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THE CLERK OF THE PARLIAMENT

First Annual Report



1997-1998



NORTH QUEENSLAND ELECTRICITY CORPORATION LIMITED

ACN 078 848 978

Achievements

In our first full year as a network service provider, NORQEB successfully:

- achieved an operating profit of \$13.66 million after income tax equivalent;
- achieved total revenue of \$142.59 million;
- transported 2116.2 gigawatts of electricity via its network;
- paid an \$8.89 million dividend for 1996/97 to Queensland Transitional Power Trading Corporation;
- invested a record \$48.81 million in capital works to expand and improve the reliability of the network for the benefit of customers;
- officially commissioned Queensland's first 200,000 volt transmission line from Mica Creek Power Station to Ernest Henry Mine near Cloncurry;
- completed construction of Stage 1 of the Mica Creek Power Station to Gunpowder Mine;
- commissioned the new high reliability 66,000 volt Richmond to Julia Creek transmission line fulfilling our commitment to upgrade and improve the NORQEB network in the mid west;
- constructed and commissioned the new Burketown diesel power station valued at \$600,000;
- upgraded the Boulia reticulated system to meet the growing demand for power;
- successfully merged our electricity retail business – Northern Electricity Retail Corporation Pty Ltd with Central Electricity Corporation Pty Ltd to form Ergon Energy and Australia's fourth largest electricity retailer;
- improved customer service by expanding the Customer Service Centre to manage all customer calls for NORQEB and Ergon Energy;
- undertook environmental studies valued at \$800,000 on three sections of the proposed Mica Creek Power Station to Century Mine transmission line;
- finalised action plans for NORQEB's involvement in the Greenhouse Challenge;
- continued to make a positive contribution to the north Queensland community through a \$150,000 sponsorship programme;
- significantly improved our work place health and safety performance;
- produced savings of more than \$1 million as a result of our "Power to Transform Quality initiative;
- achieved Third Party Quality Assurance Certification to ISO 9002 standard in two areas of our business;
- entered into a joint arrangement with Energy Telecommunications Training Australia to deliver training throughout Australia;
- commenced our Year 2000 programme to address compliance issues.



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Purpose

This report communicates NORQEB's achievements in 1997/98 to shareholders, customers and the community.

It will provide clear information on:

- NORQEB's performance in financial and non financial terms;
- Commercial capability;
- Continuous improvement;
- Employee, management activities and issues;
- NORQEB's community involvement.

1997/98 was another successful year for NORQEB. The year was characterised by significant change within NORQEB and the Queensland electricity industry. NORQEB's successful performance is testament to the dedication and commitment of its staff to the organisation and the north Queensland community.

Communication Objective

This annual report aims to communicate to our shareholders and stakeholders NORQEB's performance and activities for 1997/98. It also seeks to enhance our stakeholders' understanding of our business and role that we play in the development of north Queensland. It has been prepared in accordance with the provisions of the *Government Owned Corporations Act 1993* and the *Financial Administration and Audit Act 1977* and is submitted to the Corporation's shareholding Ministers - the Minister for Mines and Energy and the Treasurer, for presentation to the Legislative Assembly.





Directors' Report

The Board of Directors of North Queensland Electricity Corporation Limited has pleasure in submitting the balance sheet of the company as an economic entity as at 30 June 1998 and the related profit and loss account and statement of cash flows for the year and report as follows.

Directors

The seven-member Board of Directors was appointed by Governor-in-Council effective 1 July 1997.

The names and details of the directors in office at the date of this report are:

Chairperson

Russell Laird

BEC, F.C.A., F.A.I.C.D., C.P.A., F.T.I.A.

Mr. Laird is a partner in C.E. Smith & Co., Townsville Chartered Accountants. He was appointed Chair of NORQEB in 1994. He is a Fellow of the Institute of Chartered Accountants, the Taxation Institute of Australia and the Australian Institute of Company Directors. He is a director of Central Electricity Retail Corporation Pty Ltd, which trades as Ergon Energy and a director, and or secretary of a broad range of north Queensland public and private corporations including government instrumentalities and James Cook University of North Queensland. Mr. Laird is the Company Secretary for Barrier Reef Basketball Pty Ltd, which owns and operates the National Basketball League team – Townsville Crocodiles.

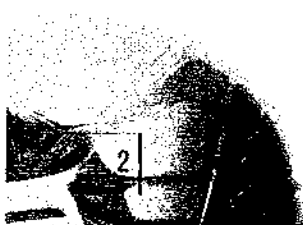


Deputy Chairperson

Professor Emeritus Peter Arlett

BSc, PhD, C.Eng, FTS, M.I.Mech.E., F.I.E.E., F.I.E. Aust.

Mr. Arlett has been a Director and Board member since 1977. He is a Fellow of the Australian Academy of Technological Sciences and Engineering and director of various organisations including Deputy Chair of the Great Barrier Reef Institute of TAFE and a Member of the Queensland Science and Technology Council.





Peter Roberts (Solicitor, Notary Public)

Mr. Roberts has been a partner in the firm of Roberts Leu & North, solicitors, since 1968. He is a solicitor of the High Court of Australia and the Supreme Court of Queensland, a member of the International Bar Association and is a Notary Public. He is President of the North Queensland Amateur Turf Club, Deputy Chairman and a Director of Barrier Reef Basketball Pty Ltd which owns and operates the National Basketball League team - the Townsville Crocodiles.



Marie Orchard

Mrs. Orchard has been a partner in Insurance Specialist Pty Ltd trading as Financially Yours since 1988 specialising in financial planning. She is a practising member of the Financial Planners Association, past president of the Townsville Businesswomen's Network and has been involved in regional charity organisations including Make A Wish Foundation of Australia.



James Telford J.P.

Mr. Telford has owned and operated the Leichhardt Hotel/Motel in Cloncurry for approximately 30 years. He served on the Cloncurry Hospital Board for 12 years and has held positions with various committees and organisations in north west Queensland.



Edi Solari F.A.I.C.D.

Mr. Solari operates a number of businesses and is Managing Director of Herbert River Fertilisers & Agencies Pty Ltd and Herbert River Machinery Pty Ltd in Ingham. He is a member of the Board of the Burdekin Agricultural College and is a member of the Administration and Finance Committee of the Cattlemen's Union of Australia.



John Dwyer

Mr. Dwyer is Managing Director of the John Dwyer Group of Companies. He is Chairman of the North Queensland Branch of the Queensland Farm Machinery Dealers Association, Queensland Rural Chairman and a Director of the Ford National Dealer Advertising Fund, Queensland Rural Chairman and a Director of the Ford National Dealer Council and a Fellow of the State Library of Queensland Foundation.





Principal Activities

North Queensland Electricity Corporation Limited is a company Government Owned Corporation. It is responsible for maintaining a reliable and efficient distribution network within its franchise area in accordance with relevant codes, particularly the Electricity Act 1994.

NORQEB's franchise area of 458,000 square kilometres, extends from Ingham to Collinsville and west to the Northern Territory border.

As well NORQEB generates electricity for supplying customers in the remote townships of Boulia, Burketown and Camooweal from diesel-power stations as a distribution authority it holds under the *Electricity Act 1994*.

NORQEB's subsidiary appliance trading business operates 11 stores and has 3 agencies which together service remote and provincial communities throughout north Queensland.

NORQEB is a significant shareholder in Central Electricity Retail Corporation Pty Ltd, which trades as Ergon Energy. NORQEB performs retail and other services for Ergon Energy under service level agreements.

NORQEB's Contractors Division supplied a contract service to Queensland Electricity Transmission Corporation Limited's high voltage transmission system within the NORQEB, Mackay and Cairns areas.

Results and Dividends

Dividends	\$'000
Final dividends recommended	\$10243
	<u>\$10243</u>
Dividends paid in the year:	
Final for 1997 shown as recommended in the 1997 report	\$8883
	<u>\$8883</u>

Review of Operations



We achieved our goal of maximising the value of the business for our shareholders and stakeholders, while meeting the majority of our performance indicators.

Our successful performance was underpinned by continuing to focus on the key issues of financial performance, customer satisfaction, our environment and our community, employee involvement, continuous improvement and commercial activities.

Financial Results

NORQEB recorded an operating profit of \$13.66 million after income tax equivalent in its first year as a network service provider. As a result, a \$ 10.24 million dividend was set aside and an \$ 8.89 million dividend for the 1996/97 year was paid to Queensland Transitional Power Trading Corporation.

Total revenue reached \$142.59 million and was partly achieved through the expansion of the NORQEB network.

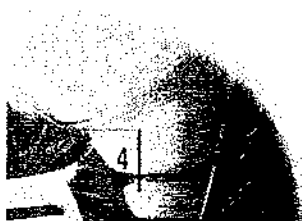
Customer Satisfaction

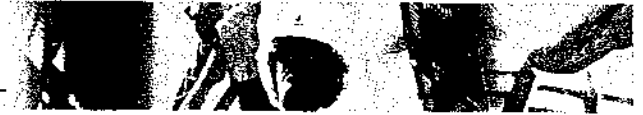
We continued to expand and improve the network for the benefit of customers with a record \$48.8 million capital works programme.

We fulfilled our commitment to improve the reliability and quality of electricity supply to mid west Queensland customers. A high reliability concrete pole 66,000 volt powerline from Richmond to Julia Creek was built at a cost of \$5.2 million and commissioned in December 1997. Work continued on other projects to improve the reliability and supply of power.

To improve customer service, the operation of our Customer Service Centre was expanded to include all areas within north Queensland. As a result, the centre received more than 160,000 customer calls for the period and continued to achieve industry best practice.

We successfully merged our electricity retail business – Northern Electricity Retail Corporation Pty Ltd with





Central Electricity Retail Corporation Pty Ltd. The newly merged company - Ergon Energy - is now Australia's fourth largest electricity retailer. As a major shareholder in the company, NORQEB provided electricity retail agency services for Ergon Energy in our franchise area.

Our Environment

Our commitment to the environment continued with more than \$800,000 in environmental studies for proposed transmission line projects undertaken, while potential stakeholders affected by the lines were consulted and involved.

An LPG trial at Camooweal Power Station commenced in a bid to reduce green house gas emissions. Action plans for NORQEB's involvement in the Federal Government's "Greenhouse Challenge" were finalised.

Our RAPS trial for the supply of power to a remote cattle property continued and we joined a research programme into the possibility of organochlorine contamination around our power poles in cattle grazing areas.

Our Community

NORQEB continued to make a significant and positive contribution to the north Queensland community through an extensive sponsorship programme valued at approximately \$150,000.

We worked closely with the local electrical contracting industry to build an understanding and appreciation of their work.

We demonstrated our commitment to the region by holding every second Board meeting away from Townsville and took the opportunity to meet with major customers and local government authorities.

Employee Involvement

Our safety performance continued to improve with specific actions taken to address workplace health and safety issues which again resulted in a decline in the injury duration level and injury frequency rate for the second successive time since 1992/93.

NORQEB's commitment to training and development was underpinned by employee performance reviews which identified gaps in knowledge, skills and competencies.

As a result, specific training and development initiatives that addressed the changing complexities of our business and business environment were undertaken.

Continuous Improvement

Savings of almost \$1 million resulted from our Quality initiative Power to Transform. The programme is an integral part of our continuous improvement capability to achieve superior business performance.

We achieved Third Party Quality Assurance Certification to ISO 9002 in two key areas of our business that now compete in the competitive market.

Our Training Centre and Contractors Division achieved certification after extensive investigation and testing of relevant business systems and procedures by the National Association of Testing Authority.

Commercial Activities

Our activities in the competitive network service provider market continued to produce results and position NORQEB as leader in this field. After successfully constructing Queensland's first 220,000 transmission line last year, the line to the new Ernest Henry Mine near Cloncurry was officially commissioned in July 1997. The \$30 million project - the largest ever undertaken by NORQEB - was completed on time and under budget.

This project provided additional opportunities for NORQEB in the Carpentaria Minerals Province. We successfully negotiated for transmitted power supply to Gunpowder Mine and the new Century Mine north west of Mt Isa. Construction of the first stage of the 220,000 volt line is complete and route selection for the Gunpowder to Century section is underway.

Our industry is now characterised by continual change and provides challenges and opportunities for all of us. I am pleased to report that our staff have accepted the challenges and made a significant contribution to our performance during the year.

On behalf of the Board of Directors it is with pleasure that I thank them.





