

ANNUAL PERFORMANCE REPORT 2010-11

.....
IMPROVING CUSTOMER VALUE
.....



**Endeavour
Energy**

ABOUT THIS REPORT

This report provides a candid account of Endeavour Energy's performance during the financial year 2010–11. It notes Endeavour Energy's successes, areas for improvement and our future direction and challenges.

The theme for this year's report reflects the focus of our efforts this year: improving customer value. Affordable, reliable and safe electricity supply underpins lifestyles, creates jobs and powers some of Australia's largest and fastest growing regional economies. Maintaining the advantages this brings to our customers and our communities is essential for our current and future prosperity. The front cover shows a typical residential street in the North West Growth Sector.

This report complies with the requirements of the NSW Annual Reports legislation and embraces the principles of the Global Reporting Initiative (GRI).

Statutory accounts and financial information are verified by the NSW Auditor General. We have reported our emissions using the National Greenhouse and Energy Reporting Scheme methodologies where available. We use the National Greenhouse Accounts where such methodologies are unavailable and use relevant environmental key performance indicators developed by the Energy Supply Association of Australia.

We have substantially reduced printed copies of the report this year to reduce costs and encourage sustainable practices. It was produced at a cost of \$32,996 (GST inclusive).

Further information about Endeavour Energy is available at our website at www.endeavourenergy.com.au or via email correspondence: endeavourenergy@endeavourenergy.com.au

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LETTER TO SHAREHOLDING MINISTERS

31 October 2011

The Hon. Mike Baird MP
Treasurer
Level 36, Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

The Hon. Greg Pearce MLC
Minister for Finance and Services
Level 36, Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Dear Ministers

REPORT ON PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011

This report details Endeavour Energy's performance, operations and statement of accounts for the year ended 30 June 2011, in accordance with the provisions of the *Annual Reports (Statutory Bodies) Act 1984* and the principles of the Global Reporting Initiative.

It is submitted on behalf of the Board of Endeavour Energy for tabling in Parliament.

Copies are being sent to the Auditor-General, the Minister for Resources and Energy, Chairperson, Community Relations Commission, and key stakeholders.

The report is available on our website at www.endeavourenergy.com.au.

Sincerely

Michael McLeod
Chairman

Vince Graham
Chief Executive Officer

CONTENTS

Our organisation	2
Year at a glance	3
Report by the Chairman and Chief Executive Officer	4
Our plans and priorities	6
Our performance	8
Safety	8
Network plan	10
Customer value	12
Leverage technology	14
Manage business risk	16
Delivering performance through people	17
Our operations	18
Network	18
Retail	26
Our people	28
Our community	32
Environment	35
Governance	38
Management discussion and analysis	43
Financial statements	46
Appendices	93

01



\$3.3 billion

electricity distribution network serves 877,339 customers or 2.1 million people

OUR ORGANISATION

Above: Adam Moreau, Third Year Distribution Powerline Apprentice

Endeavour Energy is a New South Wales state-owned energy corporation serving some of Australia's largest and fastest growing regional economies.

Endeavour Energy is the new name for the electricity network business previously operating as Integral Energy. The sale of Integral Energy's Retail business and brand to Origin Energy was completed on 1 March 2011, as part of the NSW Government's energy reform process.

Endeavour Energy manages a \$3.3 billion electricity distribution network for 877,339 customers or 2.1 million people, in households and businesses across a network franchise spanning 24,500 square kilometres in Sydney's Greater West, Blue Mountains, the Illawarra, the Southern Highlands and Shoalhaven.

Endeavour Energy is incorporated under the *Energy Services Corporations Act 1995* and operates within the terms of the *Electricity Supply Act 1995* on behalf of our shareholder, the New South Wales Government.

The focus of our 2,925 people is to deliver a safe, reliable and efficient electricity supply to our customers while delivering strong financial results to our shareholder. We are committed to making a serious and sincere effort to deliver better value for our customers by reducing our overhead and operating costs without compromising safety or services to customers.

Our purpose statement

Every day we deliver to our communities the ability to live and the energy to grow.

Our values

These five values are the basis for everything we do.



Safety excellence



Respect for people



Commitment to customers and communities



Continuous improvement



Integrity

YEAR AT A GLANCE

Items		2009–10	2010–11	% Change
OUR SHAREHOLDER				
EBITDA (including capital contributions)	\$'000	588,980	711,567	20.8
Operating profit after tax	\$'000	178,979	244,717	36.7
Returns to NSW Government ^a		215,277	266,398	23.7
Dividend	\$'000	142,610	156,800	10.0
Income tax equivalents	\$'000	72,667	109,598	50.8
Qualified credit rating ^b		Aa3	Aa3	
Net assets	\$'000	1,153,849	1,233,182	6.9
Return on assets	%	9.5	10.8	14.0
Return on equity	%	17.3	20.5	18.3
OUR OPERATIONS				
Reliability (unplanned interruptions to supply)	Min/lost/cust	79.4	72.0	9.3
Capital expenditure	\$'000	417,421	496,429	18.9
Total retail sales of electricity ^c	GWh	11,076	6,942	(37.3)
Sales revenue (excluding Community Service Obligations)	\$'000	2,133,865	1,937,860	(9.2)
OUR CUSTOMERS				
Total network customer connections		866,767	877,339	1.2
Customer Service Indicator ^d	%	80	79	(1.3)
Social programs ^e	\$'000	30,427	23,977	(21.2)
Pensioner Rebates	\$'000	29,700	23,309	(21.5)
Life Support Equipment Rebate	\$'000	727	668	(8.1)
Energy Accounts Payment Assistance (EAPA) ^e	\$'000	2,467	2,023	(18.0)
ENVIRONMENT				
Transformer oil recycled	litres	433,091	629,971	45.5
Greenhouse gas emissions ^e	t CO ₂ e	681,285	649,608	(4.6)
Reportable environmental incidents	No.	1	2	(100.0)
OUR PEOPLE				
Total employees ^f		2,888	2,925	1.3
Lost time incidents ^g		18	24	33.3

To ensure consistency on an annual basis, prior year statistics may have changed in line with amendments to comparative financial statement disclosures and amended definitions.

a Excludes the special dividend to the NSW Government resulting from the sale of Retail net assets.

b Credit rating undertaken by Moody's Investor Services.

c As at 28 February 2011, following the completion of the sale of Retail net assets to Origin Energy on 1 March 2011, therefore only represent eight months of activity compared to twelve months in the previous year.

d This survey ceased in March 2011 following the completion of the sale of Retail net assets to Origin Energy. The result of 79% is based on the last survey period – February 2011.

e Includes all Scope 1 and 2 emissions minus offsets purchased.

f Full time equivalent employees as at 30 June 2011.

g As at 30 June 2011, 23 LTIs had been recorded; one additional lost time shift occurred during July that related to a 2010–11 incident taking the total to 24.

Report by the Chairman and Chief Executive Officer

The 2010–11 financial year was a period of significant change and strong corporate performance by Endeavour Energy.

Our retail business and brand was sold to Origin in March 2011; we delivered a record capital investment of \$496 million in our electricity network; we reduced our operating costs by \$26 million compared to budget and we achieved a best-ever performance for network reliability.

The year also saw unprecedented public scrutiny placed on the efficiency and costs of the industry due to continued price increases against a background of concern for the impact of a future carbon tax on electricity prices.

Delivery against our plan

We are pleased to report Endeavour Energy's strategic planning process enabled the organisation to respond positively to the year's challenges. Our plan centred on objectives designed to:

- Improve safety performance
- Deliver our network plan to improve reliability and cater for growth
- Respond to electricity affordability by driving efficiency and productivity improvements to control future increases in electricity prices
- Leverage new technology
- Manage major business risks, particularly related to the retail sale and the risk of the network starting bushfires

- Deliver performance through our people.

Improving safety

Despite our substantial focus on strengthening safety systems, we fell short of our target of zero harm to employees. Our lost-time injuries (LTI) performance of 24 incidents for 2010–11 represented a disappointing increase over the previous year's 18 incidents.

We did, however, advance our Lifeguard program, aimed at reducing foreseeable risks of an employee not being fit for work due to fatigue, alcohol or other drugs and will continue this focus in 2011–12.

We also progressed our public safety program – a highlight of which was our \$2 million per year black spot pole replacement program – designed to improve community safety through power pole relocations.

Investing in the network

2010–11 was the second year of our five-year network investment plan approved by the Australian Energy Regulator. We delivered an overall record \$496 million of the total annual budget of \$518 million.

This investment aims to secure a safe and reliable electricity network for some of Australia's fastest growing regional economies, including NSW's two largest growth centres.

The increase in program delivery was the result of a peak resourcing model we established to provide us with the capability to efficiently and effectively deliver peak workloads without the need to increase employee numbers above what is sustainable in the long term. We also continued our intake of apprentices, with a further 60 new starters in 2010–11.

Record reliability results

Endeavour Energy continues to make excellent progress in improving reliability and is now one of the nation's top performers in overall reliability performance measured by the System Average Interruption Duration Index (SAIDI).

Whereas our target for unplanned SAIDI this year was 87 minutes, the actual normalised result – excluding interruptions allowed under our licence conditions – was 72 minutes. This is our best-ever performance.

Major network events

After a year relatively free of major storms, Mother Nature unleashed a violent windstorm on Fathers' Day 2010, which saw about 100,000 customers affected by 120 kilometre per hour winds. Hardest hit was the Shoalhaven area, later declared a natural disaster area by the NSW Government.

Power was safely restored to all customers four days later, a significant effort given the continuing havoc the gale force winds unleashed. This occurred without injury to any employees or the public. The effort reflects the pride and dedication of our people in protecting the health and safety of our customers and communities.

Rising prices and affordability

Customers connected to Endeavour Energy's network are under pressure from the rising cost of living, including their electricity bills which have risen 62% since 2008.

While rising prices are a product of both retail and network factors, our customers clearly expect us to do everything we can to control future increases in network tariffs.

To that end, we pursued our second year of our organisation-wide plan to improve customer value through cost reductions and efficiency programs identified by our employees. This plan is expected to deliver savings of \$35 million over three years, exceeding our voluntary commitment to the Australian Energy Regulator to reduce operating costs by 2% per year from 2009–2014.

We remain focused on further improving customer value in 2011–12, with plans to reduce corporate overheads by \$22 million per year by 2013–2014 and reduce costs in our regional operations by \$26 million per year without compromising safety or reliability.

These and other initiatives will assist us to control increases in our network tariffs to around CPI for the next two years.

Retail business assets sale

We unveiled our new brand 'Endeavour Energy' on 1 March 2011 following the sale of our retail business assets to Origin Energy. Endeavour means 'to make a serious and sincere effort' and that resonates with our commitment to safely delivering a reliable, sustainable and efficient network for all our customers.

Our Transition Services Agreement (TSA) with Origin Energy began in March and covers sale-related issues such as transitioning retail intellectual property, people and processes, including our call centre and retail billing functions. This work is being completed against the backdrop of the NSW Government's plans to merge NSW's three electricity distribution businesses into two distributors.

Industry restructure

These industry restructure plans are intended to save \$400 million in combined operating costs over four years, by reducing overheads and delivering economies of scale. These savings will further contribute to our own efficiency initiatives and help fund rebates for people struggling to pay electricity bills.

Strong financial results

As a state-owned corporation we have an obligation to pay a dividend to our shareholder, the NSW Government. The dividend is calculated as 70% of our net profit after tax. We returned \$266 million in distributions, including income tax equivalents, to our shareholder in 2010–11 and delivered a net profit after tax of \$245 million.

A clear way forward

Notwithstanding the challenges experienced in the past year, we have made significant progress in improving the reliability of our network, reducing operating expenditure and building on solid strategic plans to continually improve the performance of our business.

On behalf of the Board and the Executive Leadership Team, we extend our thanks and appreciation to the serious and sincere effort made by the people of Endeavour Energy to achieve these outcomes. With ongoing support we will continue to provide reliable, value-for-money services to the 2.1 million Australians who depend on us for energy, and ensure a safe working environment for our employees, customers and communities, every day.



A handwritten signature in black ink, appearing to read 'Michael McLeod'.

Michael McLeod
Chairman



A handwritten signature in black ink, appearing to read 'Vince Graham'.

Vince Graham
Chief Executive Officer

OUR PLANS AND PRIORITIES

Endeavour Energy took account of a wide range of issues impacting our operations, in developing our 2010–11 Corporate Plan in line with a clear, continued focus on meeting

relevant government policies and fulfilling our obligations as a State Owned Corporation (SOC).

These priorities and obligations are reflected in the key initiatives that have

been highlighted in the Plan and the key measures and targets specified in Endeavour Energy's Balanced Scorecard for 2010–11.

Endeavour Energy 2010–11 Balanced Scorecard (as at 30 June 2011)

Key result areas	Measures	Target 2010–11	Actual 2010–11
SAFETY			
Safe, capable, motivated employees	Lost Time Incidents (LTI) – pathway to zero	12	24 ^a
	Reportable incidents – internal SENI	11	22
	Total recordable injuries (TRI)	130	135 ^b
CUSTOMER / COMMUNITY			
Valued by our community	Customer satisfaction	82%	79%
	Improve cost to serve (\$/cust)	\$436/cust.	\$417/cust.
Protect public safety and environment	Reportable incidents controlled – environmental	1	1
	Reportable incidents – external SENI	32	21
Reliable and sustainable network	Network reliability – unplanned SAIDI mins	87 mins	72 mins
FINANCIAL			
Financial sustainability	NPAT – Net Profit After Tax inc. Capital Contributions	\$200m	\$245m
	EBITDA – Inc. Capital Contributions	\$660m	\$712m
	Effective investment	CAPEX budget	\$518m
Efficient operations	OPEX budget	\$433m	\$407m
	Overtime expenditure – planned	\$17.0m	\$17.3m
BUSINESS PROCESS			
Network Plan delivery	% of SAMP milestones met/complete	95.0%	97.1%
Governance, risk and compliance management	No. of audit recommendations overdue (≥ 90 days) each quarter	0	0
CULTURE			
Safe, capable, motivated employees	Absenteeism	3.1%	3.3%
	Compliance to Workforce Plan	97%	98%

a As at 30 June 2011, 23 LTIs had been recorded; one additional lost time shift occurred during July that related to a 2010–11 incident taking the total to 24

b As at 30 June 2011, 134 TRIs had been recorded; one additional reportable incident occurred after a late reporting in August 2011 taking the total to 135

Endeavour Energy's six strategic objectives identify those areas that will lead to significant transformational changes in our business in the areas of safety, customer service and efficiency. These strategic objectives and

related breakthrough actions are outlined in our Corporate Plan Summary 2010–11.

Over the past year, we made excellent progress against these objectives, which has placed the organisation in a strong position to respond

to ongoing electricity affordability concerns in the community. By managing costs and maintaining high levels of efficiency, we have reduced our operating costs, without compromising the safety of our employees, contractors and the public.

Corporate Plan Summary 2010–2011

Strategic objective	Breakthrough action	Why we need to do this
Improve our safety performance	Implement our Lifeguard program	To reduce the risk of accidents caused by fatigue or drug and alcohol abuse.
Deliver our network plan	Accelerate implementation of the Strategic Asset Management Plan (SAMP) by delivering \$518 million in capital investment	So we can continue to provide a safe and reliable network.
Improve customer value	Set a course for a sub-70-minute SAIDI	So that we continue to push the boundaries in improving the reliability outcomes we are able to deliver to our customers.
	Implement rapid response teams for our network	To eliminate the risks associated with fatigue, safely reduce the duration of incidents that affect our customers and improve efficiency.
Leverage technology	Introduce the iSAFE vehicle system to Endeavour Energy's road fleet	It's a key component of our response to the recent Country Energy coronial inquiry and will improve our customer responses times and fleet productivity.
Manage business risk	Strengthen our controls to guard against the risk of bushfires	Recent major bushfires in Victoria and Western Australia have highlighted the risks we and our communities are facing and we need to learn from these events.
Deliver performance through people	Negotiate a new Enterprise Agreement	Reaching agreement with employees and unions on a new Enterprise Agreement will deliver benefits for employees and customers in line with the NSW Government's Wages Policy.
	Integrate refreshed values and new leadership competencies into the way we recruit, develop and promote our leaders	Having effective leadership that's aligned with our purpose and values will strengthen our culture, support our employees and deliver our plan.

02



\$10 m will be invested in our Pole Blackspot Program 2009–2014

OUR PERFORMANCE

Above: Pole Blackspot Program

Energy Minister Chris Hartcher and Public Safety Manager Catherine Creenaune launched our Pole Blackspot Program. The program seeks to improve community safety by remediating 'black spot' accident sites, where vehicles have collided with power poles on more than one occasion.

STRATEGIC OBJECTIVE 1 – IMPROVE SAFETY PERFORMANCE

2010–11 Objective	2010–11 Target	2010–11 Result
<ul style="list-style-type: none"> Implement Lifeguard Program. 	<ul style="list-style-type: none"> By March 2011. 	<ul style="list-style-type: none"> Drug and alcohol procedure developed. Consultation with workforce continuing.

The Endeavour Energy Health and Safety Policy Statement commits us to providing a safe workplace for employees, contractors and the public. Safety excellence is our leading organisational value and safety policies and procedures are integrated into all our business management processes. Our ambition is to achieve zero incidents, injuries and occupational illnesses.

In October 2010, an incident involving two employees carrying out switching work in Penrith resulted in one employee receiving severe burns. Endeavour Energy's immediate response was to provide the employee and his family with all necessary medical and moral support during his treatment and recovery. We took immediate steps to change work practices associated

with the incident until a full review could determine appropriate long-term safe practices that will prevent reoccurrence.

Endeavour Energy's overall lost-time injuries (LTI) performance of 24 incidents for 2010–11 represented a disappointing result compared with the 18 incidents reported in the previous year and compared with our target of 12.

Analysis revealed that of the 24 LTIs:

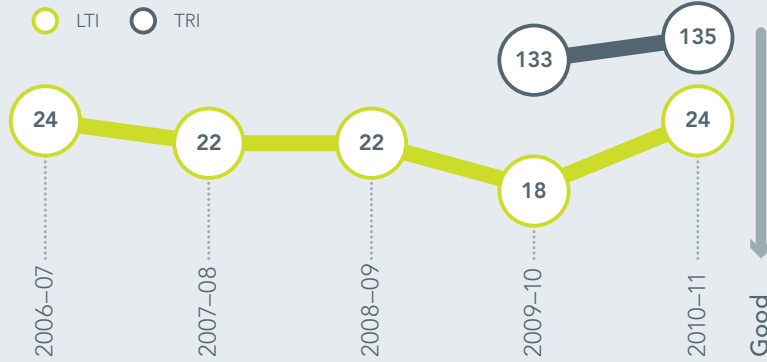
- 10 involved employees 50 years of age or over
- 12 were manual handling in normal operations
- 5 involved internal vegetation management employees
- 22 occurred in the field, with the remaining two in the office

As a result of this analysis, we will undertake a review this year to investigate whether our 2010–11 LTI outcomes may be linked to an ageing workforce.

Safety management system

A thorough review of the Safety Management System was undertaken during 2010–11. Improvements sought from the new system include higher levels of awareness among employees, better integration of the safety elements and verifiable criteria to better measure compliance.

Performance indicator: lost time incidents and total recordable injuries 2006–11



Note: TRI includes measures such as medical treatment, restricted work and LTIs. 2010–11 TRIs only includes incidents occurring while performing work-related duties. As at 30 June 2011, 23 LTIs had been recorded; one additional lost time shift occurred during July that related to a 2010–11 incident.

Twenty elements have been redesigned to 16 and significant support initiatives have been included to maximise the benefits that will accrue to the workforce.

The Safety Management System Project has been elevated to a Breakthrough Action for 2011–12 after consideration by our Executive Leadership Team, acknowledging the importance of the project in our safety improvement journey.

Lifeguard program

We continued the implementation of our Lifeguard Program, aimed at reducing the risks of an employee not being ‘fit for work’ due to fatigue, alcohol or other drugs, and in breach of our drug and alcohol policy.

We are planning to roll out an agreed education program and conduct random drug and alcohol tests by June 2012.

WorkCover self insurance licence

Following the mandated audit by WorkCover, our three-year Self Insurance Licence has been renewed, a result that reflects hard work and genuine commitment to safety excellence. The audit results exceeded expectations, demonstrating that we have a comprehensive understanding of our systems and confidence in our safety leaders.

This year, the Health and Safety Division extended our two-day frontline leadership training course to Leading Hands. The course content included responsibilities for frontline leaders under the NSW *Occupational Health & Safety Act 2000*, risk management and an introduction to human factors to enable leaders to better manage safety in the workplace and achieve behaviour changes.

‘The Call’

During 2010–11 we introduced ‘The Call’ as part of our safety incident improvement process. The Call is a method of providing incident findings to a wider audience using teleconferences. It is a discussion that takes place between the relevant line manager (incident owner), the Deputy CEO Network and GM Health and Safety, with up to 80 network managers and supervisors listening. The forum allows senior management to communicate key safety improvement expectations. The primary aim is to prevent incidents from reoccurring.

Public safety

Our 2010–11 Public Electrical Safety Awareness Plan (PESAP) outlined strategies to raise public electrical safety awareness. The year’s initiatives included a radio campaign focusing on preventing conductor strikes by high-load vehicle drivers, crane and excavator operators and recreational boaters. Advertising was also used to promote safety awareness in the home.

Endeavour Energy also worked closely with trade events to promote tradesmen’s safety and with State Emergency Services – Illawarra to establish vital electrical safety messages to be disseminated during storms, tsunamis and floods.

In September 2010 we partnered with Ausgrid in Electricity Safety Week, in which 432 primary schools in the Endeavour Energy network area (82%) took part.

THE YEAR AHEAD

2011–12 Objective	2011–12 Target	2011–12 Reason
<ul style="list-style-type: none"> Improve safety performance. 	<ul style="list-style-type: none"> Implement revised Safety Management System. Fully scope safety issues associated with managing an ageing workforce. Continue to implement the Lifeguard Program. 	<ul style="list-style-type: none"> Enhance the safety management system by adding human factors, change management and improved reporting. To reduce LTIs, which increased in 2010–11. Reduce the risk of accidents caused by fatigue or drug and alcohol abuse.

STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE 2 – DELIVER OUR NETWORK PLAN

2010–11 Objective	2010–11 Target	2010–11 Result
<ul style="list-style-type: none"> To deliver the approved plan safely, on time and within budget to provide our customers with a safe, reliable and sustainable network. 	<ul style="list-style-type: none"> Delivering the \$517.7 million capital investment program for 2010–11. 	<ul style="list-style-type: none"> We delivered a significant investment program of \$496.4 million, representing 96% of target, and laid a strong foundation to deliver the 2011–12 plan.

Endeavour Energy's network is publicly owned. To ensure customers get a fair deal and a safe and reliable network, capital investment and maintenance programs are independently regulated by the Australian Energy Regulator (AER) every five years. The AER reviews our plans for capital investment and maintenance, and determines the prices that may be charged to network customers.

One of our strategic objectives is to deliver the AER-approved network program safely, efficiently, on time and within budget. Of special importance for our network strategy and associated Strategic Asset Management Plan (SAMP), are our electricity supply reliability targets for our customers.

Our regulator has approved a five-year capital investment of \$2.7 billion on our network and \$1.5 billion for operating expenses for the five years commencing July 2009. We've now entered the third year of that five-year plan, with a record capital program of \$674.4 million to deliver in 2011–12.

The capital investment is being used to service the growth in customer demand, and renew ageing network assets so we can deliver a reliable and secure supply of electricity to both new and existing customers. It is also helping us to meet the licence conditions set by the New South Wales Government.

Implicit in our network strategy is the need to ensure expenditure programs provide value for money for our customers.

How we performed

In the first two years of our five-year network capital program we have invested \$788.9 million compared with a target of \$881.2 million. Over the next three years we will deliver the remaining \$1,780 million of our committed program.

In 2010–11, we delivered \$496.4 million of the total forecast capital budget of \$517.7 million. Of this, \$419.9 million was network system capital investment, compared with a budget of \$441.9 million. This represents a record investment in our asset base.

We have increased delivery of our capital program by refocusing our project management framework and using skilled external resources.

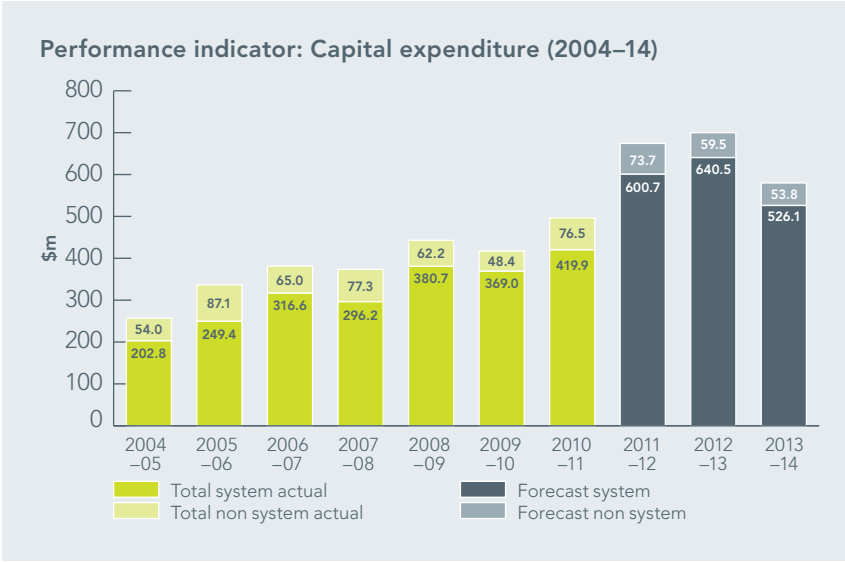
2010 FATHERS' DAY WINDSTORM

Fathers' Day 2010 was marked by a violent windstorm in which gale force winds of up to 120 km/h caused widespread damage to Endeavour Energy's south coast network and interrupted electricity supply to over 100,000 customers.

Damage stretched from Wollongong in the north to Ulladulla in the south. Hardest hit was the Shoalhaven area, later declared a natural disaster area by the NSW Government.

With additional Endeavour Energy crews and help from Ausgrid, power was restored to all customers within four days. This was a solid achievement given the scale of the damage to the network, the number of customers impacted and the difficult working conditions under which employees undertook repairs. Repairs to the network cost approximately \$2 million.





Expenditure on our network this year represents a record investment in our asset base.

These have enabled us to efficiently and effectively deliver peak workloads without increasing employee numbers to a level that would be unsustainable in the long term.

We undertook a number of other initiatives to accelerate our investment program, including establishing a taskforce to help recruit the people we need now to deliver our record program. This taskforce resulted in over 114 additional positions being filled in a very competitive market. We've also largely put in place the systems and processes we need to engage peak resources, such as relating to project governance and commercial management.

In meeting customer electricity demand growth, we are faced with the challenge of delivering a record total of \$674.4 million in capital projects in 2011–12.



Giving Parramatta the power to grow – our \$24 million East Parramatta Switching Station, designed to blend with the streetscape.

THE YEAR AHEAD

2011–12 Objective	2011–12 Target	2011–12 Reason
<ul style="list-style-type: none"> To continue to deliver the approved plan safely, on time and within budget. 	<ul style="list-style-type: none"> To continue to optimise delivery of the SAMP by utilising internal and external resources to deliver \$674.4 million in capital projects. 	<ul style="list-style-type: none"> So we can continue to provide a safe and reliable network.

STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE 3 – IMPROVE CUSTOMER VALUE

2010–11 Objective	2010–11 Target	2010–11 Result
<ul style="list-style-type: none"> Set a course for a sub-70-minute SAIDI. Implement rapid response teams for our network. 	<ul style="list-style-type: none"> Limit unplanned supply interruptions for our average customer to less than 87 minutes. By April 2011. 	<ul style="list-style-type: none"> Unplanned supply interruptions for our average customer was 72 minutes. Completed: half of the rapid response crews have been established and are working well, with the remaining positions expected to be filled in the near future.

Reliability performance – a record result

Reliability of supply is an important measure by which we demonstrate our network performance and ensure we can deliver value for customers. We measure the reliability of our network with the System Average Interruption Duration Index (SAIDI). This is a measure of the number of unplanned minutes that customers, on average, are without electricity each year. This excludes the impact of significant storms.

We achieved our best-ever performance in network reliability and are one of the most reliable distributors in Australia with an unplanned SAIDI of 72 minutes.

Our SAIDI target for the year ending June 2011 was 87 minutes, but our actual result for the year – excluding significant storm interruptions permitted under our licence conditions – was 72 minutes. Our ongoing reliability improvement programs combined with mild weather patterns throughout the year contributed to this positive result for customers.

Events that had a significant impact on the overall reliability result include:

- 16 interruptions to zone and sub-transmission substations contributed to approximately 1.3 minutes of SAIDI.
- 29 sub-transmission electricity line interruptions contributed to 2.5 minutes of SAIDI.
- 734 distribution electricity line interruptions contributed to 50 minutes of SAIDI.

