ASU); the Services Union (QSU); the Automotive, Food, Metals, Engineering, Printing and Kindred Industries Union Queensland (AMWU); the Association of Professional Engineers, Scientists and Managers, Australia (APESMA); and the Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia (ETU Division). To foster a reasonable and effective relationship, these unions have the opportunity to escalate concerns and outwork solutions through the Ergon Energy Consultative Committee, the Regional Consultative Committee and other consultative mechanisms as applicable. The frequency that these committees meet varies from monthly to quarterly. All of the matters of dispute this year were resolved through workplace level negotiation, the grievance and disputes settlement procedure and Fair Work Australia.

OUR WORKFORCE BY AGE



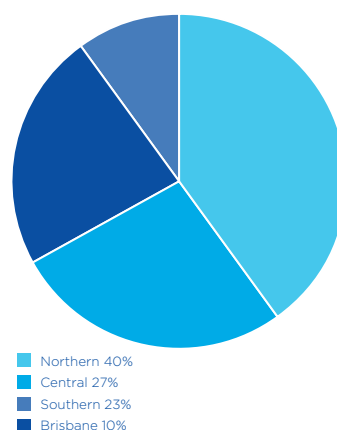
Ergon Energy has an intergenerational workforce with employees both starting their careers and approaching retirement. 28% of the workforce is aged 50 years and over.

OUR WORKFORCE BY GENDER



Being predominantly field-based, in a male-dominated industry, around three quarters of the workforce is male.

OUR WORKFORCE BY REGION



Ergon Energy has employees based across Queensland, from the northern and western reaches of the state to the population centres along the coast and in the south-east.

PROTECTING THE ENVIRONMENT

Ergon Energy sees environmental performance as a key corporate responsibility, as well as critical to being a high-performing organisation.

We are committed to playing our role in conserving the world's resources (whether materials or energy) through the adoption of efficiency and waste minimisation initiatives or, more broadly, through operational improvements and better asset investment decisions.

REDUCING ELECTRICITY USE MITIGATES EMISSIONS

As an organisation we are continuing to focus on reducing electricity use across our operations – which is saving dollars and helping to address indirect greenhouse gas emissions.

Our new buildings have been designed and built with energy efficiency in mind, and are currently performing above the design criteria for electricity usage. These buildings feature building/energy management systems (controlling lighting, cooling and air ventilation), double-glazed windows, energy efficient appliances and on-site solar generation *p30*.

In addition, across our existing buildings, we have commenced implementing a range of energy conservation initiatives. By reducing energy consumption, these initiatives are both mitigating the associated emissions and realising ongoing operational cost savings.

Our climate change response, however, is not limited to our own operations and we are also considering the emissions associated with our customers' electricity use. This is seeing action taken where we can leverage other business imperatives – such as our demand management objectives *p24* and our cost-driven diesel reduction strategy – to achieve positive environmental outcomes.

Reducing our reliance on diesel

To reduce our reliance on diesel for the generation of electricity in our isolated communities we are increasing our capacity to generate renewable energy. Diesel fuel accounts for more than half of our isolated generation costs, so reducing our reliance on it is critical to managing operating costs. Reducing diesel reliance also mitigates the risk of fluctuating diesel prices.

We have two wind turbines on Thursday Island and are currently carrying out a feasibility study into the opportunities for increased wind generation on the island. We also have five solar concentrator dishes at Windorah and a geothermal generator at Birdsville – possible expansion plans for this site could provide in excess of 720MWh of renewable energy and save up to 500 tonnes of greenhouse gas emissions each year *p37*. Ergon Energy is also investing in a large solar photovoltaic field at Doomadgee to cost effectively support our supply arrangements to the community.

A biodiesel B5 blend (5% biodiesel and 95% diesel) is being used at five of our diesel power stations – we are currently reviewing this strategy to determine the future use of biodiesel, including the use of higher blends, such as B20 (20% biodiesel and 80% diesel), and the appropriate locations.

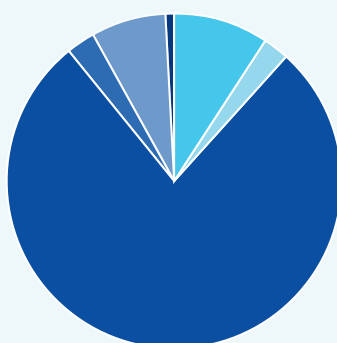
In addition, our isolated communities' energy saving program, *powersavvy*, was expanded this year to continue its success in achieving reductions in diesel used for generation *p16*.

During the year we also made progress in examining economically viable options for minimising energy losses across the network through a comprehensive network study. This work will inform development of a Network Losses Strategy.

Network losses are a largely unavoidable consequence of the supply of electricity and describes the process where energy is lost, in the form of heat, from powerlines and other electrical equipment. While 2011/12 network losses data was not available at the time of printing, in 2010/11 5.2% of the energy entering our network was not accounted for (compared to 5.3% in 2009/10); this includes both real losses and electricity used by street lights and other unmetered supply services (excluding an estimate for streetlights losses the figure would be in the order of 4.7%).

OUR CARBON FOOTPRINT

OUR CARBON FOOTPRINT



Our emissions inventory, defined by the *National Greenhouse and Energy Reporting Act 2007* scopes:

Direct Emissions (Scope 1) – the operation of the 33 diesel-fired electricity generation plants, which we use to supply our communities isolated from the main grid, accounts for about 72% of our direct, or Scope 1, greenhouse gas emissions, the rest being mostly from vehicle fleet fuel use.

Emissions associated with the use of electricity (Scope 2) – emissions from largely unavoidable network energy losses comprise around 77% of our total emissions inventory.

Electricity used in our 108 plus buildings across our operations, including 83 depots, represents about 2.2% of our emissions inventory.

Indirect Emissions (Scope 3) – street lighting is significant contributor to our indirect emissions, estimated to be responsible for about 7.3% of our emissions inventory. As a regional distributor air travel is a critical part of our business, however, it only represents about 0.3% of our emissions inventory.

Total emissions across the three scope areas is approximately 880,000 tonnes of carbon dioxide equivalent.

Meeting legislative requirements

We also undertook a review of the impacts of the Carbon Price Mechanism (CPM or 'carbon price') and the associated Clean Energy Futures legislation, which commenced in July 2012. While Ergon Energy is not a liable entity under the Australian Government's *Clean Energy Act 2011* and associated legislation, therefore not required to directly purchase CPM permits, additional costs will arise, including an estimated \$1.7 million per annum from the loss of diesel fuel tax credit for generation and other legitimate pass-through costs from suppliers.

Ergon Energy met its liability for Renewable Energy and Gas Electricity Certificates (RECs and GECs). Our GEC compliance requirements are equivalent to the purchase of 15.00% of our customers' energy requirements from Queensland gas-fired generation. As RECs, our Large-scale Generation Certificate requirements for 2011 were equivalent to sourcing 5.62% of our customers' energy requirements from renewable generation. This rises to 9.15% for 2012. We are also liable under the Small-scale Renewable Energy Scheme for Small-scale Technology Certificates. These requirements have both been met from our own renewable energy plant and the traded market.

BEST PRACTICE USE OF MATERIALS

The scale of our capital infrastructure program largely dictates the use of resources, making our demand management efforts and the drive to defer network investment (discussed elsewhere in the report) as central to improving resource utilisation as it is to minimising cost pressures for our customers.

Ensuring a sustainable supply of power poles

This year the works program saw the purchase of around 12,160 new poles (compared to 10,300 in 2010/11), along with around 2,890 transformers (compared to 2,120 in 2010/11).

To ensure a sustainable supply of power poles, Ergon Energy is growing its own renewable supply of poles in the 6,000 hectares of native forest that we currently have under management. This year saw us harvest power poles and other timber products for the first time. The poles came from thinning operations on two of our properties that aim to increase the potential of the remaining stand to provide poles at the right size and strength rating to meet our future needs.

Through sustainable logging and revegetation, this initiative is seeing both sound business and positive environmental benefits. To diversify our 'pole' farm portfolio, we are continuing with plans to obtain additional properties.

We are now recycling timber power poles that have been decommissioned in a number of regions, rather than discarding them as waste to landfill. We are also continuing to work with Forest and Wood Products Australia and the Queensland Government to test the suitability of different plantation hardwood species for power poles.

Improving waste management

Ergon Energy manages both industry specific and general waste as part of our day-to-day activities. During the year we reviewed our Waste Reduction and Recycling Plan – in line with new requirements under the *Waste Reduction and Recycling Act 2011*. The plan outlines how we are managing various waste streams and contains various targets that will help monitor improvement in the reduction of overall waste.

Across our business this year, we recovered more than 890 tonnes of scrap metal including copper, aluminium and steel for recycling (compared to 870 tonnes in 2010/12), and more than 470 tonnes of old transformers for recycling (315 tonnes in 2010/11). We also recovered 335,000 litres of oil (369,000 litres in 2010/11) from our assets for processing for disposal or reuse through licensed facilities.

Practicing water conservation

Throughout our property portfolio we aim to minimise water use. In all of our new properties, rainwater collection tanks are being installed to provide water for toilets and gardens and in our depots we also consider the water used for wash down purposes.

The other area where we undertake water management is in our stand-alone generation plant. In Birdsville, we operate a small geothermal power station – one of the few low-temperature geothermal power stations in the world. It draws from a free-flowing bore into the Great Artesian Basin, which has existed for more than 75 years. After the water's heat is used for generation, it is directed into the town's water supply and lagoon. During the year we have continued to work through possible expansion plans for the site, and any development will consider ongoing water requirements.

In our solar farm in Windorah we use water from a dam filled with non-potable water from a nearby creek for evaporative cooling.

PROTECTING OUR LOCAL ENVIRONS

Ergon Energy promotes compliant and responsible environment and cultural heritage operating principles and practices.

Environmental incidents

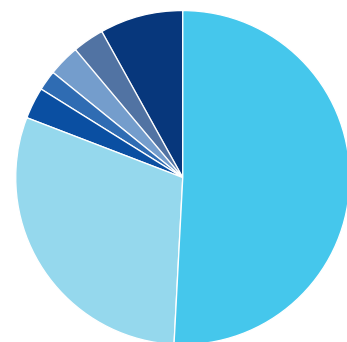
Ergon Energy's incident management framework classifies incidents using a four-level scale. For environment or cultural heritage impacts, a Class 1 incident is a major impact involving a sensitive environment or a breach of cultural heritage legislation resulting in significant financial penalties. On the other end of the scale is a Class 4 incident – one with a minor localised impact, requiring minimal or no remediation.

During 2011/12 Ergon Energy had no major environmental incidents (Class 1 incidents) or breaches of the *Environmental Protection Act 1994*. There was one Class 2 incident associated with building without the permit required under the *Queensland Forestry Act 1959* at Ravenshoe.