Significant Changes in the State of Affairs

Significant changes in the state of affairs of the company during the financial year were as follows:

- Abnormal Items

Items charged	\$000
Redundancies	1965
Year 2000 Project	256
Finance Charges	1054

Items credited

Tennyson Metering Adjustment	756
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- Extraordinary Item

During the year an extraordinary profit of \$4.833 million was earned from the disposal of NORQEB's investment in Northern Electricity Retail Corporation Pty Ltd

- Borrowings

Borrowings increased by \$41.405 million, primarily because of the large capital expenditure in the Carpentaria Minerals Province and the \$14 million loan to the State of Queensland.

Significant Events after the Balance Date

Subsequent to year end, NORQEB's appliance trading division was transferred to a new subsidiary business, - EA North Queensland Pty Ltd - on 1 July 1998.

Queensland Electricity Reform Unit has foreshadowed a change in the capital structure of the company, to occur in the 1998/99 financial year.

Likely Developments and Expected Results

Likely developments which could impact upon our business during the period are as follows:

- a review of the industry structure by the Department of Mines and Energy;
- the full costs of electrical inspections and electrical accident investigations to be undertaken by NORQEB with no Community Service Obligation funding;
- Year 2000 expenditure of approximately \$700,000 allocated to address the issue;
- establishment of AUSMECO Pty Ltd of which NORQEB has a 25% share. The company will provide metering services state wide in the contestable market.

Directors' Benefits

Disclosure of benefits provided to directors during the financial year is made in notes 30 and 32 of the financial statements, in accordance with ASC class order 97/2348.

Indemnification and Insurance of Directors and Officers

The company's constitution indemnifies officers against any claim or for any expense or costs which may arise as a result of work performed as an officer except if there is a lack of good faith. NORQEB paid a premium of \$11,382 to insure its Directors and Officers. The policy covers Directors, the Chief Executive Officer, Secretary and all other officers of the corporation.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against Directors or Officers acting in their capacity of Directors and Officers of the Corporation.





Directors' Meetings

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings	Audit Committee	Remuneration Committee
Meetings Held	15	3	5
Meetings Attended			
R.G. Laird (Chairman)	15	3	5
P.L. Arlett	15	3	5
J.R. Dwyer	12	-	5
M.L. Orchard	15	-	5
P.A. Roberts	14	3	-
E. Solari	15	-	-
J.R. Telford	12	3	-

As at 30 June 1998, the company had an Audit Committee and a Remuneration Committee.

Members of the Audit Committee are R.G. Laird, P.L. Arlett, P.A. Roberts and J.R. Telford while members of the Remuneration Committee are P.L. Arlett, R.G. Laird, J.R. Dwyer and M.L. Orchard.

Rounding

The amounts contained in this report and in the financial statements have been rounded off under the option available to the company under section 311 and Regulation 3.6.05 of the Corporations Law and Regulations.

Signed in accordance with a resolution of the directors.

Director

Director

CHIEF EXECUTIVE OFFICER

Graham Anderson, Dip EE M.I.E. Aust., CP Eng., MAICD

SECRETARY AND CORPORATE SERVICES MANAGER

Graham Kirkwood, B.Ec.(Hons), AAUQ, FCPA, GAICD

AUDITOR

Auditor - General of Queensland

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

21 Stokes Street Townsville
Queensland 4810

Telephone (07) 47 276 211

Facsimile (07) 47 276 260

Web site: www.norqeb.com.au



NORQEB in Profile

Our Mission

The mission towards which NORQEB and our staff strived is:

Working together to meet the community's needs for safe, reliable and economic energy services.

Our Vision

Leaders in energy Supply and Services

We provide each customer with:

- a clean, safe energy form and means to use it to their best advantage
- convenient supply from a reliable source
- flexibility to customise a package that meets their needs
- innovative solutions
- service that excels.

Our Values

We value:

Success in business

- results driven
- competitive
- manage risk
- deliver on commitments

Satisfying all stockholders

- owners
- customers
- suppliers
- community

Profit

- return for effort
- recognition
- sustainable performance

Our people's performance

- reliability
- teamwork
- initiative
- skills

Our History

On 1 July 1997, we became a company Government Owned Corporation in accordance with the *Government Owned Corporations Act 1993* and the *Electricity Act 1994*. We changed our name to North Queensland Electricity Corporation Limited from North Queensland Electricity Corporation and continued to trade as NORQEB.

Our business also changed from an integrated electricity business to that of a network service provider.

In preparation for the national electricity market, Northern Electricity Retail Corporation Pty Ltd (NERC), trading as Omega Energy came into being on 1 July 1997. Its business was to retail electricity, locally, at a state and national level.

NERC was a Government Owned Corporation and was jointly owned by NORQEB, Far North Queensland Electricity Corporation Limited (FNQEB) and Mackay Electricity Corporation Limited (MEB).

NORQEB in conjunction with other shareholders then merged Northern Electricity Retail Corporation Pty Ltd with Central Electricity Retail Corporation Pty Ltd, trading as Ergon Energy on 3 April 1998.

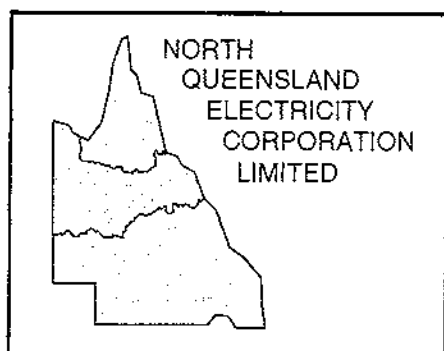
NORQEB performs customer related functions for Ergon Energy's domestic, commercial, industrial and rural customers in its franchise area via service level agreements.

North Queensland Electricity Corporation replaced The North Queensland Electricity Board. The Board was formed on 1 July 1977 by the amalgamation of the areas previously served by Townsville Regional Electricity Board (TREB), the North Western Electric Authority (NWEA) and operations run by the Bourke and Boulia Shire Councils.

TREB was the one of five Regional Boards set up in 1946 under the Regional Electric Authorities Act of 1945. Initially it included the electrical systems formerly operated by the Townsville City Council and the Shire Councils of Thuringowa, Hinchinbrook and Burdekin.

Over the following three decades TREB's jurisdiction was extended further, finally incorporating Home Hill, Charters Towers, Bowen, Hughenden, Julia Creek, Richmond, Winton and Dalrymple and Flinders Shires.

NORQEB Distribution Area



TRANSMISSION NETWORK

LINES

275 000 VOLTS
220 000 VOLTS
132 000 VOLTS
66 000 VOLTS
33 000 VOLTS / 22 000 VOLTS

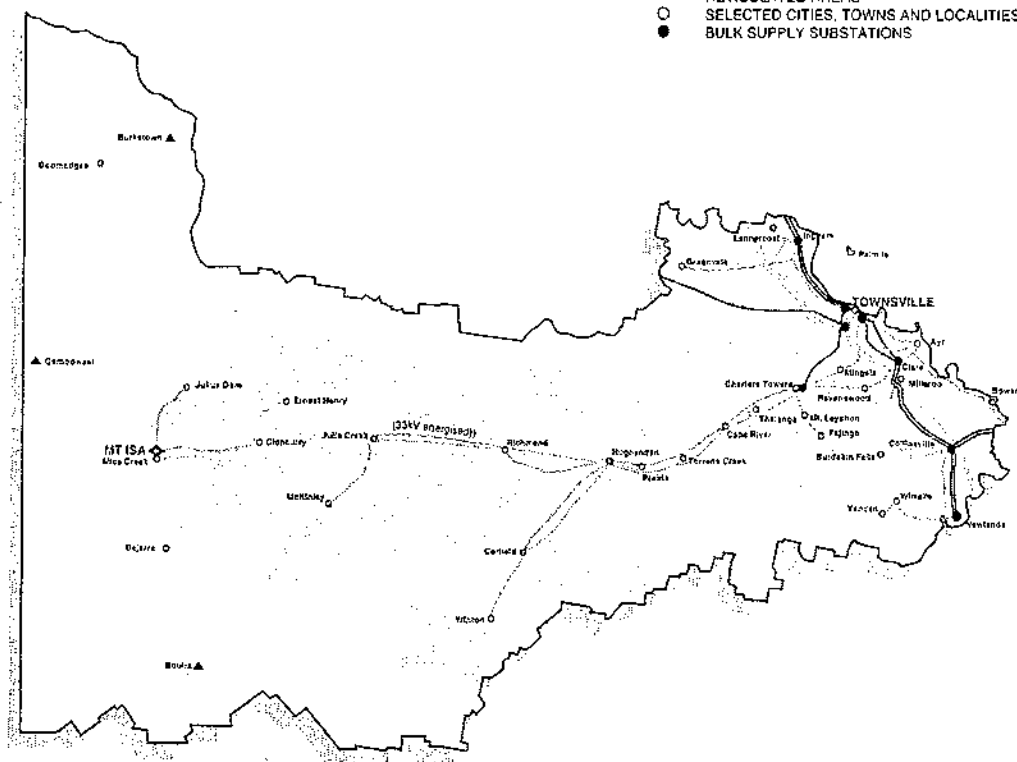
11kV Indicates that Transmission Line is energised at stated voltage.

POWER STATIONS

▲ DIESEL
◇ PRIVATE GENERATING PLANT BULK SUPPLY

GENERAL SYMBOLS

ELECTRICITY CORPORATION BOUNDARIES
 NORTH QUEENSLAND
 RETICULATED AREAS
 SELECTED CITIES, TOWNS AND LOCALITIES
 BULK SUPPLY SUBSTATIONS





Financial Performance

Corporate Objectives

Profit and Loss	Achieved
Earnings before interest and income tax equivalent (EBIT)	\$29.91M
Operating profit after income tax equivalent	\$13.66M
Operating profit after extraordinary items and income tax equivalent	\$18.49M
Provisions for dividends	\$10.24M
Balance Sheet as at 30 June 1998	
Total assets	\$517.17M
Equity	\$306.64M
Capital works expenditure	\$48.81M
Performance Indicators	
Return on assets	6.22%
Return on equity	4.58%
Debt/Debt plus equity	33.25%
Interest cover	3.75 times

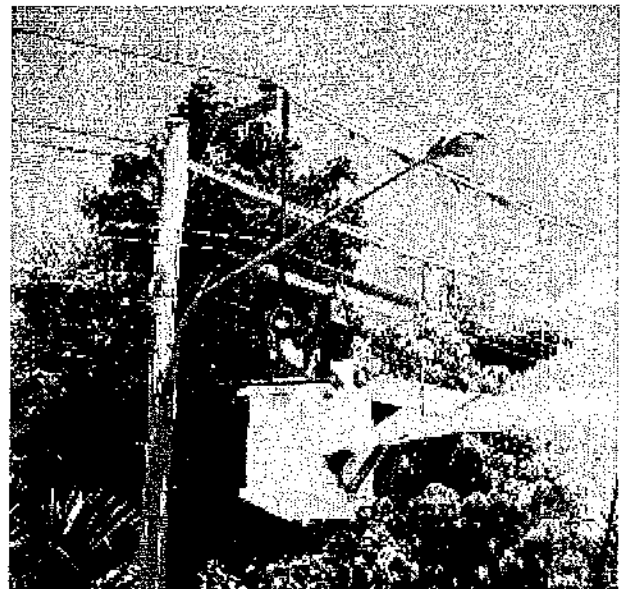
A strong revenue stream from network services resulted in an operating profit of \$13.66 million after income tax equivalent in our first year as a network service provider.

In addition an extraordinary profit of \$4.83 million resulted from the sale of shares in Northern Electricity Retail Corporation Pty Ltd to Central Electricity Retail Corporation Pty Ltd. This transaction was exempt from tax.

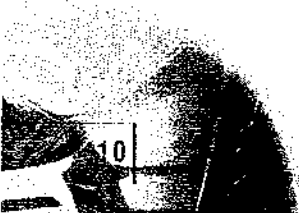
The combined effect produced a total profit of \$18.49 million after income tax equivalent which allowed for a \$10.24 million dividend to be set aside for payment in 1998/99. An \$8.89 million dividend from the previous year was paid to Queensland Transitional Power Trading Corporation.

The operating profit resulted in a 6.22% return on assets which was below the required regulated return on assets of 7.5%. Return on non regulated assets such as NORQEB's shareholding in electricity retailer Ergon Energy produced no returns during the year. Consequently, this reduced return on assets.

Dividends are not expected from NORQEB's investment in Ergon Energy until the company successfully establishes itself in the national competitive market.



Live Linepersons Tom Ryan (left) and Murray Kratz prepare 11,000 volt and 415 volt powerlines for pole replacement as part of NORQEB's record \$48.81 million capital works programme.