Endeavour Energy is well-positioned to establish a sub-70-minute SAIDI as a normal part of doing business.

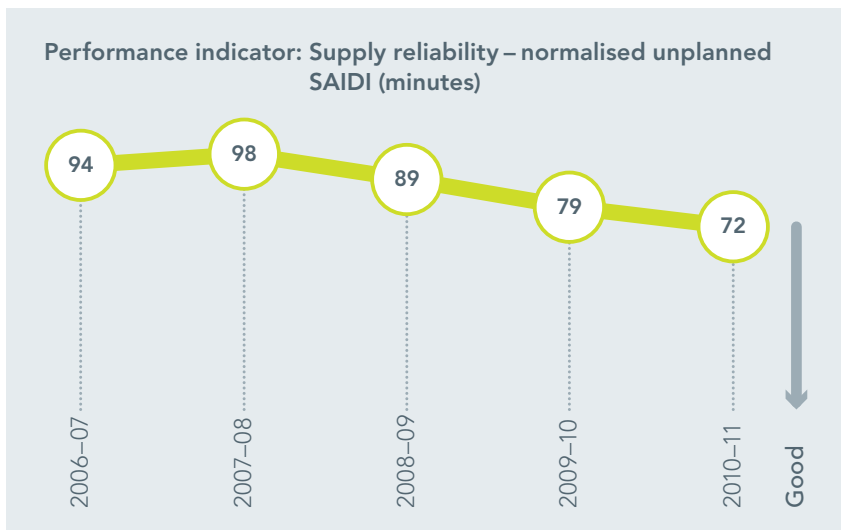
To support this effort, our reliability improvement projects will focus particularly on distribution electricity lines that contribute more than 0.3 minutes to Endeavour Energy’s overall SAIDI performance.

Implementing rapid response teams for our network

Endeavour Energy has established rostered rapid response teams to attend network incidents that occur outside normal Monday to Friday working hours. Historically these incidents required employees to be called out, at overtime rates, to restore power or ‘make safe’ the network.

Our rapid response crews provide valuable support in our efforts to respond to customer outages. This has helped us to:

- Manage employee fatigue.
- Reduce the need to disrupt planned construction and maintenance activities.
- Ensure our employees can be on site as soon as possible.
- Reduce our cost to serve for customers.



Efficiency reviews to reduce costs and improve productivity

Energy pricing and affordability is a major issue in the community. Electricity prices increased by 15% for Endeavour Energy customers on 1 July 2011, bringing the total increase over four years to 62%. Prices are likely to be impacted further by the Federal Government's plan to introduce a carbon tax from 1 July 2012.

Endeavour Energy recognises that productivity improvements are necessary to keep electricity prices as low as possible. In line with our objective to improve customer value, we:

- Continued our focus on improved productivity and efficiency throughout the business, which delivered one-off savings of \$10.1 million and ongoing productivity savings of \$6.6 million since it began in 2009–10.
- Made a voluntary commitment as part of the AER determination to reduce costs by 2% per year in the 2009–2014 period, to help control upward pressure on electricity prices for customers.
- Continued our focus on strategic procurement, which has already delivered \$7 million in savings over the last two financial years.



Endeavour Energy's customers enjoy the benefits of one of the most reliable electricity networks in Australia.

In addition to these initiatives, two further cost reduction programs will commence during the year, with the following objectives:

- Reducing and/or eliminating \$22 million in corporate and network support overhead costs following the retail sale.
- Delivering reductions in network costs of \$26 million per year through improvements in field-force productivity and through the use of market testing of key functions such as maintenance and selected capital projects.

Our efficiency program throughout the business has delivered one-off savings of \$10.1 million and ongoing productivity savings of \$6.6 million since it began in 2009–10.

THE YEAR AHEAD

2011–12 Objective	2011–12 Target	2011–12 Reason
<ul style="list-style-type: none"> • Set a course for a sub-70-minute SAIDI. 	<ul style="list-style-type: none"> • By June 2012. 	<ul style="list-style-type: none"> • Improve customer value through cost effective reliability.
<ul style="list-style-type: none"> • Develop strategy to control future network tariff increases. 	<ul style="list-style-type: none"> • By June 2012. 	<ul style="list-style-type: none"> • Improve customer value through effective management of operating costs.

STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE 4 – LEVERAGE TECHNOLOGY

2010–11 Objective	2010–11 Target	2010–11 Result
<ul style="list-style-type: none"> Introduce the iSAFE vehicle system to Endeavour Energy’s fleet. 	<ul style="list-style-type: none"> Commence roll out by March 2011. 	<ul style="list-style-type: none"> First iSAFE vehicle rolled out.

Endeavour Energy is exploring technologies that allow us to better manage our network, improve productivity and, ultimately, boost customer value.

Our technology strategy has been adapted to take into account the sale of our retail business and our transition to a network-only business model.

The iSAFE vehicle system involves installing technology in company-owned vehicles that provides an emergency response function, navigation and GPS location.

Introducing the iSAFE vehicle system to Endeavour Energy’s fleet

To improve safety we are implementing the iSAFE vehicle system. This involves installing technology in company-owned vehicles that provides an emergency response function, navigation and GPS (Global Positioning System) location.

The first iSAFE vehicle has been rolled out and the project team is currently testing it against business requirements. The program is expected to continue through 2011–12 with the rollout of a further 973 iSAFE vehicles.

The iSAFE project was established to improve safety, customer value and organisational efficiency. It will do so by providing:

- the GPS location of an employee in the case of an emergency.
- a geographical view of our fleet and assets.
- navigation to Endeavour Energy assets.
- better utilisation of the fleet during crisis response periods (such as storms and high winds).
- integration with existing and future Field Force Automation (FFA) systems.



Allan Clifford, Emergency Service Officer, demonstrating the field force automation system to Rahul Reddy, IAIMS OMS Business Analyst, and Ray Baunach, Operations Manager Emergency Services. This initiative, along with the rollout of iSAFE vehicle system, will help improve our response time to customers during outages.



Each year we investigate bushfire risks arising from network defects. In 2010–11 we began using our new helicopter video system which captures high-definition imagery of our assets.

Smart grid strategy

The smart grid strategy has progressed from planning to trials and now the pilot stage. Good progress has been made with trials of substation monitoring devices and smart metering systems. We have also developed and are about to implement a system for automatic fault identification and switching for the 11kV distribution network within our Hawkesbury pilot area.

Plans are well underway for the roll-out of an optical-fibre communications network between zone substations in the Hawkesbury area. The design is complete and

vendors for the construction and supply of cable and communications equipment have been engaged. Construction started mid 2011. This initiative will provide a high-speed communications network for our Supervisory Control and Data Acquisition (SCADA) application as well as future smart grid applications.

Benefits to customers

The benefits to customers of the implementation of our technology strategy include improved network reliability, improved incident response times and greater efficiency.

Our smart grid substation monitoring devices, fault identification and restoration system will improve reliability by giving us the capacity to identify faults in real time, then automatically reconfigure the network to restore supply to most customers. This will reduce the number of customers impacted by network faults in areas in which the system has been deployed. The first system is in the process of being rolled out in the Springwood area, to be followed by a larger scheme in the Hawkesbury area.

THE YEAR AHEAD

2011–12 Objective	2011–12 Target	2011–12 Reason
<ul style="list-style-type: none"> Use technology to provide more effective operational control of the network. 	<ul style="list-style-type: none"> Strategy developed and approved by June 2012. 	<ul style="list-style-type: none"> To improve reliability, customer response and operational efficiency.

STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE 5 – MANAGE BUSINESS RISK

2010–11 Objective	2010–11 Target	2010–11 Result
<ul style="list-style-type: none"> Strengthen our controls against the risk of bushfires. 	<ul style="list-style-type: none"> By October 2010. 	<ul style="list-style-type: none"> Action plan developed to address areas in which the findings of the Victorian Bushfire Royal Commission could help strengthen our existing controls.

Risk management

In 2010–11, Endeavour Energy continued to implement the risk management framework that enables us to identify and manage risks that could affect our customers, the community, the environment, our people, assets and financial resources.

Throughout 2010–11, we reviewed the major risks to achieving our strategic objectives and developed and implemented action plans to help mitigate those risks.

The implementation of the risk management framework, as part of our corporate plan, is reported in our risk management plan. Risks to our corporate plan are continually identified and assessed across eight categories, as shown in this table:

Business risk category	Risk description
Safety	Fatality/serious injury of employee or member of public
Network	Significant customer service supply failure
Financial	Significant unbudgeted loss of value
Compliance	Material breach of legislation or licence
Reputation	Sustained public criticism
Environment	Significant environmental incident
Retail	Significant loss of value
Business strategy	Strategic objectives not delivered and business opportunities lost

Note: Retail was removed from the risk management plan following the sale of our retail business in March 2011.

THE YEAR AHEAD

2011–12 Objective	2011–12 Target	2011–12 Reason
<ul style="list-style-type: none"> Strengthen causal controls to mitigate network bushfire risk. 	<ul style="list-style-type: none"> Implement new competency standards and roll out required training by June 2012. 	<ul style="list-style-type: none"> Bushfires are a major threat to our network and the communities we serve.
<ul style="list-style-type: none"> Manage risk in transitioning the retail business to Origin Energy. 	<ul style="list-style-type: none"> Implement agreed plan by June 2012. 	<ul style="list-style-type: none"> To ensure a smooth transition and minimal disruption to customers.

Our management of business risk is based on three key behaviours:

- We are aware of our activities, operations and objectives.
- We consider what can go wrong and the consequences.
- We take action to prevent what can go wrong.

Our current risk management strategy spans the three-year period from 2010 to 2013. Our risk management process is now based on Australian Standard AS/NZS ISO31,000:2009 – Risk Management.

Both the risk management strategy and risk management plan are reviewed by the Audit and Business Risk Board Committee throughout the year. 'Risk owners' provide regular reports to management and to the Audit and Business Risk Board Committee on the results of ongoing monitoring and review of risks, and on action plans to manage and mitigate them. This has contributed to the maturing of a culture of risk management in the organisation.

Incident management and business continuity

Endeavour Energy is committed to maintaining continuity of supply and business systems during network and other events. An important function of our incident management plan therefore is to enable us to mobilise resources, communicate with stakeholders and quickly recover key business processes.

Our incident management plan provides a framework to guide the organisation through major disruptive events. Last year we embarked on a significant program to update and enhance the plan to ensure we are prepared for any type of incident.

Our business continuity and disaster recovery plans for all critical processes and systems are regularly reviewed and tested.

STRATEGIC OBJECTIVE 6 – DELIVER PERFORMANCE THROUGH PEOPLE

2010–11 Objective	2010–11 Target	2010–11 Result
<ul style="list-style-type: none"> Negotiate a new Enterprise Agreement. 	<ul style="list-style-type: none"> By December 2010. 	<ul style="list-style-type: none"> We negotiated a new Enterprise Agreement under the Fair Work Australia framework, providing wage increases for employees and productivity gains for customers.
<ul style="list-style-type: none"> Integrate refreshed values and new leadership competencies into the way we recruit, develop and promote our leaders. 	<ul style="list-style-type: none"> By June 2011. 	<ul style="list-style-type: none"> To align performance to our desired culture, we introduced our refreshed values to employees through the ethics and the reward and recognition programs. We also introduced a new performance management process for contract staff, aligned with our values and leadership competencies.

Enterprise agreement

In 2010–11, for the first time, we negotiated a new Enterprise Agreement (EA) under the Fair Work Australia framework. This resulted from legislation passed by the NSW and Commonwealth Parliaments transferring industrial agreements of NSW State Owned Corporations to the Federal Industrial Relations system. Under this framework, employees have the right to be represented by a union or their own bargaining agent.

With the Enterprise Agreement 2010 having been certified in March 2011, we are now moving to the implementation phase of the reforms contained within the agreement. The key reforms include the iSAFE/ GPS vehicle location system, effective management of allowances and freezing of the pre-93 sick leave balances. These reforms will ensure we continue to boost efficiency through more cooperative work arrangements and improvements to the competitiveness, flexibility and productivity of our organisation.

Developing people and culture

This year, we implemented the first stage in our three-year roadmap to develop our people and culture. This work included initiatives aimed at developing leaders through the introduction of new development programs for senior and middle managers.

To align performance to our desired culture we introduced our refreshed values to employees through ethics training and reward and recognition programs. We also introduced a new performance management process for contract employees, aligned with the values and new leadership competencies.

In line with our strategic objective of delivering performance through people, in 2011–12 we will continue to focus on building an engaged and capable workforce that embraces our values.

To align performance to our desired culture we have introduced our refreshed values to employees through our ethics and reward and recognition programs

A key component of these efforts will involve aligning the selection of leaders and development programs with Endeavour Energy's desired culture. This is necessary, in turn, to help leaders align the performance of managers and employees with our strategic and operational business requirements and build the desired culture throughout the organisation.

The process includes new leadership development programs for senior leaders, middle managers, operations managers in 2010–11, and leading hands during 2011–12. By June 2012, 130 managers will have completed an Endeavour Energy tailored leadership development program.

THE YEAR AHEAD

2011–12 Objective	2011–12 Target	2011–12 Reason
<ul style="list-style-type: none"> Align leadership development programs to the company's purpose and desired culture. 	<ul style="list-style-type: none"> Aligned programs in place by December 2011. 	<ul style="list-style-type: none"> To help leaders align manager and employee performance with strategic and operational business requirements and build our desired culture.

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\$496 m

Record capital investment in our network

OUR OPERATIONS

Above: Endeavour Energy's new \$22 million Claremont Meadows Zone Substation is due to become operational in late 2012.

A safe, reliable and efficient network

Endeavour Energy is committed to managing network assets in a manner that meets customers' expectations, fulfils our business needs and satisfies our obligations to stakeholders, the regulator and the community.

Our objective is to deliver a 45% increase in network investment during the current regulatory period (2009–14) – for a total expenditure on the network of \$2.7 billion approved by the Australian Energy Regulator (AER). We are now in the third year of the five-year plan, with a record capital program of \$674.4 million to deliver in 2011–12.

Why do we need this investment? Because our business faces three significant challenges:

- 1) **Servicing growth in Endeavour Energy's network area.**
To support the continued development of Sydney's northwest and southwest residential growth centres, new network infrastructure must be built. At the same time existing customer take up of appliances such as air conditioners, swimming pool pump systems and televisions is increasing peak electricity load well above natural growth.

- 2) **Renewing ageing network assets.**
Many assets in our franchise area are reaching the end of their economic and operating life and must be replaced to maintain network reliability.
- 3) **Meeting the New South Wales Government's initiatives** to improve the security and reliability of electricity supply across the state.

We need to deliver this network capital program as efficiently as possible to minimise price impacts on customers.

In developing our network strategy, we took a range of regional, climatic, asset, customer and licence requirement issues into account.

Some of these considerations are:

- Our network contains some of Australia's fastest growing communities. Maximum electricity demand has increased 16% over the past five years, well outstripping population growth.

Network Strategy

Network business objective

Provide long term customer service by developing and operating a sustainable and reliable network

Network business target outcomes and strategies

Optimise network capacity through effective demand management and investment for security and growth

Meet customers' reliability needs through better management of planned and unplanned outages

Provide customers with value for money over the long term by improving the effectiveness and efficiency for capital and operating programs

- As land use continues to shift from rural and semi-rural to urban and light commercial, customers expect improved reliability performance.
- Peak temperatures across the network are typically higher and stay high for longer than those of central Sydney and other coastal areas.
- Eighty-one percent of households in Greater Western Sydney now have air conditioning units, compared with 51% in the Illawarra and 50% in the Blue Mountains. This has resulted in a 'peakier' load pattern in hot weather requiring more assets to service demand that only exists for a short time each year.
- The uptake of other appliances such as televisions, in-home computers and entertainment systems. This trend is also changing consumption patterns, resulting in heightened customer expectations and awareness about reliability and security of supply.
- Many network assets were built in the infrastructure boom of the 1960s and 1970s and are approaching the end of their useful lives.

Major projects approved by the Board during 2010–11

In response to growing demand and the need to renew ageing assets, 12 major projects for a total of \$206.9 million were approved by the Board this year. Construction will commence in coming years.

Description	Estimated budget (\$M)
Chipping Norton Zone Substation establishment	23.1
Abbotsbury Zone Substation establishment	35.1
Huntingwood Zone Substation establishment	27.5
Augmentation of 33kV electricity lines 443 (from Cattai Zone Substation to Windsor Zone Substation) and 458/1 (from Hawkesbury Transmission Substation to Cattai Zone Substation)	20.7
Establishment of a new 66kV electricity line from Nepean Transmission Substation to Narellan Zone Substation	9.7
Bulli Zone Substation redevelopment	18.5
Port Kembla Zone Substation redevelopment	20.0
West Liverpool Transmission Substation transformer renewal	5.4
Northmead Zone Substation redevelopment	22.1
Ringwood Zone Substation redevelopment	6.0
33kV Circuit Breakers renewal program	8.0
Ringwood 33kV electricity line 7906 renewal	10.8
Total	206.9

A SAFE, RELIABLE AND EFFICIENT NETWORK

Major works in progress 2010–11

In addition, works were undertaken for the construction of 55 major capital projects valued at \$436.4 million, which are detailed in the following pages.

Description	Cost (\$)			Practical completion date	Comments
	Before 2010–11	2010–11	Total cost to date		
Abbotsbury ZS Establishment	843	135,979	136,822	Feb 2014	Construct a new 132/11kV indoor zone substation. Includes related mains and distribution works.
Blackheath ZS Redevelopment	651,738	2,849,793	3,501,531	Aug 2012	Rebuild existing 66/11kV substation.
Bulli ZS Redevelopment	34,121	319,959	354,080	June 2013	Construct a new 33/11kV indoor substation within the existing property.
Canley Vale ZS Redevelopment	139,596	1,388,070	1,527,666	July 2013	Construct a 33/11kV indoor zone substation. Includes related mains and distribution works.
Castle Hill ZS Redevelopment Stage 2	145,136	1,845,905	1,991,041	May 2017	Rebuild existing 66/11kV substation with indoor switchgear.
Casula ZS Establishment	32,257	546,271	578,528	Oct 2013	Construct a new 33kV/11kV indoor zone substation.
Cawdor ZS Establishment	1,223,195	6,715,641	7,938,836	May 2012	Construct a new 33/11kV substation.
Cheriton Ave ZS Establishment	14,872,742	15,437,302	30,310,044	Sept 2012	Construct a new 132/11kV indoor substation.
Chipping Norton ZS Establishment	–	193,410	193,410	Oct 2013	Construct a new 33/11 kV indoor zone substation. Includes related mains and distribution works.
Claremont Meadows ZS Establishment	6,283,957	7,546,710	13,830,667	April 2012	Construct a new 33/11kV indoor substation.
Connection Works for the Establishment of Macarthur BSP	6,371,237	2,701,606	9,072,843	June 2012	Connection works associated with the new TransGrid Macarthur Bulk Supply Point.
Corrimal ZS Redevelopment	102,867	1,103,732	1,206,599	Oct 2013	Construct a new control building to house new switchgear and electrical equipment. Install two new transformers.
Dapto ZS Augmentation	8,717,169	4,724,917	13,442,086	Aug 2011	Replace two existing transformers with three higher capacity units. Replace 33kV outdoor switchgear with indoor units.
Doonside ZS Establishment	10,770,576	9,041,283	19,811,859	Nov 2012	Rebuild existing substation with a new higher capacity 132/11kV indoor substation.

Major works in progress 2010–11 *continued*

Description	Cost (\$)			Practical completion date	Comments
	Before 2010–11	2010–11	Total cost to date		
East Richmond ZS Establishment	333,940	5,776,352	6,110,292	Sept 2012	Construct a new 33/11kV indoor substation to replace the existing Richmond ZS.
Fairfax Lane TS Busbar Augmentation	–	2,316	2,316	Aug 2012	To maintain transformer capacity by installing 132kV circuit breaker and installing or replacing 132kV busbar protection on several bus sections.
Figtree ZS Establishment	82,912	1,895,324	1,978,236	May 2013	Establish a new 33/11kV indoor zone substation. Rebuild existing 33kV electricity line to a higher rating.
Gerringong ZS Augmentation	2,037,103	2,244,138	4,281,241	June 2012	Replace two existing transformers with higher capacity units. Replace all switchgear.
Glenorie ZS Establishment	14,262	132,180	146,442	Aug 2013	Construct a new 33/11kV modular substation.
Granville ZS Establishment	13,778,640	11,652,294	25,430,934	April 2012	Construct a new 132/11kV indoor substation to replace the existing substation.
Holroyd Bulk Supply Point	–	59,694	59,694	April 2013	Works associated with the new TransGrid Bulk Supply Point.
Huntingwood ZS Establishment	–	82,585	82,585	Oct 2013	Construct a new 132/11kV substation.
Jasper Rd ZS Redevelopment	4,755,078	981,126	5,736,204	Complete	Replace 11kV indoor switchgear.
Kemps Creek ZS Redevelopment	214,854	3,864,336	4,079,190	Mar 2012	Extend control room to accommodate new 11kV switchboard.
Lawson TS Redevelopment	11,082,994	1,754,961	12,837,955	June 2012	Rebuild existing 132/66kV substation with indoor 66kV GIS switchgear.
Liverpool ZS Establishment	13,404,477	8,010,775	21,415,252	Mar 2012	Construct a new 132/33kV indoor substation.
Mittagong ZS Augmentation	92,885	797,950	890,835	Dec 2011	Install a third transformer and associated switchgear.
Mobile Zone Substation Acquisitions	4,317,464	2,259,175	6,576,639	Aug 2011	Establish new 132/11kV and 66/11kV mobile substations.
Mt Ousley ZS Establishment	16,903,782	916,461	17,820,243	May 2012	Establish a new 33/11kV indoor substation.
Mungerie Park ZS Establishment	26,955,765	1,814,243	28,770,008	Complete	Construct a new 132/22kV indoor substation.

A SAFE, RELIABLE AND EFFICIENT NETWORK

Major works in progress 2010–11 *continued*

Description	Cost (\$)			Practical completion date	Comments
	Before 2010–11	2010–11	Total cost to date		
Nepean TS to Narellan ZS Feeder	782	58,761	59,543	Aug 2012	Construct a new 66kV underground electricity line.
Nepean ZS Establishment	466,491	3,648,968	4,115,459	Aug 2012	Construct a new 66/11kV indoor substation to replace the existing Camden substation.
North Eastern Creek ZS Establishment	11,731,634	1,602,831	13,334,465	May 2012	Construct a new 132/11kV substation.
North Warragamba ZS Augmentation	5,181,635	715,200	5,896,835	Complete	Install a new transformer and associated switchgear.
Northmead ZS Redevelopment	31,496	726,360	757,856	April 2014	Redevelop the existing substation with a new 33/11kV indoor control building.
Nowra ZS Augmentation	3,853,889	3,439,794	7,293,683	Sept 2011	Install two transformers with higher capacity units.
Oran Park Establishment – Line Works	1,634,391	7,257,890	8,892,281	July 2012	Construct two new 132kV electricity lines to supply Oran Park ZS.
Penrith TS Redevelopment	28,037,961	5,742,246	33,780,207	Feb 2012	Construct a new 132/33kV indoor substation.
Port Kembla ZS Redevelopment	26,068	190,004	216,072	Nov 2013	Construct a new 33/11kV indoor substation to replace the existing Port Kembla substation.
Ringwood ZS Redevelopment	1,099	56,373	57,472	Oct 2013	Install new 11kV switchgear and associated equipment.
Rouse Hill SS Establishment	12,234,619	100,407	12,335,026	Complete	Developed a new indoor 132kV switching station.
Russell Vale ZS Augmentation	6,856,504	98,433	6,954,937	Sept 2012	Replace two transformers with higher capacity units.
Rydalmere ZS Redevelopment	5,330,532	1,672,495	7,003,027	Oct 2015	Rebuild existing 66/11kV substation with indoor 66kV GIS switchgear.
Schofields ZS Establishment	5,073,844	11,741,398	16,815,242	July 2012	Construct a new 132/11kV indoor substation.
Sherwood ZS Augmentation	6,133,578	368,304	6,501,882	Complete	Replace existing transformers with low noise units.
South Granville ZS Redevelopment	192,790	1,409,177	1,601,967	Oct 2013	Construct a new 33/11kV indoor substation.
South Nowra ZS Augmentation	2,558,957	2,258,978	4,817,935	Oct 2011	Replace existing transformer with higher capacity unit. Construct a new control room to house new 11kV switchboard.

Major works in progress 2010–11 *continued*

Description	Cost (\$)			Practical completion date	Comments
	Before 2010–11	2010–11	Total cost to date		
The Oaks ZS Establishment	27,810	116,388	144,198	Jan 2014	Construct a new 33/11kV modular substation.
Tomerong ZS Establishment	32,137	251,891	284,028	Feb 2014	Construct a new 33/11kV indoor substation.
West Liverpool ZS Establishment	6,898,357	5,737,204	12,635,561	Aug 2012	Construct a new 33/11kV indoor substation to replace Hoxton Park ZS.
West Parramatta ZS and East Parramatta SS Establishment	6,715,876	5,598,332	12,314,208	Dec 2013	Construct a new 132/11kV indoor substation and a new 132kV indoor switching station, and associated feeder works.
Wetherill Park West TS/ZS Establishment	23,720,676	184,211	23,904,887	Aug 2011	Construct a new 132/11kV zone substation and a 132/33kV transmission substation.
Whalan ZS Augmentation	5,199,336	1,340,553	6,539,889	Complete	Install a new third transformer and associated 11kV switchgear.
Wilton ZS Establishment	1,078,123	1,609,628	2,687,751	July 2012	Construct a new 66/11kV substation.
Windsor ZS Augmentation	3,657,169	3,742,579	7,399,748	Dec 2014	Rebuild existing substation with a higher capacity indoor substation.

Network maintenance

Our Strategic Network Maintenance Plan (SNMP), which is part of our Strategic Asset Management Plan, analyses maintenance needs against business objectives and details the strategies we require to ensure assets meet our network strategy. This work includes vegetation management, asset inspections and pre-summer bushfire inspections of our overhead electricity lines in bushfire-prone areas.

The plan is reviewed and updated annually to identify what network maintenance activities will be needed over the ensuing 12-months.

In 2010–11, Endeavour Energy achieved the delivery of a record maintenance program at a cost of \$226.4 million, compared with our 2009–10 expenditure of

\$211.1 million, and 94% compliance with our maintenance target. Our maintenance performance contributed to our continued improvement in system reliability at 72 minutes lost per customer per year.

Maintenance activities and expenditure this year included:

- \$21.3 million on vegetation management to maintain safety clearances, reduce outages, improve reliability and manage bushfire risk.
- \$16.7 million on metering including the reading of meters and to provide information for billing purposes.
- \$16.3 million for fault and emergency work following weather related events and third party incidents.

- \$14.2 million on preventative maintenance and inspections on the transmission and distribution network.
- \$14.2 million on condition based maintenance.
- \$10.6 million for expenses related to the contestable customer connection works including transformers and switchgear paid by the customer.
- \$6.8 million for the overhead line and pole inspection program, involving the inspection of 93,108 poles.
- \$6.6 million on street lighting including replacing 62,033 lamps.
- \$119.5 million largely on network operating overheads and other maintenance activities.

A SAFE, RELIABLE AND EFFICIENT NETWORK

Solar feed in tariff scheme

On 1 January 2010 the NSW Government introduced the Solar Bonus Scheme to implement a 60 cent per kWh feed-in tariff for roof top photovoltaic (PV) systems and wind turbines up to a maximum of 10 kW.

In creating the Solar Bonus Scheme the Government had a number of objectives including encouraging and supporting those who want to generate renewable energy as a response to climate change and to increase public exposure to renewable energy technology to encourage the whole community to respond to climate change.

The Scheme was limited to customers with an annual electricity usage of less than 160 MWh. For eligible small retail customers, this feed-in tariff was credited on a gross metered basis.

The credit is paid by distributor businesses to customers via their retailers. The recovery of the costs associated with the Solar Bonus Scheme commenced on 1 July 2011.

The Scheme rapidly gained interest from the public leading to higher than expected subscription to it and ultimately resulting in changes to the Scheme on 27 October 2010 following the outcomes of a review of the Scheme's first six months of operation. Two of the primary changes to the Scheme were the cessation of the previous 60c per kWh rebate to be replaced by a 20c per kWh rebate, and the introduction of a target 'cap' for NSW of 300MW of small scale solar PV generation capacity. The revised

Scheme provided for the Minister for Energy to close the Scheme to new entrants once the 'cap' of 300MW of generation capacity was installed and connected to the energy grid.

On 1 July 2011, the Minister, by way of notice in the Gazette, closed the NSW Solar Bonus Scheme, citing that 300MW of small scale solar PV had been installed and connected in NSW.

The Government also provided transitional amendments to the *Electricity Supply (General) Regulation* that allowed customers who had made an application prior to 29 April 2011 to continue to connect a generator and receive the Solar Bonus Rebate notwithstanding the closure of the Scheme.