During 2011/12 Ergon Energy continued to maintain certification of its Environmental Management System to AS/NZS ISO 14001.

Ergon Energy has continued to maintain a focus on sites contaminated through past operations. We are deploying a comprehensive program that has prioritised affected sites for evaluation and remediation, with remediation work under way at several locations.

ENVIRONMENTAL INCIDENTS



Fauna related incidents, involving birds, bats and small animals contacting the powerlines, are our most frequent environmental incident. During 2011/12 we had 125 incidents.

Vegetation management

We are continuing to improve our vegetation management practices. To maintain appropriate aesthetics in urban areas we have shortened cycle times, so we can continue with less invasive cutting. Further improvements to the data available on sections where vegetation is at risk of contacting powerlines will allow us to minimise unnecessary vegetation removal as we move from a cyclic-based program to a risk-based approach p30.

Weed control activities sustained

Ergon Energy's weed management strategy aims to limit the introduction of declared plants and priority weeds into new areas of the network and prevent the spread of existing infestations through effective risk assessment, the deployment of site-specific environmental management plans and ensuring compliance with vehicle wash-down protocols.

During 2011/12, weeds remained a key area of environmental concern, due to growth rates across Queensland accelerating as a result of favourable growing seasons and in response to landholder concerns about weed infestations. This has seen a sustained focus on the control activities undertaken as part of our construction and maintenance programs and a review of the wash-down facilities at our depots, with a number of new wash-down facilities built.

Targeting bushfire mitigation

Although the risk of bushfires in Queensland is lower than in the southern states, it has been a significant issue this year from a reliability perspective. This is due to the build up of fuel load in the landscape as result of favourable growing seasons p27.

To help us better position ourselves to respond to bushfires and reduce the likelihood of our assets initiating fires in the future, we have reviewed our overall bushfire strategy. This is seeing us increasingly use data on bushfire hazards obtained from the Queensland Fire and Rescue Service and other web-based sources, and historical fire scar mapping to target both our maintenance efforts and the practices applied.

Working sensitively to protect biodiversity

In addition to our bushfire mitigation and weed control activities we have also continued specific biodiversity protection initiatives.

We have continued our powerline corridor mapping program to ensure minimal impact from the operation of our infrastructure located in environmentally sensitive areas, including national parks, state forests, nature refuges and world heritage areas. Through the program, which has been underway since 2006, we have completed ecological surveys of 240 kilometres of powerlines containing 61 protected sites – less than 10% of these sensitive areas are still to be mapped. This has seen management measures captured in specific national park environmental management plans submitted to the Department of Environment and Heritage Protection for approval.

.....
"Our aim is to be a leader in environmental and cultural heritage management – with a focus on conserving resources and on protecting the environments we operate in."
.....

Operationally, we secured 55 hectares of protected vegetation to offset the clearing required for Isis to Dallarnil, Woolooga to Curra and Aramara to Maryborough projects and currently have a contract to offset the impacts of four hectares of clearing associated with the Maryborough to Nikenbah project. These biodiversity offsets will protect endangered and of-concern vegetation, essential habitat for koalas and the vulnerable Wallum Froglet.

As part of protecting biodiversity, we also take measures to minimise the impact when planning our work. This year, line routes have been modified to avoid impacts on a number of threatened species including the Ooline tree, Kogan Waxflower, Glossy Black Cockatoo, Goodwood Gum and *Melaleuca cheelii*. One new line route could not avoid the habitat of two fauna species with Australian Government status of 'endangered', however, after seeking expert fauna advice we were able to minimise impact on one species and enhance the habitat of the second species by use of a particular cross-arm design.

Building cultural heritage awareness

Due to our statewide presence, Ergon Energy dedicates significant resources to understanding the diverse cultural heritage artefacts found in our region, as well as to consulting with Indigenous representatives generally, which ultimately minimises the impact of our works.

Throughout 2011/12, we continued to build an awareness of the importance of cultural heritage across the business. We revised the face-to-face elements of our cultural heritage training and developed a cultural heritage pocketbook to enhance field recognition of tangible heritage sites and objects. Regularly viewed cultural heritage datasets have also been migrated to the Google Earth environment, and specific layers created, to give employees easy access to the data.

We have also simplified our cultural heritage risk assessment reference material, and created new positions in the cultural heritage team, to enhance the way the business delivers on its cultural heritage commitments.

OUR ECONOMIC AND FINANCIAL PERFORMANCE

Ongoing → Achieved ✓ Partial ... Not Achieved ✗

Ergon Energy is delivering economic value, within a sound corporate governance framework, both through the core services we deliver and our commercial achievements. We also contribute economically through local employment and purchasing, and through the support of local economic development initiatives vital to regional Queensland.

DELIVERING ECONOMIC VALUE

ADDRESSING ELECTRICITY PRICES

Ergon Energy's overarching strategic goal, to limit increases to network charges (and the pressure on electricity prices) to less than the CPI over the longer term, is at the heart of delivering our economic contribution to the Queensland.

By finding better ways to respond to peak demand and avoiding unnecessary investment – which has contributed to the reduction in our 2010-2015 capital works program discussed earlier p23 – we have reduced our revenue requirement from electricity sales for the next three years by \$99.2 million. Opportunities to further reduce expenditure over the remainder of the current regulatory period to 2015 are also being investigated.

As part of preliminary preparations for the next regulatory revenue proposal, we have also further refined our investment modelling to ensure the capital works program that we submit to the regulator, the AER, for 2015-2020 can deliver on our commitment to limiting increases to network charges. This submission process is central to the economic sustainability of our business. Capital expenditure to date for this regulatory period is within target at 29% of the five year allowance.

STRATEGIC INITIATIVE

ACHIEVEMENT

Undertake the financial modelling needed to assess investment plans against our commitments around 'price' and 'network performance' in the 2015-2020 regulatory period.

Modelling has been refined to ensure future investments are in line with our commitment to limiting increases to network charges. p39



Continue to develop unregulated revenue in areas that are aligned with our core business.

Commercial successes are being achieved in our telecommunications business, Nexium, and through our modular electrical and communication solutions. p39



Ergon Energy is also committed to maintaining operational expenditure within our regulatory allowance. While this year we are slightly ahead of our regulated expenditure forecast for the five year period at 42% (due mainly to increases in vegetation and asset inspection costs associated with efforts to recover the works program post Cyclone Yasi and costs associated with the take up of solar energy systems), we are confident our efficiency focus p28 will allow us to deliver on this commitment.

RETURN ON INVESTMENT SOUND

Ergon Energy is committed to delivering on the financial targets agreed with our shareholding Ministers. We recognise Ergon Energy represents a significant investment for the Queensland Government. Our aim is to ensure business performance meets expectations and return on investment is maximised.

Ergon Energy delivered above target financial results with a consolidated group Net Profit After Tax (NPAT) of \$319.8 million – above the \$277.6 million revised target agreed with the Queensland Government in our Statement of Corporate Intent p8 – and an Earnings Before Interest and Tax (EBIT) of \$777.8 million (compared to the revised target of \$721.8 million). This was supported by our efficiency efforts.

These results were achieved while delivering an \$869.8 million capital works program, \$742.5 million of which was to increase the capacity and improve the reliability of the network p23.

The financial results for our retailer, Ergon Energy Queensland Pty Ltd, were above expectations with NPAT of \$56.3 million, primarily due to favourable performance relative to the industry benchmarked retail cost to serve.

We are also growing non-regulated revenue through activities that support our core business.

Our subsidiary Ergon Energy Telecommunications Pty Ltd, Nexium, has continued to grow its wholesale and retail telecommunications services with the supply of high-speed data connectivity to the mining, energy and government sectors. Nexium has also delivered a range of internal services for Ergon Energy's operational communications network, SCADA network and corporate connections.

Ergon Energy's manufacturing workshops have also had a successful year – delivering modular data centres to Emerson, a global provider of telecommunications infrastructure solutions, as well as accelerating the use of innovative diagnostic techniques, through high-speed cameras, to better service our clients in the electricity industry.

FINANCIAL STATEMENTS EXPLAINED

This section explains the key line items from our financial statements that contributed to our profit result, detailed on the previous pages, and provides the definitions and trends for our financial performance ratios.

This commentary is not intended to be comprehensive. For full disclosures please refer to the full Annual Financial Statements for Ergon Energy Corporation Limited and its Controlled Entities available online at www.ergon.com.au/annualreport

A. WHERE DOES OUR REVENUE COME FROM?

Ergon Energy's total revenue and other income for the year was \$2,692.9 million, an increase of \$154.4 million compared to 2010/11.

Our revenue sources include electricity sales of \$1,598.1 million, distribution revenue of \$277.0 million from our non-retail customers and customer contributions towards the electricity distribution network of \$126.1 million.

Ergon Energy also received a \$415.2 million Community Service Obligation (CSO) payment for 2011/12. This is compensation from the Queensland Government for the cost of servicing our electricity customers that is not covered by the revenue collected from customers through the state's uniform electricity tariff schedule.

Ergon Energy's regulated revenue, for the use of our electricity distribution network, is determined by the AER, and is recovered via the application of network charges to customers and embedded generators connected to the network. The charges are billed to both our retail business and the retailers of customers who have entered the contestable market in regional Queensland. The AER also regulates certain payments by our customers for capital contributions towards network extensions and other services.

B. WHAT ARE OUR MAIN EXPENDITURES?

Ergon Energy's operating expenses provide a significant economic contribution to Queensland. We employ a 5,000 Queenslanders strong workforce – with total payroll costs of \$576.4 million – in addition to a large contractor base – with contract payments totalling \$181.7 million. Ergon Energy adheres to the State Procurement Policy and encourages local sourcing.

Operating expenses totalled \$682.2 million – 2.3% below budget (despite regulated operational expenditure being slightly above budget p29). To supply our customers with electricity we incur a number of major expenses – for 2011/12 electricity purchases totalled \$547.4 million and the transmission network charges paid to Powerlink Queensland totalled \$306.0 million.

C. WHAT ASSETS DO WE OWN?

In 2011/12, Ergon Energy's total asset base increased in value by \$628.2 million to \$10,603.1 million. Property, plant and equipment are the major components of our asset base, at \$9,219.3 million, which includes mostly regulated electricity network assets.

Ergon Energy revalued its property, plant and equipment assets as at 30 June 2012, resulting in an increase of \$66.7 million. The directors approved an income-based valuation performed by management of all asset categories with the exception of the isolated generation and distribution assets which was revalued based on an independent valuation performed by Sinclair Knight Merz.

At the end of June 2012, \$437.9 million was held as cash, consistent with normal business operations.

D. WHAT DO WE OWE (OUR LIABILITIES)?

Ergon Energy's total liabilities increased to \$7,306.1 million this year with funds drawn down used for our capital works programs and cash flow requirements. Prudent gearing ratios are being maintained.