A debt/debt plus equity ratio of 33.25% was achieved while interest cover for the period was 3.75 times.

Revenue from all sources totalled \$142.59 million and was assisted in part by the expansion of the NORQEB network.

Of this amount \$77.0 million resulted from regulated network service activities comprising TUOS (Transmission Use of System charges) and DUOS (Distribution Use of System charges) charges for the use of the Queensland Electricity Transmission Corporation Limited's high voltage transmission network and the low voltage NORQEB distribution network.

Almost \$19 million revenue was achieved for customer agency works undertaken for Queensland electricity corporations and the private sector.

A record \$48.81 million capital expenditure programme contributed to the expansion of the NORQEB high and low voltage network.

Anticipated load growth did not eventuate and resulted in reduced revenue.

An expected revenue cap of \$44.94 million, determined by the Office of the Regulator and set in January, was not met. It applied from 18 January 1998.

Several factors contributed to reduced revenue for NORQEB and electricity retailers in the region - the prolonged and heavy wet season, reduced irrigation pumping, load shedding and the delayed local gold mine expansion plans due to the fall in gold price.

NORQEB's electrical appliance retailer performed well in an extremely competitive market.

Sales increased approximately 3.6% on the previous year. Fierce competition particularly by southern based retailers seeking to maintain or increase market share placed downward pressure upon margins.

The wet season impacted severely upon air conditioning sales but this was offset to some extent by increased sales of home office based and

communications/technology electrical appliances.

Plans to form a separate subsidiary company for the appliance trading business commenced.

Internal Audit assisted NORQEB in optimising its performance and managerial control.

PricewaterhouseCoopers again undertook the internal audit function, which was an independent appraisal that provided management with a systematic review and evaluation of its operations.

NORQEB's financial affairs and systems were audited to ensure they were in order, risks were identified and managed and the organisation was complying with all relevant laws affecting it.

Internal Audits were undertaken for purchasing/stores, accounts payable, network revenue/accounts receivable, appliance trading, site visits to Ingham and Charters Towers, contracts management, network system planning and payroll data transfer to the new MIMS system.

Findings and recommendations were presented to the Audit Committee and management for consideration and response.



An increase in sales resulted from successful marketing campaigns to improve sales and market share. Left Appliance Salesman Adrian Lewis demonstrates a bread maker to Lynley Swart.



Customer Satisfaction

Corporate Objectives

Non Financial Performance Indicators

	Goal	Achieved
Stock Turnover	3 times	3.68 times
Planned work		
System average outage time	0.3	N/A
System average outage duration (mins/annum)	150	N/A
Average customer outage time (mins/annum)	45	N/A
Unplanned work		
System average outage time	3.0	N/A
System average outage duration (mins/annum)	75	N/A
Average customer outage time (mins/annum)	225	N/A

NORQEB invested a record \$48.8 million in capital works projects to expand the network and deliver an even more reliable power supply to customers.

Of this amount, \$15.7 million was spent on construction work primarily involved with the 220,000 volt transmission line from Mica Creek Power Station to Gunpowder and Century Mines in north west Queensland.

The balance - \$33.1 million, a 33% increase on 1996/97, was devoted to expanding and reinforcing the system for the benefit of customers.

Major projects included:

- Mica Creek 132/220,000 volt and the Ernest Henry 220/11,000 volt Substations were commissioned to provide power to the Ernest Henry Mine site near Cloncurry.
- new 33,000 volt feeder bays were constructed at both Richmond and Julia Creek Substations to facilitate the connection of the new 66,000 volt Richmond to Julia Creek concrete pole line. This work was undertaken at a cost of \$150,000 at each site.
- completion of a 66,000 volt transformer feeder bay at Dan Gleeson Substation in Townsville in conjunction with the Powerlink Bulk Supply transformer installation at a cost of \$400,000.
- Burketown's new diesel fired power station, built at a cost of \$600,000 was constructed and officially commissioned.
- significant advances in the replacement of suspect 66,000 volt current transformers throughout the NORQEB system with 30 units replaced at three sites at a total cost of \$290,000.
- the 146 kilometre Richmond to Julia Creek 66,000 volt concrete pole power line built at a cost of \$5.2 million was commissioned in December 1997.
- the 106 kilometre Hilton to Gunpowder 220,000 volt steel tower power line is to be commissioned in October 1998.



■ a \$495,000 street lighting program along major routes in Townsville. 213 High Pressure Sodium Vapour lights were erected on steel poles supplied via underground power.

■ demand for new power supply increased significantly with 550 new allotments in Townsville, Cloncurry and the Burdekin developed and serviced with overhead and underground power during the year.

■ augmentation work to the system was undertaken to meet the increased demand for electricity resulting from the "Cool Schools" program in Townsville, Ingham, Mt Isa, Charters Towers and Bowen which is supplying air conditioning to local schools.

■ augmentation of 5 kilometres of 11,000 volt line at Guthalungra in the Burdekin to improve the quality of supply in the Cape Upstart area at a cost of \$42,500.

■ an upgrade of the Boulia reticulation system was undertaken at a cost of \$26,000 and 5 years earlier than expected.

■ work commenced on construction of Boulia's new \$1 million diesel fired power station to meet the demand for electricity as a result of a significant increase in the use of airconditioners in the community.

■ A 14 kilometre SEWR line extension to the 'Lark Quarry Dinosaur Footprint' tourist destination 100 kilometres south-west of Winton was completed at a total cost of \$59,000.

To improve customer service, the Customer Service Centre operation was extended to all communities within North Queensland.

The Customer Service Centre - the first within the industry in rural Queensland - commenced operation in February 1997. Following its success in Townsville its operation was expanded to provide customer service to both NORQEB and Ergon Energy customers under a service level agreement. The centre continued to achieve industry best practice of answering 80% of calls within 20 seconds.



Customer Service Representative Andrew Burling. Expansion of the Customer Service Centre to all areas of North Queensland resulted in a 100% increase in the number of customer calls. The Service Centre received 160,000 calls and continued to meet industry best practice of answering 80% of calls within 20 seconds.

The centre provides a "one stop shop" service instead of customers being directed to a variety of employees seeking answers to their queries.

An independent survey of Ergon Energy's commercial/industrial and domestic customers revealed continuing high levels of customer satisfaction with NORQEB's performance as a network service provider.

87% of all customers were satisfied with the reliability of power supply while a significant 61% were very satisfied. When surveyed on the quality of their electricity supply, 85% of customers were satisfied and of this figure 49% were very satisfied.

Power was restored following extensive torrential rain and flooding in Townsville which was declared a State of Disaster.

An estimated 20,000 Townsville homes lost power for more than twenty four hours from Saturday 10 January 1998, when the remnants of tropical Cyclone Sid developed into a monsoonal low pressure system with gale force winds and torrential rain.





The city recorded 549 millimetres of rain in 24 hours, which caused extensive flooding and damage estimated at \$100 million.

NORQEB high voltage substations were inundated with floodwaters and power poles were washed away cutting power to a significant number of suburbs in Townsville and Ingham.

Employees worked tirelessly and in difficult circumstances to restore power to all customers as quickly as possible. Damage and repair costs to the system totalled \$475,000.

NORQEB's resources were called upon to minimise the impact of load shedding following generation problems at four power stations in February.

The simultaneous breakdowns at Tarong, Swanbank, Stanwell and Gladstone power stations resulted in load shedding across coastal North Queensland in February 1998.

Rotational load shedding commenced at 7.30am on Monday 23 February for up to 2 ½ hours a time and finished the following day. With the need to shed all hot water systems and at least fifteen megawatts of power, domestic and commercial customers assisted by reducing their consumption of electricity when and where possible to lessen the impact of load shedding upon the community.

Australia's fourth largest electricity retailer resulted from the merger between Omega Energy and Ergon Energy.

Restructuring of the industry resulted in the formation of Northern Electricity Retail Corporation Pty Ltd (NERC), which came into operation on 1 July 1997. Trading as Omega Energy, it assumed all electricity retailing functions on behalf of its shareholders – NORQEB, FNQEB and MEB. As the majority shareholder, NORQEB held 44% of NERC shares.

In the Queensland market, Omega Energy competed with Energex (South East Queensland Electricity Corporation Limited) and Ergon Energy (Central Electricity Retail Corporation Pty Ltd).

Recognising that both Omega and Ergon Energy each had approximately a 5% market share of the eastern seaboard national market, competitive advantage and opportunities for growth would result from a merger.

The shareholders in NERC decided to merge Omega Energy with Ergon Energy. The merger came into effect on 3 April 1998. As a result, NORQEB is a major shareholder in Ergon Energy and owns 22% of its shares which represents a \$29 million investment.

Ergon Energy is now a major retailer in Queensland servicing more than 500,000 customers. Ergon Energy is also Australia's fourth largest electricity retailer with an 11% share of the eastern seaboard national market and has offices in Victoria, New South Wales and Canberra.

Ergon Energy successfully launched and positioned itself within the Queensland market.

The newly formed Ergon Energy successfully gained new customers and contracts in the first round of contestability when the Queensland market opened in March 1998.



In the first tranche of Queensland customers (40 gigawatts and above) to become contestable, Brisbane based fertiliser manufacturer Incitec Ltd with branches statewide, selected Ergon Energy as its electricity supplier.

Left to right: Ergon Energy Chief Executive Officer Kim Griffiths, Incitec General Manager Warrick Newland, Ergon Energy National Retail Manager Peter Carter, Incitec Supply Development Manager Dick Herden and Ergon Energy Major Customer Manager Daryl Young inspect part of Incitec's Brisbane plant.





Ergon Energy gained major corporate customers such as MIM with sites including Copper Refineries, the Carpentaria Gold Nolans Mine and the Newlands Coal Mine.

Other corporate accounts such as BHP Coal, Pacific Coal and Incitec were successfully pursued and won.

Customer interest in and acceptance of demand side management initiatives continued to increase and add value to our business.

Customer interest in energy saving proposals remained high despite the expected energy cost reductions as a result of the deregulated electricity retail market.

Implementation packages for installing energy saving equipment totalled \$335,000 - an increase of 107% on 1996/97.

Demand for NORQEB Energy Managers' professional energy management services continued to increase across a range of industry groups. They included shopping centres, office buildings, local government, other authorities' facilities, nursing homes and the tourist resorts.

Implementation packages encourage significant energy saving proposals to be installed and funded by a financing arrangement that is tailored to the energy cost savings.

Work commenced on systems and procedures to record power interruption details to meet industry compliance standards as established by Queensland Electricity Reform Unit.



Thuringowa City Council Director Building Services Brian Magill (left), discusses energy management services undertaken by NORQEB's Lindsay Stone at the Council's offices.

Systems and procedures were not finalised during the period to record the required information such as average customer outage time and system outage duration.

It is expected they will be operational for the next reporting period.



Our Environment and Our Community

Independent consultants conducted environmental studies valued at approximately \$800,000 on three sections of the proposed Mica Creek Power Station to Century Mine, 220,000 volt transmission line in north west Queensland.

The studies reflected our understanding of potential impact that construction of this line could have upon the environment.

The studies successfully paved the way for line construction. Construction of the Hilton Mine to Gunpowder Mine section of the line has finished and construction of the Mica Creek Power Station to Hilton Mine section commenced in August 1998.

The studies for these routes included stakeholder support through extensive consultation with local Aboriginal communities. Aboriginal representatives were involved with archaeological and anthropological studies and cultural heritage issues associated with the line routes.

Areas of cultural heritage significance along the routes were bypassed or the impact upon them minimised during construction of the lines in accordance with a cultural heritage management

plan agreed to between NORQEB and the Kalkadoon Aboriginal people.

Consultation over the proposed line route on cultural heritage issues for the Gunpowder Mine to Century Mine section of the line commenced with the Kalkadoon, Waanyi and Injalandji peoples.

An LPG trial at Camooweal Power Station north of Mt Isa commenced in a bid to reduce greenhouse gas emissions and improve efficiencies.

Liquid Petroleum Gas (LPG) is gradually substituted for diesel until the power station engine is operating on about 70% diesel and 30% LPG. Trials have found that operation at these levels of LPG give substantial benefits to NORQEB.

Early benefits identified include:

- an estimated 37% reduction in smoke emissions as the machine load increases;
- an expected reduction in annual greenhouse gas emissions of about 8% from its current level of 637 tonnes of carbon dioxide and by 24% from its current level of 9.4 tonnes of nitrous oxide;
- a 3% increase in thermal efficiencies (a reduction in fuel to generate the same amount of power);
- significant financial savings on operating costs estimated at \$15,500 per year.