The Government has also asked the Independent Pricing and Regulatory Tribunal (IPART) to review certain actions to manage costs arising from the installation of small scale generators and their impact on electricity prices and taxpayers, while continuing to support a sustainable renewable energy industry in NSW.

Following the conclusion of this review, Endeavour Energy expects that minor administrative and implementation issues will need to be addressed.

Endeavour Energy has absorbed the substantial implementation and administration operating costs of the Scheme. As at 30 June 2011, these costs are estimated to approach \$3.9 million over the life of the Scheme. These costs will be funded through efficiency initiatives so customers will not be impacted by

the additional costs imposed on us for administering the scheme.

The table below shows the breakdown of customers currently connected and those predicted to connect as of 3 July 2011. If all customers enter the scheme as expected, a total of 47,362 customers will be involved, representing a solar generation capacity of 105.9MW.

In response to defects identified as a result of the Department of Fair Trading inspection regime on existing solar installations, Endeavour Energy has taken the lead in developing an agreed minimum inspection regime for new solar installations by NSW electricity distributors.

Demand management

One way of reducing the cost of network management is to investigate demand management alternatives to network augmentation for specific capital expenditure projects.

Where feasible, Endeavour Energy investigates and implements projects that modify demand as an alternative to spending money to upgrade the network. Projects may include negotiating with high-use customers to move peak loads away from the network peak conditions or implementing projects to reduce overall usage in those peak times.

Endeavour Energy recognises there is an imperative to ensure electricity is delivered reliably, and in an energy efficient and environmentally responsible manner, which is why we evaluate demand-side as well as construction options in the network planning process.

Solar customers connected

	60 cent per kWh rate	20 cent per kWh rate	Total
Customers currently connected	37,294	4,712	42,006
Generation capacity	84.1MW	10.0MW	94.1MW
Approved customers applications yet to be connected	299	5,057	5,356
Generation capacity	1.5MW	10.3MW	11.8MW

The NSW Code of Practice – Demand Management for Electricity Distributors (the DM Code) requires distributors to facilitate input into the planning of major network upgrades to allow for the development of demand management and other system support options.

The DM Code calls for a ‘reasonableness test’ to be performed for all capital projects to determine if a public process is required for investigating non-network alternatives. Endeavour Energy performs this test and summarises the results in its annual Network Demand Management Plan (DM Plan).

The test helps determine whether a request for proposals (RFP) or similar process is to be issued. An RFP is a public process in which the distributor invites interested stakeholders to make submissions for system support options, to be evaluated against network options.

The table below outlines our completed 2010–11 Network Demand Management Plan projects:

Demand management projects implemented during current year.

	Description	Peak demand reduction (kVA)	CO ₂ reduction	Present value of costs of Demand Management Project	Present value of total of capital expenditure deferment plus operating expenditure savings
Arndell Park / Huntingwood industrial area	Customer demand reduction identified and implemented	6,900	Estimated to be 2,430 T CO ₂ e pa (greater than 10 years)	\$1,093,000 over 3 years	\$1,951,000 (avoided distribution cost)
Westmead Hospital	Major Customer demand reduction implemented	1,600	Estimated to be 563 T CO ₂ e pa (greater than 10 years)	\$239,000 over 2 years	\$498,000 (avoided distribution cost)
Subtotals		8,500	Est. 2,993 T pa	\$1,332,000	\$2,449,000

The Network Demand Management Plan also details major projects planned in the next three years and as listed in the 2011 Electricity System Development Review. The table below lists the projects that have passed the reasonableness test and for which an RFP is to be issued.

Project	Fin year	RFP issue	RFP results	Decision
Minto ZS	2011–12	Sept 2011	Feb 2012	April 2012
Woodpark ZS	2012–13	Sept 2012	Feb 2013	April 2013
Bowral ZS	2013–14	Sept 2013	Feb 2014	April 2014

Where the DM Code reasonableness test indicates that a public RFP process is not warranted, Endeavour Energy may still perform an in-house investigation with specific major customers (generally those responsible for creating the peak demand) to identify the potential for demand reduction.

Planned in-house demand management investigation

Project	Completion date
Kentlyn ZS	June 2012

RETAIL – TRANSITIONING TO A NETWORK-ONLY BUSINESS

Retail

Integral Energy, as our organisation was previously known, managed an integrated retail and network business for 53 years. During this time, Integral Energy's retail division managed sales and marketing for over 850,000 homes and businesses across rural and metropolitan New South Wales and South East Queensland. Our customer base also included some large corporate clients in Victoria and the Australian Capital Territory.

On 14 December 2010, the NSW Government announced it had entered into a contract for the sale of the retail business assets of Integral Energy to Origin Energy. This sale included the ownership of the Integral Energy customers, brand and wholesale agreements.

The completion of the sale on 1 March 2011 represented the start of a transition to a state-owned electricity network business under the new brand of Endeavour Energy, and the implementation of a Transition Services Agreement with Origin Energy.

Transition services agreement

As part of the sale process, Endeavour Energy entered into a Transition Services Agreement (TSA)

to provide retail services to Origin Energy. The agreement covered both short-term services (such as sales and marketing and forecasting) and longer-term functions (such as billing and call centre). Each function is defined in a service schedule, which includes agreed key performance indicator targets.

While the sale of the Integral Energy retail business assets and brand is a catalyst for shaping future network-only business structures within the NSW distribution sector, there remain a number of important transition arrangements related to the sale that Endeavour Energy must manage well over the current planning cycle.

These include people issues, effective management of the TSA with Origin Energy, the IT transition and rebranding efforts. The effective management of these issues, in parallel with the proposed integration of the state's distribution businesses, is critical to the successful transfer of the retail operation – and to the establishment of a sustainable network-only business model.

For these reasons, managing risk in transitioning the retail business to Origin Energy has been identified as a breakthrough priority action in 2011–12. (See business risk section on page 16.)

Essential customer service

Endeavour Energy operates two customer interaction centres (CIC) at Huntingwood and Coniston. These centres manage retail and network related customer calls.

In September 2010, retail service hours were changed to align with customer demand, with operating hours from 8.00am to 8.00pm weekdays and Saturday mornings. From 1 March 2011, the CIC continued to manage retail customer calls on behalf of Origin Energy as part of our Transition Services Agreement.

This year our call centres received a total of 1,333,027 calls, of which 413,225 retail calls were received on behalf of Origin Energy.

The number of retail complaints we received increased this year from 8,568 in 2009–10 to 9,964 for 2010–11. The top issues for customers related to concerns about high bills and doorknocking activities in New South Wales and Queensland. In response to customers' concerns about consumption, our Customer Care group conducted 1,324 home-energy audits and 138 phone-energy audits to help them reduce their energy use.

OUR NEW BRAND

The Endeavour Energy brand, launched on 1 March 2011 as the new name for the poles and wires business of the former Integral Energy, reflects the serious and sincere effort we make every day to deliver power to some of Australia's largest regional economies.

At the same time, ownership of Integral Energy's brand transferred to Origin as part of the sale.

Since the launch of the new network brand we have focused on the staged rebranding of signage, fleet vehicles, stationery, uniforms, and publications across all parts of the organisation. The bulk of the rebranding process is due to be completed by the end of December 2011.



Ty Christopher, General Manager Network Development unveils our new brand in Wollongong.

Network-related calls increased from 114,043 to 144,534. This 27% increase was largely the result of the Fathers' Day windstorm in September 2010.

Network complaints also increased, from 2,598 the previous year to 3,298. This increase is attributable to the introduction and management of customer network connections to the Solar Bonus Scheme and changes to the feed-in tariff (see page 24 for details). The 2010 September windstorm also had an impact on this result.

This year also saw a slight increase in the number of compliments received – from 245 in 2009–10 to 287 in 2010–11. Compliments were predominantly received from customers who were appreciative of employee efforts to restore power during storm conditions or for exceptional customer service.

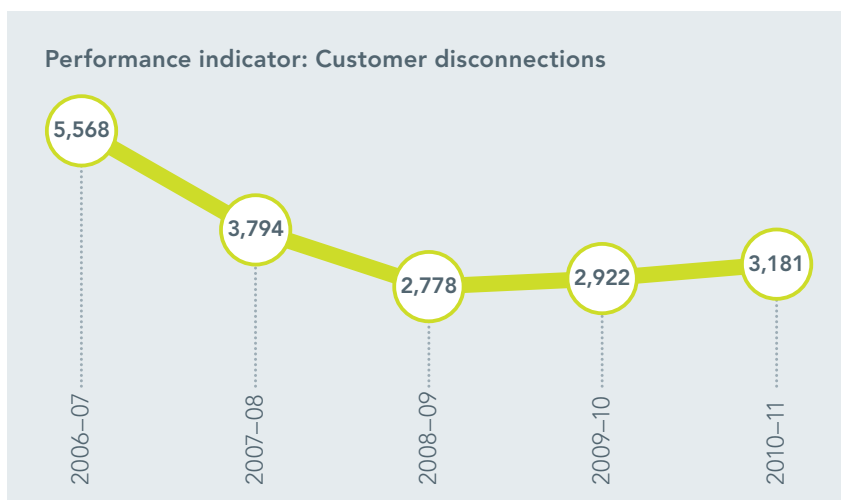
Supporting customers in hardship

Management of cases involving customers in financial hardship continued throughout the year, with the number of customers enrolled on the INpower program peaking during December 2010 at almost 8,000.

In March 2010, we began a small trial with a sample group of INpower customers to use an in-home energy monitoring device, providing them with information on their usage in real dollar terms.

The trial, which concluded in September 2010, showed positive results. Overall total electricity consumption of the trial group dropped by 13%. A survey of the participants indicated that 96% of respondents found the tool useful in understanding their electricity usage and that they would continue to use it to cut their consumption.

The INpower program has been incorporated into the Transition Services Agreement from 1 March 2011. Origin has also endorsed the continuation of our home



energy audits and presentations to community groups.

During the year, Customer Care presented to 26 community groups, including associations representing the aged, disability services and a variety of ethnic groups. The topics of the talks included energy-saving tips and other assistance available, such as free energy audits and government programs including EAPA and energy rebates. The talks were well

received and usually resulted in further requests for presentations from other organisations through recommendations.

Resulting from the introduction of the INpower hardship program, customer disconnections since 2006 has declined. During 2010–11, 3,181 customers (2842 residential and 339 small commercial), were disconnected only as an act of last resort.



Left to right: Peter George, Heidi Howell and Wendy Graham, three of our Huntingwood based Customer Service Representatives.

04



253

apprentices employed
by Endeavour Energy

OUR PEOPLE

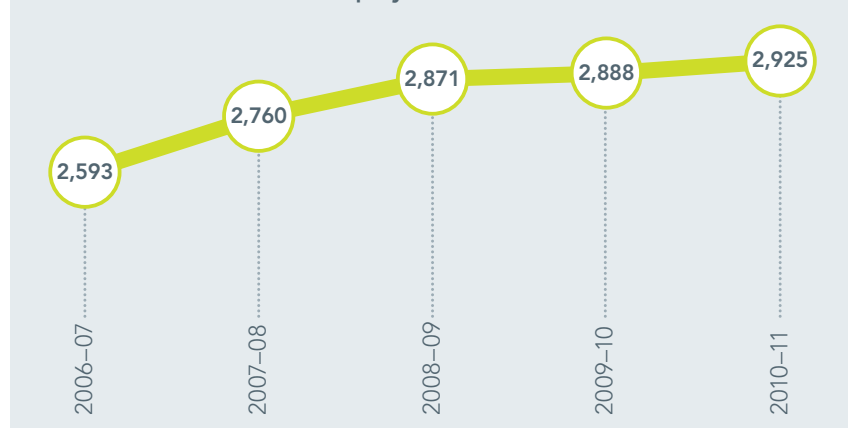
Above: Left to right: Second Year Apprentice, Michael Baiada, with Leading Hand Technologist, Graeme Sydenham, at Penrith Transmission Substation.

Endeavour Energy understands that to achieve our business goals and deliver better value to our customers, we need an engaged and capable workforce that demonstrates our values and culture. During 2010–11 we grew our network workforce to support our capital investment program, and introduced a number of programs to develop the leadership and skills of our employees.

Endeavour Energy employees

Endeavour Energy's workforce grew to 2,925 full-time equivalent staff in 2010–11. This represents an increase of 1.3% over the previous year. New appointments included 60 apprentices and 19 participants in engineering development programs. Our network workforce grew by 3.5% over the same period, as a result of a targeted recruitment campaign to support the network investment program.

Performance indicator: Employee numbers 2006–2011



Employees	2006-07	2007-08	2008-09	2009-10	2010-11
Total employees ^a	2,593	2,760	2,871	2,888	2,925
Increase (%)	5.5	6.4	4.0	0.6	1.3

^a Employee numbers are based on full-time equivalents
Note – this excludes Board Members

New apprentices vital to our workforce

Sixty new Electrical Supply Industry distribution apprentices began in-depth training at Endeavour Energy's Hoxton Park Training Centre and Miller TAFE this year.

These new apprentices were selected from more than 720 applicants from NSW and interstate.

Endeavour Energy now employs 253 apprentices.

Award-winning apprentices

Endeavour Energy's apprenticeships continue to be keenly sought and attract the best and brightest applicants. Trent Smith (South Western Sydney) and Ron McCloughan (Illawarra) claimed the prize for their regions in the best Electricity Supply Industry (ESI) Distribution/Cable Jointing category in 2011.

In addition, we were declared joint runners-up with Bovis Lend Lease in the 2010 Minister's Awards for Excellence in Apprenticeships (Sydney region), run by the Australian Government.

Registered training organisation (RTO) status

In May 2011, the Vocational Education and Training Accreditation Board (VETAB) conducted an AQTF2007 compliance audit based on Endeavour Energy's scope of registration as a training organisation. This was the third external audit conducted by VETAB since 2000 in which we achieved zero non-compliances. Our registration as a registered training organisation is now current until June 2016.



The power workers of tomorrow: Endeavour Energy's 2010 intake of First Year Apprentices.

People policies and practices

Endeavour Energy is committed to building an engaged, capable workforce that will enable us to achieve our business priorities. The engagement of employees, the alignment of culture to business strategy and the building of organisational capability are three key areas of strategic focus that guide the development and implementation of a broad program of initiatives. These are discussed in more detail on page 17.

Leadership and development programs

Endeavour Energy has a clear view of the leadership capability we need to deliver our business strategy. It has been defined in our Leadership Competency Framework which in turn forms the basis of how we develop and manage the performance of our leaders.

Leadership competency framework

Development of leaders continues to be a major focus. We have rolled out programs for most management levels, and further programs targeting frontline leadership are in advanced stages of development.

ENDEAVOUR ENERGY EMPLOYEES

04

Trades and engineering development programs

To ensure we have adequate numbers of trained professionals in our ranks, Endeavour Energy continues to run targeted development programs for critical skill types. As part of these programs, employees complete formal qualifications while gaining hands-on experience in placements throughout the Network Division. At 30 June 2011, almost 10% of the workforce (284 employees) was participating in these on-the-job development programs.

Mobility

Endeavour Energy’s employee mobility team was established in 2010 to support the redeployment of employees whose positions have been impacted by organisational reforms, including the sale of our Retail business on 1 March 2011.

During 2010–11, we:

- Completed the successful redeployment of meter readers, saving the organisation over \$700,000 in budgeted labour costs by doing so ahead of time.
- Planned and prepared for all staffing implications associated with the sale of Integral Energy’s Retail business.
- Commenced the process of working closely with employees affected by the sale by assigning each person their own career development coach and putting in place steps to prepare them for the change to their careers.

The employee mobility team will continue to provide assistance to managers and employees who are affected by change and organisational reforms in the years ahead.

Employee relations

Endeavour Energy managed a number of industrial relations issues in 2010–11, continuing to focus on gaining employee-related cost



Left to right: First Year Distribution Apprentices Adam Tabone and Joel Baker developing hands-on skills in low voltage cable jointing procedures at our state-of-the-art Hoxton Park Technical Training Centre.

savings to offset wage increases introduced in the Conditions of Employment Award 2008.

These included:

- Customer Information Centre roster reform.
- Changes in our motor vehicle policy.
- Introduction of shift based rapid response team.
- Implementation of other savings items from the 2008 award including the expansion of the new rapid response team.
- The negotiation and certification of the Endeavour Energy Enterprise Agreement 2010.

Each of these items were addressed by specific consultative committees, where the process of change was discussed and input from employees sought prior to the initiation of an implementation phase. Some initiatives required the support of the NSW Industrial Relations Commission and Fair Work Australia during implementation.

There was no time lost to industrial action during the year.

Equal employment opportunity

As part of our 'Bridging the Gap' Aboriginal Employment Strategy, we ran an Indigenous development program in conjunction with TAFE. Eleven participants commenced the program, with two participants commencing an apprenticeship with Endeavour Energy.

We also developed a new program to enable employees who are away from the workplace for extended periods on long-service, sick or parental leave to keep in touch with changes and information relevant to their work.

To support working families, Endeavour Energy continues to provide an onsite childcare facility at Huntingwood. Employees who have children in the centre may pay

for the service from their pre-tax earnings. In addition, we continue to offer 14 weeks' paid parental leave (or 28 weeks at half pay) or one week paid paternity leave to employees after the birth of a child.

Endeavour Energy also began the process of benchmarking itself against similar organisations to find other areas for potential improvement.

Equal employment opportunity statistics

Trends in the representation of equal employment opportunity groups (% of total staff, excluding casual staff)

Representation	Benchmark or target (%) ^a	2006-07	2007-08	2008-09	2009-10	2010-11
Women	50.0	22	22	20.7	20.7	20.0
Aboriginal people and Torres Strait Islanders	2.6	0.9	1	0.9	1.0	1.0
People whose language first spoken as a child was not English	19.0	8	8	7.7	8.1	8.8
People with a disability	N/A	4	4	3.9	3.7	3.6
People with a disability requiring work-related adjustment	1.5	0.5	0.3	0.3	0.2	0.2

^a Set by NSW Government

Note: Employee numbers are as at 30 June

Trends in the distribution of equal employment opportunity groups (Distribution Index)

Distribution Index	Benchmark	2006-07	2007-08	2008-09	2009-10	2010-11
Women	100	100	103	105	106	105
Aboriginal people and Torres Strait Islanders	100	96	97	100	99	94
People whose language first spoken as a child was not English	100	112	115	116	113	115
People with a disability	100	99	101	103	104	104
People with a disability requiring work-related adjustment	100	-	-	-	-	-

Note 1: A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other employees. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other employees. The more pronounced this tendency, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels.

Note 2: The Distribution index is not calculated where the EEO group or non-EEO group numbers are less than 20.

05



\$1.3m

total of workplace giving donations made to 11 charities since 2004 (includes organisation matching)

OUR COMMUNITY

Above: The Younes family enjoying the Hot Air Balloon display at Parramatta Park on Australia Day. Endeavour Energy has been a community partner of Australia Day for 15 years.

Endeavour Energy has a complex and diverse stakeholder base that includes government, regulators, shareholders, customers, employees, media and suppliers.

Public consultation on key projects

Engaging the community and other stakeholders in open and honest dialogue is critical to the success of Endeavour Energy's operations. When planning major capital works we undertake comprehensive stakeholder impact assessments.

We engage closely with local residents, businesses, councils, state Members of Parliament and other stakeholders to ensure our works are carried out in a way that minimises impacts on the day-to-day activities of the community.

In 2010–11, major projects on which we engaged with local communities included:

- New major substations in Tomerong, Casula, Chipping Norton, The Oaks and West Tomerong.
- Upgrades of zone substations in Bomaderry, Bulli, Ringwood, Rydalmere and South Granville.
- The establishment of East Parramatta Switching Station.
- New transmission lines in Eastern Creek, Blue Mountains, Granville and Liverpool.

Customer consultative committee

Endeavour Energy's Customer Consultative Committee comprises important stakeholder groups: business and residential customers, senior citizens, community organisations and multicultural groups. It provides us with valuable information and insights into issues that impact our customers and the wider community.

In 2010–11, the committee contributed to discussions on topics from both a retail and network perspective, including energy price rises and customer hardship, our human resources strategy, the proposed sale of Integral Energy's retail business and peak resourcing strategy.

Resulting from the sale of Integral Energy's retail business on 1 March 2011, Endeavour Energy's Customer Consultative Committee is now focused on topics relating to its network business and operations.

Multicultural policies and services program

Endeavour Energy's corporate values commit the organisation to acknowledging and valuing cultural diversity across our stakeholder base. This commitment is evident in our delivery of customer service, management of employees and interactions with suppliers, communities and other stakeholder groups.

Customers

We strive to ensure that appropriate services are offered to our multicultural customer base and that customers are not disadvantaged because of their cultural backgrounds.

Data collected from the 2006 Census indicates that 29% of people living in our franchise area – Sydney's Greater West, the Blue Mountains, the Southern Highlands and the Illawarra – were born outside Australia. Approximately 28% of the population in the area comes from non-English-speaking backgrounds. Other than English, the three most common languages spoken in the area are Arabic (3.7%), Vietnamese (2.0%) and Cantonese (1.8%).

We aim to provide the same level of service to our customers – any of whom may need to contact us. To this end we provide an interpreter service that allows customers to speak their own language. Arabic and Vietnamese-speaking customers are the main users of the service, which is supplied by the Australian Government Department of Immigration and Multicultural and Indigenous Affairs.

As an electricity retailer (until 1 March 2011), this interpreter service number was printed on the back of customer bills and on the front page of the standard service contract.

Our Customer Consultative Committee also considers the ethnic and cultural needs of customers. The committee provides valuable feedback and advice about our policies and services. Its membership includes representatives of Aboriginal and other communities.

Employees

Endeavour Energy is committed to fostering an environment in which the diversity in the workplace is respected and valued as a source of new ideas and perspectives. Our commitment includes encouraging diversity across all areas of employment, including recruitment, remuneration, training, development and career progression and accommodating the needs of employees in their observance of religious duties and cultural obligations while at work.

To help strengthen employment opportunities for Indigenous people, we have implemented the PowerStart Program in conjunction with TAFE as a part of our 'Bridging the Gap' Indigenous Employment Strategy. This program resulted in two participants starting apprenticeships with us this year.

Engaging the community and other stakeholders in open and honest dialogue is critical to the success of Endeavour Energy's operations

Focus for 2011–12

- Assess key network documents and ensure critical documents are available on Endeavour Energy's website for network customers in other languages.
- Develop the Endeavour Energy Diversity Framework to formalise and integrate our work to entrench and celebrate diversity in the workforce, addressing cultural, disability, indigenous and EEO issues.
- Continue with our 'Bridging the Gap' strategy to increase Indigenous participation in the workforce to 2.6% by 2015.



Customer Consultative Committee member David Gordon touring the East Parramatta Switching Station site, where an archaeological dig was in full swing.

SUPPORTING OUR COMMUNITY

05

REPAIRING QUEENSLAND FLOOD AND CYCLONE DAMAGE

Endeavour Energy crews joined the effort to restore power to 380,000 Queensland customers in early 2011 after flooding in Brisbane and damage caused by Cyclone Yasi.

In total 64 employees headed north to help repair extensive damage to the electricity network. Twenty-one of them spent three weeks in Tully and Mission Beach, among the worst affected areas in Northern Queensland, helping Ergon Energy restore power to homes, schools and businesses.

The crews were part of Australia’s largest-ever deployment of electricity field staff assigned to clean up after a major weather event. In some communities, the damage caused by Yasi meant the network had to be rebuilt from the ground up.



Prior to this effort, 43 employees and vehicles assisted ENERGEX to restore power to homes and businesses in flood-affected Brisbane. While in the city, our crews – mostly electrical fitters – inspected networks, replaced meters, reconnected customers to services and undertook underground inspections and repairs.

Investment in the community

Community partnerships

Endeavour Energy’s community partnership program is designed to build relationships with the community we serve through initiatives supporting youth, education, safety and business excellence. Recipients must meet the social, environmental and regional development obligations set out in the *NSW State Owned Corporations Act*, and partnership programs must align with our strategic purpose, value and brand.

In 2010–11, we provided \$581,000 to community partners which included support for:

- Australia Day celebrations across Western Sydney and the Illawarra.
- Business Award programs across Western Sydney, the Illawarra, Blue Mountains and South Coast.

- Youth sport programs targeting healthy lifestyles including those of the Western Sydney Rugby League Academy, the Department of Education’s NSW Schools Sports Foundation and the Illawarra and South Coast Surf Life Saving Clubs.
- Arts and cultural programs for young people including ARTEXPRESS and Schools Spectacular.

In line with our cost-saving programs, our community partnership funding has been reduced by 40% over the past three years and was further reviewed following the sale of Integral Energy’s retail business to Origin Energy in March 2011.

Workplace giving

Since its launch in July 2004, our workplace giving program *I care!* has donated more than \$1.3 million to 11 employee-selected charities. Employees have the opportunity to make pre-tax donations to

the program and their donations are matched dollar-for-dollar by Endeavour Energy up to \$150,000 per year. Currently, 9% of our employees participate in *I care!*

Queensland Flood appeal

In 2010–11 Queensland was devastated by floods that disrupted the lives of more than 200,000 people in 22 towns and cities. In response to this disaster, Endeavour Energy set up a pre-tax payroll deduction option for employees to make a one-off donation to the Salvation Army’s Queensland Flood Appeal. (The Salvation Army is one of our workplace-giving charity partners.) Thanks to the generosity of our employees and an agreed dollar-for-dollar corporate matching fund, we were able to donate over \$100,000 to the Salvos’ appeal.

8%

reduction in greenhouse emissions caused by our fleet

ENVIRONMENT

Above: 'Our commitment to environmental responsibility' – the theme for an employee photo competition to raise awareness of the environment. This was the winning photo taken by Operations Manager, Rodney Quick.

As a socially responsible business, Endeavour Energy is mindful of its obligation to achieve sustained reductions in direct and indirect greenhouse gas emissions.

A key part of our environmental strategy therefore is to drive an organisational response to reduce our own carbon footprint.

Environmental policy

Endeavour Energy's environmental policy is based on respect for the environment and community in which we operate and the needs of future generations. The scope of this challenge is reflected in our Environment Strategy, under which the business seeks continual improvement through four key initiatives:

- Responding to climate change.
- Improving our performance.
- Continuing to learn and driving cultural change.
- Engaging with stakeholders.

Compliance

Endeavour Energy is required to comply with a number of state-based and national environmental schemes. Broadly, these schemes aim to reduce greenhouse gases or to improve energy efficiency for businesses and consumers.

In 2010–11 we complied with the mandatory environmental requirements of the NSW Greenhouse Gas Reduction Scheme (GGAS), the Australian Government's Large Scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES), the Queensland Government's 13% Gas Scheme (GEC) and the NSW Energy Savings Scheme (ESS).

The major change during the financial year was the commencement of the Small-scale Renewable Energy Scheme on 1 January 2011 to create small scale certificates primarily from solar panels from small sites (such as residential housing). The first quarterly surrender for this scheme occurred in April 2011. The final acquittal for the scheme will occur before 14 February 2012 and finalise Endeavour's liability in light of the retail sale.

The Commonwealth Government-proposed carbon tax due to start on

1 July 2012 is expected to impact the present schemes. These impacts will become clearer in the lead up to the tax's introduction.

Greenhouse gas emissions

Total greenhouse gas emissions directly attributed to our activities were 649,608 tonnes of carbon dioxide equivalent (CO₂e). Total greenhouse emissions relating to distribution network line losses decreased by 5% to 627,129 tonnes of CO₂e. Emissions from our vehicle fleet decreased by 8% compared to 2009–10 while emissions from electricity consumption increased by 12%.

Throughout 2010–11, Endeavour Energy continued to implement and monitor energy efficiency projects to reduce emissions. These projects included:

- Three new energy-efficiency systems installed at field service centres. Eight systems are now installed across the business.
- The continuation of a computer shutdown initiative where non-essential computers are automatically shut down outside normal working hours.

Greenhouse gas emissions

Emissions source	Consumption	Consumption units	Tonnes CO ₂ -e	% of total emissions
SCOPE 1 EMISSIONS				
Petroleum products combusted in transport vehicles	3,880.23	Kilolitres	9,744	1.5
Petroleum products combusted in stationary units (generators)	155.51	Kilolitres	417	0.06
HFC Losses	Estimated		321	0.05
SF ₆	85	Kilograms	2,002	0.31
Combusted petroleum based oils and greases	9.79	Kilolitres	22.47	0
Acetylene	14.40	M ³	0.74	0
Bottled LPG	30.60	Kilograms	47.10	.01
Total scope 1 emissions			12,584	1.93
SCOPE 2 EMISSIONS				
Electricity consumed by Endeavour Energy	11,150,872	kWh	9,924	1.53
Distribution network line losses	704,640	MWh	627,130	96.54
Total scope 2 emissions			637,054	98.07
EMISSION REDUCTIONS				
Energy production	33,519	kWh	0	n/a
GreenPower™	2,265,452	kWh	0	n/a
Total emission reductions			0	n/a
NET GHG EMISSIONS				
Scope 1 + Scope 2 – Reductions			649,608.31	100

Note: some data has been estimated

As a result of the introduction of the National Carbon Offset Standard, Endeavour Energy has changed the way in which greenhouse gas emissions are reported. Emissions are now reported in terms of scopes rather than what has been included in Endeavour Energy’s greenhouse reduction program. This new reporting format better aligns to the requirements of the National Carbon Offset Standard as well as ISO 14064.