Our largest individual liability is the interest bearing loan with Queensland Treasury Corporation of \$4,794.7 million.

The second largest liability is the net deferred income tax liability of \$1,447.2 million. Some of our other key liabilities include current payables due to trade creditors (\$110.4 million), current employee benefits (\$162.9 million) and the defined benefit superannuation deficit (\$97.2 million).

Ergon Energy's long-term corporate credit rating has been maintained with a public rating of AA and stand-alone rating of BBB+. This credit rating is influenced by the global economic environment and its impact on the Queensland Government's expected revenue.

E. WHAT WAS OUR CAPITAL INVESTMENT?

Ergon Energy delivered an \$869.8 million capital works program. The regulated component of our capital works program was within the five-year regulatory control period allowance – this included the \$742.5 million invested in increasing the capacity and improving the reliability of the network p23.

F. WHAT RETURN DO WE GIVE TO OUR OWNERS?

The strength of Ergon Energy's profit result will enable dividends of \$255.9 million to be paid to our shareholding Ministers, and through them to the Queensland Government, in 2012/13. This payment, ultimately, benefits the people of Queensland.

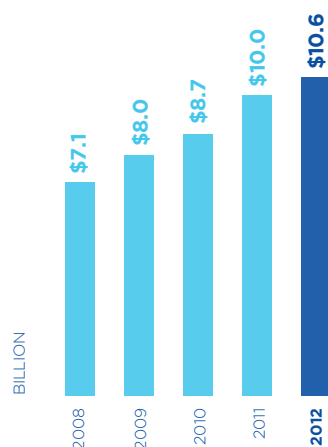
Dividend Policy – Ergon Energy's dividend policy requires the Board to recommend, taking into account the investment return its shareholders expect, a dividend of 80% of profit adjusted for unrealised fair value gains or losses on financial instruments. This is paid on the basis of its shareholders agreeing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

FINANCIAL SUMMARY FOR ERGON ENERGY CORPORATION LIMITED (CONSOLIDATED)

		2011/12 \$million	2010/11 \$million	2009/10 \$million	2008/09 \$million	2007/08 \$million
A. OUR REVENUE						
Revenue and Other Income	↑	2,692.9	2,538.5	2,203.7	2,279.1	2,598.3
B. OUR EXPENDITURE						
Network/Electricity Purchases	↑	(853.4)	(846.2)	(925.9)	(1,037.7)	(1,419.1)
Operating Expenses	↑	(682.2)	(634.0)	(508.6)	(555.7)	(521.1)
Depreciation Expense	↑	(379.5)	(314.2)	(290.9)	(277.8)	(248.0)
Finance Charges	↑	(321.2)	(293.7)	(243.4)	(223.4)	(180.1)
OUR PROFIT						
Earnings Before Tax	↑	456.6	450.4	234.9	185.5	230.0
Tax Expense	↑	(136.8)	(128.8)	(68.4)	(55.2)	(67.1)
Net Profit After Tax	↓	319.8	321.6	166.5	129.3	162.9
C. OUR ASSETS						
Current Assets	↑	1,145.0	1,011.7	1,128.2	1,030.9	779.2
Non Current Assets	↑	9,458.1	8,963.2	7,570.1	6,980.4	6,321.3
Total Assets	↑	10,603.1	9,974.9	8,698.3	8,011.3	7,100.5
D. OUR LIABILITIES						
Current Liabilities	↑	1,182.5	967.1	1,035.0	777.9	659.9
Non Current Liabilities	↑	6,123.6	5,692.9	5,001.9	4,682.2	3,916.8
Total Liabilities	↑	7,306.1	6,660.0	6,036.9	5,460.1	4,576.7
Net Assets	↓	3,297.0	3,314.9	2,661.4	2,551.2	2,523.8
E. OUR INVESTMENT						
Total Capital Investment	↑	869.8	830.5	806.1	844.3	841.4
F. DIVIDENDS						
Dividends Provided For	↑	255.9	252.6	137.5	116.6	118.4
Dividends to Net Profit After Tax	↑	80%	79%	83%	90%	73%

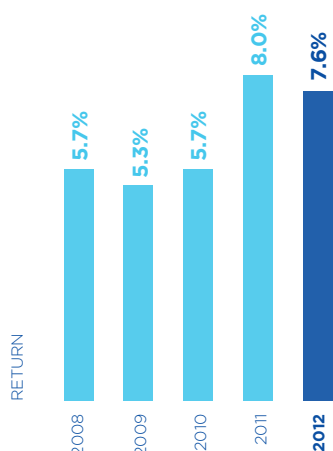
FINANCIAL RATIOS		2011/12	2010/11	2009/10	2008/09	2007/08
Return on Average Assets						
Reflects the efficiency of our assets to generate earnings. = Earnings Before Interest & Tax/Average of opening & closing asset balances x 100.	↓	7.6%	8.0%	5.7%	5.3%	5.7%
Return on Average Equity						
This represents the returns generated on the money the Queensland Government, as our shareholder, has invested in Ergon Energy. = Net Profit After Tax/Average of opening & closing equity x 100.	↓	9.7%	10.8%	6.4%	5.1%	6.6%
Gearing (including reserves)						
Our gearing demonstrates the prudential level to which our activities are funded by owner's funds versus borrowed funds. = Debt/Debt + Equity x 100.	↑	59.3%	56.6%	59.8%	59.1%	54.3%
EBITDA to Interest Cover (times)						
Shows our ability to adequately meet the interest on current borrowings. = Earnings Before Interest & Tax, Depreciation and Amortisation/Finance charges.	—	3.6x	3.6x	3.2x	3.1x	3.7x

ASSET VALUE GROWS WITH NETWORK INVESTMENT



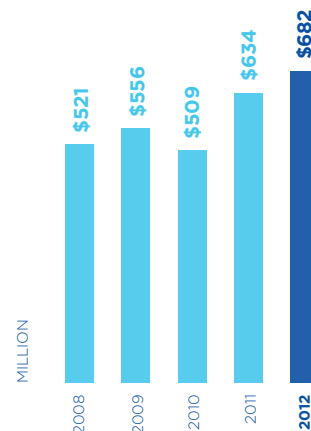
This year saw a record \$742.5 million into the network to meet demand and deliver reliability standards, lifting the total asset base to \$10.6 billion.

RETURN ON ASSETS SOUND



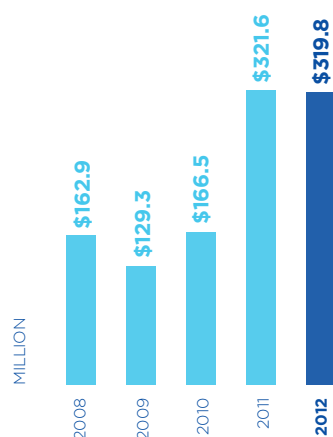
The slight drop in return to 7.6% largely reflects the significant revaluation of the asset in 2010/11.

EXPENDITURE REFLECTS WORKS RECOVERY



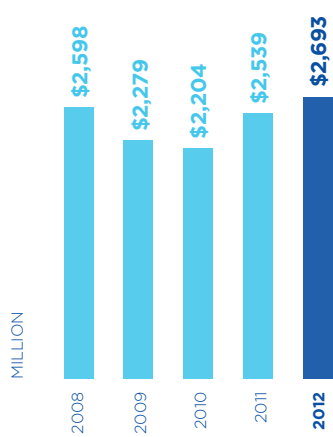
Total expenditure was 2.3% below budget, despite regulated expenditure being slightly over budget (due mainly to increases associated with recovering the works program).

PROFIT RECOGNISES ASSET INVESTMENT



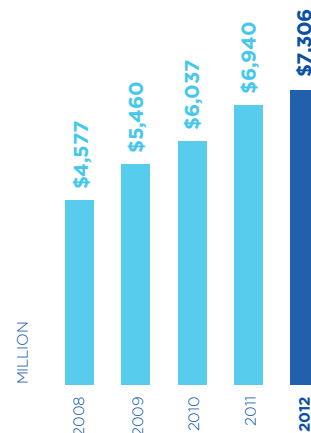
The profit (NPAT) result has allowed for a \$255.9 million dividend to the Queensland Government, partly offsetting the \$415.2 million Community Service Obligation payment.

REVENUE INCREASED WITH ENERGY SALES



Revenue increased across all of our sources, including electricity sales, distribution revenue from non-retail customers and customer contributions towards augmentation of the electricity network.

LIABILITY GROWS IN LINE WITH ASSET VALUE



Ergon Energy's total liabilities have increased this year, primarily driven by borrowings required for asset investment. Gearing remains prudent.

OUR CORPORATE GOVERNANCE STATEMENT

Ergon Energy operates within a corporate governance framework that provides a comprehensive process for managing the business with integrity and in the best interests of our stakeholders. It encompasses decision-making and implementation, performance and investment value optimisation and how the organisation is held to account. This is supported by ethical leadership, risk assessment and performance management.

Ergon Energy's corporate governance practices are in line with the Australian Stock Exchange (ASX) Corporate Governance Principles and Recommendations, where applicable, as well as the Queensland Government's Corporate Governance Guidelines for Government Owned Corporations.

Where we have not followed a specific ASX recommendation we explain our position and how our practices accord with the 'spirit' of the relevant principle. Additional information is available online at www.ergon.com.au/annualreport and www.ergon.com.au/about-us/company-information/corporate-governance

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Our company structure

Ergon Energy Corporation Limited, a wholly Government-owned corporation, is governed by the provisions of the *Corporations Act 2001*, except as otherwise provided by the *Government Owned Corporations Act 1993*.

Ergon Energy Corporation Limited's responsibilities under its Distribution Authority and the *Electricity Act 1994 (Qld)* are to allow, as far as practical, connection to its supply network on fair and reasonable terms and to operate, maintain and protect its supply network to ensure the adequate, economic, reliable and safe connection and supply of electricity to its customers.

Ergon Energy Queensland Pty Ltd provides electricity retail services to customers in Ergon Energy's retail area. As a Government-owned 'non-competing' electricity retailer, Ergon Energy Queensland Pty Ltd can only offer customers the government-set electricity tariffs (notified prices) as determined by the QCA.

STRATEGIC INITIATIVE

Develop a portfolio capability approach to improve the prioritisation and optimisation of Ergon Energy's capital investment program.

ACHIEVEMENT

Strategic alignment and business value criteria have been incorporated into the business case tools used to assess new investment proposals. A proof of concept dashboard has also been developed and is being utilised. Its use will now be extended across the network portfolio. *p57*

Participate in the Australian Energy Market Commission's development of a National Framework for Distribution Network Planning and Expansion and outwork the recommendations.