The trial commenced in March and has been extended to 12 months to include a summer season.

An investigation and analysis of a trial RAPS (Remote Area Power Supply) system near Townsville was undertaken.

A stand alone Remote Area Power Supply (RAPS) system was installed at Kyong Station near Lake Buchanan, south west of Townsville in October 1996.

The unit is part of a two year trial to assess its suitability to supply power to rural homesteads in isolated or remote areas and replace the need for diesel generators or SWER (Single Wire Earth Return) lines.

The system consists of eight solar panels, batteries and a 5kVA diesel generator.



A Cultural Heritage Survey of the proposed Hilton to Gunpowder high voltage transmission line route was undertaken before construction commenced. Field Survey Officers Shawn Major (Left - North Western Queensland Land Council representative) and Sonny Condron (Kalkadoon Tribal Land Council representative) recorded details of an Aboriginal stone axe quarry on the proposed route. The quarry was a significant archaeological discovery and resulted in NORQEB realigning the transmission line route to avoid the area to ensure its preservation. Photo courtesy of Northern Archaeology Consultancies Pty Ltd.



While early results of the trial were encouraging, the trial has not performed to expectations. The RAPS unit provided the station homestead's electricity needs with a quiet and reliable twenty four hour power supply. However, electricity produced by the solar panels did not meet the demand on many occasions and problems were experienced with the batteries and diesel generator set.

The trial will continue with plans to improve the system by replacing and relocating the batteries and increasing the number of solar panels. This work is expected to commence in November 1998.

The unit replaces limited and sporadic power supplied by diesel generators for minimum essential needs, which were run infrequently to minimise fuel costs.

Action plans for the Greenhouse Challenge were finalised.

The plans included strategies that NORQEB will undertake to reduce greenhouse gases as a result of our operations. An agreement between NORQEB and the Federal Government including NORQEB's action plans is expected to be signed in November 1998.

The Greenhouse Challenge is a voluntary agreement between the Federal Government and organisations to reduce greenhouse gases which deplete the earth's ozone layer and damage the environment.

NORQEB acknowledges its responsibilities to pro-actively address the issue of the effects of organochlorine contamination of soil around its power poles located in cattle grazing areas.

NORQEB contributed financially to a joint industry research proposal to conduct controlled feeding trials on beef cattle by the National Research Centre for Environmental Toxicology and Queensland Health Scientific Services. The project will determine the risk assessment for uptake of organochlorine pesticides by cattle from soil.

NORQEB continued to make a positive contribution to the north Queensland community through an extensive sponsorship programme.

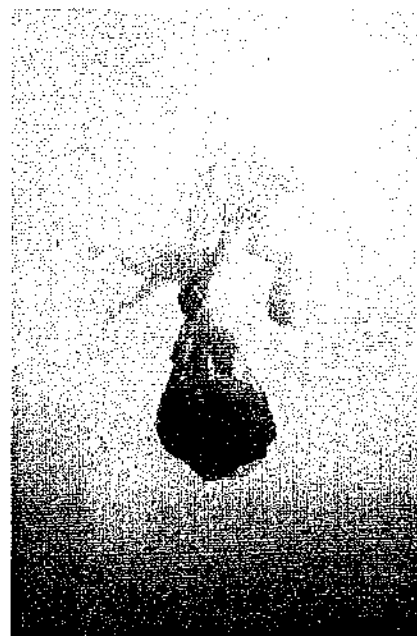
Almost \$150,000 in a variety of sponsorships and contributions in cash and or kind targeting projects which provided direct benefit to youth, intellectual development and or the general north Queensland community were made.

Over the year NORQEB supported a variety of worthwhile activities including:

■ a major five year corporate sponsorship of the Pandora Foundation. Our sponsorship enabled the most ambitious expedition to the HMS Pandora wreck mounted so far. The 2 month expedition in January retrieved 750 priceless artefacts from the wreck including coins, utensils and one of the twenty 6 pounder cannons that the Pandora carried.

All artefacts to be retrieved over the next few years will be restored, preserved and displayed in a new world class interpretive museum in Townsville which is currently under construction.

The Pandora is Australia's most important maritime archaeological wreck and one of the most significant wrecks in the world. The Pandora sank on the northern tip of the Great Barrier Reef in 1791 on her return trip to England while carrying mutinous crew members of HMS Bounty.



NORQEB's sponsorship of the January 1998 expedition resulted in the retrieval of 750 priceless artefacts from the wreck of HMS Pandora.



- ✱ sponsorship of the "Easter in the Outback" Festival which launched the Waltzing Matilda Centre at Winton. The centre incorporates the works and legends surrounding the Australian poet Henry Lawson.
- ✱ a major two year corporate sponsorship of the Townsville Suns National Basketball League team. Sponsorship provided NORQEB with the opportunity to demonstrate its community support of this popular local team and at the same time increase our profile and establish closer working relationships with key customers.
- ✱ youth and education projects which furthered the intellectual development north Queensland youth, including the NORQEB Prize for Academic Achievement in local secondary schools and Tournament of the Minds.
- ✱ a large number of community based programs including Life Education Centres in Townsville and Mount Isa.
- ✱ local sporting events and charity days such as Julia Creek Dirt and Dust Triathlon, the Hughenden Show and the Charters Towers Country Music Festival.

NORQEB worked with electrical contractors to improve the quality of their work and build an understanding and appreciation of the electrical contractors' work

Through sponsorship and active involvement in the "EDAQ Electrical Industry Awards for Excellence", NORQEB raised the quality of customers' experience of the electrical industry. The Award is staged in conjunction with the Electrical Contractors Association and the Electrical Development Association of Queensland and recognises quality contracting work and customer service and satisfaction.

Award winners will be announced later this year.

NORQEB continued its commitment to electrical safety in the community.

Safety education and awareness programs specifically addressing electrical safety with children continued to be an important focus.

More than one hundred and fifty lectures to an estimated 1000 school children focussing on electrical safety were given by NORQEB employees.

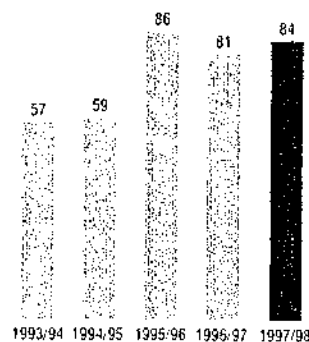
Promotional campaigns utilising the media and emphasising the importance and need for electrical safety were launched during the cane harvesting and cyclone seasons. Statistics indicate a general rise in electrical accidents in north Queensland during these seasons from July to February each year.

One electrical fatality and a total of 89 electrical accidents, including electricity industry accidents, within north Queensland during the period continued to cause concern within NORQEB. Customer related electrical accidents increased 4% on last year to 84. As with previous years, an overwhelming 57% of accidents resulted from a lack of electrical maintenance, 35% mis-adventure and 4% were attributed to faulty workmanship or home handy men undertaking their own electrical work.

NORQEB considers it has a responsibility to keep the public informed about its operations.

The Board of Directors maintained its close relationship and commitment to the community by holding half its monthly meetings in centres outside of Townsville. These meetings provided the opportunity for dialogue with local government bodies and major customers about future developments in north Queensland and NORQEB's contribution to them.

Electrical Accidents - Actual - General Public





Employee Involvement

SAFETY PERFORMANCE

	Goal 1997/98	Achieved 1997/98
Employee Turnover Level	<3.8%	3.7%
Lost Time - Sick Leave Level	<2.3%	2.2%
Lost Time		
- Injury Duration Level**	<5.0	7.11
Lost Time		
- Injury Frequency Rate*	<12.0	14.65
Lost Time		
- Industrial Disputes**	Nil	Nil

*Number of million person hours

**Days per lost time injury

Our continuing actions to address safety issues within our business resulted in an improved safety performance and the improvement trend of the last four years continued.

A concerted emphasis upon employee safety resulted in the lowering of the injury frequency rate to 14.65 million person hours from 16.94 last year and the injury duration level to 7.11 days which was half that of last year's level.

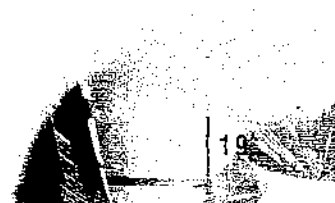
The improvement in a safe working environment was achieved through improved work practices and the implementation and practice of the Workplace Health and Safety Policy at all work levels.

Internal and external audits of workplace safety highlighted an improved safety performance on last with the bonus of a reduction in lost time injuries – down to 19 from 22 last year.

Both sick leave lost time and employee turnover figures were better than target.



Electricity Supply Tradesperson Apprentices, Phillip Bassett (left) from Townsville and Jason Emblen (right) from Mt Isa undergo training in cable pillar testing conducted by Trainer Laurie Windle (centre) at the Garbutt Training Centre.



NORQEB's commitment to training and development was underpinned by employee performance reviews which identified gaps in knowledge, skills and competencies.

As a result, specific training and development initiatives that addressed the changing complexities of our business and business environment were undertaken.

NORQEB values and respects employees' expectations of equity and is concerned for their well being.

Processes that were designed to provide a working environment free from all forms of discrimination, harassment and unfair practices continued to be monitored for compliance.

NORQEB's 1997/98 Management Plan developed in consultation with employees contained specific strategies and action plans for Equal Employment Opportunities (EEO).

Reducing levels of staff affected our planned initiatives in the equal employment opportunity target groups of women, Aboriginal and Torres Strait Islanders, people with a disability and people from non English speaking background.

Fewer new staff were employed but still allowed us to maintain and in some cases improve on last year's benchmarks. Our strategy in employing people of Aboriginal or Torres Strait Islander background was

assisted through the development of work associated with the construction of NORQEB's 220,000 volt powerline network to the mining industry in the Carpentaria Minerals Province in north west Queensland.

Negotiations for the NORQEB Enterprise Agreement 1998 commenced.

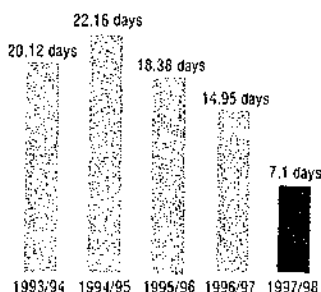
The agreement is yet to be finalised and is expected to support outcomes of NORQEB corporate strategies focusing on commercial capability and firmly links employee reward to continuous improvement of our business.

Full time employee numbers declined as a result of changed work processes.

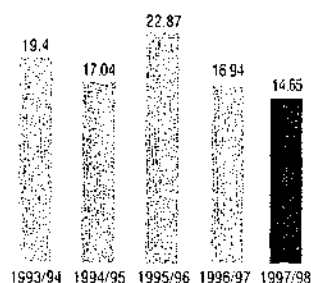
NORQEB's level of staffing has been steadily declining over the past three years. In 1997/98 full time employee numbers declined to five hundred and seventy two from six hundred and sixteen on the previous year. This was due in part to voluntary retrenchments as a result of changed business processes and improvements in our business systems.

Re-engineering of processes within the industry could have the effect of further reductions in employee levels, which may be offset to some degree by additional work won through open tendering within the electricity and other related industries.

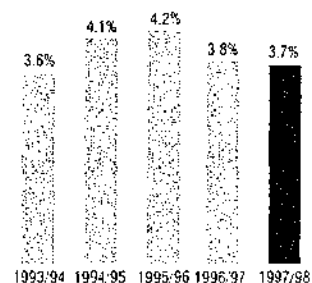
Safety Performance
Average Injury Duration Rate



Safety Performance
Lost Time Injury Frequency Rate
No. of million man hours



Employee Turnover
Percentage of Total Staff





Continuous Improvement

The Quality journey within NORQEB underwent significant change to increase organisational value for stakeholders, provide a competitive advantage in the market place, and utilise resources more efficiently and effectively.

Our Continuous Improvement initiative Power to Transform produced savings of more than \$1 million and involved staff from all divisions of the organisation.

The identified savings resulted from 81 process improvements that increased NORQEB's quality of service to external and internal customers and reduced wastage in time.

Changes and improvements within the organisation were further embedded when 85 employees participated in 20 Process Improvement and Change Action Teams.

NORQEB achieved Third Party Quality Assurance Certification to ISO 9002 in two areas of its business that now compete in the competitive market.

In September 1997, our Training Centre achieved Certification followed by the Network Operations Division in April 1998 after extensive investigation and testing of relevant business systems and procedures by the National Association of Testing Authority. Work commenced on our goal of total certification for the organisation by December 1999.