- The continuation of the fleet policy that includes the replacement of six-cylinder with four-cylinder vehicles and the increased purchasing of E10 fuel.

Reflecting community perceptions of the environment and the desire for affordable electricity, Endeavour Energy will review the organisation’s climate change position statement and voluntary target. The objective of this review will be to establish a position that reflects stakeholder expectations and achieves cost-effective reductions in greenhouse gas emissions. As a result of this review, carbon offsets have not been purchased for the 2010–11 financial year.

Sustainability policy

Endeavour Energy has voluntarily adopted the New South Wales Government Sustainability Policy which prioritises sustainable water and energy use, efficient waste management, fleet management and sustainable purchasing.

Waste management

We are committed to the sustainable management of waste streams and encourage waste minimisation through avoidance, reuse and/ or recycling. During 2010–11 we diverted 7,728 tonnes of materials from landfill, and recycled 629,971 litres of oil removed from our network. This includes 364,379 litres of oil reused through a process of energy recovery, where oil is used as

a fuel in high temperature industrial furnaces or similar.

In addition to maintaining our ongoing focus on diverting waste from landfill, we also continued to improve the accuracy and efficiency of our waste data-management systems and developed innovative waste management relationships with contractors.

Water use

As a result of the additional office space acquisitions, water consumption increased by 5 % compared to 2009–10. Despite this increase all new Endeavour Energy office buildings and refurbishments are required to meet high water-efficiency standards, which will continue to drive efficient water use.

Environmental management system

Our environmental management system and strategy are key tools in improving our performance. Developed in accordance with the ISO 14001 international standard, the environmental management system continues to evolve along with our performance and the strengthening regulatory environment.

Thanks to Endeavour Energy's focus on regulatory compliance we faced no fines or prosecutions in 2010–11. However two incidents required reporting to the regulator under the *NSW Protection of the Environment Operations Act 1997*.

The first incident occurred in September 2010 when a third-party truck struck a pole top transformer at Guildford. An estimated 200 litres of oil was lost from the transformer, with limited migration into the nearby stormwater drain.

The most recent incident occurred in April 2011, arising from an Endeavour Energy elevated work platform vehicle accident and subsequent diesel spill in Werombi.

An analysis of all environmental incidents recorded during the year found:

- Fifty-four environmental incidents were reported, of which two were deemed 'notifiable' to the Environment Protection Agency.

- The majority of incidents (69%) were spills of insulating or hydraulic oil.
- Erosion and sediment control practices contributed to a further 10% of incidents.
- Nine complaints were received during the period, mostly associated with poor sediment control practices.

We took appropriate corrective action to deal with all 2010–11 incidents.

Site investigation and remediation

Our proactive approach to the management of environmental risks is exemplified by our ongoing contaminated land investigation and remediation program, including former Endeavour Energy sites. This aligns with our Strategic Asset Management Program to investigate contamination that may pose a risk to workers excavating in network and non-network sites.

Reflecting this approach, an investigation commenced in November 2009 of the residential properties surrounding Fairfield Zone Substation. The investigations identified low levels of groundwater and soil contamination that appeared to be associated with a former creosote tank (removed in 1998). While the contamination poses no adverse health risk, the site was reported to the Environment

Protection Authority in accordance with the 'Guideline on the Duty to Report Contamination under the *Contamination Land Management Act 1997*'.

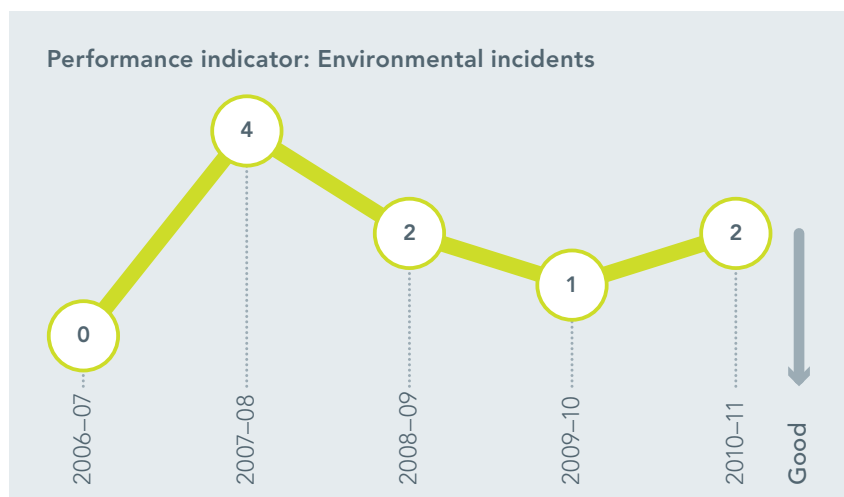
To date there have been a number of investigations, which have contributed to the development of a Remediation Action Plan (RAP). Based on recommendations from an Environment Protection Authority accredited auditor, we prepared a Work Plan for additional soil vapour testing to provide greater certainty regarding our remediation strategy for the site. The Work Plan will be implemented in 2011–12 in consultation with surrounding residents and key stakeholders.

We are also continuing our due diligence in monitoring environmental conditions in our field service centres, to aggregate our knowledge and ensure compliance with regulations. A key success in 2010–11 was the remediation of the former Springhill Transmission Substation yard, to facilitate the redevelopment of Springhill Field Service Centre.

Our proactive approach to the management of environmental risks is exemplified by our ongoing contaminated land investigation and remediation program

Improving environmental awareness

Ongoing engagement of employees and cultural change are key factors in improving our environmental performance. We conducted environmental refresher training across our regions in 2011. The topics discussed were selected according to a risk-assessment evaluation – using data from environmental incidents, minor works assessments and environmental survey results.



07



Endeavour Energy is a statutory state-owned corporation, established under the *Energy Services Corporations Act 1995 (NSW)* and the *State Owned Corporations Act 1989 (NSW)*. It is governed, principally, by the two statutes mentioned and its Constitution.

GOVERNANCE

Above: Trade Assistant, Gregory Braley, working to install underground distribution cables to connect Doonside Zone Substation.

Endeavour Energy's Board and Executive believe good governance is a prerequisite for a high-performing organisation with a sustainable future. It helps ensure we deliver the outcomes our shareholders expect, supports our people and business operations and sets the framework for sound ethical, financial and risk management practices and effective compliance and auditing programs.

Board of Directors

In accordance with the *Energy Services Corporations Act 1995 (NSW)*, the *State Owned Corporations Act 1989 (NSW)* and the *Constitution* of Endeavour Energy, the Board consists of the Chief Executive Officer (Executive Director), one Unions NSW nominee, and at least two and not more than five other directors.

All members of the Board of Directors, with the exception of the Chief Executive Officer, are appointed by the voting shareholders for terms of up to five years. Appointments may be renewed by the voting shareholders. A vacancy in the office of director (with the exception of the Chief Executive Officer and Unions NSW nominee) is filled by a nominee of the voting shareholders.

Each non-executive director's remuneration is determined by the voting shareholders and is paid out of Endeavour Energy's funds. The Chief Executive Officer is not entitled to additional remuneration for being an Executive Director.

Role and responsibilities of the Board

The Board is responsible for the corporate governance of Endeavour Energy, which includes setting the strategic direction, establishing performance targets as set out in the Statement of Corporate Intent, and monitoring the achievement of those targets.

The Board undertakes to serve the interests of the voting shareholders, as well as its employees, suppliers and customers and the broader community, honestly, fairly, diligently and in accordance with all applicable laws. It delegates to the Chief Executive Officer responsibility for implementing the strategic direction and for managing the day-to-day operations of Endeavour Energy.

The Board of Directors operates at all times in accordance with its Charter which is designed to complement the Constitution of Endeavour Energy, the Director's Manual, and the Board's Code of Conduct.

ENDEAVOUR ENERGY'S GOVERNANCE AND ORGANISATIONAL STRUCTURE



Integrated suite of ethical principles

Board Code of Conduct

Outlines the unique obligations and responsibilities of the Board and expectations as to the conduct of Directors.

Code of Ethics

Sets out the principles and values by which employees of Endeavour Energy are expected to act.

Statement of Business Ethics

Outlines Endeavour Energy's expectations of private sector service providers in conducting business with Endeavour Energy.

Board and Board Committee meetings 2010-11

Name	Board of Directors ^a		Audit and Business Risk		Human Resources and Remuneration		Retail Risk ^b		Retail Transition ^b		Transaction Approval	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
M. McLeod	14	14	5	5	5	5 ^c	8	8	3	3	2	2
T. Downing	14	14	5	5	5 ^d	5	8	8	3	3	2	2
J. Fahey	14	13	5 ^d	5	3	3 ^c	-	-	-	-	-	-
P. Le Couteur	14	13	3	3 ^c	5	4	8 ^d	8	3 ^d	3	-	-
R. Quill	5	5	2	2 ^c	1	1	-	-	-	-	-	-
P. Sinclair	14	12	5	5	5	4	-	-	-	-	-	-
V. Graham	14	14	5	5 ^c	5	5	8	7	3	3	2	2
D. Lucas	-	-	-	-	-	-	1	1 ^e	-	-	-	-

a. The Board held Special Meetings on 14 December 2010, 21 February 2011 and 10 March 2011 in connection with the Retail Transaction.

b. The Retail Risk Board Committee meeting was rechartered as the Retail Transition Board Committee following the Retail sale in March 2011.

c. Attended the meeting(s) as an invitee.

d. Chair of the Board Committee

e. Daniel Lucas attended the nominated meeting as Acting CEO.

BOARD OF DIRECTORS

07



**Michael
McLeod**

**Terry
Downing**

**John
Fahey**

**Penny
Le Couteur**

**Paul
Sinclair**

**Vince
Graham**

**Ron
Quill**

Michael McLeod

FAICD

Chairman, Non-Executive Director

Michael McLeod was appointed a non-executive director in March 2000 and Chairman in March 2002.

Term (including reappointments):
1 March 2000 – 31 August 2012

Chairman of the Board from
1 March 2002

Terry Downing

*BComm, MMgmt, DipBusStudies
(Insurance), FAICD, CPA*

Deputy Chairman, Non-Executive Director

Terry Downing was appointed a non-executive director in March 2000 and Deputy Chairman in March 2002.

Term (including reappointments):
1 March 2000 – 31 August 2012

Deputy Chairman of the Board
from 1 March 2002

John Fahey AC

DipL

Non-Executive Director

John Fahey was appointed a non-executive director in March 2002.

Term (including re-appointments):
1 March 2002 – 29 February 2012

Penny Le Couteur

BSc (Hon), AAICD

Non-Executive Director

Penny Le Couteur was appointed a non-executive director in May 2008.

Term (including reappointments):
14 May 2008 – 31 May 2014

Paul Sinclair

DipIR, DipHRM

Non-Executive Director, Unions NSW Nominee

Paul Sinclair was appointed a non-executive director in January 1999.

Term (including reappointments):
1 January 1999 – 15 October 2013

Vince Graham

BE(Civil), Grad Dip Mgmt, FAICD

Chief Executive Officer and Executive Director

Vince Graham was appointed Chief Executive Officer and Executive Director on 7 April 2008. Mr Graham was reappointed Chief Executive Officer for a further period of three years to April 2014.

Ron Quill

BE(Civil)

Non-Executive Director

Ron Quill was appointed a non-executive director in December 2010.

Term: 21 December 2010 –
20 December 2013

Board meetings

The Board is scheduled to meet on a monthly basis and more regularly as required. Urgent matters requiring Board approval that arise between scheduled meetings can be dealt with by way of circulating resolution or by the Transaction Approval Committee in accordance with its Charter.

Board committees

The role of the Board is to provide strategic guidance for the corporation and effective oversight of its management. In undertaking this role, the Board has established committees to assist it.

The Board Committees in 2010–11 were as follows:

- Audit and Business Risk Board Committee.
- Human Resources and Remuneration Board Committee.
- Retail Risk Board Committee (rechartered as the Retail Transition Board Committee following the retail sale in March 2011).
- Transaction Approval Committee.

EXECUTIVE LEADERSHIP TEAM



**Vince
Graham**

**Rod
Howard**

**Irina
White**

**Daniel
Lucas**

**Bruce
Rowley**

**Joseph
Pizzinga**

**Drew
Ferguson**

Vince Graham

BE (Civil), Grad Dip Mgmt, FAICD

Chief Executive Officer

Rod Howard PSM

BE (Hons), MEngSc, BBus, MBA, GAICD

Deputy Chief Executive Officer Network

Irina White

DipT, GradDipCommMan, MAdmin, MAICD

Company Secretary

Daniel Lucas

BBus, CA

Deputy Chief Executive Officer Corporate

Bruce Rowley

BBus, AssDipLG

General Manager Support Services

Joseph Pizzinga

BCom, AssocDipAcc, CPA

Chief Financial Officer

Drew Ferguson

MComm (Workplace Relations)

General Manager Health and Safety

Changes to the Executive Leadership Team

Liz Schenke resigned from Endeavour Energy as Group General Manager Corporate Services effective 5 April 2011.

Ethics and conduct

Our *Code of Ethics* sets out the corporate values and behaviours expected of employees when performing their duties. Supporting the code is the *Statement of Business Ethics* which sets out the business principles for our dealings with suppliers. These documents, which were updated to reflect our revised values in 2010–11, are available on our website.

The Board and Executive Leadership Team demonstrate commitment to prevent, detect, investigate and respond to fraud and corruption through the monitoring and reporting of initiatives in the company's Fraud and Corruption Control Plan. Building on the progress made with the delivery of initiatives from the 2009–2010 Plan, the Fraud and Corruption Control Plan was updated and endorsed by the Executive Leadership Team and approved by the Audit and Business Risk Board Committee in July 2010.

A key initiative in this plan is the delivery of a five-year Ethics Communication and Engagement Strategy. The strategy was developed to make Endeavour Energy's corporate values meaningful to employees in their everyday work, to encourage a culture of personal accountability for behaviour and to provide tools to apply in ethical dilemmas.

The Year 2 Program (2010–11) of the strategy included the training of 160 leaders to deliver ethics awareness sessions to employees. Over 95% of employees attended the leader-led sessions. Those unable to attend studied an e-learning module.

Two senior managers were awarded ICAC scholarships to attend the 2010 Corruption and Anti-Corruption Executive Program run jointly by the Australian National University and the ICAC, and to complete projects aimed at building an ethical workplace.

One project developed an Ethical Leadership Module to equip leaders with fraud and corruption prevention tools and supervision techniques that will help them identify fraud risks and fraudulent behaviour. Another, which was featured in ICAC's May 2011 Corruption Matters publication, focused on a refresh of the organisation's *Statement of Business Ethics*, and a review of fraud and corruption prevention in the procurement process.

The Year 3 Program (2011–12) of the strategy is currently being finalised.

Fraud risk register

An initiative in Endeavour Energy's Fraud and Corruption Control Plan 2010–2012 requires a company wide fraud risk assessment (FRA) to be conducted every two years. In August 2010, before the FRA began, we conducted a review of the risks in our Fraud Risk Register.

A definition of a 'fraud and corrupt conduct risk' was also developed and applied during the register review and subsequent FRA. The risks were then segmented into business process categories to help ensure better practice in the management of fraud risk.

Likewise, treatment action plans were developed for each of the fraud risks. These are being implemented and monitored by the various divisions, in line with the 2011–12 risk management plan.

In early 2011, a new company procedure was developed to define the process for maintaining and updating the register. This included a requirement for employees to establish a way to identify new fraud risks in their areas of responsibility, on an ongoing basis.

Conflicts of interest

To ensure their independent status, all directors of Endeavour Energy are subject to the statutory duties and prohibitions regarding conflicts of interest.

We rely on the integrity of the Board of Directors to identify and disclose issues which may give rise to a conflict of interest. The Company Secretary maintains the Register of Disclosures which is reviewed, as a minimum, every six months to ensure the information held by the organisation is up to date.

Further to the declarations contained in the Register of Disclosures, Directors are required to declare any real or perceived conflicts of interest in relation to the matters before the Board or Board committee that would interfere with their exercise of independent judgment as a

Director. Any such declarations will be added to the register.

Non-executive directors are entitled to accept positions with other companies. However, directors must observe their duties as set out in the *Energy Services Corporations Act 1995*, the *State Owned Corporations Act 1989*, the *Board Code of Conduct*, the *Code of Ethics* and general law, in accepting any position with another company and, in particular, those duties relating to conflicts of interest.

Compliance

Endeavour Energy's Strategic Compliance Plan supports the continual improvement, implementation and measurement of a compliance management framework aligned to the Australian Standard AS 3806–2006: Compliance Programs. The plan's primary aim is to assist us in focusing on people, processes and systems to support compliance.

The Executive Leadership Team and Audit and Business Risk Board Committee monitor the progress of initiatives in the Strategic Compliance Plan. Regular monitoring and reporting is in place for key legal and regulatory obligations such as Workplace Safety, Retail and Network Licence Compliance and Management Representations. This includes financial compliance and compliance with Statement of Corporate Intent obligations.

Compliance control frameworks are reviewed on an ongoing basis. Subjects for review include the accountabilities of people who have the authority to commit the organisation to expenditure. Non-compliances are reported to the Board.

Internal audit

The Board and Executive Leadership Team are committed to the operation of an objective and independent internal audit function. They support this through allocating resources, by approving the annual audit program and monitoring its

completion, reviewing executive summaries of individual audits and monitoring the implementation of audit recommendations.

Internal Audit assists management to achieve Endeavour Energy's statutory and business objectives by adopting a disciplined approach to evaluating and improving risk management, controls and governance processes.

To support a strong internal audit function, an independent external quality assurance review of internal audit is required at least once in three years. The May 2009 review concluded that the internal audit methodology and practices used are in line with the standards of the Institute of Internal Auditors and good practice. We expect the next review will take place within the next 12 months.

As at 30 June 2011, Internal Audit had delivered the targets in the approved audit program in the year under review. In addition, each division met the key performance indicator of nil overdue audit recommendations aged greater than 90 days.

During the year, Internal Audit also provided assurance and recommendations for control improvements in key operations and activities in the network and retail businesses and support functions, as well as a pre-implementation review of the governance and controls relating to the transition of the retail business.

External audit

The Auditor-General of New South Wales provides independent external audit services through the Audit Office of New South Wales. It provides no other services to Endeavour Energy.

Insurance

Endeavour Energy reviews the adequacy of insurance policy coverage and limits during each annual insurance renewal process and ensures all participating markets meet acceptable insurer security requirements.



08

\$245m operating profit after tax

Above: Plant operator, Vince Sammut.

MANAGEMENT DISCUSSION & ANALYSIS

Overview

Endeavour Energy is required to submit a Statement of Corporate Intent (SCI) to NSW Treasury. The SCI is an agreement with the NSW Government which documents the objectives, strategies and obligations by which the business is expected to operate. The SCI sets financial targets and sets clear limits on the scope of activities the business may undertake.

In 2010–11, Endeavour Energy maintained a strong performance, through continued focus on business fundamentals, financial discipline and corporate governance. During the year our Retail net assets (including the Integral Energy brand name) were sold, and activities relating to the purchase and sale of electricity ceased.

Endeavour Energy's 2010–11 SCI financial targets incorporate the impact from the sale of Retail net assets and reflects a network only structure effective 1 March 2011. It should be noted that 2009–10 outcomes reflect the results of Retail operations for the whole year.

Profit results

Endeavour Energy's profit before tax result was \$354.3 million (excluding the gain on sale of Retail net assets amounting to \$759.3 million), exceeding the 2010–11 SCI target of \$290.9 million (excluding an estimated gain on the sale of Retail net assets amounting to \$748.2 million). The better than expected profit result was due to favourable:

- gross margin driven by the recovery of Solar Bonus payments via the Climate Change Fund (with the SCI assuming no recovery of these costs)
- other revenue primarily driven by the recognition of section 20(N) net cost reimbursements in accordance with section 20(N)(3) of the *State Owned Corporations Act 1989*
- higher capital contributions, and
- lower borrowing costs.

Excluding the impact from the gain on sale of the Retail net assets, Endeavour Energy's actual profit after income tax in 2010–11 increased by \$65.7 million compared to 2009–10. This was primarily driven by an increase in network use of system (NUoS) income of \$159.5 million driven by tariff increases in line with regulatory allowances and the recovery of Solar Bonus payments via the Climate Change Fund, and increases in capital contributions of \$16.9 million and other income of \$28.5 million driven by Transition Services Agreement revenue and the recognition of section 20(N) net cost reimbursements.

These increases were partly offset by increases in operating expenditure totalling \$49.6 million, predominantly due to increases in transmission use of system charges, depreciation and amortisation of \$14.9 million and finance costs of \$5.0 million. In addition, the net contribution from discontinued Retail operations (excluding the gain on sale of the Retail net assets) decreased by \$23.6 million compared to the previous year.

Financial results*	2009–10 Result	2010–11 SCI	2010–11 Result	Variation to SCI
Earnings before interest, tax, depreciation and amortisation (EBITDA) (\$m)	589.0	654.8	711.6	56.8
Earnings before interest and tax (EBIT) (\$m)	439.3	488.4	546.9	58.5
Operating profit before tax (\$m)	251.6	290.9	354.3	63.4
Operating profit after tax (\$m)	179.0	243.6	244.7	1.1
Dividend (\$m)	142.6	163.1	156.8	-6.3
Special Dividend (\$m)	0.0	863.7	863.7	0.0
Total Distribution (Dividend + Income Tax Expense) (\$m)	215.3	1074.1	1130.1	56.0
Return on assets (%)	9.5	9.9	10.8	0.9
Return on equity (%)	17.3	20.9	20.5	-0.4
Capital Expenditure (\$m)	417.4	509.0	496.4	-12.6

*Excludes the impact of the gain on sale of Retail net assets.

Balance sheet

Endeavour Energy's total assets increased by \$218.5 million compared to the previous year. The major contributing factors included an increase of \$436.2 million in property, plant and equipment resulting from increased capital expenditure and system asset valuation outcomes. This was partly offset by reductions in trade and other receivables (\$100.0 million), estimated revenue from unread meters (\$78.6 million) and emission rights (\$11.7 million), primarily resulting from the sale of Retail assets.

Return on assets, calculated as EBIT (excluding the gain on sale of Retail net assets) divided by the average asset base, increased from 9.5% in 2009–10 to 10.8% at 30 June 2011. EBIT increased by 24.5% while average assets increased by 9.2% as compared to the prior year.

Total liabilities increased by \$139.1 million compared to the previous year driven by an increase in borrowings (inclusive of discounts/premiums) of \$203.2 million, primarily due to the need to fund the capital expenditure program. This was partly offset by a reduction in trade and other payables in the amount of \$87.5 million primarily resulting from the sale of Retail net assets.

Return on equity, calculated as profit after tax (excluding the gain on sale of retail net assets) divided by average equity, was 20.5%. This result increased from the 2009–10 outcome of 17.3%, with a 36.7% increase in profit after tax compared to an increase of 15.6% in average equity.

Cash flows

Cash and cash equivalents at the end of the financial year decreased by \$27.1 million compared to the prior year. Net cash flows provided by operating activities for the year were \$353.5 million, a decrease of \$46.9 million compared to 2009–10.

This decrease was primarily driven by the sale of Retail net assets on 1 March 2011, following which retail business cash flows were no longer realised.

Net cash flows from investing activities for the year were \$433.9 million, a significant increase of \$841.7 million compared to the prior year, primarily driven by net proceeds from the sale of Retail net assets amounting to \$928.7 million.

Net cash flows used in financing activities for the year were \$814.5 million, an increase of \$840.4 million compared to 2009–10 result, primarily due to payment of the special dividend from the sale of Retail net assets amounting to \$863.7 million.

Unused credit facilities as at 30 June 2011 totalled \$650.8 million.

Debt

Balance sheet debt increased by \$203.2 million compared to the prior year, primarily due to the requirement to fund the capital expenditure program. The gearing ratio, calculated as debt divided by debt plus equity, increased marginally from 67.7% at 30 June 2010 to 68.0% at 30 June 2011. This result was driven by 8.4% increase in debt compared to a 7.9% increase in debt plus equity. Equity increased primarily due to the net impact of movements in the asset revaluation reserve, driven by system asset revaluation outcomes, and recycling of the retail related hedge reserve to comprehensive income as part of accounting for the sale of Retail net assets.

Shareholder return

Endeavour Energy is committed to delivering sustainable and commercial returns to its shareholder, the NSW Government. The directors declared a final dividend of \$156.8 million, representing a

decrease of \$6.3 million or 3.9% compared to the 2010–11 SCI target, but an increase of \$14.2 million compared to the prior year.

Dividend distribution is calculated in accordance with TPP 09-06 Financial Distribution Policy for Government Businesses based on a base payout ratio of 70% applied to the post-tax profit adjusted for non cash fair value movements on financial instruments. The post-tax profit on which the dividend is calculated excludes profit on the sale of Retail net assets on which a special dividend amounting to \$863.7 million was paid during the year.

The final dividend distribution has also been reduced by estimated net out of pocket tax equivalent liability amounts payable as a result of an unfavourable ATO ruling in relation to tax neutrality with respect to the sale of Retail net assets.

Capital expenditure

Capital expenditure for the 2010–11 financial year was \$496.4 million, \$12.6 million below the 2010–11

SCI target. The capital program continues to target asset renewals as well as growth-related projects. The capital program is underpinned by Endeavour Energy's Strategic Asset Management Plan (SAMP). The SAMP reflects plans and strategies which are aligned to customer and technical drivers, improve long-term network asset values and produce optimal returns to shareholders. The plan sets priorities and summarises the investment in the network required to maintain ongoing network capability, consistent with a 'best in class' network asset manager.

Credit rating

Moody's Investors Services assigned a public credit rating of Aa3 with a stable outlook. Organisations rated Aa are judged to be of high quality and are subject to very low credit risk. This rating reflects NSW Government ownership of Endeavour Energy. The modifier 3 indicates a ranking in the lower end of the generic rating category.



Our \$21.1 million redevelopment of Rydalmere Zone Substation features a unique design, which complements homes in the area.

CONTENTS

Directors' Report	47
Independent Auditor's Report	48
Statement of Comprehensive Income	49
Statement of Financial Position	50
Statement of Changes in Equity	51
Statement of Cash Flows	53
Notes to the Financial Statements	54
Statement by Directors	92

The Board of Directors of Endeavour Energy (the Corporation), formerly Integral Energy, have pleasure in submitting the accounts of the economic entity for the period 1 July 2010 to 30 June 2011, and the independent audit report thereon.

1 General information

(a) Directors

The names of Directors in office at any time during the year are shown on page 40.

Details of meetings and attendance by Directors are shown in the Corporate Governance section on page 39.

(b) Principal Activities

The principal activities of the Corporation during the course of the period ended 30 June 2011 were the purchase, distribution and sale of electricity, meter data provision and maintenance, and the construction and management of electricity distribution assets.

On 14 December 2010, the former Integral Energy received a Ministerial Direction under section 20N(1) of the *State Owned Corporations Act 1989* in relation to the sale of its retail net assets. On 21 February 2011 a further Ministerial Direction under section 20N(1) of the *State Owned Corporations Act 1989* in relation to affected retail employees impacted by the sale of the retail net assets. The Integral Energy retail net assets, along with the Integral Energy brand name, was sold on 1 March 2011, at which time activities relating to the purchase and sale of electricity ceased. Integral Energy was renamed Endeavour Energy following the sale of the Integral Energy brand name.

2 Business review

(a) Operating Results

The after tax profit of the Corporation for the year was \$1,004.0m (2010: \$179.0m), including a gain on the sale of the Retail net assets in the amount of \$759.3m.

3. Other items

a State of Affairs

Endeavour Energy is a New South Wales state-owned energy corporation incorporated under the *Energy Services Corporation Act 1995* and operates within the terms of the *Electricity Supply Act 1995* on behalf of its shareholder, the New South Wales Government.

During the year the former Integral Energy's retail net assets, along with the Integral Energy brand name was sold, and activities relating to the purchase and sale of electricity subsequently ceased.

The financial statements for the Corporation for the period ending 30 June 2011 are presented on pages 49 to 91 inclusive.

(b) Events Subsequent to Balance Date

There has not arisen, in the interval between the end of the financial period and the date of this report, an event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.

(c) Likely Developments

The Corporation's purpose is encapsulated in the statement: Everyday we deliver to our communities the ability to live and the energy to grow. Endeavour Energy continues to remain focussed on operating a safe, reliable and sustainable network by maintaining a strong commercial focus, balancing commercial outcomes whilst managing stakeholder and community expectations, effectively delivering the core business processes that drive the business, and fully harnessing the skills and capabilities of our people through a clear focus on organisational alignment underpinned by the values of the Corporation.

Further information about likely developments in the operations of the Corporation and the expected results of those operations in subsequent financial years has not been included in this report as the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the Corporation.