We are continuing to engage on the proposed framework and draft rule changes. Preliminary work was undertaken, in advance of the draft, to develop a Demand Side Engagement Strategy and scope the implementation requirements for a Regulatory Investment Test for Distribution. *p54*

Ergon Energy's other subsidiary is Ergon Energy Telecommunications Pty Ltd, trading as Nexium Telecommunications – this business services Ergon Energy's communications needs and as a licensed telecommunications carrier offers the Queensland marketplace wholesale high-capacity data services.

The activities of the subsidiary companies are overseen by their own boards, which in the case of Ergon Energy Queensland Pty Ltd consists of senior executives of the parent company and for Ergon Energy Telecommunications Pty Ltd directors of the parent company. These subsidiary boards, which meet regularly, have adopted the Directors Code of Conduct applicable to the Ergon Energy Corporation Limited Board and applicable Ergon Energy management and governance policies as amended from time to time.

Ergon Energy Corporation Limited is also a shareholder in a joint venture with Energex Limited – SPARQ Solutions Pty Ltd, which provides Information and Communications Technology (ICT) solutions and services to both Ergon Energy and Energex. The Board of SPARQ Solutions Pty Ltd has a Corporate Governance Manual, which includes a Code of Conduct based on those approved by its shareholders. Detailed shareholder agreements guide the governance of this company with its board, comprising of executives from both Ergon Energy Corporation Limited and Energex Limited, who meet on a quarterly basis.

Ergon Energy Corporation Limited Board

The responsibilities of the Ergon Energy Corporation Limited Board, as summarised in the table over, are outlined in the Board Charter. The Board can delegate functions to management, however, certain matters are reserved for the Board – as detailed in the Charter and a policy document; Delegation of Power. These documents are available on our website.

Our Board Committees

To assist with the discharge of directors' duties, a number of board committees have been established to consider and respond to particular issues faced by Ergon Energy, many of which are linked intrinsically to regional Queensland sustainability challenges, such as workplace health and safety, community safety, environmental matters, disaster management and other people issues, such as Equal Employment Opportunities.

The committees' charters are summarised, along with the key activities undertaken by each committee during 2011/12, the membership of each committee and the number of meetings attended by each director, while in office, in the table following. During 2011/12 the AER 2010 Due Diligence Committee evolved into the Regulatory Committee with a new broader charter.

Continued on page 51.

THE BOARD OF DIRECTORS



MALCOLM HALL-BROWN
BEcon BCom FCPA

CHAIRMAN
Independent Non-Executive Director

First appointed May 2012
Term in office 3 months

As Chairman, Malcolm Hall-Brown brings to Ergon Energy a strong, proven track record in public practice accounting and commercially-oriented enterprises. He has had extensive practical, commercial experience across a diverse range of fields – including marina, resort and other commercial developments – and a deep understanding of Ergon Energy's regional Queensland operating environment. Malcolm is the foundation director of the Port Binnli group of companies, with a development portfolio that includes the Raby Bay and Mackay's Clarion Hotel. He has also served on several prominent industry development boards, including Brisbane Marketing.



JOHN BIRD
FCPA FAICD FTIA FAIST

DEPUTY CHAIRMAN
Independent Non-Executive Director

First appointed November 2006
Term in office 6 years

As a Registered Company Auditor, John Bird provides considerable experience and direction to Ergon Energy as Deputy Chairman of the Board, Chairman of the Board's Audit and Financial Risk Committee and a member of the Regulatory Committee. He was formerly a Managing Partner in Brown and Bird Certified Practising Accountants in Mackay. John 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. John is also a director of Ergon Energy Telecommunications Pty Ltd. He previously served as Deputy Chairman of the electricity retailer Ergon Energy Pty Ltd for a period of seven years.



ANNABEL DOLPHIN
BBus Mgt AAICD CAHRI

INDEPENDENT
NON-EXECUTIVE DIRECTOR

First appointed October 2011
Term in office 11 months

As a qualified business management practitioner with 15 years experience gained through leadership and human resources roles in the mining and training industries, Annabel Dolphin brings a wealth of knowledge to Ergon Energy's Board. She is currently the Managing Director of Dolphin Management Consulting, where she leads a team who specialise in a range of management applications, including business strategy and planning, organisational design, culture and change management, leadership and talent management. Annabel is a certified member of the Australian Human Resources Institute and the Mackay Area Industry Network. She is a member of Ergon Energy's Board Audit and Financial Risk Committee, as well as the People Committee.



SUSAN FORRESTER
BA LLB(Hons) EMBA FAICD

INDEPENDENT
NON-EXECUTIVE DIRECTOR

First appointed October 2008
Term in office 4 years

Originally trained as a banking and finance lawyer, Susan Forrester is an experienced company director bringing to the Board more than 20 years of commercial management experience in the legal, governance and human resource areas. This experience was gathered whilst in executive roles in the public and private sectors during which time she completed an EMBA with Melbourne Business School, specialising in change management and strategy. Susan also serves as a chairman of Oncore Group Holdings and as a non-executive director of Shine Lawyers Ltd, G8 Education Limited, National Health Call Centre Network Festival Pty Ltd and Children's Health Foundation Queensland. Susan is a Chair of Ergon Energy's Board People Committee and a member of the Operational Risk Committee.



GARY HUMPHRYS

CA GAICD

**INDEPENDENT
NON-EXECUTIVE DIRECTOR**

First appointed October 2009
Term in office 3 years

Gary 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, information and technology, procurement, risk management and audit. In recent years, Gary 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. Gary chairs Ergon Energy's Board Regulatory Committee and is a member of the Audit and Financial Risk Committee.



ROWENA MCNALLY

FIAMA LLB AFAM MAICD

**INDEPENDENT
NON-EXECUTIVE DIRECTOR**

First appointed November 2011
Term in office 10 months

Rowena McNally is an experienced company director, having previously served on the boards of various infrastructure projects (including Paradise Dam near Bundaberg and a number of hospital construction projects) and on the boards of Gladstone Water and Cerebral Palsy Australia, amongst others. She is currently the Chair of the Mount Isa Water Board, the National Chair of the Institute of Arbitrators and Mediators Australia, Deputy Chair of Catholic Health Australia, and a Trustee of Mary Aikenhead Ministries. Originally a litigation, intellectual property and corporate lawyer, she is a member of the Law Council of Australia (Business Law). She is a member of the Ergon Energy Board's Operational Risk and People Committees.



HELEN STANTON

BE MAICD

**INDEPENDENT
NON-EXECUTIVE DIRECTOR**

First appointed July 2005
Term in office 7 years

Ingham based engineer Helen Stanton has a background in mining and industrial processing and currently consults in strategy implementation, business process analysis and change management. She is a non-executive director of Townsville Mackay Medicare Local and Ingham Disability Services. Helen chairs Ergon Energy's Board Operational Risk Committee, is a member of the Board's Regulatory Committee, and is also Ergon Energy's representative on the Board of Townsville Enterprise Limited.

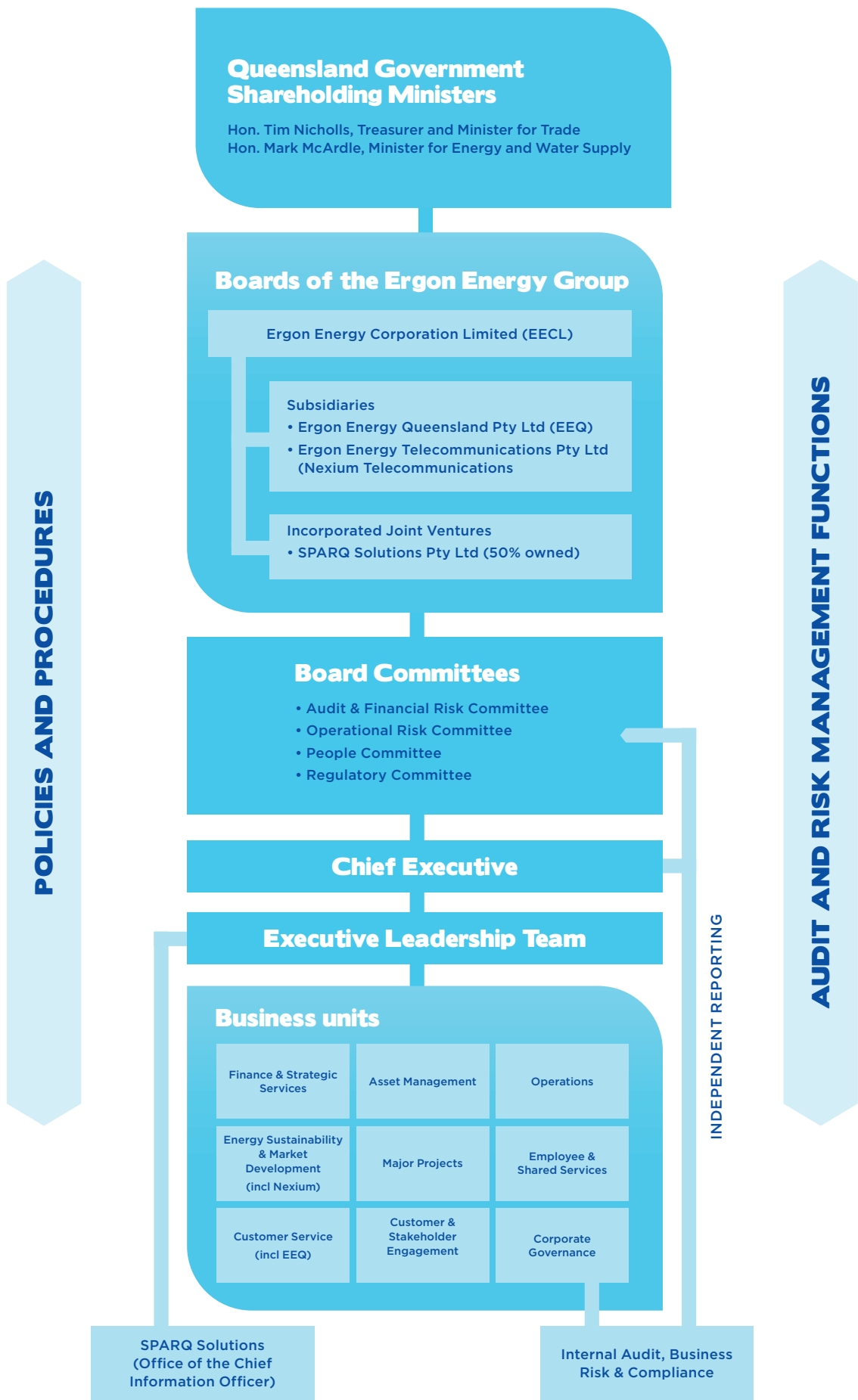
CHANGES TO THE BOARD DURING 2011/12

The following Board members resigned during the 2011/12 reporting period. Their full profiles are provided in the Directors' Report available online.