Employees underwent extensive training to perform Quality Assurance Process Reviews.

To enable NORQEB to monitor its Quality Systems 54 staff members were trained. As a result, annual audits of our quality systems commenced to ensure we continually meet our customers' expectations.

Power to Transform continued to focus on workgroup based projects.

Employees working from within their processes, as well as high level cross-functional projects identified a range of projects from Job Based Start and Finish, Management of Risks and of High Loads, and improvements in Daily Work Practices for the continuous improvement program.

The third change over of facilitators produced a new group of employees committed to the Power to Transform program.

The second group returned to their previous positions taking with them continuous improvement skills and knowledge, which continue to be applied within their work groups.

NORQEB's third annual Recognition and Reward Day recognised workgroup achievement in the improvement of NORQEB business systems or processes.

Held in November 1997, the staff response to the awards was positive with a record 130 employee nominations. The awards ceremony featured displays of finalist's work and a formal presentation of awards.

NORQEB's commitment to Continuous Improvement ventured into the north Queensland secondary school system with sponsorship of two teams in the Australian Quality Council's "E Team" program.

Fourteen young adults from Ryan and Townsville Grammar Schools participated in this program which provided them with an opportunity to experience a challenging and rewarding workplace in which to learn about the quality management. Teams of students examined organisational processes and made recommendations on improving them. A total of 20 recommendations were made and many of those implemented with benefits to NORQEB in cost, quality and time.

Separate to the "E" Team program, NORQEB facilitators were utilised for the Australian Quality Council's "QuEST" program at Kirwan State High School.

QuEST provided senior students with the opportunity to learn and apply the principles and techniques of Quality Management to school based processes.

The teams identified and implemented many improvement opportunities and made presentations to NORQEB, Australian Quality Council and members of the Queensland Education Department.





Commercial Activities

Queensland's first 220,000 volt transmission line, designed and constructed by NORQEB was commissioned in July 1997.

The new Mica Creek Power Station to Ernest Henry power line is the first high voltage transmission line to supply power to a mine in the Carpentaria Minerals Province. The 152 kilometre line transports 100 megawatts of power from Mica Creek Power Station to the new Ernest Henry Mine near Cloncurry.

The new line heralded our successful move into the competitive network service provider market and produced new revenue and business opportunities. The powerline is also the first outside our regulated business.

The successful completion of this project provided opportunities for new business and the expansion of our network.

NORQEB was pro-active in seeking additional business in Carpentaria Minerals Province and successfully negotiated for transmitted power supply to the Gunpowder Mine, via Hilton, north west of Mount Isa.

Construction of the 106 kilometre, 220,000 volt transmission line from Hilton to Gunpowder was completed in August 1998. Construction of the 25 kilometre transmission line from Mica Creek to Hilton is underway.

NORQEB was also successful in negotiating for transmitted power supply to the new \$750 million Century Mine in north west Queensland.

Negotiations with Aboriginal communities over easement access for the proposed transmission line from Gunpowder Mine to Century Mine has commenced.

NORQEB Contractors Division successfully competed in the open market in its second year of operation.

The Division was successful in 72 percent of the contracts contested. Contestable work was undertaken on behalf of Powerlink Queensland, the mining and sugar industries and other semi government and private organisations.

Work included the upgrade of the NORQEB diesel power station at Burketown for Cummins Engine Company and the installation of 275,000 volt and 132,000 volt feeder bays at Ross Substation associated with the new Number 2 transformer and the Ross Static VAR Compensator for Powerlink.

NORQEB Contractors successfully tendered and carried out work on the NORQEB network throughout the region.

NORQEB entered into a joint arrangement with Energy Telecommunications Training Australia to deliver training throughout Australia.

The agreement began on 20 October 1997 and provided the Training Centre with an opportunity to successfully compete for new business in the national training market.

New contracts were gained for the delivery of specialised training such as live line techniques and telecommunications training to north Queensland electricity and mining industries which previously had been conducted by southern based training providers.

A joint venture was established to investigate opportunities for a metering service provider in the national electricity market.

In November 1997 a joint NORQEB, FNQEB (Far North Queensland Electricity Corporation Limited) and MEB (Mackay Electricity Corporation Limited) working group, issued a report which highlighted the benefits of establishing a combined meter service company to operate as a meter provider in the national electricity market, in lieu of each corporation operating as an individual provider.

The initial concept was an incorporated joint venture between the three northern electricity corporations.

Advice from Coopers and Lybrand recommended an incorporated company was a better vehicle for the operation of the meter services. Invitations to join the proposed venture were made to other Queensland electricity distributors. Subsequently South West Power expressed an intention to join.





Connection and Access Agreements with local sugar mills were renewed.

North Queensland's six CSR sugar mills in the NORQEB distribution area play an important role in the production of renewable energy through burning of bagasse - a by product of refining sugar.

Negotiations were completed with the majority of the mills for the renewal of Connection and Access Agreements which will provide the mills with access to the NORQEB network for the transport of electricity in the competitive market. It is expected that the mills would supply their surplus energy into the grid.

NORQEB commenced its Year 2000 programme and anticipates addressing most issues effecting its core critical business operations by June 1999.

A comprehensive Impact Analysis was completed and a full time Project Office set up to manage the issue. Involvement and awareness across all NORQEB divisions was established and continues to grow. NORQEB also engaged the services of external Information Technology consultants, who provided assistance, advice and support.

NORQEB adopted the Standards Australia definition of Year 2000 compliance, and is working to ensure that its effected technologies meet this definition. (SAA/SNZ HB 104: 1997)

Year 2000 conformity means that neither performance nor functionality is affected by dates prior to, during and after the Year 2000. In particular:

Rule 1. No value for current date will cause any interruption in operation.

Rule 2. Date-based functionality must behave consistently for dates prior to, during and after the Year 2000.



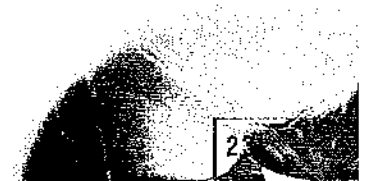
Unisys Year 2000 consultant John Gilliland (left) and Engineer Projects Karl Romano form part of an extensive team that is addressing the Year 2000 issue.

Rule 3. In all interfaces and data storage, the century in any date must be specified either explicitly or by algorithms or inferencing rules. (Such algorithms and rules must be documented and made publicly available.)

Rule 4. Year 2000 must be recognised as a leap year.

NORQEB is managing the Year 2000 project along three critical areas - Corporate Information Technology applications, Embedded System Technology and Supply Chain Activities.

In 2000, computers and microprocessors of all kinds will encounter a new century for the first time. Industry around the world is preparing itself for the effects of the 2000 date change because computers and process controllers in many systems will represent the year as two digits. If not fixed, many systems will cease functioning or will behave erratically on 1 January 2000.



The Future



Our focus in 1998/99 will be to consolidate our business as a regulated network service provider in the emerging new competitive electricity market.

The move from an integrated electricity business to a regulated network service provider will continue. The separation of retail and distribution functions which have been tightly interwoven for 50 years is expected to be finalised allowing us to concentrate our activities on network service issues while still undertaking agency electricity retail services for Ergon Energy.

Significant challenges will come from managing our regulated network business efficiently within the regulatory framework while improving the reliability of our network to transport electricity and meeting the stringent network performance standards for the benefit of customers.

This will be done by implementing new systems to improve efficiencies within our business, better utilise resources and reduce costs.

We will actively seek new business opportunities outside our regulated sphere. We will build on our reputation and continue our commitment to the Carpentaria Minerals Province and seek opportunities to extend our high voltage network from Gunpowder Mine to Century Mine.

We will also seek to provide specialist technical services to other network owners.

Our Continuous Improvement and Quality Assurance programmes will again be used to improve our business. We will continue our work to gain Quality Assurance Certification to ISO 9000 for all sections of our business by the end of the financial year.

We will continue with our plans to establish a company to supply a competitive metering data service to electricity retailers with customers in north and far north Queensland.

As we disaggregate our business into network and retail functions, our appliance trading business will become a separate entity with its own company name and Board of Directors. EA North Queensland Pty Ltd trading as NORQEB Retravision was formed in late 1997/98 and will be further developed as a separate business to NORQEB.

While the year ahead will present us with many challenges, it will also be historical. The re - development and extension of the Garbutt site will be completed and staff from the Townsville Head office building will relocate to Garbutt. It will be the first time in more than 30 years that Townsville staff have been located at the one site.

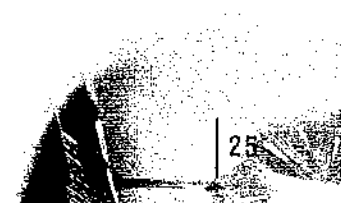
The move to Garbutt is timely, given our new role and focus in the coming year.

Graham Anderson
Chief Executive Officer



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Profit and Loss Statement

YEAR ENDED 30 JUNE 1998	Notes	\$'000
OPERATING REVENUE	2	<u>142,588</u>
OPERATING PROFIT BEFORE ABNORMAL ITEMS AND INCOME TAX EQUIVALENT	2	23,552
ABNORMAL ITEMS BEFORE INCOME TAX EQUIVALENT	3	<u>2,519</u>
OPERATING PROFIT BEFORE INCOME TAX EQUIVALENT	2	21,033
INCOME TAX EQUIVALENT ATTRIBUTABLE TO OPERATING PROFIT	4	<u>7,376</u>
OPERATING PROFIT AFTER INCOME TAX EQUIVALENT		<u>13,657</u>
PROFIT ON EXTRAORDINARY ITEM	5	4,833
INCOME TAX EQUIVALENT ATTRIBUTABLE TO PROFIT ON EXTRAORDINARY ITEM	4,5	<u>-</u>
PROFIT ON EXTRAORDINARY ITEM AFTER INCOME TAX EQUIVALENT	5	<u>4,833</u>
OPERATING PROFIT AND EXTRAORDINARY ITEM AFTER INCOME TAX EQUIVALENT		18,490
RETAINED PROFITS at the beginning of the financial year		<u>11,147</u>
TOTAL AVAILABLE FOR APPROPRIATION		<u>29,637</u>
DIVIDENDS PROVIDED FOR	6	<u>10,243</u>
RETAINED PROFITS at the end of the financial year		<u>19,394</u>

The above Profit and Loss Statement should be read in conjunction with the accompanying notes.



Balance Sheet

AT 30 JUNE 1998	Notes	\$'000
CURRENT ASSETS		
Cash and deposits		9,107
Receivables	7	28,193
Inventories	8	8,937
Other	9	113
TOTAL CURRENT ASSETS		<u>46,350</u>
NON-CURRENT ASSETS		
Receivables	10	382
Investments	11	29,101
Property, plant and equipment	12	438,003
Other	13	3,332
TOTAL NON-CURRENT ASSETS		<u>470,818</u>
TOTAL ASSETS		<u>517,168</u>
CURRENT LIABILITIES		
Accounts payable	14	11,160
Borrowings	15	1,372
Deposits	16	1,173
Provisions	17	17,611
Other	18	911
TOTAL CURRENT LIABILITIES		<u>32,227</u>
NON-CURRENT LIABILITIES		
Borrowings	19	148,886
Deposits	20	1,401
Provisions	21	27,952
Other	22	65
TOTAL NON-CURRENT LIABILITIES		<u>178,304</u>
TOTAL LIABILITIES		<u>210,531</u>
NET ASSETS		<u>306,637</u>
SHAREHOLDERS' EQUITY		
Issued capital	23	221,000
Reserves	24	66,243
Retained profits		19,394
TOTAL SHAREHOLDERS' EQUITY		<u>306,637</u>

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement of Cash Flows

YEAR ENDED 30 JUNE 1998	Notes	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Grid Services		72,167
Unremitted Agency Collections		883
Purchase of Grid Services		(18,736)
Payments to Suppliers and Employees		(74,173)
Interest received		479
Interest and Other Costs of Financing		(3,149)
Capital Contributions Received		3,105
Financial Transfers		4,077
Community Service Obligations		7,987
Other Operating Receipts		55,318
Other Operating Payments		(4,840)
NET CASH FLOWS FROM OPERATING ACTIVITIES	25	<u>43,118</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of Property, Plant and Equipment		2,118
Payment for Property, Plant & Equipment		(49,605)
Long Term Investments Made		(24,167)
Long Term Investments Realised		12,201
Advance made to the State of Queensland		(14,000)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(73,453)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings		39,661
Borrowing Repayments		(685)
Repayable Deposits Received		1,446
Repayable Deposits Made		(1,417)
Dividends Paid		(8,883)
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>30,122</u>
NET DECREASE IN CASH HELD		(213)
Add opening cash brought forward	25	7,948
CLOSING CASH CARRIED FORWARD	25	<u><u>7,735</u></u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.