(d) Directors' Benefits

During the period no Director of the Corporation has received, or become entitled to receive, any benefits by reason of a contract made by the Corporation or a related body corporate with a Director, or with a firm of which a Director is a member, or with an entity in which a Director has a substantial interest.

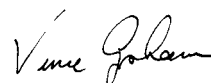
(e) Environmental Regulation Performance

The Corporation's environmental and waste discharge obligations are regulated under both State and Federal Law. All environmental performance obligations are monitored by the Environmental Steering Committee and subjected, from time to time, to Government agency audits and site inspections. The Corporation has a policy of at least complying, but in most cases exceeding, its environment performance obligations.


(f) Rounding of amounts

Amounts in the financial statements have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

Signed in accordance with a resolution of the Directors:



Vince Graham
Director 22 September 2011



Michael McLeod
Director 22 September 2011

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2011

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

ENDEAVOUR ENERGY

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Endeavour Energy (the Corporation), which comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Auditor's Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2011, and of its financial performance for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010

My opinion should be read in conjunction with the rest of this report.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the *State Owned Corporations Act 1989*, the PF&A Act and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

My opinion does *not* provide assurance:

- about the future viability of the Corporation
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.

Peter Achterstraat
Auditor-General

26 September 2011
SYDNEY

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$'000	2010 \$'000
Revenue	3	1,136,535	977,006
Other income	3	145,721	99,395
Expenses excluding finance costs	4	(795,341)	(730,785)
Finance costs	4	(192,586)	(187,610)
Profit before income tax		294,329	158,006
Income tax expense	6	(91,602)	(44,575)
Net profit for the year after income tax from continuing operations		202,727	113,431
Profit/(loss) from discontinued operation after income tax	5	801,270	65,548
Net profit for the period		1,003,997	178,979
Other comprehensive income			
Defined benefit plan actuarial gains/(losses)	14(g)	(5,443)	(3,566)
System asset revaluation	12	54,537	362,036
Revaluation of land and buildings	12	6,598	(32,001)
Effective portion of changes in fair value of cash flow hedges	21(h)	5,628	(26,809)
Net change in fair value of cash flow hedges transferred to profit or loss	21(h)	75,531	(4,658)
Income tax on other comprehensive income	6(c)	(41,057)	(88,502)
Other comprehensive income for the period, net of income tax		95,794	206,500
Total comprehensive income for the year		1,099,791	385,479

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Note	2011 \$'000	2010 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	8(a)	3,288	30,355
Trade and other receivables	9	209,924	309,965
Inventories	10	27,305	37,463
Derivative financial assets	21(g)	40,173	70,947
Estimated revenue from unread meters		48,483	127,037
Emission rights		7,689	19,406
Non-current assets classified as held for sale	11	4,800	4,800
Total current assets		341,662	599,973
Non-current assets			
Trade and other receivables	9	17,332	–
Property, plant and equipment	12	4,711,941	4,275,733
Intangible assets	13	73,333	63,290
Derivative financial assets	21(g)	14,803	1,598
Total non-current assets		4,817,409	4,340,621
TOTAL ASSETS		5,159,071	4,940,594
LIABILITIES			
Current liabilities			
Trade and other payables	15	251,990	322,547
Borrowings	17	399,495	461,353
Current tax payable		43,039	32,397
Provisions	18	140,866	128,694
Provision for dividend	2(z)	156,758	142,610
Derivative financial liabilities	21(g)	41,163	75,521
Other	16	14,571	26,954
Total current liabilities		1,047,882	1,190,076
Non-current liabilities			
Trade and other payables	15	17,332	34,288
Borrowings	17	2,217,989	1,952,945
Deferred tax liabilities	7	457,380	390,950
Derivative financial liabilities	21(g)	17,314	43,755
Provisions	18	167,992	170,912
Other	19	–	3,819
Total non-current liabilities		2,878,007	2,596,669
TOTAL LIABILITIES		3,925,889	3,786,745
NET ASSETS		1,233,182	1,153,849
EQUITY			
Contributed equity		335,046	335,046
Reserves		710,041	610,437
Retained earnings		188,095	208,366
TOTAL EQUITY		1,233,182	1,153,849

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	Note	Contributed Equity \$'000	Retained Earnings \$'000	Asset Revaluation Surplus \$'000	Hedge Reserve \$'000	Total \$'000
Balance at 1 July 2010		335,046	208,366	668,378	(57,941)	1,153,849
Total comprehensive income for the period						
Profit or loss		–	1,003,997	–	–	1,003,997
<i>Other comprehensive income</i>						
Defined benefit plan actuarial gains/(losses)	14(g)	–	(5,443)	–	–	(5,443)
System assets revaluation	12	–	–	54,537	–	54,537
Revaluation of land and buildings		–	–	6,598	–	6,598
Net change in fair value of cash flow hedges	21(h)	–	–	–	5,628	5,628
Net change in fair value of cash flow hedges transferred to profit or loss	21(h)	–	–	–	75,531	75,531
Income tax on other comprehensive income	6(c)	–	1,631	(18,341)	(24,347)	(41,057)
<i>Total other comprehensive income</i>		–	(3,812)	42,794	56,812	95,794
<i>Total comprehensive income for the period</i>		–	1,000,185	42,794	56,812	1,099,791
Transactions with owners, recorded directly in equity						
Transfers to retained earnings		–	3	(3)	–	–
Income tax on transfers to retained earnings		–	(1)	1	–	–
Dividends paid or provided for		–	(1,020,458)	–	–	(1,020,458)
<i>Total transactions with owners</i>		–	(1,020,456)	(2)	–	(1,020,458)
Balance at 30 June 2011		335,046	188,095	711,170	(1,129)	1,233,182

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	Note	Contributed Equity \$'000	Retained Earnings \$'000	Asset Revaluation Surplus \$'000	Hedge Reserve \$'000	Total \$'000
Balance at 1 July 2009		335,046	168,362	443,486	(35,914)	910,980
Total comprehensive income for the period						
Profit or loss		–	178,979	–	–	178,979
<i>Other comprehensive income</i>						
Defined benefit plan actuarial gains/(losses)	14(g)	–	(3,566)	–	–	(3,566)
System assets revaluation	12	–	–	362,036	–	362,036
Revaluation of land and buildings		–	–	(32,001)	–	(32,001)
Net change in fair value of cash flow hedges	21(h)	–	–	–	(26,809)	(26,809)
Net change in fair value of cash flow hedges transferred to profit or loss	21(h)	–	–	–	(4,658)	(4,658)
Income tax on other comprehensive income	6(c)	–	1,069	(99,011)	9,440	(88,502)
<i>Total other comprehensive income</i>		–	(2,497)	231,024	(22,027)	206,500
<i>Total comprehensive income for the period</i>		–	176,482	231,024	(22,027)	385,479
Transactions with owners, recorded directly in equity						
Transfers to retained earnings		–	8,760	(8,760)	–	–
Income tax on transfers to retained earnings		–	(2,628)	2,628	–	–
Dividends paid or provided for		–	(142,610)	–	–	(142,610)
<i>Total transactions with owners</i>		–	(136,478)	(6,132)	–	(142,610)
Balance at 30 June 2010		335,046	208,366	668,378	(57,941)	1,153,849

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$'000	2010 \$'000
Cash flows from operating activities:			
Receipts from customers (inclusive of GST)		2,486,025	2,396,991
Payments to suppliers and employees (inclusive of GST)		(1,872,894)	(1,814,909)
Interest received		1,910	1,071
Interest paid		(187,934)	(143,330)
Income taxes paid		(73,582)	(39,395)
Net cash provided by (used in) operating activities	8(b)	353,525	400,428
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		3,646	4,816
Purchase of property, plant and equipment and intangible assets		(498,469)	(412,623)
Net proceeds from sale of Retail business	5(f)	928,746	–
Net cash provided by (used in) investing activities		433,923	(407,807)
Cash flows from financing activities:			
Proceeds from borrowings		256,095	162,894
Repayment of borrowings		(64,300)	(33,366)
Dividends paid		(1,006,310)	(103,619)
Net cash provided by (used in) financing activities		(814,515)	25,909
Net increase (decrease) in cash and cash equivalents		(27,067)	18,530
Cash and cash equivalents at beginning of financial year		30,355	11,825
Cash and cash equivalents at end of financial year	8(a)	3,288	30,355

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

1 Corporate Information

Endeavour Energy's financial statements for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the Directors on 7 September 2011.

Endeavour Energy (formerly Integral Energy) is a state-owned energy Corporation, incorporated in New South Wales under the *Energy Services Corporations Act 1995*. Endeavour Energy's registered office is 51 Huntingwood Drive, Huntingwood NSW 2148.

The nature of the operations and principal activities of the Corporation are described in the Directors' Report.

2 Statement of Significant Accounting Policies

(a) Basis of preparation

The financial statements are general-purpose financial statements which have been prepared in accordance with the requirements of applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the *Regulation 2010*.

The financial statements have been prepared on a going concern basis which assumes that Endeavour Energy will be able to pay its debts as and when they fall due, and continue operation without any intention or necessity to liquidate or otherwise wind up its operation.

The Corporation is classified as a for-profit entity for the purposes of the application of Australian Accounting Standards and after consideration of all factors contained in New South Wales Treasury Policy TPP 05-4 *Distinguishing For-Profit from Not-For-Profit Entities*.

The financial statements have been prepared on a historical cost basis with the exception of property, plant and equipment, derivative financial instruments, emission rights and provisions which have been

measured at fair value and, except where stated, does not take into account changing money values.

Amounts in the financial statements have been rounded to the nearest thousand dollars. The financial statements are presented in Australian dollars.

(b) Comparative Figures

When the presentation or classification of items in the financial statements are amended, comparative amounts are reclassified unless the reclassification is impracticable.

Comparative amounts in the Statement of Comprehensive Income have been reclassified into continuing and discontinued operations as required by AASB 5 *Non Current Assets Held for Sale and Discontinued Operations*.

No other material amounts have been reclassified during the current or prior year.

(c) New Accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures:

The accounting policies adopted are consistent with those of the previous year with the exception of those noted below. Endeavour Energy has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as and when they became applicable during the year:

AASB 2010-1 *Amendments to Australian Accounting Standards - Limited Exemption from Comparative AASB 7 Disclosures for First Time Adopters* – Effective 1 July 2010

AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Projects* (AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139) – Effective 1 July 2010

Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* – Effective 1 July 2010

(ii) Accounting Standards and Interpretations issued but not yet effective:

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective, and not adopted by the Corporation for the annual reporting period ending 30 June 2011, are outlined below:

AASB 9 *Financial Instruments* – Effective 1 January 2013

AASB 124 (Revised) *Related Party Disclosures* – Effective 1 January 2011

AASB 1053 *Application of Tiers of Australian Accounting Standards* – Effective 1 July 2013

AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (AASBs 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 1023 & 1038 and Interpretations 10 & 12) – Effective 1 January 2013

AASB 2009-12 *Amendments to Australian Accounting Standards* (AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052) – Effective 1 January 2011

AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* – Effective 1 January 2011

AASB 2010-2 *Amendments to Australian Accounting Standards arising from reduced disclosure requirements* – Effective 1 July 2013

AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (AASBs 1, 7, 101 & 134 and Interpretation 13) – Effective 1 January 2011

AASB 2010-5 *Amendments to Australian Accounting Standards* (AASBs 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042) – Effective 1 January 2011

2 Statement of Significant Accounting Policies

continued

AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* – Effective 1 July 2011

AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (Dec 2010) – Effective 1 January 2013

AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* – Effective 1 January 2012

These Standards and associated amendments are not expected to have a material impact on the financial statements, except for changes associated with AASB 1053 and AASB 2010-2 which are expected to significantly reduce disclosure requirements when adopted.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements, and information about assumptions and estimation uncertainties that have a significant risk of resulting

in a material adjustment within the next financial year, is included in the following notes:

Note 2(t) – Unread Meters

Note 12 – Property, Plant and Equipment – Revaluations

Note 14(h) – Employee Benefits Superannuation – Valuation Method and Principal Economic Assumptions

Note 18 – Provisions

Note 21 – Financial Instruments

Note 22(b) – Contingent Liabilities

(e) Contributed equity

The *State Owned Corporations Act 1989* (as amended) requires Endeavour Energy to have two voting shareholders. Current shareholders are the New South Wales Treasurer and the Minister for Finance who hold the shares on behalf of the NSW Government. Each shareholder holds one \$1 share, with each share being of the same class with equal rights.

(f) Foreign currency translation

Both the functional and presentation currency of Endeavour Energy is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates at the date of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Any foreign currency income or expense items are translated at exchange rates as at the date of the transaction, with resulting exchange differences recognised as income or expense in profit or loss. Any foreign currency assets or liabilities are translated at exchange rates prevailing on the balance sheet date, with resulting exchange differences classified as equity and transferred to the foreign currency translation reserve.

(g) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand, short-term deposits readily convertible to cash, investments for a fixed term where the maturity date is three months or less from year end balance date, and readily tradeable investments which are likely to be converted to cash within three months of year end balance date even though the maturity date may be greater than three months from year end balance date.

(h) Trade and other receivables

Trade and other receivables are financial assets recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

Collectibility of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the entity will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 120 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

2 Statement of Significant Accounting Policies

continued

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- (i) Raw materials – purchase cost on weighted average cost basis; and
- (ii) Finished goods and work-in-progress – cost of direct material, labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling costs.

(j) Impairment

Financial assets
(including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Impairment for receivables is generally considered at a collective level, however where objective evidence exists that a receivable is impaired, such as when a debtor ceases trading, individual significant receivables are assessed for impairment. In assessing collective impairment an estimate is made of probable non-payment based on historical trends and an assessment of current economic and credit conditions.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of non-financial assets other than inventories and current tax receivable are reviewed at each reporting date to determine whether there is any indication of impairment, or when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of asset that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets (the CGU).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss where there is no corresponding entry in the Asset Revaluation Reserve. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if

there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are initially recognised at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, an appropriate proportion of overheads, costs directly attributable to bringing the asset to a working condition for intended use, costs of dismantling and removing the asset and restoring the site on which they were located, and capitalised borrowing costs.

After recognition as an asset, items of property, plant and equipment are measured at fair value. Fair value is determined in accordance with NSW Treasury Accounting Policy TPP07-1 *Valuation of Physical Non-Current Assets at Fair Value* and AASB 116 *Property, Plant and Equipment*, and reviewed annually for impairment in accordance with AASB 136 *Impairment of Assets*.

Revaluation increments are credited to the asset revaluation reserve included in the equity section of the Statement of Financial Position, unless the increment reverses a revaluation decrement of the same asset previously recognised in profit or loss. Any revaluation decrement is recognised in profit or loss unless it directly offsets a previous increment of the same asset in the asset revaluation reserve.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment.

2 Statement of Significant Accounting Policies *continued*

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

System assets

In accordance with NSW Treasury Accounting Policy TPP07-1 *Valuation of Physical Non-Current Assets at Fair Value* system assets are carried at fair value less accumulated depreciation and impairment losses. System assets are considered to be of a specialised nature, and fair value is estimated using a depreciated replacement cost method in accordance with AASB 116 *Property, Plant and Equipment*.

A revaluation of system assets was undertaken by an independent valuer and recognised as at 30 June 2011. System assets were valued at Optimised Depreciation Replacement Cost (ODRC). The ODRC valuation was determined based on the following approach:

- Establish the current replacement cost of the modern equivalent of assets in service at the valuation date. The concept of modern equivalent assets refers to assets that would be employed if the network were to be rebuilt today.
- Depreciate the adjusted replacement cost to reflect the remaining effective life of the assets in service; and
- Adjust the current replacement cost for over-design, over-capacity and redundant assets (optimisation).

System assets are revalued at least every five years, in accordance with NSW Treasury Accounting Policy TPP07-1 *Valuation of Physical Non-Current Assets at Fair Value*. The frequency of valuations is considered appropriate given the nature, size and geographical spread of system assets, and annual fair value assessments.

Non-system land and buildings

Following initial recognition at cost, non-system land and building assets are carried at fair value less accumulated depreciation and impairment losses, in accordance with NSW Treasury Accounting Policy TPP07-1 *Valuation of Physical Non-Current Assets at Fair Value*.

Non-system land and buildings are subject to independent valuation on a cyclical basis over a three year period. The carrying amount of non-system land and building assets is reviewed between independent valuations, to ensure the carrying amount does not differ materially from fair value.

A revaluation of non-system land and buildings was undertaken by an independent valuer and recognised as at 30 June 2011. The valuations were based on market-based evidence in accordance with AASB 116 *Property, Plant and Equipment*.

Other plant and equipment

In accordance with NSW Treasury Accounting Policy TPP07-1 *Valuation of Physical Non-Current Assets at Fair Value* depreciated historical cost with respect to non-specialised assets is considered an acceptable surrogate for fair value, with any difference unlikely to be material. Accordingly, other plant and equipment are carried at fair value less accumulated depreciation and any impairment in value.

Property, plant and equipment in the course of construction

Property, plant and equipment in the course of construction are carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Land is not depreciated.

Estimated useful lives are as follows:

	Years
System assets	7–60
Buildings	40
Plant and equipment	4–10

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Capitalisation Policy

Property, plant and equipment assets below \$1,000 are expensed in the year of acquisition or construction.

(l) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell, if their carrying amount will be recovered principally through a sale transaction as opposed to use. Once classified as held for sale, depreciation and amortisation ceases. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

2 Statement of Significant Accounting Policies

continued

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment losses previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of recognition.

The sale of the Retail business has been assessed as a discontinued operation in accordance with AASB 5 *Non Current Assets Held for Sale and Discontinued Operations*. The results of discontinued operations are presented separately on the face of the Statement of Comprehensive Income and the asset and liabilities are presented separately in the notes to the accounts (refer Note 5).

(m) Intangible assets

Intangible assets acquired separately are capitalised at cost. Subsequent to initial recognition the intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses.

Development activities relating to new or substantially improved internally generated software is capitalised where development costs can be measured reliably, the process is technically and commercially feasible and future economic benefits are probable. Other development expenditure and expenditure on research activities

is recognised in profit or loss as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Amortisation is charged on assets with finite lives, with the expense accounted for in the profit or loss. Useful lives are examined on an annual basis and adjustments, where necessary, are made on a prospective basis.

Intangible assets with finite lives are tested for impairment where an indicator of impairment exists, while intangible assets with indefinite lives are tested annually for impairment, either individually or at the cash generating unit level.

Easements are an interest in land allowing access to network assets. As no time period is attached to the easements, they are considered to have an indefinite life and are not amortised.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are accounted for in the profit or loss when the asset is derecognised.

(n) Trade payables

Trade and other payables are financial liabilities recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition trade and other payables are measured at amortised cost using the effective interest rate method. This measurement is equivalent to the original invoice amount.

(o) Provisions

A provision is recognised if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(i) Employee Benefits

General

Provision is made for employee benefits accruing to employees up to reporting date in respect of annual leave, maturing allowance, pre 93 sick leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably. Long service leave, pre 93 sick leave and maturing allowance provisions have been based on an actuarial assessment undertaken by Cumpston Sarjeant Pty Limited as at March 2011 and the associated formulae provided for intervening periods between assessments.

Cumpston Sarjeant Pty Limited has based their assessment on the following assumptions:

- (a) 10 year Commonwealth Government bond rate used as the gross discount rate; and
- (b) Rate of general salary increase in line with prior year.

Liability for employee benefits (long service leave, pre 93 sick leave and maturing allowance) which are not expected to be settled within twelve months are discounted at 5.5% per annum, based on 10 year Government bond rates as at 30 June 2011.

A summary of the policies applied to the Corporation's intangible assets is as follows:

	Software	Easements
Useful lives	Finite	Indefinite
Amortisation method used	4 to 9 years – straight line	Not depreciated or revalued
Internally generated/acquired	Internally generated/acquired	Acquired
Impairment test	Where an indicator of impairment exists	Annually and where an indicator of impairment exists

2 Statement of Significant Accounting Policies

continued

All other provisions have been calculated at nominal amounts based on expected settlement rates.

Defined contribution plans

A defined contribution plan is a post-employment benefit under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the future benefit that employees have earned in return for their service in the current and prior periods – that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The calculation is performed annually by a qualified actuary using the projected unit credit method.

All actuarial gains and losses arising from defined benefit plans are recognised in other comprehensive income.

(ii) Restructuring Provision

A restructuring provision in relation to the sale of the Retail business has been recognised in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. In arriving at the total amount provided for, the Corporation has followed a detailed plan of restructuring resulting from the sale of the Retail business, including details of the location and number of employees affected, and associated timelines. Individuals affected have a valid expectation that the restructuring is being carried out.

(p) Derivative financial instruments

Endeavour Energy uses derivative financial instruments to hedge its exposure to commodity (electricity, aluminium and copper) price risk, interest rate risk and foreign exchange risk. Such derivative financial instruments are initially recognised at fair value on the date the derivative is entered into and any gains or losses on subsequent remeasurement are recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the ongoing effectiveness of the hedge or maturity of the hedging instrument. The fair value of any financial derivative contract is calculated by reference to current forward rates for contracts with similar maturity profiles.

Derivatives are carried as assets when their fair value is positive and liabilities when their fair value is negative.

Derivative assets and liabilities are classified as current in the Statement of Financial Position when the remaining maturity is less than 12 months, or non current when the remaining maturity is more than 12 months.

Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

Cash flow hedges

In relation to cash flow hedges to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective

hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss. When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in other comprehensive income are transferred to profit or loss in the same period in which the hedged firm commitment affects the net profit and loss. Fair value has been determined at year end through the use of valuation techniques using cash flow estimates based on observable commodity forward price curves and available financial market rates.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income remains until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss for the period.

Derivatives that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting are designated as held for trading. Gains or losses on derivatives held for trading are recognised in profit or loss and the related assets or liabilities are classified as derivative financial assets in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

2 Statement of Significant Accounting Policies

continued

(q) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Corporation no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Derecognition of financial instruments relating to the sale of the Retail business

Financial instruments which form part of the disposal group and relate to transferable Retail business contracts, and those that satisfy the derecognition criteria as stated in AASB 139 *Financial Instruments: Recognition and Measurement*, were derecognised at the sale completion date. Transferable Retail business contracts are those Retail business contracts which can be legally novated to the acquirer, or where rights can be assigned and obligations transferred to the acquirer without the counterparty's consent.

Financial instruments that have the potential to switch between an asset and a liability, such as swaps which have not been legally novated to the acquirer at balance date, do not satisfy the derecognition criteria as stated in AASB 139 *Financial Instruments: Recognition and Measurement* and cannot be derecognised. Endeavour Energy remains a legal counterparty to these contracts. However, "back-to-back" assets from, and liabilities to, the acquirer are recognised for liabilities and assets relating to retained contracts when all the economic benefit of, and risk in, the retained contracts are transferred to the acquirer.

(r) Loans and borrowings

Borrowings are initially recognised at fair value of the consideration received, net of transaction costs.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Borrowings are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(s) Revenue

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from operating activities

Revenue from operating activities comprises revenue earned from the provision of energy products and other ancillary services to entities outside the Corporation. Revenue is recognised when energy products and services are provided to the consumer. Metered energy supply is recognised when the meters are read, and an estimate is brought to account where meters have not been read. Network use of system charges are invoiced to out-of-area retailers following the reading of meters of customers within the franchise area who are contracted to external retailers. Network use of system income is recognised on an accrual basis, as revenue is accrued for consumption which is not invoiced at month end.

Interest receivable and other revenue from operating activities is brought to account as it is earned, and is recognised when goods and services are provided.

Developer or customer contributions of non-current assets are recognised as revenue and an asset when Endeavour Energy gains control of such contributions. Customer contributions are considered a separately identifiable service in accordance with Interpretation 18 *Transfers of Assets from Customers*. The amount recognised is the fair value of the contributed asset at the date on which control of such assets is gained.

Other revenue, outside the provision of energy products, is recognised on an accrual basis and in accordance with the substance of the agreement covering such transactions.

Other income

Income arising from the sale of assets is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, and the amount of revenue can be measured reliably.

(t) Unread meters

At reporting date, Endeavour Energy accrues an estimate of electricity consumed where the meter has not been read. The accounting estimating methodology for calculating the unbilled revenue accrual calculates unbilled revenue volume where energy imports relating to basic meters are phased over the current month and future months in order to estimate the likely billing pattern relating to consumption. This calculation is accounted for as revenue on unread meters in profit or loss.

2 Statement of Significant Accounting Policies

continued

(u) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from lease assets are consumed.

(v) Finance costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and Government guarantee fee costs. The amount excludes borrowing costs relating to qualifying assets that have been capitalised in accordance with AASB 123 *Borrowing Costs*. Borrowing costs are recognised in profit or loss in the period in which they are incurred.

(w) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax

is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities have been offset as there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Endeavour Energy is subject to the National Taxation Equivalent Regime (NTER) based on the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997*. Tax equivalents are payable to the Office of State Revenue.

(x) Other taxes

FBT, payroll tax and land tax are recognised in accordance with relevant legislation. In relation to GST, revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

A detailed assessment of greenhouse gas emissions indicates Endeavour Energy will not be liable under the proposed carbon tax, as the Corporation's direct emissions do not currently exceed the defined threshold.

(y) Workers compensation insurance

Endeavour Energy is a self-insurer through its insurance provision for workers compensation and meets all liabilities under the *Workers Compensation Act 1987*.

An external actuary is engaged to provide an annual investigation of Endeavour Energy's estimated liability for workers compensation as at the reporting date. The liability is measured as the present value of expected future payments at the reporting date.

(z) Dividend

Ordinary dividend is calculated in accordance with TPP 09-6 *Financial Distribution Policy for Government Businesses* based on a base payout ratio of 70% applied to post-tax profit adjusted for non-cash fair value movements on financial instruments classified or designated "at fair value through profit or loss" under AASB 139 *Financial Instruments: Recognition and Measurement*, and other adjustments as agreed with NSW Treasury. Dividend payable for the 2010/11 financial year is \$156.8m (2010: \$142.6m).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

2 Statement of Significant Accounting Policies

continued

The Corporation paid a special dividend of \$863.7m in 2011, sourced from proceeds from the sale of the Retail net assets. The special dividend was issued pursuant to section 59B of the *Public Finance and Audit Act 1983* (NSW).

(aa) Greenhouse legislation

The *Commonwealth Renewable Energy (Electricity) Act 2000* imposes on electricity retailers the obligation to "surrender" sufficient certificates each year to meet the Commonwealth Government's strategy to lift Australia's use of electricity generated from renewable sources. This imposes an obligation on Endeavour Energy to purchase Renewable Energy Certificates (RECs) and surrender them to the Office of the Renewable Energy Regulator in discharge of Endeavour Energy's renewable energy obligations. These certificates are

accounted for as "other assets" and, as such, are reviewed for impairment and carried at the lower of cost or net realisable value at the close of the reporting period.

The *NSW Electricity Supply Amendment (Greenhouse Gas Emission Reduction) Act 2000* imposes on electricity retailers the obligation to "surrender" sufficient certificates each year to satisfy the State Government's strategy to reduce greenhouse gas per capita emissions from electricity purchases. This imposes an obligation on Endeavour Energy to purchase or produce NSW Greenhouse Abatement Certificates (NGACs) and surrender them to the Independent Pricing and Regulatory Tribunal (IPART) in discharge of Endeavour Energy's greenhouse gas emission reduction obligations.

Endeavour Energy's obligations in regards to RECs and NGACs ceased on 1 March 2011 following the sale of the Retail business' net assets.

REC and NGAC assets within the Statement of Financial Position relate to obligations with respect to the period 1 January 2011 to 28 February 2011 (sale Completion Date), which are expected to be settled in the 2012 calendar year.

Endeavour Energy accounts for NGAC certificates under AASB 102 *Inventories*. Certificates which are created and held for sale are recognised initially at the point of registration and measured at the registration fee paid. Certificates which are purchased and held for sale are recognised initially at the point of acquisition and measured at cost, being the fair value of the consideration paid. They are subsequently measured at the lower of cost and net realisable value. The profit on sale is recognised when the entity delivers the certificates under an agreement or sells them. The surrender of these certificates will be recognised in the underlying purchase commitment as an element of electricity purchase costs.