Ralph Craven was the Chairman of the Board. Ralph brought to Ergon Energy a professional background that encompassed the energy and resources sector, commodity trading and regulatory complexities. He was first appointed to the Board 1 October 2008 and resigned 30 May 2012.

Tony Mooney brought extensive experience in infrastructure management, economic development, community engagement and regional government to Ergon Energy's Board. He was first appointed to the Board 1 October 2008 and resigned 30 September 2011.

Wayne Myers brought extensive experience from the Information Technology and Telecommunications industry to the Board, as well as general business management expertise. He was first appointed to the Board 5 July 2001 and resigned 30 September 2011.



FOCUS OF THE BOARD AND THE BOARD COMMITTEES

MEMBERSHIP	MEETINGS		SUMMARY OF CHARTER	FOCUS IN 2011/12
	Attended	Held		
Ergon Energy Corporation Limited Board				
R Craven ^{CB}	19	19	Responsible for the strategic direction of the organisation.	Ensuring the strategic direction had strong focus in response to rising electricity prices.
M Hall-Brown ^{CB}	2	2	Ensures the corporate governance required to monitor operational, safety, environmental, social and financial performance and reports to the shareholding Ministers.	Driving operational efficiency through the business.
J Bird	24	24		Ensuring a focus on delivering major customer connections.
A Dolphin	15	16		
S Forrester	24	24	Delegates authority to the Chief Executive, management and employees.	
G Humphrys	23	24		
R McNally	11	13		
H Stanton	24	24		
T Mooney	6	6		
W Myers	8	8		
Audit & Financial Risk Committee				
R Craven	4	4	Approves and monitors Ergon Energy's in-house internal audit program.	Reviewed the external audit report and recommendations.
M Hall-Brown	1	1	Provides ongoing assurances to the Board that its obligations are being met in relation to:	Recommended to the Board that it adopt the Annual Financial Statements and Directors' Report.
J Bird ^{CC}	5	5		Oversaw compliance with the conditions of the Australian Financial Services Licence.
A Dolphin	4	4	- financial integrity	Received reports on debt management and other treasury functions.
S Forrester	1	1	- financial risks	Endorsed the Regulatory Information Notice return submitted to the Australian Energy Regulator.
G Humphrys	5	5	- regulatory reporting - compliance issues.	- Engaged consultants to conduct a business-wide fraud risk assessment. - Recommended to the Board the basis for valuation of assets.
Regulatory Committee				
R Craven	4	4	Assists the Board to fulfil its corporate governance and oversight responsibilities by reviewing and reporting on the due diligence process conducted in relation to the preparation and outcomes of regulatory proposals.	Reviewed reports on lessons learnt from the 2010-15 regulatory submission.
M Hall-Brown	-	-		Endorsed the approach and work plan for preparation of the submission to the AER for the 2015-20 distribution determination.
J Bird	4	4		Endorsed the program of work to be done by external consultants to prepare the submission for the 2015-20 distribution determination.
G Humphrys ^{CC}	3	3		Received reports on key issues, including proposals by the AER for rule changes for the next distribution determination.
H Stanton	4	4		
W Myers	1	1		
Operational Risk Committee				
R Craven	3	3	Assists the Board in its response to business and operational risks and oversight responsibilities in relation to:	Oversaw the project to implement changes resulting from the harmonisation of workplace health and safety laws.
M Hall-Brown	1	1	- health and safety, including community safety,	Reviewed regular reports from management on health, safety and environmental issues and endorsed the waste reduction and recycling plan.
J Bird	1	1	- environmental risks	Reviewed changes to the corporate risk profile in response to emerging issues.
S Forrester	3	3	- risk exposure	Endorsed risk appetite statements for health and safety, and for procurement, as well as the insurance program for the transfer of risk.
R McNally	1	2	- insurance and claims management.	Received a report from external consultants on Ergon Energy's response to Cyclone Yasi.
H Stanton ^{CC}	4	4		Oversaw the development of the organisational resilience framework.
T Mooney	0	1		Received the privacy impact assessment on the implementation of the Drug and Alcohol Policy.
W Myers	0	1		
People Committee				
R Craven	4	4	Assists in developing a strategic, long-term and sustainable approach on issues relating to people working for Ergon Energy.	Oversaw negotiations for the Union Collective Agreement.
M Hall-Brown	1	1		Endorsed the People and Talent Management Strategy and the Employment and Industrial Relations Plan.
A Dolphin	3	3	Fulfil the Boards' oversight responsibilities in relation to:	Received regular management reports on human resource and diversity issues.
S Forrester ^{CC}	4	5	- remuneration; performance management; industrial relations; employee engagement; organisational culture; and learning and development.	Recommended executive remuneration arrangements to the Board.
R McNally	1	2		Received a report from providers of the executive health program.
G Humphrys	3	3		Reviewed the results from the employees Have Your Say Survey.
W Myers ^{CC}	1	2		

CB = Chairman of the Board
CC = Committee Chairman

OUR EXECUTIVE LEADERSHIP TEAM



IAN MCLEOD

FAIM

CHIEF EXECUTIVE

Ian McLeod is responsible for the business's overall direction and, ultimately, for meeting the financial and service delivery expectations of our customers, the community and our shareholders. Ian brings extensive electricity industry experience to Ergon Energy: experience gained through management roles in the private contracting industry, in Powercor Australia and the State Electricity Commission of Victoria. Ian is a director of Energy Supply Association of Australia and is Chairman of Ergon Energy Queensland Pty Ltd and SPARQ Solutions Pty Ltd.



JOHN HOOPER

BEcon (Accounting) FCPA
GAICD FAIM

CHIEF FINANCIAL OFFICER

John Hooper is responsible for managing the profitability and sustainability of all aspects of the business; as the asset owner, and through the provision of finance and strategy development. John has significant accomplishments in financial and general management and has worked for a diverse range of businesses, including large public corporations and private businesses. John is a director of Ergon Energy Queensland Pty Ltd and SPARQ Solutions Pty Ltd.



NEIL LOWRY

BEng GradDipMgmt RPEQ

EXECUTIVE GENERAL MANAGER, ASSET MANAGEMENT

Neil Lowry is responsible for Ergon Energy's asset management strategy and network performance, as well as for defining the program of work across the distribution business to maximise the efficient and effective management of its assets. Neil has extensive engineering, operational, retail, customer service and management experience, having worked in the Queensland electricity industry for more than 38 years. Neil is active in the Central Queensland community with a long involvement in engineering development, training and education.



PETER BILLING

EXECUTIVE GENERAL MANAGER, OPERATIONS

Peter Billing is responsible for the operational effectiveness of the distribution business, including the delivery of the program of work that brings Ergon Energy's asset management planning to fruition. He brings a wealth of industry, leadership and change management experience from trade roles to management. Peter was directly involved in the transformation of the electricity industry in South Australia through the period of deregulation in the 1990s. Peter is on the board of Mackay Whitsunday Regional Development Corporation Ltd, as well as Energy Skills Queensland.



PHILIP KEOGAN

BA(Hons) and GradDipAppFin
FFin

**EXECUTIVE GENERAL
MANAGER, ENERGY
SUSTAINABILITY AND
MARKET DEVELOPMENT**

Philip Keogan is responsible for leading the development of Ergon Energy's non-traditional 'smart' network and 'beyond the meter' energy solutions with the aim of finding sustainable ways to provide our customers with a dependable, affordable electricity supply into the future. Philip brings considerable product development and strategic investment experience to Ergon Energy's management team, gained from a career with senior positions in a number of leading infrastructure service providers, including Jemena and Optus.



BRIAN IWASZCZYN

BEng(Hons)

**EXECUTIVE GENERAL
MANAGER, MAJOR
PROJECTS**

Brian Iwaszczyn is responsible for the delivery of Ergon Energy's major corporation-initiated and customer-initiated capital projects. His team works closely with Asset Management and Operations to ensure Ergon Energy's overall program of works is delivered efficiently and cost-effectively. Brian brings his professional electrical engineering expertise backed by a wealth of experience in project management, operations and maintenance in heavy industry and mining, infrastructure, manufacturing and transport to Ergon Energy's executive.



MAL LEECH

GradDipBusAdmin BEng

**EXECUTIVE GENERAL
MANAGER, EMPLOYEE AND
SHARED SERVICES**

Mal Leech is responsible for shared services and 'people-related' functions including health, safety, administration, and environment, human resources, industrial relations, training and development, organisational development, change management and program management of business improvement initiatives. Mal Leech has more than 12 years' industry experience following a career in management consulting, human resources and engineering.



ROSLYN BAKER

BCom(Accounting) MBA GAICD

**EXECUTIVE GENERAL
MANAGER, CUSTOMER
SERVICE**

Roslyn Baker is responsible for customer service strategy, as well as service processes and delivery through the National Contact Centre. Roslyn is also responsible for Ergon Energy's franchise retail operations including strategy, energy trading and customer billing. Throughout her career she has been Chief Executive Officer of the Australian Technical College NQ, held senior positions with the Chamber of Commerce and Industry Queensland and been involved in establishing franchise networks within the dairy industry and retail management in the petroleum industry.

OUR EXECUTIVE LEADERSHIP TEAM (CONTINUED)



JUSTIN FITZGERALD
MComm GradDipStats BBus
MAMI

EXECUTIVE GENERAL MANAGER, CUSTOMER AND STAKEHOLDER ENGAGEMENT

Justin Fitzgerald is responsible for customer and other stakeholder engagement; promoting an understanding throughout the business of electricity affordability as our key customer concern, as well as other stakeholder insights; and championing the brand and corporate reputation. Justin brings extensive industry knowledge and a strong appreciation of stakeholder expectations to Ergon Energy's strategic challenges and social responsibility agenda, particularly in the area of disaster management. Justin is a director of Ergon Energy Queensland Pty Ltd and SPARQ Solutions Pty Ltd.



GRAEME FINLAYSON
BA(Hons)/LLB(Hons) MBA

GENERAL COUNSEL AND COMPANY SECRETARY

Graeme Finlayson is responsible for board secretariat services, risk management and legal services and Ergon Energy's high level compliance functions. He brings to Ergon Energy broad-ranging private and public sector experience – having held senior in-house commercial legal roles in some of Australia's top national law firms, and executive positions and directorships in some of Australia's largest and fastest growing organisations, including Queensland Rail and the Gold Coast City Council. Graeme is the Company Secretary for each board in the Ergon Energy group.



PETER EFFENEV
BEng(Hons) BSc MBA GAICD

CEO SPARQ SOLUTIONS

Peter Effenev is the Chief Executive Officer of SPARQ Solutions, Ergon Energy's Information and Communications Technology (ICT) joint venture with Energex. As the Chief Information Officer his responsibility on the executive leadership team is to ensure that Ergon Energy's ICT strategy, architecture and investment, and SPARQ Solutions' ICT services, are aligned with the business's strategic priorities and deliver maximum value. Prior to leading the formation of SPARQ Solutions, Peter held various management, engineering and ICT roles within Ergon Energy.