Notes to and forming part of the Financial Statements 30 June 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

In accordance with the Government Owned Corporations (QTSC Restructure - Stage 2) Regulation 1997, a number of changes occurred on 1 July 1997.

- North Queensland Electricity Corporation Limited (NQEC Limited) was established as a company under the Corporations Law and is registered with an Australian Company Number 078 848 978.
- A retail company, Northern Electricity Retail Corporation Pty Ltd (NERC Pty Ltd), was established under the Corporations Law and is registered with an Australian Company Number 078 848 496. NERC Pty Ltd commenced with a paid up capital of \$3 which was increased to \$100 on 2 September 1997, of which \$44 belonged to NQEC Limited.
- NQEC Limited's predecessor, North Queensland Electricity Corporation (NQEC) transferred all billed and unbilled electricity debtors to NERC Pty Ltd in return for an unsecured loan. Other assets and related liabilities of a retail nature were also transferred to NERC Pty Ltd. All other assets and liabilities of NQEC were transferred to NQEC Limited at values recorded in NQEC's balance sheet of 30 June 1997. Electricity retail activities previously carried out by NQEC were then undertaken by the newly formed retail company.
- The shares of NQEC owned by Queensland Transmission and Supply Corporation were transferred to the Shareholding Ministers.

On 3 April 1998 the retail activities of NERC Pty Ltd were merged with the retail activities of Central Electricity Retail Corporation Pty Ltd (CERC Pty Ltd). NQEC Limited's shares in NERC Pty Ltd were transferred to CERC Pty Ltd for consideration of 264 shares in CERC Pty Ltd. Thus, NERC Pty Ltd became a wholly owned subsidiary of CERC Pty Ltd and NQEC Limited owned 21.75% of the issued capital in CERC Pty Ltd.

The financial report is a general purpose report which has been prepared in accordance with the requirements of the Corporations Law which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with. It has been prepared on the basis of historical cost except where otherwise stated.

As this is the first annual financial report of the Company, comparative figures are not shown.

Foreign Currency

Amounts payable and receivable in foreign currency at balance date are converted to Australian dollars at the exchange rates ruling on that date.

Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash, net of outstanding bank overdrafts.

Inventories

Goods for resale are valued at the lower of average cost and net realisable value. Maintenance and construction inventories are valued at average cost.

Recoverable Amount

A Recoverable Amounts Test as prescribed by Australian Accounting Standard AASB 1010 has been undertaken on behalf of the Corporation by independent experts in corporate finance and public sector restructuring Green, Edwell Consulting Pty Ltd.

Non-current assets are not revalued to an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate. For the purposes of this test, all the property, plant and equipment of the Corporation have been treated as a single class of asset, consisting of a number of sub-classes.

Network Services Revenue

NQEC Limited is subject to a regulated return on its regulated assets. The regulated return is adjusted for changes in the consumer price index, growth in sales volumes, less an efficiency factor.

Regulated network prices are determined and initially invoiced based on estimates. Actual revenue allowed may vary from that estimated, resulting in an adjustment which may increase or decrease prices in the succeeding period/s to recover or refund amounts under or over-charged. Amounts recovered will be brought to account in the period recovered or refunded.

Notes to and forming part of the Financial Statements 30 June 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, Plant and Equipment

Cost and valuation

Property, Plant and Equipment was transferred from the predecessor entity (NQEC) at book value on 1 July 1997. NQEC Limited valued its Property, Plant and Equipment at 30 June 1998 on the following basis:

- Supply system assets were valued based on independent expert advice from Sinclair Knight Merz, Consulting Engineers, as at 30 June 1997, based upon depreciated optimised replacement value. This approach provides values based on the optimum set of replacement assets necessary to achieve the same service potential with no inappropriate surplus capacity. Supply system assets were revalued at 30 June 1998 by the application of relevant Australian Bureau of Statistics indices.
- Other Land and Buildings were formally valued at market value based on existing use as at 30 June 1996 by Mr N.C. Webley, Registered Valuer. This valuation follows the policy of the Corporation, which provides for a full and detailed valuation to be undertaken at three yearly intervals and for the application of relevant Australian Bureau of Statistics indices at the end of each intervening year.
- Other Property, Plant and Equipment were not revalued due to both the nature and the immateriality of these items.

Potential capital gains tax is not taken into account when determining revaluation amounts unless there is an intention to sell the assets concerned. In the opinion of management, and based on expert advice received, it is not expected that any material capital gains tax effect will result from the sale of Corporation assets.

Any gain or loss on the disposal of property, plant and equipment is determined as the difference between the depreciated value of the asset at the time of disposal and the proceeds of disposal and is reflected in the accounts in the year of disposal.

Depreciation

Depreciation is calculated on the straight line basis by reference to the estimated useful life of each group of property, plant and equipment within the same class. Depreciation commences from the time units of property, plant and equipment are brought into commercial operation and provided on all such assets with the exception of land.

The following table indicates the typical expected useful lives of property, plant and equipment on which the depreciation charges are based.

Diesel Generating Plant	20 years
Substations	40 years
Electric Lines (Concrete/steel poles)	50 years
Electric Lines (Wood poles)	35 years
Electric Lines (Underground)	60 years
Metering and Load Control Equipment	25 years
Buildings	40 years
Vehicles and Mobile Plant	10 years
Office Equipment, Furniture and Fittings, Tools and Plant	7 years
Mainframe Computers and Software	5 years
Personal Computers and Software	3 years

Tax Equivalents

The Company is required to make tax equivalent payments to the State Government, based upon the value of benefits derived because it is not liable to pay Commonwealth tax that would be payable if it were not a Government Owned Corporation.

These payments are made pursuant to Section 155(4) of the Government Owned Corporations Act 1993 and are based upon rulings set out in the Treasurer's Tax Equivalent Manual. The Treasurer's Tax Equivalent Manual gives rise to obligations which reflect in all material respects those obligations for taxation which would be imposed by the Income Tax Assessment Act 1936 (Refer note 4) and the Sales Tax Assessment Act 1992.



Notes to and forming part of the Financial Statements 30 June 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Tax Effect Accounting

The Company adopts the liability method of tax effect accounting.

Income tax equivalents are calculated based on operating profit adjusted for permanent differences between taxable income and accounting profit. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the balance sheet as a future income tax equivalent benefit or as a provision for deferred income tax equivalent. Future income tax equivalent benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax equivalent benefits relating to income tax equivalent losses are only brought to account when realisation is virtually certain.

Income recognition

Dividend income is taken into profit as received.

Employee entitlements

Provision has been made for annual leave, long service leave and vesting sick leave entitlements payable to employees. Annual leave and vesting sick leave have been estimated on the basis of statutory and contractual requirements. Long service leave entitlements have been estimated on the basis of measurement techniques which are reflective of the present value of future cash outflows. These measurement techniques were applied as at 30 June 1998 after considering expected future salary levels, experience of employee departures and periods of service. Expected future payments were discounted using the interest rate on a federal government guaranteed security with a term to maturity that matched, as closely as possible, the estimated average future cash flows. The amounts provided have been apportioned between current and non-current liabilities. (Refer Note 17 and 21).

There is no provision for employer contributions to employees' superannuation schemes, as payments are made on a regular basis and are expended at the time of payment.

It is the policy of the Company to recognise liabilities for superannuation where the present value of employees' accrued benefits at reporting date exceeds the net market value of the scheme's assets at that date.

The superannuation schemes are fully funded and no liability for such shortfalls is shown. (Refer Note 27).

Leases

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be obtained from the leased property. The Company is not party to any finance leases.

Insurance

The Company carries insurance (subject to certain exclusions and deductibles) in respect of its non-supply system, land and buildings, other property, plant and equipment and inventories. The Company also carries Public Liability insurance, Directors and Officers Liability Insurance, Professional Indemnity insurance, motor vehicle Third Party liability and employee Workcover, Travel and other insurance. In respect of the Supply System assets the Company carries its own risk.

Segment Information

NQEC Limited operates in the electricity distribution industry within North Queensland.

Year 2000 Issue

The Year 2000 issue concerns the potential failure of computer systems, personal computers and the wide variety of devices utilising microprocessors due to dates being programmed in only two digits, resulting in an ambiguity at the turn of the century or at times prior.

In early 1997 a Year 2000 Project was established to facilitate and co-ordinate the Year 2000 activities including modification of existing programs and developing contingency plans to ensure continuity of critical systems operations. These activities should be completed by 30 June 1999.

The project includes reviewing computer hardware and software applications to determine the rectification work required to ensure that computer systems are Year 2000 compliant. The contingent liability in relation to the Year 2000 activities will be able to be quantified at the end of this review.

Costs relating to the modification of computer software for the Year 2000 compatibility are charged to expenses when incurred.

Notes to and forming part of the Financial Statements 30 June 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments

The company's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

Recognised Financial Instruments	Balance Sheet Notes	Accounting Policies	Terms and Conditions
<i>(i) Financial assets</i>			
Receivables – trade and other	7, 10	Receivables are carried at nominal amounts due less a provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	
Receivables – related parties	7	Amounts receivable from related parties are carried at nominal amounts due.	Details of the terms and conditions are set out in Note 32.
Short-term deposits		Short-term deposits are stated at cost. Interest is recognised in the profit and loss when earned.	
Unlisted shares	11	Unlisted shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when the dividends are declared by the investee.	
<i>(ii) Financial liabilities</i>			
Bank overdrafts	15	The bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at the bank's benchmark rate.
Repayable Deposits	16, 20	Subdividers deposits are carried at the principal amount. Revenue Shortfall is subtracted and interest added on the anniversary of the deposit.	Interest is charged annually on the anniversary date of the loan. The interest is applied to the principal less any revenue shortfalls. The interest rate is either fixed or variable, depending on the conditions of the agreement.
Creditors and other Liabilities	14, 22	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the company.	Trade liabilities are normally settled on 30 day terms.
Dividends payable	17	Dividends payable are recognised when provision is made by the company.	Dividends payable represent a final dividend of 75% of operating profit after tax equivalent and before extraordinary items for the financial year ended 30 June 1998. The dividends are unfranked.
Other loans	19	Other loans are carried at the principal amount. Interest is charged as it accrues.	
<i>(iii) Equity</i>			
Ordinary shares	23	Ordinary share capital is recognised at the par value of the amount paid-up.	The company is authorised to issue up to 500 million ordinary shares of \$1 par value each.



Notes to and forming part of the Financial Statements 30 June 1998

Notes \$'000

2. OPERATING PROFIT

Operating profit before income tax equivalent and abnormal items has been determined after crediting/charging the following specific items:

Net profit on disposal of property, plant and equipment	50
Depreciation	
- Supply system assets	19,148
- Power station assets	202
- Other property, plant and equipment *	3,733
Total depreciation	23,083
Amortisation	
- Other property, plant and equipment	12
Finance Charges	
- Interest paid to other entities **	7,862
- Other	328
Total finance charges	8,190
Amounts set aside for provisions	
- Write-up of inventories to recoverable amounts	(84)
- Employee entitlements	3,195
- Doubtful debts	59
- Other	321
Total amounts set aside for provisions	3,491
Recoverable works expenditure	17,190
Rental expense relating to operating leases	448
* Includes Appliance Trading depreciation of \$82,000	
** Includes \$216,000 payable by Appliance Trading	
Included in the operating profit are the following items of operating revenue:	
Sales revenue	123,040
Other revenue	
- Community Service Obligations	8,100
- Financial Transfers	4,077
- Non-Repayable Capital Contributions	2,900
- Interest Revenue	365
- Proceeds on Disposal of Non-Current assets	2,118
- Other operating revenue	1,121
- Other Appliance Trading revenue	867
Total other revenue	19,548
Operating revenue	142,588

Notes to and forming part of the Financial Statements 30 June 1998

Notes \$'000

3. ABNORMAL ITEMS

Included in the operating profit are the following abnormal items:

Items charged:

Redundancies	1,965
Applicable income tax equivalent	(707)
	<u>1,258</u>
Year 2000 project	256
Applicable income tax equivalent	(92)
	<u>164</u>
Finance charges	1,054
Applicable income tax equivalent	(380)
	<u>674</u>

Items credited:

Tennyson metering adjustment	756
Applicable income tax equivalent	(272)
	<u>484</u>

4. INCOME TAX EQUIVALENT

The prima facie tax equivalent, using tax rates applicable on operating profit and extraordinary items differs from the income tax equivalent provided in the accounts as follows:

Prima facie tax equivalent on operating profit	7,758
Tax effect of permanent differences	
Depreciation of buildings	368
Other items (net)	(530)
Over provision of previous year	(220)
Income tax equivalent expense attributable to operating profit	<u>7,376</u>
Prima facie tax equivalent on extraordinary item	1,740
Tax equivalent effect of permanent differences	
Non-assessable	(1,740)
Non-deductible	-
Income tax equivalent attributable to profit on extraordinary item	<u>0</u>
Total income tax equivalent attributable to operating profit and extraordinary item	<u>7,376</u>

Future income tax equivalent benefit arising from tax losses not brought to account at balance date as realisation of the benefit is not regarded as virtually certain.