3 Revenue

	2011 \$'000	2010 \$'000
Revenues		
Network use of system income	1,136,535	977,006
Sales revenue	1,136,535	977,006
Interest income	1,848	992
Capital contributions	61,616	44,679
Other income	82,257	53,724
Other income	145,721	99,395
Total revenue and other income	1,282,256	1,076,401

4 Expenses

	2011 \$'000	2010 \$'000
<i>Expenses relating to operating activities</i>		
Bad debts written off and allowance for impairment of receivables	767	3,387
Consultants	1,803	1,782
Contractors	48,317	46,854
Employee benefits	231,050	228,819
Superannuation contributions	34,909	23,688
Superannuation (defined benefits) expense excluding actuarial gains or losses*	7,780	11,064
Operating lease rentals	1,461	330
Net loss on disposal of property, plant and equipment and assets held for sale	2,975	24
Net loss arising from ineffectiveness on cash flow hedges	–	566
Distribution of electricity and other services	301,620	264,553
Total expenses relating to operating activities	630,682	581,067
<i>Depreciation of non-current assets</i>		
System assets	122,337	106,780
Buildings	3,375	3,036
Plant and equipment	21,687	23,386
Total depreciation of non-current assets	147,399	133,202
<i>Amortisation of intangible assets</i>		
Software	17,261	16,516
Total depreciation and amortisation expense	164,660	149,718
Total expenses from operating activities	795,341	730,785
<i>Finance costs</i>		
Gross interest expense	142,353	127,790
Net amortisation of discounts/premiums on loans	11,165	19,308
Other interest expense	39,068	40,512
Total finance costs	192,586	187,610

* Refer Note 14. Superannuation (defined benefits) expense totals \$13.2m (2010: \$14.6m), including actuarial losses of \$5.4m (2010: \$3.6m) recognised in other comprehensive income and other superannuation expenses totalling \$7.8m (2010: \$11.0m) recognised in profit or loss.

Maintenance expenses included within expenses relating to operating activities are as follows:

- (i) Employee related costs included in employee benefits expense \$72.1m (2010: \$67.9m)
- (ii) Contracted labour and other (non-employee related) expenses \$50.7m (2010: \$41.4m)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

5 Gain/(loss) on sale of Retail business**(a) Retail sale**

On 14 December 2010 the NSW Government, as part of its Energy Reform Transaction Strategy, entered into a sale agreement to dispose of the net assets of the Corporation's Retail business. The disposal was completed on 1 March 2011, at which date control of the Retail business passed to the acquirer. The gain on disposal of the Retail business assets and liabilities is measured as the difference between the fair value of the consideration received (excluding stamp duty) and the sum of the carrying value of the disposal group. The disposal group consists of working capital, derivative assets and liabilities, environmental certificate assets, and property, plant and equipment.

(b) Financial performance of operations disposed

Results of discontinued operations for the year up to disposal date are presented below:

	Note	2011 \$'000	2010 \$'000
Revenue		829,368	1,195,745
Expenses		(769,382)	(1,102,105)
Results from operating activities		59,986	93,640
Income tax	6(a)	(17,996)	(28,092)
Results from operating activities, net of tax		41,990	65,548
Gain on sale of discontinued operations	5(e)	759,280	–
Profit/(loss) for the year		801,270	65,548

Profit from discontinued operations in the amount of \$801.3m (2010: \$65.5m) is attributable entirely to the owners of the Corporation.

(c) Cash flows from (used in) discontinued operations

Cash flow information relating to discontinued operations has not been disclosed due to books and records not being kept to distinguish between the Retail and Network business separately in prior years and up to the date of sale. Significant assumptions would have to be made to separate the financial information if these disclosures were to be presented that, in management's view, would not reflect a true and fair position of the discontinued operations cash flow position.

5 Gain/(loss) on sale of Retail business *continued*

(d) Net assets attributable to discontinued operations

	2011 \$'000
Working capital deficit*	35,751
Trade and other debtors	112,214
Accrued income (unbilled income and unread meters)	186,204
Green certificates (NGACs and Emission Rights)	69,003
Derivative financial assets	46,298
Property, plant and equipments	271
Total assets	449,741
Other creditors	232,527
Deposits	8,743
Derivative financial liabilities	89,973
Total liabilities	331,243
Net assets attributable to discontinued operations	118,498

* The working capital deficit reflects the difference between the target level of working capital defined in the Sale and Purchase Agreement, and the actual level of working capital as at sale Completion Date.

(e) Gain/(loss) from discontinued operations

	2011 \$'000
Consideration received from the sale of the Retail business	1,000,000
Stamp duty paid	(71,254)
Net assets of the Retail business sold	(118,498)
Recycling of cash flow hedge reserve	(52,419)
Gain on liability foregone	1,451
Gain on sale of discontinued operations before income tax	759,280

(f) Net cash flow on disposal

	2011 \$'000
Cash consideration received from the sale of the Retail business	1,000,000
Stamp duty paid	(71,254)
Cash inflow reflected in Statement of Cash Flows	928,746

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

6 Income Tax**(a) Income tax expense**

	2011 \$'000	2010 \$'000
Continuing operations		
<i>Current year</i>		
Current tax expense from continuing operations	66,765	48,086
Adjustments for prior years	(535)	97
	66,230	48,183
Deferred tax expense		
Origination and reversal of temporary differences	25,306	(2,838)
Under/(over) provided in prior years	66	(770)
	25,372	(3,608)
Total income tax expense from continuing operations	91,602	44,575
Discontinued operation		
<i>Current year</i>		
Current tax expense from discontinued operation	17,996	28,092
Total income tax expense from discontinued operation	17,996	28,092
Total income tax expense	109,598	72,667

(b) Numerical reconciliation between tax expense and pre-tax accounting profit

	2011 \$'000	2010 \$'000
Profit excluding income tax	1,113,595	251,646
Income tax using the Corporation's domestic tax rate of 30% (2010: 30%)	334,078	75,494
Increase in income tax expense due to:		
Tax concessions/non-deductible expenses	(224,011)	(2,154)
Under/(over) provided in prior years	(469)	(673)
Income tax expense on pre-tax accounting profit	109,598	72,667

(c) Income tax recognised in other comprehensive income

	2011 \$'000	2010 \$'000
Relating to hedge revaluation reserve	24,347	(9,440)
Relating to revaluation of property, plant and equipment and assets held for sale	18,341	99,011
Relating to superannuation (defined benefits) actuarial gains/(losses)	(1,631)	(1,069)
Total income tax recognised in other comprehensive income	41,057	88,502

7 Deferred Tax (Assets)/Liabilities

Deferred tax (assets)/liabilities are attributable to the following:

	2011 \$'000	2010 \$'000
Assets subject to depreciation/amortisation/capital allowances	521,677	482,426
Assets held for sale	1,067	1,067
Deferred income and interest	(164)	(95)
EISS superannuation	(19,541)	(18,511)
Unread meters	27,425	38,111
Provisions and accruals	(74,495)	(80,204)
Emission rights and deductible prepayments	2,556	6,106
Derivatives	(1,145)	(37,950)
Deferred tax (assets)/liabilities	457,380	390,950

Movement in temporary differences

	Opening balance \$'000	Recognised in profit or loss \$'000	Recognised in other comprehensive income \$'000	Closing balance \$'000
Movement in temporary differences				
Assets subject to depreciation/amortisation/capital allowances	482,426	20,910	18,341	521,677
Assets held for sale	1,067	–	–	1,067
Deferred income and interest	(95)	(69)	–	(164)
EISS superannuation	(18,511)	601	(1,631)	(19,541)
Unread meters	38,111	(10,686)	–	27,425
Provisions and accruals	(80,204)	5,709	–	(74,495)
Emission rights and deductible prepayments	6,106	(3,550)	–	2,556
Derivatives	(37,950)	12,458	24,347	(1,145)
Tax (assets)/liabilities as at 30 June 2011	390,950	25,373	41,057	457,380
Assets subject to depreciation/amortisation/capital allowances	365,106	18,810	98,510	482,426
Assets held for sale	2,230	(1,664)	501	1,067
Deferred income and interest	1,592	(1,687)	–	(95)
EISS superannuation	(18,445)	1,003	(1,069)	(18,511)
Unread meters	36,502	1,609	–	38,111
Provisions and accruals	(71,953)	(8,251)	–	(80,204)
Emission rights and deductible prepayments	12,049	(5,943)	–	6,106
Derivatives	(21,025)	(7,485)	(9,440)	(37,950)
Tax (assets)/liabilities as at 30 June 2010	306,056	(3,608)	88,502	390,950

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

8 Cash Flow Information

(a) Cash and Cash Equivalents

	2011 \$'000	2010 \$'000
Cash in bank	3,260	30,321
Cash on hand	28	34
Total cash and cash equivalents	3,288	30,355

For the purposes of the Cash Flow Statement, cash includes cash on hand and cash equivalents.

(b) Reconciliation of Cash Flows from Operating Activities to Profit After Tax

	2011 \$'000	2010 \$'000
Profit after tax	1,003,997	178,979
<i>Adjustments for:</i>		
Depreciation non-current assets	147,399	133,202
Amortisation non-current assets	17,261	16,516
Amortisation of discounts/premiums	11,391	19,308
Non cash capital contributions	(61,281)	(44,127)
Net profit/(loss) on disposal of property, plant and equipment	2,975	(5)
Asset revaluation reserve movements	4,726	12,238
Gain on sale of discontinued operations	(759,280)	–
Net assets of Retail business derecognised during the year	(136,065)	–
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	82,709	(48,991)
(Increase)/decrease in unread meters	78,554	(5,363)
(Increase)/decrease in derivative financial assets	10,620	(5,112)
(Increase)/decrease in inventories	11,717	4,380
(Increase)/decrease in other assets	10,158	19,877
(Increase)/decrease in assets classified as held for sale	–	4,383
Increase/(decrease) in trade and other payables	(87,501)	19,406
Increase/(decrease) in provisions	21,895	13,534
Increase/(decrease) in current tax balances	10,642	36,878
Increase/(decrease) in deferred tax liabilities	50,206	(3,608)
Increase/(decrease) in derivative financial liabilities	(50,396)	50,709
Increase/(decrease) in other liabilities	(16,202)	(1,776)
Net cash flows from operating activities	353,525	400,428

8 Cash Flow Information *continued*

(c) Financing Facilities

	2011 \$'000	2010 \$'000
Total facilities available		
<i>The Corporation has access to the following lines of credit:</i>		
Bank overdraft	2,000	2,000
T-Corp short term accommodation	100,000	150,000
T-Corp loans	3,166,000	2,866,000
Inscribed stock	265	1,407
Total facilities available	3,268,265	3,019,407
Facilities utilised at reporting date*		
Bank overdraft	–	–
T-Corp short term accommodation	19,250	–
T-Corp loans	2,597,969	2,412,891
Inscribed stock	265	1,407
Total facilities utilised at reporting date	2,617,484	2,414,298
Facilities unused at reporting date		
Bank overdraft	2,000	2,000
T-Corp short term accommodation	80,750	150,000
T-Corp loans	568,031	453,109
Inscribed stock	–	–
Total facilities unused at reporting date	650,781	605,109

* Facilities utilised at reporting date reflect actual balances and do not account for unrepresented cheques.

T-Corp short term accommodation

Endeavour Energy has approval from the *Public Authorities (Financial Arrangements) Act 1987* ("PAFA Act") to obtain a \$100m (2010: \$150m) short term accommodation (Come-and-Go facility) from NSW Treasury Corporation (T-Corp).

T-Corp loans

Endeavour Energy has approval from the PAFA Act to obtain \$3,166m (2010: \$2,866m) loan funding from T-Corp. The loans are secured by a guarantee from the NSW Government and a government guarantee fee is payable by Endeavour Energy to NSW Treasury. The guarantee fee payable is calculated in accordance with NSW Treasury Accounting Policy TPP10-4 *Government Guarantee Fee Policy for Government Businesses*.

The loan amounts in current liabilities include the portion of the Corporation's T-Corp loans payable within one year of \$399.5m (2010: \$461.4m). Non-current T-Corp loans payable on or before 15 April 2039 total \$2,217.9m (2010: \$1,952.9m), with maturity dates ranging between one and twenty eight years from reporting date. All T-Corp debt is fully payable on maturity with the majority being fixed rate loans.

Bank overdraft

Endeavour Energy has an approved overdraft limit facility of \$2.0m. The total bank overdraft of the Corporation is unsecured. The bank overdraft is payable on demand and subject to annual review.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

8 Cash Flow Information *continued***Inscribed stock**

Endeavour Energy has borrowings by the issue of inscribed stock to companies and various government bodies. There have been no new debt issues for this type of borrowing since November 1994.

The loan amount in current liabilities includes the Corporation's inscribed stock principal repayments to be made within one year of \$0.27m (2010: \$1.15m). All inscribed stock are fixed rate loans and fully payable on maturity, with the exception of one loan which requires half yearly principal repayments.

Other financing facilities

Endeavour Energy has the following additional facilities approved under the PAFA Act:

- (i) Purchasing and credit card facilities of \$2.5m (2010: \$2.5m) with the corporate banker;
- (ii) A bank guarantee facility of \$3.0m (2010: \$3.0m) with the corporate banker; and
- (iii) A set off arrangement allowing a maximum aggregate amount of all debit balances of accounts held with the corporate banker of \$20.0m (2010: \$20.0m) and a maximum net debit balance/overdraft of all accounts held with the corporate banker of \$2.0m (2010: \$2.0m).

9 Trade and Other Receivables

	2011 \$'000	2010 \$'000
Trade receivables	123,445	183,310
Allowance for impairment	(1,495)	(20,849)
	121,950	162,461
Other debtors	81,963	140,669
Prepayments – other	6,011	6,835
Total current trade and other receivables	209,924	309,965

Trade receivables are non-interest bearing. The Days Sales Outstanding (DSO) as at 30 June 2011 is 22.1 (2010: 24.1).

	2011 \$'000	2010 \$'000
Trade receivables	17,332	–
Total non-current trade and other receivables	17,332	–

The non-current trade receivables balance relates to the recognition of a back-to-back asset for a non-current derivative liability (note 15) that has been sold as part of the sale of the retail net assets (refer note 2(q)).

Movements in the allowance for impairment loss were as follows:

	2011 \$'000	2010 \$'000
Opening balance	20,849	13,813
Charge for the year	8,524	14,193
Amounts written off	(9,422)	(7,435)
Amounts recovered during the year	6	278
Amounts sold as part of Retail sale	(18,462)	–
Closing balance	1,495	20,849

9 Trade and Other Receivables *continued*

	Total \$'000	Past due but not impaired \$'000	Considered impaired \$'000
2011			
< 3 months overdue	6,557	6,557	–
3 months – 6 months overdue	6,726	5,702	1,024
> 6 months overdue	471	–	471
2010			
< 3 months overdue	24,409	24,376	33
3 months – 6 months overdue	11,146	5,177	5,969
> 6 months overdue	14,847	–	14,847

All trade debtors are recognised as amounts receivable at balance date. Collectibility of trade debtors is reviewed on an ongoing basis. Procedures as established in company policies and procedures are followed to recover outstanding amounts. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. This evidence includes past experience, and current and expected changes in economic conditions, debtor credit ratings and company policy. No interest is earned on trade debtors. Sales are made on 21–30 day terms.

10 Inventories

	2011 \$'000	2010 \$'000
Stores and materials	26,151	27,128
NSW Greenhouse Gas Abatement Certificates	1,154	10,335
Total inventories	27,305	37,463

During the year ended 30 June 2011 stores and materials and NSW Greenhouse Gas Abatement Certificates recognised in profit or loss amounted to \$4.8m (2010: \$16.5m).

11 Assets Classified as Held for Sale

	2011 \$'000	2010 \$'000
Non-current assets held for sale	4,800	4,800
Total assets classified as held for sale	4,800	4,800

Non-current assets held for sale relate to vacant non-infrastructure land and buildings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

12 Property Plant and Equipment

	System assets \$'000	Land & buildings \$'000	Plant & equipment \$'000	Under construction \$'000	Total \$'000
Gross carrying amount					
Balance at 1 July 2009	7,288,430	396,594	232,033	377,034	8,294,091
Transfer opening balance to intangible assets	–	–	–	(15,956)	(15,956)
Additions	286,938	24,142	19,244	403,047	733,371
Disposals	(2,170)	(557)	(8,304)	–	(11,031)
Transfers	–	–	–	(286,158)	(286,158)
Transfer to assets held for sale	–	(4,800)	–	–	(4,800)
Revaluation	678,075	(47,238)	–	–	630,837
Balance at 30 June 2010	8,251,273	368,141	242,973	477,967	9,340,354
Balance at 1 July 2010	8,251,273	368,141	242,973	477,967	9,340,354
Additions	382,979	14,600	20,090	470,854	888,523
Disposals	(3,459)	(158)	(12,735)	–	(16,352)
Transfers	–	–	–	(355,250)	(355,250)
Revaluation	4,219,869	871	–	–	4,220,740
Balance at 30 June 2011	12,850,662	383,454	250,328	593,571	14,078,015
Depreciation					
Balance at 1 July 2009	3,111,016	274	120,517	–	3,231,807
Depreciation for the year	106,780	3,036	23,386	–	133,202
Disposals	(414)	(1)	(5,808)	–	(6,223)
Revaluation	11,523	(2,999)	–	–	8,524
Balance at 30 June 2010	3,228,905	310	138,095	–	3,367,310
Balance at 1 July 2010	3,228,905	310	138,095	–	3,367,310
Depreciation for the year	122,337	3,375	21,687	–	147,399
Disposals	(903)	–	(9,374)	–	(10,277)
Revaluation	2,976,870	(1,001)	–	–	2,975,869
Balance at 30 June 2011	6,327,209	2,684	150,408	–	6,480,301
Impairment losses					
Balance at 1 July 2009	1,392,794	–	–	–	1,392,794
Additional impairment recognised during the year	304,517	–	–	–	304,517
Balance at 30 June 2010	1,697,311	–	–	–	1,697,311
Balance at 1 July 2010	1,697,311	–	–	–	1,697,311
Additional impairment recognised during the year	1,188,462	–	–	–	1,188,462
Balance at 30 June 2011	2,885,773	–	–	–	2,885,773

12 Property Plant and Equipment *continued*

	System assets \$'000	Land & buildings \$'000	Plant & equipment \$'000	Under construction \$'000	Total \$'000
Carrying amounts					
At 1 July 2009	2,784,620	396,320	111,516	377,034	3,669,490
At 30 June 2010	3,325,057	367,831	104,878	477,967	4,275,733
At 1 July 2010	3,325,057	367,831	104,878	477,967	4,275,733
At 30 June 2011	3,637,680	380,770	99,920	593,571	4,711,941
Recoverable amount					
At 30 June 2010					
Gross replacement cost	8,251,273	368,141	242,973	477,967	9,340,354
Accumulated depreciation	(3,228,905)	(310)	(138,095)	–	(3,367,310)
Depreciated replacement cost	5,022,368	367,831	104,878	477,967	5,973,044
Accumulated impairment losses	(1,697,311)	–	–	–	(1,697,311)
Recoverable amount at 30 June 2010	3,325,057	367,831	104,878	477,967	4,275,733
At 30 June 2011					
Gross replacement cost	12,850,662	383,454	250,328	593,571	14,078,015
Accumulated depreciation	(6,327,209)	(2,684)	(150,408)	–	(6,480,301)
Depreciated replacement cost	6,523,453	380,770	99,920	593,571	7,597,714
Accumulated impairment losses	(2,885,773)	–	–	–	(2,885,773)
Recoverable amount at 30 June 2011	3,637,680	380,770	99,920	593,571	4,711,941

Property, Plant and Equipment Impairment Losses

Endeavour Energy's valuation policy provides for a valuation of assets to be undertaken at least every five years in conjunction with NSW Treasury Policy TPP 07-1 *Valuation of Physical Non-Current Assets at Fair Value*.

A revaluation of system assets was undertaken by an independent valuer and recognised as at 30 June 2011. System assets were valued at Optimised Depreciated Replacement Cost (ODRC) (refer Note 2(k)).

The recoverable amount of the cash generating unit was determined using the Value in Use methodology and compared to the carrying amount. The estimate of Value in Use was determined using a discount rate of 7.95%. The carrying amount was determined to be higher than its recoverable amount and an additional impairment loss of \$1,188.5m was recognised as a reduction to the Asset Revaluation Reserve.

Capitalised borrowing costs

Capitalised borrowing costs for the year ended 30 June 2011 amounted to \$2.2m (2010:\$14.1k), with a weighted average capitalisation rate of 7.8% (2010: 7.8%)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

12 Property Plant and Equipment *continued***Historical cost of revalued assets**

If assets were measured using the cost model, the carrying amounts would be as follows:

	2011 \$'000	2010 \$'000
System assets		
At cost	3,397,038	3,017,519
Less accumulated depreciation	(622,797)	(501,363)
Total system assets	2,774,241	2,516,156
Land and buildings		
At cost	306,473	292,031
Less accumulated depreciation	(49,102)	(45,730)
Total land and buildings	257,371	246,301
Plant and equipment		
At cost	250,277	242,921
Less accumulated depreciation	(150,408)	(138,094)
Total plant and equipment	99,869	104,827
Total property, plant and equipment	3,131,481	2,867,284

13 Intangible Assets

	Software \$'000	Easements \$'000	Under construction \$'000	Total \$'000
Cost or deemed cost				
Balance at 1 July 2009	139,874	10,645	–	150,519
Transfer opening balance from property, plant & equipment	–	–	15,956	15,956
Additions	16,870	390	14,364	31,624
Disposals	(40)	–	–	(40)
Transfers	–	–	(16,869)	(16,869)
Balance at 30 June 2010	156,704	11,035	13,451	181,190
Balance at 1 July 2010	156,704	11,035	13,451	181,190
Additions	12,380	608	27,758	40,746
Disposals	(3,980)	–	–	(3,980)
Transfers	–	–	(12,381)	(12,381)
Balance at 30 June 2011	165,104	11,643	28,828	205,575
Amortisation and impairment losses				
Balance at 1 July 2009	101,421	–	–	101,421
Amortisation for the year	16,516	–	–	16,516
Disposals	(37)	–	–	(37)
Balance at 30 June 2010	117,900	–	–	117,900
Balance at 1 July 2010	117,900	–	–	117,900
Amortisation for the year	17,261	–	–	17,261
Disposals	(2,919)	–	–	(2,919)
Balance at 30 June 2011	132,242	–	–	132,242
Carrying amounts				
At 1 July 2009	38,453	10,645	–	49,098
At 30 June 2010	38,804	11,035	13,451	63,290
At 1 July 2010	38,804	11,035	13,451	63,290
At 30 June 2011	32,862	11,643	28,828	73,333

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

14 Employee Benefits – Superannuation

(a) Superannuation plans

Endeavour Energy has a defined benefit superannuation plan covering a significant number of employees, which requires contributions to be made to a separately administered fund.

The superannuation plan provides for defined benefits based on years of service and final average salary. Employees contribute to the plan at various percentages of their wages and salaries. Endeavour Energy also contributes to the plan, generally at the rate of twice the employees' contributions. Contributions by Endeavour Energy of up to 9% of employees' wages and salaries are legally enforceable in Australia.

General description of the type of plan

The Energy Industries Superannuation Scheme

Division B

Division C

Division D

These Divisions are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All divisions are closed to new members.

The following tables summarise the components of net benefit expense recognised in the profit or loss, actuarial gains and losses recognised in other comprehensive income, and the funded status and amounts recognised in the Statement of Financial Position for the plan.

(b) Expense recognised in profit or loss

	2011 \$'000	2010 \$'000
Net superannuation expense	(7,780)	(11,064)
Expense recognised in profit or loss	(7,780)	(11,064)

Assets invested in entity or in property occupied by the entity

All Scheme assets are invested by the trustee at arm's length through independent Scheme managers.

(c) Amounts recognised in the Statement of Financial Position

	2011 \$'000	2010 \$'000
Present value of the defined benefit obligation	(354,746)	(329,764)
Fair value of plan assets	289,611	268,056
Net superannuation asset/(liability)	(65,135)	(61,708)

14 Employee Benefits – Superannuation *continued*

(d) Movement in the present value of the defined benefit obligation

	2011 \$'000	2010 \$'000
Defined benefit obligation at 1 July	329,764	294,602
Current service cost	10,378	12,593
Interest cost	18,842	17,162
Contributions by scheme participants	4,266	4,225
Actuarial (gains)/losses in other comprehensive income	12,983	12,133
Benefits paid by the plan	(21,487)	(10,951)
Defined benefit obligation at 30 June	354,746	329,764

(e) Movement in the present value of plan assets

	2011 \$'000	2010 \$'000
Fair value of plan assets at 1 July	268,056	233,120
Expected return on plan assets	21,440	18,691
Actuarial gains/(losses) in other comprehensive income	7,541	8,567
Employer contributions	9,795	14,404
Contributions paid into the plan	4,266	4,225
Benefits paid by the plan	(21,487)	(10,951)
Fair value of plan assets at 30 June	289,611	268,056

(f) Expense recognised in profit or loss

	2011 \$'000	2010 \$'000
Current service cost	10,378	12,593
Interest on obligation	18,842	17,162
Expected return on plan assets	(21,441)	(18,691)
Expense recognised in profit or loss	7,779	11,064

The superannuation expense recognised in profit or loss is included in the line item 'total other expenses relating to operating activities'. Superannuation actuarial losses of \$5.4m (2010 \$3.6m) are separately identified in other comprehensive income.

(g) Actuarial gains/(losses) recognised in other comprehensive income

	2011 \$'000	2010 \$'000
Cumulative amount at 1 July	(83,539)	(79,973)
Recognised during the period	(5,443)	(3,566)
Cumulative amount at 30 June	(88,982)	(83,539)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

14 Employee Benefits – Superannuation *continued***(h) Valuation method and principal economic assumptions**

The Projected Unit Credit (PUC) valuation method was used to determine the present value of defined benefit obligations and related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Principal actuarial assumptions used in determining pension and post-employment benefit obligations for the Corporation's plans are shown below (expressed as weighted average):

	2011 %	2010 %
Discount rate	5.28	5.17
Anticipated return on plan assets	8.10	8.10
Expected future salary increases	4.00	4.00
Future CPI increases	2.50	2.50

(i) Actual return on plan assets

	2011 \$'000	2010 \$'000
Actual return on plan assets	28,981	26,495
	28,981	26,495

(j) Historical information

	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Present value of the defined benefit obligation	(354,746)	(329,764)	(294,602)	(283,014)	(287,875)
Fair value of plan assets	289,611	268,056	233,120	290,066	322,730
(Deficit)/surplus in the plan	(65,135)	(61,708)	(61,482)	7,052	34,855
Experience adjustments arising on plan liabilities	12,983	12,133	3,466	26,323	(22,053)
Experience adjustments arising on plan assets	(7,540)	(8,567)	(74,369)	(53,389)	23,056

15 Trade and Other Payables

	2011 \$'000	2010 \$'000
Trade payables	30,007	23,603
Accruals	164,710	286,689
Other payables	57,273	12,255
Total current trade and other payables	251,990	322,547

Trade and other payables are non-interest bearing and are settled within normal credit terms. The net of GST payable and GST receivable is remitted to the appropriate tax body on a monthly basis.

Trade payables	17,332	34,288
Total non-current trade payables	17,332	34,288

The non-current trade payable relates to a derivative liability sold as part of the sale of the retail net assets, unable to be legally novated to the acquirer at balance date, for which a back-to-back asset (note 9) has been recognised (refer note 2(q)).

16 Other Current Liabilities

	2011 \$'000	2010 \$'000
Deposits and retentions	11,380	24,017
Unearned income	3,191	2,937
Total other current liabilities	14,571	26,954

17 Borrowings

	Effective interest rate %	2011 \$'000	2010 \$'000
Current			
<i>Unsecured bank loans</i>			
Floating rate loans	4.9	256,260	195,000
Fixed rate loans	6.3	143,235	266,353
Total current borrowings		399,495	461,353
Non-current			
<i>Unsecured bank loans</i>			
Floating rate loans	5.5	100,000	–
Fixed rate loans	6.3	2,117,989	1,952,945
Total non-current borrowings		2,217,989	1,952,945

Bank loans are unsecured and repayable in full on various maturity dates. Interest rates are based on weighted average effective rates on the entire debt, excluding the impact of the Government Guarantee fee.

18 Provisions

	Employee benefits \$'000	Self insurance \$'000	Restructuring \$'000	Other \$'000	Total \$'000
Balance at 1 July 2010	220,818	9,539	–	69,249	299,606
Provisions made during the period	87,653	513	2,036	10,414	100,616
Provisions used during the period	(83,372)	(2,472)	–	(5,520)	(91,364)
Balance at 30 June 2011	225,099	7,580	2,036	74,143	308,858
Current					
Current	128,361	1,462	2,036	9,007	140,866
Non-current	96,738	6,118	–	65,136	167,992
Balance at 30 June 2011	225,099	7,580	2,036	74,143	308,858
Non-current					
Current	119,865	1,288	–	7,541	128,694
Non-current	100,953	8,251	–	61,708	170,912
Balance at 30 June 2010	220,818	9,539	–	69,249	299,606

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

18 Provisions *continued***Employee benefits**

The provision for employee benefits relates to amounts accruing to employees up to reporting date in respect of employee benefits including annual leave, maturing allowance, pre 93 sick leave and long service leave. Amounts provided for in relation to maturing allowance, pre 93 sick leave and long service leave are based on an actuarial assessment and associated formulae provided for intervening periods between assessments as outlined in note 2(o). All other employee benefit amounts have been calculated at nominal amounts based on expected settlement rates.

It is noted that Endeavour Energy's 2010 Enterprise Bargaining Agreement included the freezing of pre-93 sick leave balances.

Self insurance

The self insurance provision relates to workers compensation, and is based on an actuarial assessment as detailed in note 2(y).