The Executive Leadership Team

During the year a dedicated Major Projects group was established, with representation on the Executive Leadership Team (ELT). The intent is to ensure a more holistic, executive-level focus on the management of major corporation-initiated and customer-initiated capital projects. This focus is seen as critical to meeting the forecast in demand fuelled largely by Queensland's resources industry. The responsibilities in the group were previously in different areas of the business.

The other notable change in 2011/12 was the formation of an Office of the Chief Information Officer within SPARQ Solutions. This office now supports the Chief Executive Officer of SPARQ Solutions, who is included as a member of the ELT. The role of the Chief Information Officer is to ensure any technology proposals developed are fully integrated with Ergon Energy's strategic imperatives. This change stems from the developing business partnership model and the need to build capacity to implement the Information and Communications Technology blueprint p30.

Assessing senior management performance

The Board sets Key Performance Indicators (KPIs) for the Chief Executive, which link to the strategic objectives of the organisation; these are formulated based on the Statement of Corporate Intent p8. The Board then reviews the performance of the Chief Executive and the Ergon Energy group based on the achievement of these KPIs. During the reporting period, a performance evaluation of senior executives was conducted in accordance with this process. This process cascades through the organisation.

Investment review functions

For the development and prioritisation of investment programs the ELT is supported by internal approval processes, including the Investment Review Committee (IRC) and the Network Investment Review Committee (NIRC) and a range of assessment tools.

The IRC operates at a business-wide, strategic level to ensure an appropriate balance between asset investments, customer service, product and asset research and development and business change within the investment portfolio. The NIRC facilitates the efficient and effective management of all network asset-related capital and operating expenditure in accordance with the Asset Management Plan.

During 2011/12 we commenced the development of a portfolio capability approach to improve the prioritisation and optimisation of Ergon Energy's capital investment program with the first step being the incorporation of strategic alignment and business value criteria into our business case tool. This is supporting the development of an optimisation capability that has already been used to provide proof of concept over the Strategic Enablement Program p29. This capability will allow the concepts of value, resource capability and risk to be explored further initially for the network investment portfolios, and then to all investment portfolios, facilitating the optimisation of each portfolio.

PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE

Appointment of directors

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

Independence of directors

All of the directors of the parent company, Ergon Energy Corporation Limited, and Ergon Energy Telecommunications Pty Ltd, including the Chairman, are non-executive directors. The independence of directors is assessed by the Board against the five criteria listed in the ASX Corporate Governance Principles and Recommendations. When making the assessment, materiality is judged on a case-by-case basis by reference to each director's individual circumstances. All of the directors are considered by the Board to be independent.

The directors of Ergon Energy Queensland Pty Ltd are executives of the Ergon Energy group and are not independent as assessed against ASX Best Practice Recommendation 2.1. Further, the role of the Chairman of Ergon Energy Pty Ltd and the Chief Executive Officer of the Ergon Energy group is exercised by the same individual.

While the Board has a number of committees, discussed in detail in this statement, it does not have a nomination committee as the directors are appointed by Queensland's Governor-in-Council, in accordance with the *Government Owned Corporations Act 1993*.

Assessing Board performance

The appointment of a new Chairman will see a chair-led review of the board's effectiveness in the coming months.

Ergon Energy's governance framework requires that the Board reviews its own performance and that of the Board Committees on a regular basis to ensure they are working effectively. This includes overall board performance, roles, functions, relationships, process and continuing improvement, as well as the role of the Board in setting direction and monitoring achievement of strategic objectives.

The performance review of the Board, commenced in 2009 and completed in 2010, endorsed the systems in place to ensure that the Board is delivering best practice outcomes for the business. The report by the consultants engaged to facilitate the review concluded that "the Ergon Board appears to be a functioning group of individuals all of whom have experience, expertise and talents to bring to bear on the decision-making processes at Ergon." The report also detailed other areas of strengths and listed some key areas for improvement that have been implemented. Following changes to the board membership the consultants conducted a further independent follow up with a close out workshop conducted in 2011.

Access to information and quality advice

The ongoing provision of timely and relevant information to the Board is of critical importance in enabling the directors to effectively discharge their duties in accordance with the requirements under the *Government Owned Corporations Act 1993* and the *Corporations Act 2001*. The structure, format and content of the board agendas presented to the directors for consideration and decision, and the board paper format, quality, content and timeliness of issue is reviewed on an ongoing basis with a formal review conducted on an annual basis.

When required, the directors' Code of Conduct provides for each director to have the right to seek independent professional advice at the company's expense, subject to the prior approval of the Chairman. The Board has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the company's expense, such legal, accounting or other services, consultants or experts from time to time as it considers necessary in the performance of its duties.

The company has entered into a Deed of Access and Indemnity with each director, giving them right of access to all documents that were provided to them during their term in office, for a period of 10 years after ceasing to be a director and to indemnify them to the extent allowed by law in respect of certain liabilities that they may incur as a result of, or by reason of, being a director.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Ergon Energy embraces ethical business practice as a fundamental part of the organisation's culture. It is critical to supporting our corporate values and, therefore, to realising our strategic plans and, ultimately, our vision. The Board and management are committed to conducting all business activities legally, ethically and with strict observance of the highest standards of integrity and propriety. To meet this commitment, sound corporate governance practices and policies have been adopted by the Board and implemented at board level and through the organisation.

Code of conduct and disclosure of interests

At the board level these include the Board Charter and Directors' Code of Conduct and Conflict of Interest Guidelines. Each director is expected to have regard for these practices and policies in the performance of their duties as a director of the company.

The Corporations Act 2001 applies to all of the companies in the Ergon Energy group; accordingly, the statutory duties of directors apply. The Board follows normal procedures for the disclosure of directors' standing interests and material personal interests, and how to deal with them. These include reviewing the register of directors' interests at each meeting. All new declarations of interest are brought to the attention of the other directors.

Ergon Energy's employees are expected to act appropriately and practice ethical behaviour. This expectation comes directly from the Board and is supported by our continuing focus on embedding corporate values in the employee Code of Conduct Standards. Our code, which applies to all employees, is available on the intranet and is reinforced regularly. It is intrinsic to our learning and development programs, such as the Management Foundations and other leadership development programs, as well as the Leadership Capability Centre that was established to objectively assess the behaviour of developing managers.

Reporting breaches of conduct

Ergon Energy continues to operate the FairCall Service, established in 2003, as a means by which staff, contractors and members of the public can report unethical conduct, breach of corporate policy – such as the Code of Conduct – or suspected fraud. The service is independently operated and reflects the principles embodied in the *Public Interest Disclosure Act 2010*, and various whistleblowers' protection standards, ensuring fairness to all concerned.

All allegations lodged using the FairCall Service are referred to the Manager Internal Audit for investigation and, where these are substantiated, appropriate disciplinary measures are applied. During the year, five allegations were received, but after investigation, no disciplinary measures were required.

The Manager Internal Audit is also the liaison officer for referring any suspicions of official misconduct to the Crime and Misconduct Commission (CMC) as required of government-owned corporations by the *Integrity Act 2009*, as well as overseeing any investigations and reporting of the findings/outcomes. Ergon Energy's Fraud and Official Misconduct Policy, Employees Code of Conduct Policy, Employees Code of Conduct Standards Procedure and Reportable Conduct Guidelines support the CMC's legislative power to investigate suspicions of official misconduct.

Supporting diversity at board level and in the workplace

As part of the board appointment process shareholding Ministers consult broadly across government, including the Queensland Government Office of Women, which maintains a register of women as suitable board candidates.

In the workplace, Ergon Energy has a Diversity Policy, which is implemented through the diversity program as a part of Ergon Energy's People Strategy, to support an inclusive workplace culture. Details on the measures and our achievements related to diversity can be found on pages 34–35.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Ergon Energy has a robust structure to independently verify and safeguard the integrity of our financial reporting, as well as a comprehensive internal and external audit process, of which the Audit and Financial Risk Committee has oversight. The committee's charter and focus for 2011/12 is provided on page 47.

The Chief Executive provides representation, through the Audit and Financial Risk Committee, to the Board that the Financial Statements and Directors' Report are a true and fair view and in compliance with reporting standards.

REPRESENTATIONS OF FINANCIAL STATEMENTS



The hierarchy of representations, as part of the process to adopt these statements, is shown in the above diagram.

As per the provisions of the *Auditor-General Act 2009*, the Queensland Auditor-General is the external auditor for Ergon Energy Corporation Limited and its subsidiaries. The Audit and Financial Risk Committee review the performance of the external audit annually.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