This future income tax equivalent benefit will only be obtained if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (c) no changes in tax legislation adversely affect the economic entity in realising the benefit.



Notes to and forming part of the Financial Statements 30 June 1998

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5. EXTRAORDINARY ITEM

Profit on Sale of NERC Pty Ltd Shares	4,833
Applicable Income Tax Equivalent *	-
	<u>4,833</u>

* NQEC Limited is exempt from tax under Part 4 of the Government Owned Corporations (Central Retail Electricity Corporation Pty Ltd and Northern Electricity Retail Pty Ltd Restructure) Regulation 1998.

6. DIVIDENDS PAID OR PROVIDED FOR

Unfranked Dividends provided	17	10,243
		<u>10,243</u>
Unfranked Dividends paid during the year		8,883
		<u>8,883</u>

7. RECEIVABLES (CURRENT)

Trade debtors	13,851
Provision for doubtful debts	(140)
	<u>13,711</u>
Recoverable work in progress	226
Non-trade amounts owing by:	
- Loan to the State of Queensland*	14,000
- Other	256
	<u>28,193</u>

* During the year a loan of \$14,000,000 was advanced to the State of Queensland, the entity which controls the Company. This loan is unsecured, non-interest bearing and has no specified terms of repayment.

(b) Movement in provision for doubtful debts

- balance at beginning of year	(153)
- bad debts previously provided for written-off during the year	72
- bad and doubtful debts provided for during the year	(59)
- balance at end of year	<u>(140)</u>

8. INVENTORIES (CURRENT)

Maintenance and Construction Stock	6,083
Other	2,854
	<u>8,937</u>



Notes to and forming part of the Financial Statements 30 June 1998

	Notes	\$'000
9. OTHER CURRENT ASSETS		
Prepayments		113
		<u>113</u>
10. RECEIVABLES (NON-CURRENT)		
Trade		326
Other		56
		<u>382</u>
11. INVESTMENTS (NON-CURRENT)		
Investments at cost comprise:		
Unlisted Shares		29,101
		<u>29,101</u>
12. PROPERTY, PLANT AND EQUIPMENT		
Supply System		
Directors' valuation		754,522
Less: Accumulated Depreciation		(372,205)
		<u>382,317</u>
Power Stations		
Directors' valuation		7,826
Less: Accumulated Depreciation		(4,304)
		<u>3,522</u>
Other Land and Buildings		
Directors' Valuation		16,877
Less: Accumulated Depreciation		(1,407)
		<u>15,470</u>
Other Property, Plant and Equipment		
Cost		18,314
Less: Accumulated Depreciation		(5,040)
		<u>13,274</u>
Work in Progress		
At cost		23,420
Total Property, Plant and Equipment		<u>438,003</u>
The value of land and buildings included in total property, plant and equipment was:		22,892



Notes to and forming part of the Financial Statements 30 June 1998

	Notes	\$'000
13. OTHER NON-CURRENT ASSETS		
Future income tax equivalent benefit		3,297
Security deposit		35
		<u>3,332</u>
14. ACCOUNTS PAYABLE (CURRENT)		
Trade creditors		6,761
Other creditors		4,399
		<u>11,160</u>
15. BORROWINGS (CURRENT)		
Bank Overdraft - Unsecured		1,372
		<u>1,372</u>
16. DEPOSITS (CURRENT)		
Repayable Deposits		1,146
Other Deposits		27
		<u>1,173</u>
17. PROVISIONS (CURRENT)		
Dividends	6	10,243
Taxation equivalent		2,691
Employee entitlements	27	4,039
Other		638
		<u>17,611</u>
18. OTHER CURRENT LIABILITIES		
Memorial Scholarship		111
Recoverable Works Deposits		184
Contractors Retention and Deposits		241
Accruals - Wages and other		349
Other		26
		<u>911</u>
19. BORROWINGS (NON-CURRENT)		
Unsecured Loans		148,886
		<u>148,886</u>

Notes to and forming part of the Financial Statements 30 June 1998

	Notes	\$'000
20. DEPOSITS (NON-CURRENT)		
Repayable Deposits		1,401
		<u>1,401</u>
21. PROVISIONS (NON-CURRENT)		
Employee entitlements	27	5,632
Deferred income tax equivalent		22,038
Other		282
		<u>27,952</u>
22. OTHER LIABILITIES (NON-CURRENT)		
Recoverable Works Deposits		65
		<u>65</u>
23. SHARE CAPITAL		
Issued and paid up capital		
• Two voting "A class" ordinary shares of \$1 each fully paid		
• 220,999,998 non-voting "B class" shares of \$1 each fully paid		221,000
		<u>221,000</u>
24. RESERVES		
Asset revaluation		66,243
		<u>66,243</u>
Movement:		
- Balance at beginning of year		56,848
- Revaluation increments		9,395
- Balance at end of year		<u>66,243</u>



Notes to and forming part of the Financial Statements 30 June 1998

Notes \$'000

25. STATEMENT OF CASH FLOWS

(a) Reconciliation of the operating profit after tax to the net cash flows from operations

Operating profit after tax	13,657
Depreciation of non-current assets	23,083
Amortisation of non-current assets	12
Amounts set aside for provisions	3,491
Net (profit)/loss on disposal of property, plant and equipment	(50)

Changes in assets and liabilities

Trade receivables	(8,629)
Inventory	(675)
Trade and other creditors	6,782
Deposits	(4)
Tax provision	2,691
Deferred income tax liability	5,288
Future income tax benefit	(603)
Prepayments	1,259
Payment from Provisions	(3,184)
Net cash flow from operating activities	<u>43,118</u>

(b) Reconciliation of cash

Cash balance comprises:

- cash on hand	9,107
- bank overdraft	(1,372)
Closing cash balance	<u>7,735</u>

As detailed in Note 1, certain assets and liabilities of a retail nature were transferred to Northern Electricity Retail Corporation Pty Ltd pursuant to the Government Owned Corporations (QTSC Restructure – Stage 2) regulation 1997.

The amounts relating to the assets/liabilities transferred to NERC Pty Ltd were adjusted against the relevant 1 July 1997 opening balances as these transfers were deemed to have occurred prior to that date. The net value of these transfers of \$12.201M included a cash transfer of \$2.999M which was adjusted against the 1 July 1997 cash balance.

(c) Non-cash financing and investing activities

At 1 July 1997 all billed and unbilled electricity debtors amounting to \$18,695,000 were transferred to Northern Electricity Retail Corporation Pty Ltd in return for an unsecured loan. The loan was subsequently redeemed when the Central Electricity Retail Corporation Pty Ltd/Northern Electricity Retail Pty Ltd restructure was finalised.

(d) Bank Overdraft Facility

Credit standby facilities to a limit of \$200,000 are available through the Company's bankers in the form of an unsecured bank overdraft.



Notes to and forming part of the Financial Statements 30 June 1998

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26. EXPENDITURE COMMITMENTS**(a) Capital expenditure commitments**

Estimated capital expenditure contracted for at balance date but not provided for:

- payable not later than one year	18,076
- payable later than one year but not later than two years	14,350
	<u>32,426</u>

(b) Lease expenditure commitments

Operating leases (non-cancellable):

- not later than one year	302
- later than one year and not later than two years	222
- aggregate lease expenditure contracted for at balance date	<u>524</u>

27. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS**Employee Entitlements**

The aggregate employee entitlement liability is comprised of:

Accrued wages and salaries	236
Provisions (current)	4,039
Provisions (non-current)	5,632
	<u>9,907</u>

Superannuation Commitments

The Company contributes to an industry multiple employer superannuation fund, The Electricity Supply Industry Superannuation Fund (Old). Members, after serving a qualifying period, are entitled to benefits from this Scheme on retirement, resignation, retrenchment, disability or death.

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

The most recent actuarial assessment of the fund, as at 1 July 1996, was carried out by Mr John Smith, BA(Maths) F.I.A.A. on 6 January 1997. The actuary concluded that all liabilities of the Scheme which may be expected to arise in the normal course of events in the three years to 30 June 1999 and the vested benefits at that date in respect of current members, could be adequately met by:

- (a) the assets of the Scheme at the valuation date;
- (b) contributions by the employer at the recommended rate;
- (c) contributions by the members in accordance with the Trust Deed;
- (d) investment earnings on the above.

The estimated accrued benefits and fund assets at the date of the most recent actuarial assessment of the fund, based upon information supplied by the Scheme, are:

	1996
	\$'000
Net market value of plan assets	67,474
Accrued benefits	(53,023)
Excess of plan assets held over accrued benefits*	14,451
Vested benefits	<u>51,664</u>

* The Company has no entitlement to this excess



Notes to and forming part of the Financial Statements 30 June 1998

Notes \$'000

28. CONTINGENT LIABILITIES

- A number of common law claims are pending against the Company. In each case a writ has been served and the Company is at various stages of defending the action. Liability is not admitted and all claims will be defended.
- A claim under the terms of a contractual agreement was lodged with a major supplier of electricity to the Company, AUSTA Electric, by a third party provider of raw materials used in the generation of electricity.

This dispute is now in the process of arbitration. In terms of the Power Sale Agreements under which electricity was purchased by the Company from AUSTA Electric, cost increases awarded in favour of the third party may be recoverable from the Company under certain circumstances, and the Company is establishing its position accordingly.

At this time, it is not possible to assess whether the Company is likely to incur a loss resulting from this dispute, or of the possible quantum should the Arbitrator award in favour of the third party.

- The Company has assumed a share of Counter Indemnities up to the amount of \$18.260 million in accordance with its holding in Central Electricity Retail Corporation Pty Ltd. These Counter Indemnities have been provided in respect of electricity retail trading as part of the National Electricity Market. No call has been made at the date of signing of these financial statements.
- The Company has entered into a contract to construct and operate a transmission line to a mine in the Carpentaria Minerals Province. The contract provides for liquidated damages up to \$5 million payable to the mining company if the line is not commissioned on time in accordance with the terms of the contract. In addition, stand down payments will be required to the line construction contractor if the site is not handed over for the contractor to commence work on schedule.

29. SUBSEQUENT EVENTS

- On 1 July 1998 the Appliance Trading Division of NQEC Limited was transferred to a new subsidiary business, EA North Queensland Pty Ltd. The financial effect of this event has not been recognised.
- Queensland Electricity Reform Unit has advised that the \$14 million interest free loan to the State of Queensland will be eliminated when the capital restructuring is completed. It is expected that the Company's capital will be reduced by \$14 million in the 1998/99 financial year.

30. REMUNERATION OF DIRECTORS

Income paid or payable, or otherwise made available, in respect of the financial year, to all directors, directly or indirectly, by the Company.

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The number of directors of NQEC Limited whose income (including superannuation contributions) falls within the following bands is:

\$10,000 - \$19,999	6
\$20,000 - \$29,999	1

The above amounts exclude insurance for Directors' indemnity.

31. AUDITORS' REMUNERATION

Amounts received or due and receivable by the auditors of NQEC Limited for an audit or review of the financial statements of the Company.

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Notes to and forming part of the Financial Statements 30 June 1998

Notes \$'000

32. RELATED PARTY DISCLOSURES

(a) The directors of NQEC Limited during the financial year were:

R.G. LAIRD (CHAIRMAN)
P.L. ARLETT
J.R. DWYER
M.L. ORCHARD
P.A. ROBERTS
E. SOLARI
J.R. TELFORD

(b) The following related party transactions occurred during the financial year:

(i) *Transactions with Director-related entities.*

1. Purchases from Director-related entity under normal commercial terms and conditions:

Provision of legal services by Roberts Leu and North, a firm in which P.A. Roberts is a partner, to the value of \$132,842.