Other

Other provisions include \$65.1 relating to the Defined Benefits Superannuation liability as detailed in note 14. The remaining balance of \$9.0m is not detailed due to commercial and legal sensitivity.

Restructuring Provision

The restructuring provision relates to redundancies of surplus employees as a result of the sale of the Retail business (refer Note 2(0)).

19 Other Non-Current Liabilities

	2011 \$'000	2010 \$'000
Deposits and retentions	–	3,819
Total other non-current liabilities	–	3,819

20 Reserves**(a) Asset Revaluation Reserve**

The asset revaluation reserve is used to record increments and decrements in the fair value of property, plant and equipment to the extent that they offset one another. The reserve can only be used to pay dividends in limited circumstances. Refer to the Statement of Changes in Equity for movements in the asset revaluation reserve during the period.

(b) Hedge Reserve

The hedge reserve records revaluations of items designated as hedges. Refer to the Statement of Changes in Equity for movements in the hedge reserve during the period.

21 Financial Instruments**(a) Financial risk management objectives and policies**

Endeavour Energy's principal financial instruments comprise cash, trade debtors, trade creditors, short term deposits, loans and derivatives. The main purpose of these financial instruments is to raise finance or invest surplus cash for the Corporation's operations, and to manage exposure to price movements.

Endeavour Energy's Treasury function, Treasury Committee and Board manage the Corporation's exposure to key financial risks including interest rate risk, liquidity risk, commodity price risk (electricity, copper and aluminium) and credit risk, in accordance with the Board's financial risk management policies. The Board reviews and agrees policies for managing each of the key financial risks by approving an annual Debt Strategy paper and receiving regular updates.

21 Financial Instruments *continued*

(b) Credit risk

Credit risk is the risk of financial loss arising from another party to a contract, or financial position failing to discharge a financial obligation thereunder. The carrying amount of the Corporation's financial assets represents the maximum credit exposure. The Corporation's maximum exposure to credit risk at the reporting date was:

	2011 \$'000	2010 \$'000
Cash and cash equivalents	3,288	30,355
Trade and other receivables	221,245	309,965
Treasury derivatives designated at fair value through profit or loss	–	298
Treasury derivatives classified as cash flow hedges	1,149	1,376
Electricity derivatives classified as held for trading	–	70,481
Electricity derivatives classified as cash flow hedges	–	390
Total exposure to credit risk	225,682	412,865

Endeavour Energy's Treasury function control risk through the use of external credit ratings which are used to derive risk limits as approved by the Board of Directors, and monitoring procedures. Endeavour Energy does not have any significant exposure to any individual customer or counterparty outside Board approved counterparty limits.

Credit risks from derivative contracts (excluding electricity derivatives) recognised in the Statement of Financial Position is minimised due to Endeavour Energy having policies in place which prevent excessive counterparty concentration, and limit individual counterparty exposure based on an assessment of individual counterparties credit worthiness.

Endeavour Energy no longer has credit risk in relation to electricity derivative contracts, as the risks and rewards of electricity derivative contracts have been transferred to Origin Energy through a Pass Through Agreement entered into as part of the sale of the Retail business.

Financial assets which are neither past due nor impaired have been transacted with approved creditworthy counterparties in accordance with Board approved financial risk management policies, and are assessed on a continual basis.

(c) Price Risk

(i) Electricity price risk

Price risk is the risk that Endeavour Energy's cash flows will be adversely affected by the movements in commodity prices that will increase the Australian dollar value of commodity payables. Endeavour Energy was exposed to price risk through electricity purchasing within the National Electricity Market (NEM) pool up to the sale completion date (1 March 2011). Upon sale of the Retail business, Endeavour Energy ceased the purchase and sale of electricity and is no longer exposed to variability in electricity prices.

Prior to 1 March 2011, Endeavour Energy purchased electricity from the NEM pool to meet customer load requirements. Price risk arose from the purchase of electricity at variable pool prices in the NEM. Endeavour Energy's Board used a combination of risk management tools such as swaps, options and futures contracts transacted with market participants and energy trading operators to hedge the customer load and control exposure to NEM pool prices. Trading was performed under Board approved mandates which permitted active portfolio management within regularly monitored risk limits. The limits considered measurements of cash flow at Risk and Earnings at Risk, accompanied by Volumetrics Position Analysis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

21 Financial Instruments *continued*

The following table summarises the impact of changes in commodity prices on the Corporation's post-tax profit and equity. For the 2010 financial year, a 6% movement in electricity prices was applied to the forward electricity curve. All variables other than the electricity price were held constant in the summary below. For the 2011 financial year, variability in electricity prices does not impact Endeavour Energy's cash flows, and a nil impact has therefore been disclosed.

Price risk – impact of changes in electricity prices

	2011		2010	
	Profit or loss \$'000	Equity \$'000	Profit or loss \$'000	Equity \$'000
6% increase in electricity price	–	–	8,097	28,634
6% decrease in electricity price	–	–	(8,893)	(28,634)

(ii) Commodity price risk

Price risk is the risk that Endeavour Energy's cash flows will be adversely affected by movements in commodity prices that increase the Australian dollar value of commodity payables. Endeavour Energy is exposed to price risk through the purchase of goods for the capital asset program.

Regular reports are submitted to the Endeavour Energy Board, detailing hedging positions undertaken for commodity price risk, including volume and mark to market valuations of hedging undertaken.

The following table summarises the impact of changes in commodity prices on the Corporation's post-tax profit and equity. A 5% movement in commodity prices has been applied to the forward commodity curve as at balance date. All variables other than the commodity price are held constant in the summary below.

Price risk – impact of changes in commodity prices

	2011		2010	
	Profit or loss \$'000	Equity \$'000	Profit or loss \$'000	Equity \$'000
5% increase in commodity price	940	–	–	–
5% decrease in commodity price	(940)	–	–	–

Sensitivity to reasonably possible price movements in the above table reflects Endeavour Energy's use of commodity derivatives within a portfolio to manage risk. As the designation is "fair value through profit and loss" the movement in equity is nil.

(d) Interest rate risk

Interest rate risk is the risk of a reduction in earnings and/or the net present value of the Corporation as a consequence of adverse movements in interest rates. Interest rate risk is managed by the Treasury function within Endeavour Energy. The Corporation's exposure to market risk for changes in interest rates relates primarily to interest bearing liabilities as Endeavour Energy borrows funds at both fixed and floating interest rates. The Corporation's policy is to manage its interest cost using a mix of fixed and variable rate debt, and by the use of interest rate derivatives. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring optimal strategies are applied by either positioning the Statement of Financial Position or protecting interest expense through different interest rate cycles.

21 Financial Instruments *continued*

At the reporting date the interest rate profile of the Corporation's interest-bearing financial instruments was:

	<1 year \$'000	1–5 years \$'000	>5 years \$'000	Total \$'000
2011				
<i>Floating rate</i>				
Financial assets				
Cash and cash equivalents	3,288	–	–	3,288
Financial liabilities				
Borrowings	256,260	50,000	50,000	356,260
<i>Fixed rate</i>				
Financial liabilities				
Borrowings	143,235	791,278	1,326,711	2,261,224
Treasury derivatives – interest rate swaps	–	–	–	–
2010				
<i>Floating rate</i>				
Financial assets				
Cash and cash equivalents	30,355	–	–	30,355
Financial liabilities				
Borrowings	195,000	–	–	195,000
Treasury derivatives – interest rate swaps	60,000	–	–	60,000
<i>Fixed rate</i>				
Financial liabilities				
Borrowings	266,353	618,406	1,334,539	2,219,298
Treasury derivatives – interest rate swaps	(60,000)	–	–	(60,000)

Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. Other financial instruments of the Corporation not included in the above tables are non-interest bearing and therefore not subject to interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

21 Financial Instruments *continued*

Exposure to interest rate risk arises primarily through the Corporation's interest bearing liabilities. This risk is minimised by undertaking mainly fixed rate borrowings, primarily with NSW T-Corp. The Corporation does not account for any fixed rate financial instruments at fair value through profit or loss or as available for sale. These are accounted for at amortised cost. The only impact on profit or loss would be the change in interest rates on floating rate borrowings. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. This analysis assumes that all other variables remain constant. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The Corporation's exposure to interest rate risk is set out below.

	Carrying Amount \$'000	-1%		+1%	
		Profit or loss \$'000	Equity \$'000	Profit or loss \$'000	Equity \$'000
2011					
Financial assets					
Cash and cash equivalents	3,288	(33)	–	33	–
Financial liabilities					
Borrowings	2,617,484	3,563	–	(3,563)	–
Treasury derivatives – interest rate swaps	–	(500)	(2,690)	305	2,781
2010					
Financial assets					
Cash and cash equivalents	30,355	(304)	–	304	–
Treasury derivatives – interest rate swaps	298	(200)	–	200	–
Financial liabilities					
Borrowings	2,414,298	1,950	–	(1,950)	–
Treasury derivatives – interest rate swaps	222	800	–	(800)	–

The Corporation's sensitivity to interest rates has decreased during the current year mainly due to a decrease in the amount of variable rate borrowings and decreases in interest rate swap contracts.

(e) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Endeavour Energy's exposure to foreign currency risk is immaterial. The Corporation limits currency risk by entering into foreign currency options and forward foreign exchange contracts. As the foreign currency risk is immaterial in terms of a possible impact on profit and loss or total equity, a sensitivity analysis has not been completed.

(f) Liquidity risk

Liquidity risk refers to the risk of difficulty in ensuring the availability of sufficient funds to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk is managed by the Treasury function. Treasury maintains a balance between continuity of funding and flexibility through the use of bank overdrafts and debt. The Corporation's funding requirements and strategy is reviewed annually and monitored on an ongoing basis. The Corporation manages debt via a term to maturity approach. At 30 June 2011 the Corporation's term to maturity duration was within the policy limit approved by the Board. During the current and prior year no assets have been pledged as collateral. Liquidity risk management with regard to commodity derivatives is managed by ensuring the Corporation has sufficient funds available to settle its commitments to counterparties. Endeavour Energy transferred all risks and rewards associated with retained electricity derivatives to Origin Energy, as part of the sale of the Retail business, through a Pass Through Agreement. Accordingly, liquidity risk associated with electricity derivatives for 2011 is disclosed as nil.

21 Financial Instruments *continued*

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

	Carrying amount \$'000	Contractual cash flows \$'000	< 1 year \$'000	1–5 years \$'000	> 5 years \$'000
2011					
<i>Non-derivative financial liabilities</i>					
Trade and other payables	269,324	269,324	251,992	17,332	–
Borrowings	2,617,484	3,690,853	631,381	1,209,008	1,850,464
<i>Derivative financial liabilities</i>					
Interest rate derivatives	1,613	1,727	280	1,120	327
Foreign currency derivatives	494	5,170	2,280	2,890	–
Commodity derivatives	2,541	22,950	8,920	14,030	–
Total financial liabilities	2,891,456	3,990,024	894,853	1,244,380	1,850,791
2010					
<i>Non-derivative financial liabilities</i>					
Trade and other payables	356,833	356,833	322,545	34,288	–
Borrowings	2,414,298	3,413,370	536,707	1,018,358	1,858,305
<i>Derivative financial liabilities</i>					
Electricity derivatives – swaps	109,461	109,461	62,003	47,458	–
Electricity derivatives – options	14,436	14,436	14,436	–	–
Total financial liabilities	2,895,028	3,894,100	935,691	1,100,104	1,858,305

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different times.

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur:

	Carrying amount \$'000	Expected cash flows \$'000	< 1 year \$'000	1–5 years \$'000	> 5 years \$'000
2011					
<i>Forward foreign exchange and commodity hedge contracts</i>					
Liabilities	3,035	28,120	11,200	16,920	–
	3,035	28,120	11,200	16,920	–
2010					
<i>Forward exchange contracts</i>					
Assets	1,766	1,766	586	1,180	–
Liabilities	(76,560)	(76,560)	(40,109)	(36,451)	–
	(74,794)	(74,794)	(39,523)	(35,271)	–

Following the sale of the Retail business on 1 March 2011, Endeavour Energy ceased hedge accounting for electricity derivatives. Accordingly, 2011 results included in the above table reflect Treasury related derivatives only.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

21 Financial Instruments *continued*

(g) Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

	Note	2011		2010	
		Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Assets carried at fair value					
Treasury derivatives – interest rate swaps	2(p)	–	–	298	298
Treasury derivatives – options	2(p)	1,149	478	1,376	1,376
Electricity derivatives – swaps	2(p)	1,232	1,232	2,275	2,275
Electricity derivatives – options	2(p)	–	–	68,596	68,596
Electricity derivatives – retained contract receivable	2(p)	52,595	52,595	–	–
		54,976	54,305	72,545	72,545
Assets carried at amortised cost					
Cash and cash equivalents	2(g)	3,288	3,288	30,355	30,355
Trade and other receivables	2(h)	221,245	221,245	309,965	309,965
		224,533	224,533	340,320	340,320
Liabilities carried at fair value					
Treasury derivatives – interest rate swaps	2(p)	–	–	222	222
Treasury derivatives – options	2.(p)	1,613	1,613	–	–
Electricity derivatives – swaps	2(p)	51,764	51,764	104,618	104,618
Electricity derivatives – options	2(p)	832	832	14,436	14,436
Electricity derivatives – retained contract payable	2(p)	1,232	1,232	–	–
Commodity derivatives – forward hedge contracts		3,036	3,036	–	–
		58,477	58,477	119,276	119,276
Liabilities carried at amortised cost					
Trade and other payables	2(n)	269,324	269,324	356,833	356,833
Borrowings	2(r)	2,617,484	2,718,113	2,414,298	2,512,761
		2,886,808	2,987,437	2,771,131	2,869,594

Where available, fair value is determined directly through the use of market quoted prices. Valuation techniques are used to varying degrees for financial instruments where direct market quotes are not available. Fair value is calculated on the basis of discounted cash flows at an assumed discount rate for swap transactions using published market prices. Over the counter option instruments are valued with reference to quoted market prices.

21 Financial Instruments *continued*

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows are based on referable market rates at the reporting date, plus an adequate credit spread, and were as follows:

	2011 %	2010 %
Treasury derivatives	5.3%–5.6%	4.5%–4.7%
Electricity derivatives	4.9%–5.5%	4.6%–5.1%
Borrowings	4.8%–5.9%	4.5%–5.9%

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2011				
<i>Assets carried at fair value</i>				
Treasury derivatives – options	–	1,149	–	1,149
Electricity derivatives – swaps	–	1,232	–	1,232
	–	2,381	–	2,381
<i>Liabilities carried at fair value</i>				
Treasury derivatives – options	1,613	–	–	1,613
Electricity derivatives – swaps	–	51,764	–	51,764
Electricity derivatives – options	–	832	–	832
Commodity derivatives – forward exchange contracts	3,036	–	–	3,036
	4,649	52,596	–	57,245
30 June 2010				
<i>Assets carried at fair value</i>				
Treasury derivatives – interest rate swaps	–	298	–	298
Treasury derivatives – options	–	1,376	–	1,376
Electricity derivatives – swaps	–	2,275	–	2,275
Electricity derivatives – options	–	68,596	–	68,596
	–	72,545	–	72,545
<i>Liabilities carried at fair value</i>				
Treasury derivatives – interest rate swaps	–	222	–	222
Electricity derivatives – swaps	–	104,618	–	104,618
Electricity derivatives – options	–	14,436	–	14,436
	–	119,276	–	119,276

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

21 Financial Instruments *continued***(h) Hedge accounting – cash flow hedges**

At sale completion date (1 March 2011), Endeavour Energy ceased hedge accounting for electricity derivatives as the derivatives and underlying transactions were sold to Origin Energy as part of the sale of the Retail business. On that date, the balance of the hedge reserve was recognised in the Statement of Comprehensive Income, as detailed in the movement schedule below. The remaining balance relates to Treasury derivative transactions hedge accounted for the first time in 2011.

Movement in swaps and futures contract cash flow hedge reserve (net of tax)

	2011 \$'000	2010 \$'000
Opening balance	(57,941)	(35,914)
Amounts recognised in equity	3,940	(18,766)
Amounts removed from equity and recognised in Statement of Comprehensive Income	52,872	(3,261)
Closing balance	(1,129)	(57,941)

The above movements do not reconcile to the Statement of Comprehensive Income due to the tax impact as disclosed in note 6(c).

22 Contingent Liabilities and Contingent Assets**(a) Contingent Liabilities**

	2011 \$'000	2010 \$'000
Self Insurance	–	2,836
Sundry General Claims	1,590	5,200
Total contingent liabilities	1,590	8,036

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The contingent liabilities relate to injury claims (self insurance) and sundry general claims. The Directors do not expect the outcome of any actions associated with the above contingent liabilities to have a material effect on the Corporation's financial position.

23 Expenditure Commitments**(a) Operating Expenditure Commitments**

	2011 \$'000	2010 \$'000
<i>Estimated operating expenditure contracted for at reporting date, but not provided for:</i>		
Within one year	116,614	187,081
After one year but not more than five years	94,150	485,418
More than five years	68,721	196,358
Total operating expenditure commitments	279,485	868,857

23 Expenditure Commitments *continued*

(b) Lease Expenditure Commitments

	2011 \$'000	2010 \$'000
<i>Operating leases (non cancellable):</i>		
Within one year	4,706	2,148
After one year but not more than five years	11,059	7,700
More than five years	3,605	1,755
Total lease expenditure commitments	19,370	11,603

(c) Capital Expenditure Commitments

	2011 \$'000	2010 \$'000
<i>Estimated capital expenditure contracted for at reporting date, but not provided for:</i>		
Within one year	185,176	161,021
After one year but not more than five years	–	6,228
Total capital expenditure commitments	185,176	167,249

(d) Smithfield Energy Purchase Contract Operating Expenditure Commitments

	2011 \$'000	2010 \$'000
<i>Estimated operating expenditure contracted for at reporting date, but not provided for:</i>		
Within one year	–	88,890
After one year but not more than five years	–	346,535
More than five years	–	1,085,311
Total Smithfield energy purchase contract operating expenditure commitments	–	1,520,736

The Corporation leases property under operating leases expiring from one to fifteen years. Leases generally provide the entity with a right of renewal, at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

Capital expenditure commitments relate primarily to works to be performed under the Strategic Asset Management Program.

Smithfield energy purchase commitments relate to a 30 year Power Purchase Agreement (PPA) entered into in 1995 by the Corporation's predecessor Prospect Electricity. The PPA, with the Smithfield Power Partnership, is for the purchase of electricity from a 160-megawatt natural gas-fired power plant. The plant, which began operating in 1997, produces around 1 million megawatt-hours per annum. The PPA expires in June 2027. Endeavour Energy no longer has commitments to purchase electricity from Smithfield Power Partnership as the purchase right was transferred, through an on-sale agreement, to Origin Energy as part of the sale of the Retail business.

Total expenditure commitments include input tax credits of \$43.6m (2010: \$233.4m) which are expected to be recovered from the Australian Taxation Office.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

24 Events After the Balance Sheet Date

There has not arisen, in the interval between the end of the financial period and the date of this statement, an event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.

25 Auditor's Remuneration

	2011 \$'000	2010 \$'000
<i>Amounts received or due and receivable by the Auditor-General for:</i>		
– Auditing the Financial Statements	367	318
– Australian Financial Services Licence audit	8	8
Total auditor's remuneration	375	326

26 Key Management Personnel**(a) Directors' Appointments*****New Appointments***

Ron Quill (appointed 21 December 2010)

Re-appointment

Michael McLeod (re-appointed 1 September 2010)

Terry Downing (re-appointed 1 September 2010)

Paul Sinclair (re-appointed 16 October 2010)

Penny Le Couteur (re-appointed 31 May 2011)

Continuing Directors

John Fahey

Vince Graham (Chief Executive Officer – Executive Director)

(b) Key Management Personnel Remuneration

	Short-term employee benefits \$'000	Post employment benefits \$'000	Other long-term benefits* \$'000	Termination benefits \$'000	Total \$'000
Executive	3,227	214	537	43	4,021
Directors	426	38	–	–	464
2011 Total remuneration	3,653	252	537	43	4,485
Executive	3,073	203	–	–	3,276
Directors	395	36	–	–	431
2010 Total remuneration	3,468	239	–	–	3,707

* Other long-term benefit payments relate to the payout of pre-93 sick leave.

27 Prudential Requirements

An unsecured Bank Guarantee of \$0.7m (2010: \$223.4m) is given to the Australian Energy Market Operator Limited (AEMO) by way of a New South Wales Treasury Corporation guarantee. The guarantee is required to meet the National Electricity Market's maximum credit limit and prudential margin for retained customers who have not been able to be novated to Origin Energy as part of the sale of the Retail business. As part of the obligations under the Retail Sale Agreement with respect to the provision of prudential support to the operator of the National Electricity Market, Endeavour Energy has the obligation to obtain the bank guarantee, however Origin Energy has provided Endeavour Energy with back-to-back guarantees in relation to same.

28 Related Party Transactions

Directors

The name of each person who held or is holding the position of director of Endeavour Energy during the financial period is set out in Note 26 on page 90.

Details of directors' remuneration is set out on page 90.

There were no director related party transactions for the 2010/11 financial year.

End of audited Financial Statements

STATEMENT BY DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2011

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, we state that in the opinion of the Directors of Endeavour Energy:

- (a) The accompanying financial statements and notes are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2010*, and Accounting Interpretations, and give a true and fair view of the financial position of Endeavour Energy as at 30 June 2011 and its financial performance for the year ended on that date.
- (b) At the date of this statement, there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.
- (c) We are not aware of any circumstances at the date of this statement that would render any particulars included in the financial report to be misleading or inaccurate.

This declaration is made in accordance with a resolution of the Board of Directors.



Vince Graham
Director
22 September 2011



Michael McLeod
Director
22 September 2011

CONTENTS

Five-year statistical table	94
Australian Financial Services Licence	95
Community grants	95
Consultants	95
Credit card certification	95
Exemptions from Annual Reporting Provisions	96
Executive Remuneration	97
Government Information (Public Access) Act 2009	98
Implementation of Price Determinations	101
Overseas Travel	101
Notifications to the Independent Commission Against Corruption	102
Summary of Legislative Changes and Judicial Decisions	102
Glossary	103
Index	104
Location, address, phone numbers and hours of operation	105

Five-year statistical table

	(1)	2006–07	2007–08	2008–09	2009–10	2010–11
EFFICIENCY						
Employment	(2)	2,593	2,760	2,871	2,888	2,925
Output/employee (GWh)	(3)	6.9	6.5	6.2	6.0	6.0
Sales revenue (\$'000)	(4)	1,368,075	1,705,953	1,852,002	2,133,865	1,937,860
Customer/employee ratio	(5)	331.7	316.8	304.2	299.8	300.0
Operating cost/unit sold (\$/MWh)	(6)	26.2	30.3	32.5	33.8	34.0
Operating cost/customer	(7)	547.3	624.1	660.3	681.6	683.1
System loss index (%)	(8)	5.4	4.8	4.4	4.6	3.9
Days sick leave/employee		5.8	6.4	6.8	7.1	7.0
Lost time incidents	(9)	24	22	22	18	24
EFFECTIVENESS						
Output (GWh)	(10)	17,483	17,440	17,426	17,411	17,501
Supply reliability (minutes)	(11)	94.1	97.8	89.3	79.4	72.0
Customer service indicator	(12)					
Target		82%	82%	82–84%	82–84%	82%
Result		83%	83%	83%	80%	79%
FINANCIAL INDICATORS*						
EBIT (\$m)		346.8	367.3	355.7	439.3	546.9
Operating profit after tax (\$m)		153.2	172.4	142.2	179.0	244.7
Revenue (\$m)	(13)	1,538.9	1,848.1	1,998.4	2,272.1	2,111.6
Return on assets (%)	(14)	9.6	9.2	8.7	9.5	10.8
Return on equity (%)	(15)	13.9	14.6	14.6	17.3	20.5
Asset base (\$m)		4,067.9	3,918.7	4,305.7	4,940.6	5,159.1
Asset sales (\$m)	(16)	7.6	9.6	4.1	4.8	3.6
Financial distribution (\$m)		193.0	191.7	167.1	215.3	266.4
Tax equivalent (\$m)	(17)	86.0	66.7	63.4	72.7	109.6
Dividend		107.0	125.0	103.6	142.6	156.8
Special Dividend						863.7
Gross external debt (\$m)		1,531.5	1,900.5	2,264.4	2,414.3	2,617.5
Gearing ratio (%)	(18)	53.6	64.7	71.3	67.7	68.0
Times interest earned	(19)	3.2	2.9	2.4	2.3	2.9
Social programs (\$m)	(20)	19.7	21.1	24.0	30.4	24.0

Prior year statistics may have changed in line with amendments to comparative financial statement disclosures and amended definitions, to ensure consistency on an annual basis.

* The above financial indicators exclude the impact resulting from the gain on the sale of retail net assets amounting to \$759.3m.

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| <p>(1) All dollar amounts are reported in real dollars.</p> <p>(2) Full time equivalent staff as at 30 June.</p> <p>(3) Network GWh sold per average number of FTE employees.</p> <p>(4) Sales revenue includes total electricity sales up to 28 February 2011 and network use of system income only.</p> <p>(5) Average network customers per average number of FTE employees.</p> <p>(6) Operating expenditure including depreciation and amortisation but excluding finance costs, divided by number of units sold.</p> <p>(7) Operating expenditure including depreciation and amortisation but excluding finance costs, divided by the average number of network customers.</p> <p>(8) Energy imported less energy sold, divided by energy imported. For 2007–08 energy</p> | <p>imported has been reduced by the impact of a one-off unread meters adjustment.</p> <p>(9) As at 30 June 2011, 23 LTIs had been recorded; one additional lost time shift occurred during July that related to a 2010–11 incident taking the total to 24. Similarly, in the 2009–10 Annual Report 17 LTIs were recorded, however one additional lost time shift occurred after the report was published, which related to an incident in 2009–10.</p> <p>(10) Network sales (GWh) including accruals and off peak bulk transfers. For 2007–08 GWh have been reduced by the impact of the one-off unread meters adjustment.</p> <p>(11) Average minutes per customer per year without supply for unplanned outages.</p> <p>(12) Factors contributing to the calculation include the number of issues with EWON, the percentage of complaints closed within 30 days and the percentage of</p> | <p>customer service guarantee breaches. This survey ceased in March 2011 following the retail sale. The result of 79% is based on the last survey period being February 2011.</p> <p>(13) Revenue includes sales revenue and other income, including capital contributions.</p> <p>(14) EBIT divided by the average asset base.</p> <p>(15) Operating profit after tax divided by average equity.</p> <p>(16) Total proceeds from asset sales.</p> <p>(17) Defined as income tax expense per NSW Treasury.</p> <p>(18) Debt divided by debt plus equity.</p> <p>(19) Times interest earned calculated by adding the net interest expense to the profit before income tax and dividing by the net interest expense.</p> <p>(20) Based on reimbursement of Community Service Obligations (CSOs).</p> |
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Australian Financial Services Licence

Prior to the retail sale, Integral Energy held an Australian Financial Services Licence effective from 1 July 2005.

The licence authorised Integral Energy to provide financial advice, deal and/or make a market in financial products and miscellaneous financial products to wholesale clients.

Oversight of licence compliance was conducted by the Financial Services Governance Committee, which reported to the Retail Risk Board Committee monthly. The Committee met eleven times in 2010–11 and reported ongoing licence compliance to the Retail Risk Board Committee. Other statutory responsibilities included:

- Compliance by the organisation with the licence conditions and to inform the Australian Securities and Investments Commission of any reportable breaches of the licence conditions within ten working days. No potential licence breaches were identified during 2010–11.
- Oversight by the Financial Services Governance Committee of compliance with the organisation's Anti-Money Laundering and

Counter-Terrorism Financing Program as required under Commonwealth legislation.

The impact of the retail sale meant that Endeavour Energy was no longer required to hold an Australian Financial Services Licence. An agreement was entered into with Origin Energy to act as intermediary for the purpose of undertaking residual financial services activities relating to energy derivatives. The Australian Securities and Investments Commission on 30 June 2011 approved Endeavour Energy's application to cancel the licence.

Similarly, the ongoing requirement for Endeavour Energy to maintain its Anti-Money Laundering and Counter-Terrorism Financing Program ceased on 1 March 2011. This was because Endeavour Energy ceased to be in the business of issuing derivatives and therefore was no longer a Reporting Entity under Commonwealth requirements.

Community grants

Endeavour Energy does not grant funds to non-government organisations. Instead, the organisation lends support to selected community organisations that reflect Endeavour Energy's obligations as a state-owned corporation and align to Endeavour Energy's Corporate Plan.

The organisation's community partnership strategy and criteria are available at www.endeavourenergy.com.au. Examples of the organisations that met the criteria in 2010–11 can be found on page 34.

Credit card certification

Endeavour Energy's corporate and purchasing card program is governed by approved policies and procedures that were developed having regard to the Treasury Circular 05/06 *Credit card Use – Best Practice Guide* published in August 2005 (originally published in 1999), Treasurer directions and Premier's memoranda.