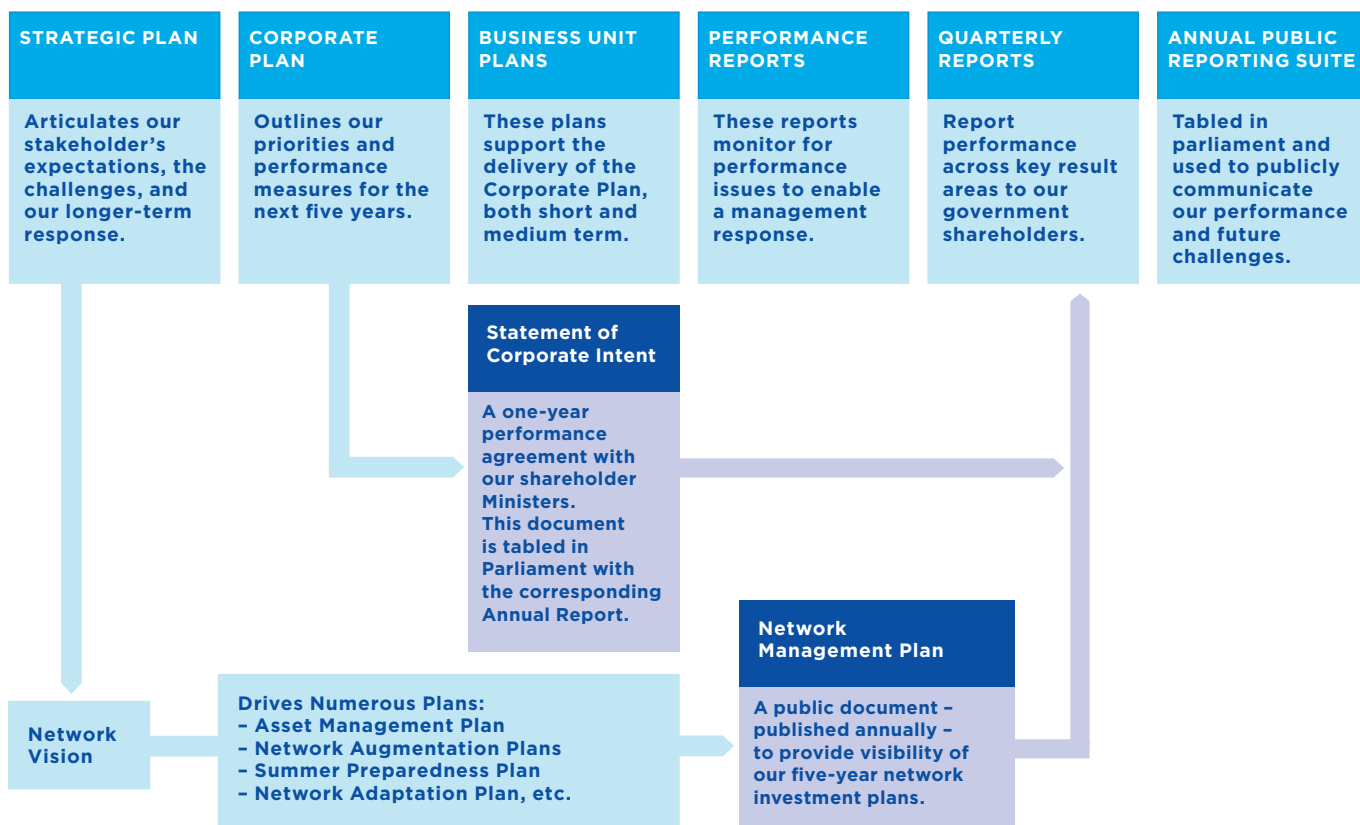
Disclosure to shareholders

Ergon Energy is committed to not only complying with legislative requirements and policies as determined by the Queensland Government but to demonstrating our commitment to go beyond them through the application of contemporary disclosure practices. Ergon Energy has a board approved Disclosure to Shareholders Policy and a Communications Strategy Guideline which embodies these commitments.

In line with the continuous disclosure obligations that apply to listed companies under the ASX Listing Rules, we ensure that our shareholding Ministers are kept informed regarding any information concerning the business that may be material in nature.

Ergon Energy also has established policies and practices that specifically cover our government communication obligations around performance targets, public safety, probity, occupational health and safety, employment practices, privacy and environmental protection.

ANNUAL STRATEGIC PLANNING AND REPORTING CYCLE



Stakeholder engagement in decision-making

Broadly, our stakeholders are our customers, the communities we work in and serve, our employees (including representative unions *p35*), our government shareholders, the industry's regulators, our suppliers and industry associates. These groups are broken down further, as part of our corporate stakeholder engagement framework and within specific engagement plans, into specific subgroups or individuals who could potentially be impacted by our activities or could affect our ability to serve our customers.

This process helps us to assess new issues and their implications in the context of the different groups and to ensure an appropriate level of engagement. The principle of our Stakeholder Engagement Policy is that all our stakeholders have a right to be informed about our activities in a timely and balanced manner.

Our Customer and Stakeholder Engagement business unit has been restructured in 2011/12 to better improve alignment with our key stakeholder groups. This will better allow the accountability principles, contained in the global AA1000 Stakeholder Engagement Standard, namely inclusivity, materiality and responsiveness, to be practiced appropriately by the business.

By clearly understanding our stakeholders' needs and expectations we are better able to make informed decisions, deliver on our business priorities, grow our business and maintain our 'licence' to operate. It also helps us better define our corporate social responsibility and support our stakeholders' social, economic and environmental goals.

It is this understanding that has helped define the sustainability matters where we can best contribute and the content of this report *p7*. The prominence that electricity affordability has in our strategic plan *p14*, the establishment of a Major Projects group *p17 & 51*, and the energy conservation/demand management customer partnerships that we are developing *p24* are all examples that demonstrate how our customers and other stakeholders are shaping business decisions.

Strategic planning and reporting cycle

Our strategic planning framework is covered here particularly as it relates to the Statement of Corporate Intent and the Network Management Plan, as the key documents that cover Ergon Energy's performance commitments to its stakeholders.

Our Strategic Plan, which is reviewed annually, aligns with our other long-term planning documents, including the Network Vision. The plan provides an overarching framework to guide the business and the formulation of its annual performance commitment and network plans. Ergon Energy uses a strategic planning model that corresponds to its regulatory control periods. 2011/12 was year two in the current five-year regulatory control period under the AER's Queensland Distribution Determination.

Ergon Energy documents its corporate performance commitment for each financial year within its Statement of Corporate Intent (SCI - see summary *p8*). As a government-owned corporation, this document is in effect our performance agreement, which outlines our corporate objectives, strategies and targets for our shareholding Ministers. These commitments form the basis of our quarterly shareholder reporting.

The Network Management Plan (NMP) is a rolling five-year plan, prepared in accordance with section 2.3 of the Queensland Electricity Code. It is a public document that is published online annually to detail how Ergon Energy will manage and develop its network with the objective of delivering an adequate, economical, reliable and safe connection of electricity supply to our customers.

The NMP also reports on the previous year's network performance to our stakeholders in more detailed analysis than this report.

Throughout the year we have been in consultation with the Australian Energy Market Commission around the development of a National Framework for Distribution Network Planning and Expansion. The draft rule changes, released in June, propose the adoption of nationally-standardised Distribution Annual Planning Reports, a requirement for distributors to have a Demand Side Engagement Strategy and the introduction of the new Regulatory Investment Test for Distribution. In advance of the release of the draft recommendations, preliminary work was undertaken to develop a Demand Side Engagement Strategy and scope the implementation requirements for a Regulatory Investment Test for Distribution.

Privacy and right to information

Ergon Energy has an obligation to protect the personal information of individuals collected and used during its operations in accordance with the *Privacy Act 1988 (Cth)*. To protect any personal information collected in normal business operations from misuse, loss, unauthorised access, modification or disclosure strict data security systems and procedures are in place around the access/use of the repositories that hold personal information. During 2011/12, Ergon Energy received nine complaints relating to customer privacy matters: seven were unfounded and the remaining two were resolved.

Ergon Energy manages applications for information and the publication of non-personal information, which is considered to be of significant interest to the wider public, in accordance with the *Right to Information Act 2009* and the *Information Privacy Act 2009*. The process to apply for information and summary information of documents released are logged at www.ergon.com.au/about-us/right-to-information.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Ergon Energy respects the rights of shareholding Ministers, as the ultimate owners of the business, and commits to work in a collaborative fashion with the government to deliver the best outcomes for our customers in regional Queensland and the Queensland economy.

Government shareholder communications

The Chairman and Chief Executive have regular meetings with shareholding Ministers and their representatives, as part of a broader government engagement program, to ensure there is active dialogue throughout the year.

This ensures the operation and strategic direction of the business is consistent with the government's energy policy and broader objectives and generally meets the expectations of our shareholder.

We also have a comprehensive reporting regime, prescribed by the *Government Owned Corporations Act 1993*, and GOC Amendment Regulation (No. 2) (2009), as well as other mechanisms. This is supported by teams dedicated to managing the business' government and regulatory relationships and to respond to reporting requests.

The content of Ergon Energy's annual reporting suite is one of many reports that are required to meet statutory and specific government requirements. It endeavours to enable the government to have an informed assessment of our operations, including the organisation's overall efficiency and effectiveness.

Directions and notifications

Under the *Government Owned Corporations Act 1993* the reserve powers of the shareholding Ministers provide that they may in the public interest notify Ergon Energy (as a government-owned corporation) of a public sector policy that is to apply to the corporation (section 114) and may also give a written direction to Ergon Energy (section 115) or a direction to amend the Statement of Corporate Intent (section 108). During 2011/12, the following directions were given:

- In September 2011, we were notified that the Public Interest Disclosure Standard No. 1 is to now apply to Ergon Energy, and its subsidiaries, as far as practicable. There are no commercial implications related to this advice, only increased reporting obligations.
- In February 2012, a direction was given not to seek to recover the revenue associated with the expected reduction in capital expenditure, arising from the implementation of the recommendations of the Electricity Network Capital Review, by excluding it from our annual network pricing proposal. Over the period to 2014/15, this revenue would have been approximately \$99 million.
- In addition, a direction was received under the *Electricity Act 1994*, in February 2012, to transfer the ownership and the operation of 'B' Switchyard at Mica Creek Powerstation from Stanwell Corporation Limited to Ergon Energy Corporation Limited in order to meet the long term energy needs of the Mount Isa region. This financial impact of this will be agreed and incurred in 2012/13.

The direction made and reported in 2010/11, relating to the Australian Competition Tribunal decision on gamma of May 2011, impacted the recovery of revenue in this financial year.

Modifications to the Statement of Corporate Intent

Our shareholding Ministers formally agreed to revisions to the financial performance measures in our Statement of Corporate Intent 2011/12, in December 2011, to reflect an asset valuation undertaken by Ernst and Young. These modifications are shown as edits to Section 2.1 and Section 3.1 in the version of the statement tabled in Parliament with this report.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Our risk management framework

Ergon Energy recognises that effective risk management and compliance frameworks are necessary to meet the expectations of its shareholding Ministers, customers, the community and other stakeholders. Fundamental to this is that our directors and management are able to demonstrate an understanding of the business risks and compliance obligations and that these are being efficiently and effectively managed. All board committees play a role in assisting the directors in fulfilling their oversight responsibilities in respect to business risks.

The primary objectives of Ergon Energy's risk management and compliance frameworks are to:

- facilitate the achievement of the organisation's corporate objectives and strategies
- validate and confirm that the overall strategic direction of the business is appropriate
- identify business priorities and allocate resources effectively and efficiently
- assist in discharging legal and regulatory requirements and meeting the expectations of stakeholders
- identify and maximise opportunities for growth and diversification.

To give effect to its risk management and compliance commitments, Ergon Energy has established policies on these and other areas (e.g. Health, Safety and Environment) and implemented a risk management framework based on the Joint Australia/New Zealand Risk Management Standard: AS/NZS ISO 31000:2009, and a compliance program based on the Australian Compliance Standard AS 3806:2006.

Ergon Energy also has a Standard for Corporate Risk Management, Corporate Risk Management Guideline and Corporate Risk Assessment Tables. The standard sets out the principles that Ergon Energy must follow to achieve effective risk management and provides guidance on how risk management should be implemented and integrated into Ergon Energy through the creation and continuous improvement of a framework. It also describes the process for managing risk. The guideline supports the standard by providing practical guidance on how to implement the risk management process referred to in the standard. The tables provide uniform risk management criteria to support consistent risk-based assessments in Ergon Energy and are to be used in conjunction with the Standard and Guideline.