Provision of corporate box facilities, meals and refreshments by Barrier Reef Basketball Pty Ltd, of which P.A. Roberts is Deputy Chairperson and R.G. Laird is Secretary, to the value of \$20,702.

Provision of accommodation, meals and refreshments by Leichhardt Hotel, of which J.R. Telford is co-owner, to the value of \$4,010.

Purchases from John Dwyer Group, of which J.R. Dwyer is Managing Director, to the value of \$2,885.

Purchases from Herbert River Machinery Pty Ltd of which E. Solari is Managing Director, to the value of \$166.



Notes to and forming part of the Financial Statements 30 June 1998

33. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The company's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Fixed interest rate maturing in:			More than 5 years	Non-interest bearing	Total Carrying Amount as per the Balance Sheet	Weighted Average Effective Interest Rate
	Floating Interest Rate	1 year or less	Over 1 to 5 years				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
<i>(i) Financial assets</i>							
Cash					48	48	
Receivables – trade		729	147		13,161	14,037	19.72
Receivables – related parties					14,000	14,000	
Receivables – other		11			527	538	10.45
Short-term deposits	9,059					9,059	5.07
Unlisted shares					29,101	29,101	
Other Assets					35	35	
Total Financial Assets	9,059	740	147	0	56,872	66,818	
<i>(ii) Financial liabilities</i>							
Bank overdrafts		1,372				1,372	7.45
Repayable deposits		1,146	1,401		27	2,574	6.00
Creditors – trade					6,761	6,761	
Creditors – other					4,399	4,399	
Dividends payable					10,243	10,243	
Other loans		9	8,249	140,628		148,886	6.54
Other liabilities					976	976	
Total Financial Liabilities	0	2,527	9,650	140,628	22,406	175,211	

Notes to and forming part of the Financial Statements 30 June 1998

(b) Net fair values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, at the balance date, are as follows.

	Total carrying amount as per the balance sheet \$'000	Aggregate net fair value (i) \$'000
<i>Financial assets</i>		
Cash	48	48
Receivables – trade	14,037	14,037
Receivables – related parties	14,000	14,000
Receivables – other	538	538
Short-term deposits	9,059	9,059
Unlisted shares	29,101	29,101
Other assets	35	35
Total Financial Assets	66,818	66,818
<i>Financial liabilities</i>		
Bank overdrafts	1,372	1,372
Deposits	2,574	2,574
Creditors – trade	6,761	6,761
Creditors – other	4,399	4,399
Dividends payable	10,243	10,243
Other loans	148,886	153,856
Other liabilities	976	976
Total Financial Liabilities	175,211	180,181

- (i) The following methods and assumptions are used to determine the net fair values of financial assets and liabilities
1. Cash and short-term investments: The carrying amount approximates fair value because of their short-term to maturity.
 2. Trade receivables and payables: The carrying amount approximates fair value.
 3. Receivables – related party: The carrying amount approximates fair value because the receivable is interest free and short-term to payment.
 4. Unlisted shares: The carrying amount approximates fair value.
 5. Dividends payable: The carrying amount approximates fair value.
 6. Deposits: The carrying amount approximates fair value.
 7. Long-term borrowings: The market value approximates fair value.

(c) Credit risk exposures

The Company's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheet.

34. ECONOMIC DEPENDENCY

The Company's principal revenue depends to a significant extent on the operations of the electricity market in Queensland.

The bulk of network services recoverable is received from Central Electricity Retail Corporation Pty Ltd (trading as Ergon Energy), as it is the only supplier to franchise customers in the Company's distribution area. During 1997-98 the Company had one other retail customer. More are likely to enter the market when the second tranche of contestability opens (scheduled for 1 October 1998).

The principal operator providing high voltage electricity transmission services to the Company is Queensland Electricity Transmission Corporation Limited (trading as POWERLINK).

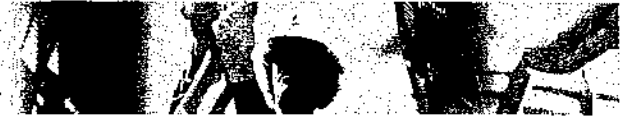
35. Investments in controlled entities

Controlled Entity	Class of Share	Ownership Interest 1998 %	Ownership Interest 1997 %
EA North Queensland Pty Ltd	Ordinary	100	N/A

Acquisition of Controlled Entity

During the financial year, NQEC Limited purchased 2 x \$1.00 shares which comprised the total of the issued share capital of EA North Queensland Pty Ltd which was incorporated on 13 May 1998.

The entity was acquired for cash (\$2). There have been no other transactions effected by EA North Queensland Pty Ltd during the 1997/98 financial year.



Statement by Directors

In accordance with a resolution of the directors of NORTH QUEENSLAND ELECTRICITY CORPORATION LIMITED, we state that:

- (1) In the opinion of the directors:
- (a) the profit and loss account is drawn up so as to give a true and fair view of the profit of the company for the financial year ended 30 June 1998;
 - (b) the balance sheet is drawn up so as to give a true and fair view of the state of affairs of the company as at 30 June 1998; and
 - (c) at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due

On behalf of the Board

Director

Director



**Auditor-General's Report to the Members of
North Queensland Electricity Corporation Limited**

Scope

I have audited the financial statements, being the Statement by Directors, the Profit and Loss Account, Balance Sheet, Statement of Cash Flows and Notes to and forming part of the financial statements of North Queensland Electricity Corporation Limited for the financial year ended 30 June 1998 (as set out on pages 1 to 20). The Directors of the company are responsible for the preparation and the presentation of the financial statements and information they contain. I have audited these financial statements in order to express an opinion on them to the members of the company.

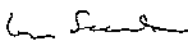
The audit has been conducted in accordance with *Australian Auditing Standards* to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures adopted included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements so as to present a view which is consistent with my understanding of the company's financial position and the results of its operations and its cash flows.

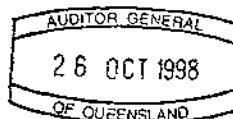
The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial statements of North Queensland Electricity Corporation Limited have been properly drawn up –

- (a) so as to give a true and fair view of –
 - (i) the company's state of affairs as at 30 June 1998 and its profit and cash flows for the financial year ended on that date; and
 - (ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with –
 - (i) the provisions of the Corporations Law; and
 - (ii) the applicable Accounting Standards and other mandatory professional reporting requirements.


LJ Scanlan
Auditor-General



Queensland Audit Office
Brisbane



Summary of Statement of Corporate Intent 1997/98

North Queensland Electricity Corporation Limited (NQEC) trading as NORQEB prepares a Statement of Corporate Intent (SCI) in accordance with the *Government Owned Corporations Act 1993* (GOC Act).

The SCI sets out NQEC's intentions, key underlying policies and performance measures agreed between the NQEC Board of Directors and its Shareholding Ministers. The SCI is consistent with and compliments the Corporate Plan.

Below is a summary of the 1997/98 SCI. The full Statement of Corporate Intent will be tabled in the Legislative Assembly in accordance with the GOC Act.

Significant reforms were implemented in the Queensland electricity industry during 1997/98. As part of this process, a range of complex industry, regulatory, and financial issues had to be satisfactorily resolved to ensure that all electricity corporations had the capacity to respond to the challenges associated with the new national electricity market.

Consequently, North Queensland Electricity Corporation Limited (NQEC) was unable to complete a number of the matters required in the SCI until late in the financial year. Delays associated in finalising the Corporation's balance sheet prevented the incorporation of financial performance targets at the beginning of the financial year.

Financial data was incorporated shortly after the end of 1997-98 and consequently this SCI contains actual result for the year.

Due to the above, the SCI was not approved by shareholding Ministers.

These issues will not affect the completion of the 1998-99 SCI.

Major undertakings and infrastructure Investments

The SCI outlines plans for NQEC to undertake major capital investment in the North Queensland network and distribution system.

- Total capital works expenditure (excluding Carpentaria Minerals Province) for NQEC was estimated to be \$33.14 million.
- Ten major projects with varying costs and requiring various work are included in this figure.
- Work is proceeding on the redevelopment of the NQEC Garbutt complex. This will involve the relocation of all network business functions to Garbutt.

Capital Structure

NQEC's share capital is \$500 million divided into 500 million shares of \$1 each with the power to increase or reduce the capital. Two only \$1, A class voting shares and 220 998 998 B class non voting shares at \$1 each have been issued.

The company held 44% of issued shares in Northern Electricity Retail Corporation Pty Ltd (NERC), which then became a 22% holding in Central Electricity Retail Corporation Pty Ltd following the merger of the two companies.

Dividends

With the exceptionally high level of capital expenditure during 1997/98 in the Carpentaria Minerals Province and other western areas, shareholder dividends of 40% of the after tax profit were envisaged.

Policies

Reliability Planning

NQEC uses Reliability Assessment Planning (RAP) as the basis for planning studies into the development and augmentation of the electrical network.

Borrowings Policy

NQEC's existing debt facility is with Queensland Treasury Corporation (QTC). NQEC will continue to utilise QTC for its borrowing requirements where:

- the terms and conditions offered by QTC at least match those of other sources;
- it is within QTC's capacity to finance the particular project.



Risk Management relating to Investments and Borrowings

NQEC considers it essential to manage its risk profile to minimise public adverse effects on long term expected cash flows.

To do this, NQEC will use a variety of risk management measures including:

- using the services of QTC where appropriate;
- managing the debt to total assets ratio;
- assessing various potential business risks and their impact on long term financial viability using long term financial modelling;
- developing and implementing disaster and business recovery plans;
- transferring insurable risk exposures after allowing for appropriate levels of self insurance by using insurance policies.

Acquisition and Disposal of Major Assets

No major assets will be disposed of in the period covered by this Statement of Corporate Intent without prior approval of the Shareholding Ministers.

Subsidiary Businesses/Joint Ventures Northern Electricity Retail Corporation Pty Ltd

NERC Pty Ltd was established on 1 July 1997. NERC Pty Ltd merged with CERC Pty Ltd on 3 April 1998. The combined entity has traded profitability for the year. The CERC business plan will be included in the 1998/99 SCI.

Joint Ventures

Meter Service Provider

North Queensland Electricity Corporation Limited, Mackay Electricity Corporation Limited, and Far North Queensland Electricity Corporation Limited are jointly investigating the provision of metering services and establishment of a metering data agency in response to requirements for these in the National Electricity Market.

Training

NQEC will enter into a co-operative arrangement with Energy & Telecommunications Training Australia (ETTA) to deliver ETTA training programs and support services to Queensland and other locations.

Shareholder Information Provided Quarterly and Annual Report

NQEC will keep its Shareholding Ministers reasonably informed of the its operations, financial performance and financial position (Section 133, GOC Act) through quarterly reports.

The Annual Report will be prepared in accordance with accounting standards and reporting requirements contained in all relevant legislation, including the FAA Act.

Community Service Obligations

Community Service Obligations activities will be carried out by NQEC in accordance with government policy.

Employment and Industrial Relations Plan

This plan guides NORQEB in developing and maintaining conditions of employment for employees, including labour market based remuneration. It recognises multi skilling and flexibilities and moves towards competency and performance that adds value to our business.

NQEC has in place an EEO Management Plan, Policy, Systems and Work Processes for Occupational Health and Safety.

Superannuation Arrangements

Superannuation arrangements for employees will be consistent across the Corporation. Employees are members of the Electricity Supply Industry Superannuation Fund (Qld.) which commenced on 1 July 1995. Employees contribute 5.0% to the current scheme which is matched by an employer contribution of 10.0%.

Statistics

	1997/98	1996/97	1995/96	1994/95
Energy Transported GWh	2116.9	N/A	N/A	N/A
Number of Customers				
Contestable	4	N/A	N/A	N/A
Non Contestable	97,678	96,199	94,566	92,742
Lines in Service (Circuit Kilometres)	23,309	23,039	22,825	22,407

Overseas Travel Summary

Title	Dates	Destination	Purpose
Communications Project Engineer	3-5 August 97	New Zealand AP 35	CIGRE
Chief Executive Officer	1-16 November 97	Korea/China Japan	Sister City Delegation inc Sun Metals HO
Transmission Test Supervisor	17-27 April 1998	Japan	Operational Training for Static VA Compensators
Manager Appliance Sales	26 April 98 - 2 May 98	Indonesia	Retravisition Conference
Chief Executive Officer	2-16 June 98	US/Canada	US Utility Inspection Tour & Benchmarking

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