Risk management activities and compliance

During 2011/12, the following risk management and compliance activities were undertaken by Ergon Energy :

- **Risk Management Framework:** A review of Ergon Energy's risk management framework for managing its material business risks was undertaken. This supported assurances to the Board by the Chief Executive Officer and Chief Financial Officer, in accordance with section 295A of the *Corporations Act 2001*, that the framework is founded on a system of risk management and internal control and that it is operating effectively in all material respects in relation to financial reporting risks.
- **Insurance Program:** The review and renewal of Ergon Energy's 2011/12 Insurance Program was undertaken to ensure cost-effective coverage of the organisation's insurable risks.
- **Risk Profiles:** Ergon Energy's Corporate Risk Profile and Business Unit Risk Profiles were reviewed and updated. As part of this process a review of the profiles against Ergon Energy's Corporate Plan and Business Unit Plans was performed to ensure alignment.
- **Risk Appetite and Risk Assurance:** Work continued on developing risk appetite statements for key risks which will set the level of risk Ergon Energy is prepared to accept in pursuing its corporate objectives and strategies. The work on risk assurance focused on developing the risk assurance map to show the assurance activities performed in relation to key corporate risks and also assist with the development of a three-year internal audit plan.

The key compliance matters for 2011/12, which are discussed elsewhere in the report, include the introduction of a National Energy Customer Framework *p17*; the network's reliability performance *p27*; the harmonisation of workplace health and safety laws *p32*; our environmental performance *p37* and our energy trading liability *p37*.

External and internal audit

Ergon Energy submits to a number of external audits in pursuit of world-class practice and, in some cases, to gain or retain the certification we need to do business, such as Quality Assurance ISO 9001 certification for our Transmission and Project Services. Other audits we regularly undergo include Australian Standard 4801 Occupational Health and Safety, Electrical Safety Legislation, International Customer Service Standards and Environmental Standard ISO 14001. These audits provide external assurance of the performance statements made in this report.

Ergon Energy's annual accounts and financial statements are audited by Deloitte Touche Tohmatsu (Deloitte), as delegate of the Auditor-General of Queensland, to meet government and regulatory reporting requirements. The scope of our internal audit function covers all of Ergon Energy's operations, either directly or through auditors contracted by the organisation or its subsidiaries.

Our internal audit function helps us accomplish our objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Ergon Energy Internal Audit Charter is established by the authority of the Ergon Energy Audit and Financial Risk Committee. In addition, we conduct a number of operational audits to assess the risks and adequacy of processes and controls over assets, systems and activities.

This year's plan included audits of Fleet Management, Mixed Assets, Accounts Payable, Payroll, and Depot Administration. These reviews focused on documenting and testing key controls including management and approval processes. Other audit reviews covered specific risk areas such as Marketing Communication Sign-Off Process, Contract Tender Process, and the At Risk Performance Process for senior executives

The Manager Internal Audit reports for administrative purposes to the General Counsel/Company Secretary but retains unrestricted access to the Chief Executive to discuss any matter relating to the finances or operations of Ergon Energy.

Internal Audit also ensures its independence by reporting to the Audit and Financial Risk Committee on progress against the Internal Audit Plan and resolution of issues raised in reports. The Manager Internal Audit also has access to the Board through the Audit and Financial Risk Committee Chair.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Ergon Energy recognises that to attract and retain the people necessary to deliver on the company's strategic plan and achieve its vision, salaries and salary packaging must be competitive, flexible and performance orientated.

As part of our Human Resources Policy, we have a remuneration framework considered to be attractive by both prospective and current employees. This policy is designed to attract high calibre employees, retain employees, incorporate current industry benchmarks and ensure employees are aware of what they need to do to contribute to team and organisational goals.

The Board's People Committee assists in developing a strategic, long-term and sustainable approach on issues relating to people working for Ergon Energy *p47*.

The remuneration strategy involves the allocation of at-risk payments based on performance at the company, business unit and individual level. Details of remuneration to non-executive directors and executives are reported in the Annual Financial Report (available online), consistent with the requirements of Australian Accounting Standard AASB 124. The eligibility of executives for an at-risk or variable component is directly linked to both the overall performance of the company and their individual efforts against a range of key indicators. This is in line with the performance agreement with the shareholding Ministers made through our Statement of Corporate Intent. Any at-risk payment is contingent upon the Board's assessment of the company's overall performance and the Board's approval, consistent with the provisions of Ergon Energy's Executive Remuneration Guidelines.

Directors are remunerated separately from the executive. Directors' emoluments, as a board or committee member, are set by the Queensland Government, while reimbursement was made for expenditure incurred in performing their roles as directors of the company. Executive directors do not receive additional payment for their role as director of a company. Non-executive directors of the company do not participate in any variable reward or at-risk plan and are not eligible for retirement or other benefits other than for statutory superannuation.

ADDITIONAL INFORMATION

NETWORK STATISTICS

Total Customers Served	700,898
Network Area Served	1.7 million km ²
Employees	5,060
Power Stations	34
Bulk Supply Points	24
Zone Substations	365
Major Power Transformers (33kV to 132kV)	738
Distribution Transformers	92,300
Power Poles	1 million
Overhead Powerline	
- Sub-transmission	15,400km
- High Voltage Distribution	112,200km
- Low Voltage Distribution ¹	20-25,000km
Underground Power Cable	7,150km

1. Estimate of length only.

ENTERTAINMENT AND HOSPITALITY

In furthering Ergon Energy's business interests and working to achieve its corporate goals, from time to time entertainment and hospitality is provided to employees, clients, customers and community groups. Reasonable limits have been observed during 2011/12 for aggregate event expenditure and expenditure per head, taking into account the nature of the event.

At the request of shareholding Ministers, the Statement of Corporate Intent includes information on Corporate Entertainment and Hospitality. For 2011/12, the following entertainment and hospitality expenses over \$5,000 were:

Event Name	Investment
Southern Employee Christmas Party – Toowoomba	\$7,000
Brisbane Employee Christmas Party – Brisbane	\$7,028
Central Employee Christmas Party – Rockhampton	\$14,168
Far North Employee Christmas Party – Cairns	\$7,084
North Employee Christmas Party – Townsville	\$5,489

ABBREVIATIONS

A&TSI	Aboriginal and Torres Strait Islander	ICT	Information and Communications Technology
AER	Australian Energy Regulator	ISO	International Organisation for Standards
ASX	Australian Stock Exchange	IRC	Investment Review Committee
CARE	Cyclone Area Reliability Enhancement program	KPIs	Key Performance Indicators
CBD	Central Business District	LEP	Long-Term Energy Procurement
CIS	Customer Information System	MSS	Minimum Service Standards
CSO	Community Service Obligation	NAIDOC	National Aboriginal and Islander Day of Celebration
CPI	Consumer Price Index	NECF	National Energy Customer Framework
CPM	Carbon Price Mechanism	NIRC	Network Investment Review Committee
CSI	Comprehensive Safety Indicator	NPAT	Net Profit After Tax
DEEs	Dangerous Electrical Events	QCA	Queensland Competition Authority
EBIT	Earnings Before Interest and Tax	RAP	Reconciliation Action Plan
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation	RECs	Renewable Energy Certificates
ELT	Executive Leadership Team	ROAMES	Remote Observation Advanced Modelling Economic Simulation
ENA	Energy Networks Association	SCADA	Supervisory Control and Data Acquisition system
EV	Electric Vehicle	SCI	Statement of Corporate Intent
GECs	Gas Electricity Certificates	STPIS	Service Target Performance Incentive Scheme
GUSS	Grid Utility Support Systems	SWER	Single Wire Earth Return
GRI	Global Reporting Initiative		
GSLs	Guaranteed Service Levels		
HSEIMS	Health, Safety and Environment Integrated Management System		

COMMON INDUSTRY UNITS OF MEASURE

SAIDI	System Average interruption Duration Index. Network reliability performance index, indicating the total minutes, on average, that customers are without electricity during the relevant period (minutes).
SAIFI	System Average Interruption Frequency Index. Network reliability performance index, indicating the average number of occasions each customer is interrupted during the relevant period (interruptions).
Customer Minutes	Customer minutes is a measure of the number of customers interrupted multiplied by the duration of a power outage or outages, incorporating any staged restoration.
AIFR	All Injury Frequency Rate – measured as number of injuries per million hours worked. Lost Time Injuries (LTI) + Medical Treatment Injuries (MTI) x 1,000,000/Exposure Hours
LTIFR	Lost Time Injury Frequency Rate. Number of lost-time injuries per million hours worked over the 12 month reporting period. Lost Time Injuries (LTI) x 1,000,000/Exposure Hours
LTIDR	Lost Time Injury Duration Rate. Total days lost due to injuries per million hours worked over the 12 month reporting period. Lost Time Injuries Progressive Days Lost x 1,000,000/Exposure Hours
DEEFR	Dangerous Electrical Event Frequency Rate. A safe work practice measure that tracks Dangerous Electrical Events (DEEs) associated with work done by our employees (DEEs x million/exposure hours). Dangerous Electrical Events (DEE) x 1,000,000/Exposure Hours
V	volt: the unit of potential or electrical pressure
VA	volt ampere: volt amperes are the 'apparent power' and are the product of the voltage applied to the equipment times the current drawn by the equipment. The VA rating is limited by the maximum permissible current, and the watt rating by the power-handling capacity of the device
kVA	kilovolt ampere: one kVA equals 1,000VA
MVA	megavolt ampere: one MVA equals 1,000kVA
kV	kilovolt: one kV equals 1,000 volts
W	watt: a measure of the power present when a current of one ampere flows under a pressure of one volt
kW	kilowatt: one kW equals 1,000 watts
MW	megawatt: one MW equals 1,000 kilowatts
kWh	kilowatt hour: the standard 'unit' of electricity which represents the consumption of electrical energy at the rate of one kilowatt over a period of one hour
MWh	megawatt hour: one MWh equals 1,000 kilowatt hours
GWh	gigawatt hour: one GWh equals 1,000 megawatt hours or one million kilowatt hours
HV	high voltage: alternating current above 1,000V
LV	low voltage: alternating current above 32V and not exceeding 1,000V

Ergon Energy's Annual Stakeholder Report 2010/11 was awarded Gold in the Australasian Reporting Awards.



KEY SERVICE CENTRES

Cairns

109 Lake Street
CAIRNS QLD 4870

Townsville (Registered Office)

22 Walker Street
TOWNSVILLE QLD 4810

Mackay

23 Cemetery Road
WEST MACKAY QLD 4740

Rockhampton

Cnr Fitzroy and Alma Streets
ROCKHAMPTON QLD 4700

Maryborough

97-99 Adelaide Street
MARYBOROUGH QLD 4650

Toowoomba

Cnr South and Hampton Streets
TOOWOOMBA QLD 4350

Brisbane

61 Mary Street
BRISBANE QLD 4000

ANNUAL STAKEHOLDER REPORT 2011/12

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

Customer Advocate

PO Box 15107 Brisbane QLD 4002

customer.advocate@ergon.com.au

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