Consultants

In 2010–11, Endeavour Energy engaged four consultants for major projects (equal to or greater than \$50,000) totalling \$1.74 million, as detailed below:

Consultant	Purpose	Cost \$m
KPMG	To provide technical consulting on the strategic procurement review; To provide technical consulting on the Time & Attendance improvement project and payroll review	1.18
McLachlan Lister Pty Limited	To provide technical support in the network organisational review to facilitate delivery of the Strategic Asset Management Program (SAMP)	0.38
Langdale Consultants Pty	To provide technical consulting on the delivery of the Network Technology Strategy IT project	0.10
CECG Pty Limited	To undertake a Capital Structure Review	0.08
TOTAL		1.74

Endeavour Energy also engaged five consultants less than \$50,000 during 2010–11 for a total cost of \$67,000. The consultants were engaged to undertake projects for managerial, operational and economic advice.

Exemptions from Annual Reporting Provisions

Reference	Comment
s. 41B(c) PF&AA ^a Financial statements	Exemption from preparing manufacturing, trading, and profit and loss statements. Endeavour Energy is required to prepare a summarised Operating Statement, summarising major categories of revenues and expenses.
Schedule 1, Part 1: PF&AA (General)	
Item 2 Notes: Income and expenditure amounts set aside for renewal or replacement of fixed assets	
Item 4 Amounts set aside to any provision for known commitments	
Item 6 Amount appropriated for repayment of loans, advances, debentures or deposits	
Item 13 Material items of income and expenditure on a program or activity basis	Endeavour Energy is required to summarise the items of revenue and expenses on a program or activity basis.
s. 7(1)(a)(iii) ARSBA ^b Budgets: detailed budget for the year reported on; outline budget for next year	
cl. 6 ARSBR ^c Particulars of material adjustments to detailed budget for the year reported on	
s. 7(1)(a)(iv) ARSBA Summary Review of Operations	Exemption subject to the following condition: comments and information relating to the summary review of operations are to be disclosed in a summarised form.
Schedule 1 ARSBR Management and Activities	Exemption subject to the following condition: comments and information relating to 'management and activities' are to be disclosed in a summarised form.
Schedule 1 ARSBR Research and Development	
Schedule 1 ARSBR Human Resources	Exemption subject to the following condition: overseas visits with the main purposes highlighted are required to be disclosed.
Schedule 1 ARSBR Consultants	Exemption subject to the following condition: the total amount spent on consultants is to be disclosed along with a summary of the main purposes of the engagements, together with a list of single consultancies with a value exceeding \$50,000.
Schedule 1 ARSBR Land Disposal	
Schedule 1 ARSBR Consumer Response	Exemption subject to the following condition: comments and information relating to consumer response are to be disclosed in a summarised form.
Schedule 1 ARSBR Time for Payment of Accounts	As above.
Schedule 1 ARSBR Risk Management and Insurance Activities	Exemption subject to the following condition: comments and information are to be disclosed in a summarised form.
Schedule 1 ARSBR Disclosure of Controlled Entities	Exemption subject to the following condition: the names of the controlled entities are to be disclosed along with a summarised disclosure of the controlled entities' objectives, operations and activities, and measures of performance.
cl. 12 ARSBR Investment Management Performance	
cl. 13 ARSBR Liability Management Performance	
s. 7(1)(a)(ia) ARSBA Financial Statement of Controlled Entities	Exemption from preparing manufacturing and trading statements. Endeavour Energy is required to prepare a summarised Operating Statement (i.e. summarising major categories of revenues and expenses).

a Public Finance and Audit Act 1983; b Annual Reports (Statutory Bodies) Act 1984; c Annual Reports (Statutory Bodies) Regulation 2010

Executive Remuneration

General principles for remuneration of Executive Officers

Endeavour Energy has established remuneration strategies designed to attract and retain Executive Officers who drive business performance and who consistently demonstrate high standards of personal behaviour consistent with Endeavour Energy's values and Code of Ethics.

Components of remuneration

Executive Officers in Endeavour Energy are employed under performance-based fixed term employment contracts.

Total remuneration for Executive Officers in Endeavour Energy consists of fixed remuneration, which is the annual salary paid to Executive Officers inclusive of superannuation contributions and all salary sacrificed benefits, and an annual performance payment that represents the proportion of total remuneration that is 'at risk' for each Executive Officer.

Fixed remuneration

As a condition of employment, fixed remuneration of Executive Officers is reviewed in April each year in-line with market trends and is based on rigorous performance assessments of each Executive Officer. In approving increases to the fixed remuneration of Executive Officers, the Board considers the outcomes of these performance assessments, advice from external remuneration specialists on Executive salary trends and contemporary remuneration practices, movement in the consumer price index and NSW State Wages Policy.

In April 2011, the Board approved increases in the fixed remuneration of Executive Officers of 4%.

Table 1 shows how the fixed remuneration of Executive Officers has moved over the past two years in line with the increases paid in 2010 and 2011.

Annual performance payment

Annual performance payments are made to Executive Officers on the basis of individual performance assessed against pre-agreed measures and targets aligned to Endeavour Energy's corporate plan and Statement of Corporate Intent (SCI). Eligibility to receive an annual performance payment is also contingent on a rigorous assessment of the leadership performance and business targets of each Executive Officer during the course of the year.

The Board reviews these performance assessments and approves all annual performance payments to Executive Officers, as shown in Table 2.

Table 1 Movement in fixed remuneration of Executive Officers

Executive	Current position	Fixed Annual Remuneration (as at 30 June)			
		2008	2009	2010	2011
V. Graham	CEO	\$558,600	\$572,565	\$592,605	\$616,309
R. Howard ^a	Deputy CEO Network	\$320,800	\$328,820	\$374,489	\$389,469
B. Rowley ^b	General Manager Support Services	\$305,200	\$312,830	\$323,779	\$336,730
I. White	Company Secretary	\$280,300	\$287,307	\$297,363	\$309,258
D. Lucas ^c	Deputy CEO Corporate	\$353,000	\$361,825	\$374,489	\$389,469
D. Ferguson ^{d,e}	General Manager Health and Safety	\$275,100	\$281,978	\$274,275	\$285,246
J. Pizzinga	Chief Financial Officer	\$320,000	\$328,000	\$339,480	\$353,059

a. R. Howard was appointed to the role of Deputy CEO Network in May 2011.

b. B. Rowley was appointed to the role of General Manager Support Services in May 2011.

c. D. Lucas was appointed to the role of Deputy CEO Corporate in May 2011.

d. D. Ferguson was seconded to the General Manager Human Resources role from August 2007 to June 2009 and therefore Fixed Annual Remuneration listed for 2009 is for this role.

e. D. Ferguson acted in the General Manager Health and Safety role from September 2009 to January 2010, and was appointed to this role in February 2010.

Table 2 Executive performance and remuneration paid

Executive	Title	Actual remuneration ^a paid to 30 June 2011	Performance Payment ^b	Based on 2009–10 performance
V. Graham	CEO	\$607,648	\$120,003	Organisational leadership and achievement of corporate plan targets: delivered improved safety, reliability, financial and efficiency improvements.
R. Howard	Deputy CEO Network	\$378,234	\$54,000	Delivered best reliability performance result to date; delivered record capital investment program; led network organisation restructure.
B. Rowley	General Manager Support Services	\$326,928	\$54,300	Led successful customer growth in highly competitive markets and demonstrated leadership in the retail transition program.
I. White	Company Secretary	\$300,337	\$55,500	Led delivery of initiatives to improve governance, risk and compliance frameworks and effective and efficient Board support.
D. Lucas	Deputy CEO Corporate	\$378,234	\$55,700	Led transition to a network only business, developed the corporate plan and innovation strategies.
D. Ferguson	General Manager Health and Safety	\$277,018	\$41,000	Led improved safety performance and cultural change.
J. Pizzinga	Chief Financial Officer	\$342,875	\$49,500	Risk managed the implementation of the 2009–10 budget in the wake of the GFC and provided strong leadership on all financials.
L. Schenke ^c	Group General Manager Corporate Services	\$209,573	\$18,000	Led delivery of improved performance management systems and leadership programs.

a Excluding performance payments.

b Performance payments are made in October each year and are based on the performance of Executive Officers in the previous financial year.

c L. Schenke resigned from Endeavour Energy effective 5 April 2011.

Government Information (Public Access) Act 2009

The *Government Information (Public Access) Act 2009 (NSW)* (GIPA Act) replaced the *Freedom of Information Act 1989 (NSW)* on 1 July 2010. The GIPA Act has established a comprehensive system for public access to government information. Endeavour Energy is subject to the GIPA Act and is committed to complying with the GIPA Act in a fair and objective manner when dealing with external requests for access to company information and supports the proactive release of information where it is in the public interest to do so.

Review of program for release of information

In 2010–11 Endeavour Energy reviewed its program for release of information as required by the GIPA Act. This included updating policies and procedures regarding processing requests for access to government information; reviewing and publishing its publications guide; training staff in GIPA Act compliance; publication of contractual information into a centralised database; reviewing its website and publication of information regarding the network business such as the Annual Planning Statement and Network Performance Report.

Total number of access applications received during the year

In 2010–11 Endeavour Energy received 18 new formal requests for information pursuant to the GIPA Act. The formal requests were received from members of the public, members of Parliament, lawyers and investigators.

In response to the 18 requests, full access was provided on 11 occasions and on one occasion the information was publicly available through the Internet. With respect to the remaining requests, 5 access applications were granted in part and one access application was refused in full. A variety of public interest considerations were taken into account in dealing with these applications and these are set out in Table E. In the course of determining access applications during the year Endeavour Energy did not rely on any of the conclusive presumptions of overriding public interest against disclosure (as set out in schedule 1 of the GIPA Act).

Government Information (Public Access) Regulation 2009

Schedule 2 Statistical information about access applications to be included in annual report (Clause 7)

As required by section 7 and schedule 2 of the *Government Information (Public Access) Regulation 2009 (NSW)*, the following tables provide a summary of the responses to requests pursuant to the GIPA Act in 2010–11.

Table A: Number of applications by type of applicant and outcome*

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Media	3	–	–	–	–	–	–	–
Members of Parliament	1	–	–	–	1	–	–	–
Private sector business	2	1	–	–	–	–	–	–
Not for profit organisations or community groups	–	–	–	–	–	–	–	–
Members of the public (application by legal representative)	1	2	–	–	–	–	–	–
Members of the public (other)	4	2	1	–	–	–	–	–

Table B: Number of applications by type of application and outcome

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Personal information applications*	–	–	–	–	–	–	–	–
Access applications (other than personal information applications)	11	5	1	–	1	–	–	–
Access applications that are partly personal information applications and partly other	–	–	–	–	–	–	–	–

* A **personal information application** is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

Table C: Invalid applications

Reason for invalidity	Number of applications
Application does not comply with formal requirements (section 41 of the GIPA Act)	–
Application is for excluded information of the agency (section 43 of the GIPA Act)	–
Application contravenes restraint order (section 110 of the GIPA Act)	–
Total number of invalid applications received	–
Invalid applications that subsequently became valid applications	–

Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 to Act

	Number of times consideration used
Overriding secrecy laws	–
Cabinet information	–
Executive Council information	–
Contempt	–
Legal professional privilege	–
Excluded information	–
Documents affecting law enforcement and public safety	–
Transport safety	–
Adoption	–
Care and protection of children	–
Ministerial code of conduct	–
Aboriginal and environmental heritage	–

Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of Act

	Number of occasions when application not successful
Responsible and effective government	3
Law enforcement and security	–
Individual rights, judicial processes and natural justice	4
Business interests of agencies and other persons	1
Environment, culture, economy and general matters	–
Secrecy provisions	–
Exempt documents under interstate Freedom of Information legislation	–

Table F: Timeliness

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	17
Decided after 35 days (by agreement with applicant)	1
Not decided within time (deemed refusal)	–
Total	18

Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)

	Decision varied	Decision upheld	Total
Internal review	–	–	–
Review by Information Commissioner*	–	–	–
Internal review following recommendation under section 93 of Act	–	–	–
Review by ADT	–	–	–
Total	–	–	–

* As at 30 June 2011 there were two applications with the Information Commissioner for review.

Table H: Applications for review under Part 5 of the Act (by type of applicant)

	Number of applications
Applications by access applicants	–
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	–

Implementation of Price Determinations

Network Prices 2010-11

Each June the Australian Energy Regulator (AER) is required to approve Endeavour Energy's proposed network prices for the upcoming financial year. On 3 June 2011 the AER advised that Endeavour Energy's pricing proposal was compliant with Part 1 of the transitional Chapter 6 National Electricity Rules and the AER's 2009 distribution determination and that all forecasts associated with the proposal were reasonable. The AER approved 2011-12 network prices are effective 1 July 2011.

Endeavour Energy's network tariff strategy aims to efficiently and responsibly signal the costs associated with increased demand and network congestion while recovering the necessary revenues to support our investment programs.

Consistent with the tariff strategy, Endeavour Energy's network prices are designed to:

Attain revenue sufficiency within the regulatory framework.

- Signal the long run marginal cost of supply through network tariffs.
- Manage adjustment in a socially responsible manner.
- Improve cost reflectivity and reduce revenue variability.
- Preserve TransGrid's transmission price signals where possible.
- Encourage tariff and non-tariff based demand management opportunities, including voluntary time of use tariffs and tariffs that target network constraints on a locational basis.

Regulated Retail Determination 2010-13

On 1 March 2011, Endeavour Energy (formerly known as Integral Energy Australia) completed the sale of its retail business (including the name Integral Energy Australia) to Origin Energy as part of the NSW Government's energy reform strategy.

As at 1 March 2011, Origin Energy assumed the role of Standard Retail

Supplier for customers within the Endeavour Energy network supply area.

The Independent Pricing and Regulatory Tribunal (IPART) regulates the prices that a Standard Retail Supplier may charge customers whose electricity is supplied under a standard form supply contract.

On 14 June 2011, IPART released its review into the total energy cost allowance and the subsequent impact on regulated retail charges to apply from 1 July 2011.

For a typical medium sized residential customer using 7,000 kWh per annum, IPART has estimated that the regulated retail price will increase on average by 15.5% in 2011-12. Customers supplied within the Ausgrid and Essential Energy network areas are estimated to experience a regulated retail price increase of 17.9% and 18.1%, respectively.

The two main drivers of this increase are the AER approved rise in network charges (approximately 47% of the increase) and the new costs arising from changes to the Renewable Energy Target (RET) scheme (approximately 40% of the increase). The remainder of the increase is the result of increased wholesale energy costs and retail costs and margin.

Overseas Travel

Date from	Date to	Name	Destination	Purpose
18 August 2010	19 August 2010	Peter Norrie	India	Switchgear Factory Inspection
21 August 2010	27 August 2010	Graeme Browne Arvind Reddy	South Korea	Factory Acceptance Testing of Switchboard
3 September 2010	18 September 2010	Joseph Pizzinga	New York/Bermuda/ London/Zurich	GLIS Overseas Insurer presentations
6 November 2010	13 November 2011	Abdul Qureshi	Vietnam	Witness testing of Transformers
11 November 2010	13 November 2010	Rod Howard	New Zealand	2010 Annual Meeting – Australian National Committee of CIGRE
7 January 2011	12 January 2011	Abeyratne Jude Presanne Perera	Sri Lanka	Cable Factory Inspection
4 February 2011	19 February 2011	Abdul Qureshi	South Korea	Cable Factory Inspection
3 May 2011	6 May 2011	Geoff Woods	New Zealand	CIGRE Meeting
6 May 2011	24 May 2011	David Campbell Peter Langdon	United States – United Kingdom – Iceland – Ireland – Hong Kong	Study visit – Field Force Automation and Customer Reliability Improvements
6 May 2011	22 May 2011	Rod Howard Matthew Webb	United States – United Kingdom – Portugal – Italy	Study visit – Developments in Smart Grid
12 June 2011	16 June 2011	Glen Ford	India	Transformer Factory Inspection

Notifications to the Independent Commission Against Corruption

In 2010–11 there were 11 notifications to the Independent Commission Against Corruption (ICAC) in accordance with the provisions of the *Independent Commission Against Corruption Act 1988 (NSW)*.

Endeavour Energy received one notification from the ICAC concerning allegations of corrupt conduct.

Summary of Legislative Changes and Judicial Decisions

Endeavour Energy's operations are subject to numerous state and federal laws, and Judge made law. A number of these laws were amended and new laws affecting Endeavour Energy commenced in the financial year ending 30 June 2011.

Material changes to NSW legislation

Amendments to the *Energy Services Corporations Act 1995 (NSW)*

Effective from 2 March 2011 the *Energy Services Corporations Act* was amended by the *Energy Services Corporations (Change of Name) Regulation 2011*. As a result, the names of *Energy Services Corporations Act* entities were changed, including that of Integral Energy Australia which became Endeavour Energy.

Amendments to the *Electricity Supply Act 1995 (NSW)*

From 1 July 2010, Endeavour Energy is required, as a condition of its distribution network service provider's licence, to be a member of Dial Before You Dig organisation and to comply with obligations imposed by its membership of that organisation. In addition Endeavour Energy is now required to ensure that a person who notifies it of prescribed excavation work to be undertaken in the vicinity of its underground electricity power lines is informed of the existence of a guideline published by WorkCover concerning work carried out near underground assets.

Introduction of the *Government Information (Public Access) Act 2009 (NSW)*

The *Government Information (Public Access) (Consequential Amendments and Repeal) Act 2009* repealed and replaced the *Freedom of Information Act* from 1 July 2010 (FOI Act) and replaced it with the *Government Information (Public Access) 2009* (GIPA Act). The GIPA Act promotes greater proactive disclosure of information by Government and confers a legal right for any member of the public to apply for access to information held by the NSW Government.

There is now a presumption in favour of disclosure of information to applicants. Endeavour Energy is required to release information requested by an applicant unless there is an overriding public interest against disclosure.

Amendments to the *Occupational Health and Safety Act 2000 (NSW)*

The NSW Government has accelerated its adoption of some key elements of the OH&S 'harmonisation' (the remainder of which will commence on 1 January 2012).

Under the changes implemented, the general duties of employers (including the duty to ensure the health safety and welfare at work of all employees) are now to be qualified by the words 'so far as is reasonably practical'; previously there was no such qualification.

In addition, the duties of employees will also be amended so that the current duty to co-operate as necessary with health, safety and welfare requirements at work will now be amended to co-operate so far as is 'reasonably necessary'.

As a result of the amendments to the employer's general duties, a prosecutor in order to prove an offence under the OH&S Act will now need to prove what was 'reasonably practicable' in the circumstances. This is a significant change as the current OH&S Act requires a defendant to prove it was not 'reasonably practicable' to comply with the duty imposed under the current act.

The current provisions in the OH&S Act which deem directors and managers of corporations liable for contraventions of their company have been removed. The OH&S Act will now provide a positive duty for officers to exercise all due diligence to ensure the corporation complies with health, safety and welfare duties. Finally, the power of unions to

prosecute offences under the OH&S Act is extinguished, leaving only WorkCover Inspectors with this right.

Introduction of the *Public Interest Disclosures Act 1994 (NSW)*

The *Protected Disclosures Act 1994 (NSW)* was amended by *Protected Disclosures Amendment (Public Interest Disclosures) Act 2010 (NSW)* and has been renamed the *Public Interest Disclosures Act 1994 (NSW)*.

The amendments broaden the circumstances in which a protected disclosure may be made, and include an extension of the protections afforded to whistleblowers to individuals who are independent contractors to a public authority. The whistleblowers' protections will now include conduct which constitutes a failure by an agency to exercise its functions under the GIPA Act.

In addition, a lower threshold test has been introduced as the basis for making a protected disclosure. Holding an honest belief, on reasonable grounds that information shows or tends to show maladministration, corrupt conduct or serious and substantial waste is a sufficient basis for a public official to make a protected disclosure.

The Ombudsman has been given responsibility for overseeing the Act. A final set of amendments will commence on 1 January 2012 under which Endeavour Energy, as a public authority, will be required to provide the Ombudsman with an annual report on its compliance with the Act.

Significant judicial decisions

Endeavour Energy is unaware of any significant judicial decisions during the financial year ending 30 June 2011 that have affected or may affect it in its capacity as an energy services corporation or affect the users of its services in their capacity as customers of an energy services corporation.

Material changes to Commonwealth legislation

Introduction of the *Competition and Consumer Act 2010 (Cth)*

The *Trade Practices Act 1974 (Cth)* has been renamed the *Competition and Consumer Act 2010 (Cth)* and amended to include the concept of an Australian Consumer Law.

GLOSSARY

The Australian Consumer Law introduced a national unfair contract terms regime which prohibits unfair terms in standard form contracts between business and consumers. The Australian Consumer Law also introduces new consumer guarantees in relation to goods and services supplied to consumers, a new national product safety law and enforcement system and new penalties, enforcement powers and consumer remedies.

Amendments to the Renewable Energy (Electricity) Act 2000 (Cth)

The *Renewable Energy (Electricity) Regulations 2001 (Cth)* were amended by a series of amendment regulations in October 2010. The first of these amendments related to compliance and safety standards for small generation units and assistance for emissions intensive trade exposed activities under the Renewable Energy Target (RET) scheme. The later amendments included a further 14 activities for the provision of partial exemption certificates for activities defined as eligible under the emissions intensive, trade exposed assistance program.

Upon the amendment to the *Renewable Energy (Electricity) Act 2000 (Cth)* the existing RET scheme was separated into two schemes – the Large-scale Renewable Energy Target Scheme (LRET) and the Small-scale Renewable Energy Scheme (SRES). The amendment (effective from 1 January 2011) is intended to increase investment in large-scale renewable energy projects.

Material changes to the National Electricity Rules

The National Electricity Rules (Rules) govern the operation of the National Electricity Market. The Rules have the force of law and are made under the National Electricity Law. During the current financial year the following amendments to the Rules materially impacted on Endeavour Energy:

Amendments to the National Electricity Act 1997 (NSW)

The Provision of Metering Data Services and Clarification of Existing Metrology Requirements Rule commenced on 16 December 2010.

This rule now confirms that Metering Data Providers have become a new category of service provider regulated under the Rules.

A\$	Australian dollars	IPART	Independent Pricing and Regulatory Tribunal
AASB	Australian Accounting Standards Board	ISO	International Organization for Standardization
AEMO	Australian Energy Market Operator	IT	Information technology
AER	Australian Energy Regulator	kV	kilovolt
ARSBA	<i>Annual Reports (Statutory Bodies) Act 1984</i>	kVA	kilovolt ampere
ARSBR	<i>Annual Reports (Statutory Bodies) Regulation 1995</i>	kWh	kilowatt hour
AS	Australian Standard	LPG	liquefied petroleum gas
CAPEX	capital expenditure	LRET	Large-scale Renewable Energy Target
CEO	Chief Executive Officer	LTi	lost-time injury
CIC	customer interaction centres	MWh	megawatt hour
CO ₂ e (carbon dioxide equivalent)	units used to describe global warming potential of all greenhouse gases, e.g. carbon dioxide, nitrous oxide, methane, carbon monoxide	NEM	National Electricity Market
CSO	Community Service Obligations	NGAC	NSW Greenhouse Abatement Certificates
Cth	Commonwealth	NPAT	net profit after tax including capital contributions
DM	demand management	NSW	New South Wales
DSO	day sales outstanding	ODRC	optimised depreciated replacement cost
E10 fuel	fuel containing 10% ethanol	OHS/OH&S	occupational health and safety
EAPA	Energy Accounts Payment Assistance	OMS	Outage Management System
EBIT	earnings before interest and tax	OPEX	operating expenditure
EBITDA	earnings before interest, tax, depreciation and amortisation	PAFA Act	Public Authorities (Financial Arrangements) Act
EEO	equal employment opportunity	PESAP	Public Electrical Awareness Safety Plan
EISS	Energy Industries Superannuation Scheme	PF&AA	<i>Public Finance and Audit Act 1983</i>
ESI	electricity supply industry	PPA	power purchase agreement
ESS	Energy Savings Scheme	PUC	projected unit credit
FBT	fringe benefit tax	RAP	Remediation Action Plan
FRA	fraud risk assessment	RFP	request for proposals
FSC	field service centre	RTO	registered training organisation
GFC	global financial crisis	SAIDI	system average interruption duration index
GGAS	Greenhouse Gas Reduction Scheme	SRES	Small-scale Renewable Energy Scheme
GIPA Act	<i>Government Information (Public Access) Act 2009</i>	SAMP	Strategic Asset Management Plan
GIS	Geographic Information System (database of all physical assets)	SCI	Statement of Corporate Intent
GPS	global positioning system	SCADA	Supervisory Control and Data Acquisition
GRI	Global Reporting Initiative	SENI	serious electrical network incident
GWh	gigawatt hour	SF ₆	sulphur hexafluoride
GST	goods and services tax	SNMP	Strategic Network Maintenance Plan
HFC	hydrofluorocarbon,	SS	switching station
ICAC	Independent Commission Against Corruption	SOC	State Owned Corporation
<i>I care!</i>	Endeavour Energy's workplace giving program	TAFE	Technical and Further Education
INpower	an Integral Energy program to assist customers facing financial hardship to pay for their electricity consumption	TSA	Transition Services Agreement
		TRI	total recordable injuries
		TS	transmission substation
		VETAB	Vocational Education and Training Accreditation Board
		ZS	zone substation

A					
Aboriginal employment strategy	31				
apprentice intake	4, 29, 29				
Australian Financial Services Licence	95				
B					
balance sheet	44				
balanced scorecard	6				
Board Committees	39–40				
Board of Directors	38–40, 42, 91–92				
bushfire risk management	15, 16				
business risk management	16				
C					
capital works program	10–11, 19–23, 45, 89				
Chairman and Chief Executive Officer report	4				
community relations	6, 32–4				
complaint handling	26–7, 37				
compliments received	27				
comprehensive income statement	49				
consultants	95				
corporate information	54				
Corporate Plan	4, 6–7				
credit card certification	95				
customer care group	26				
customer interaction centres	26				
customer relations	6, 12–13, 26–7, 33				
D					
demand management	24–5				
Diversity Framework	33				
dividends paid	5, 61–2				
E					
efficiency program	13				
electricity, growth in demand for	18				
electricity prices	4–5, 13, 80–1, 100				
employees	28–31				
benefit provisions	58–9, 76–8, 80				
cultural issues	6, 17				
employee relations	30, 33				
Enterprise Agreement	17				
recruitment	11				
employee numbers	28				
year at a glance	3				
Endeavour Energy, brand unveiling	5, 26				
Enterprise Agreement	17, 30				
environmental performance, issues	35–7, 47				
equal employment opportunity	31				
ethics and conduct	41				
Executive Leadership Team	41, 42, 97				
exemptions from annual reporting provisions	96				
external audit	42				
F					
Fathers' Day windstorm	10				
fault and emergency work	23				
field force automation system	14				
financial results	6, 44, 46–92				
financial statements	49–91				
five-year statistical table	94				
fleet management	14, 36				
fraud and corruption control plan	41				
fraud risk register	42				
funds granted to non-government organisations	100				
G					
glossary	103				
governance	38–42				
Government Information (Public Access) Act 2009 (NSW)	98, 102				
<i>Government Information (Public Access) Regulation 2009 (NSW)</i>	98–100				
<i>Greenhouse Gas Reduction Scheme (NSW)</i>	35				
greenhouse legislation	35–6, 62				
H					
hardship program	27				
Health and Safety Policy Statement	8				
I					
implementation of price determinations	100				
incident management	16				
independent auditor's report	48				
industrial relations	30				
Integral Energy, name change from	2, 26				
internal audit	42				
iSAFE vehicle system	14				
J					
judicial decisions	102–3				
K					
key management personnel	90				
L					
legislative changes	101–2				
Letter to Shareholding Ministers	1				
Lifeguard program	3, 9				
lost-time injuries	8–9				
M					
major projects	19–23				
management performance	43–5				
metering	23, 30, 60				
mobility	30				
Multicultural Policies and Services Program	33				
N					
network maintenance plan	23				
network plan delivery	10–11, 18				
network prices	100				
notifications to ICAC	101				
O					
operations	18–27				
organisational structure	2–7, 39				
Origin Energy	5, 26–7, 43				
overhead line and pole inspection program	23				
overseas travel	101				
P					
performance	8–17, 28, 43–5, 97				
pole blackspot program	8				
principal activities	47				
public consultation	32				
public safety program	4, 9				
Q					
Queensland, flood and cyclone damage in	34				
R					
rapid response teams	12, 30				
Regulated Retail Determination 2010–13:	100–1				
reliability results	4				
remuneration	38, 90, 97				
retail business assets, sale of	5, 26–7				
revenue	60, 62				
risk management	16, 80–5				
S					
safety management	4, 6, 8–9				
Solar Bonus Scheme	24, 43				
Strategic Asset Management Plan	10, 45				
Strategic Corporate Plan	4, 6–7				
Strategic Network Maintenance Plan	23				
strategic procurement	13				
street lighting	23				
sustainability policy	36				
T					
technology strategy	14–15				
training					
in environmental awareness	37				
leadership training courses	9, 17, 29				
RTO status	29				
trades and engineering development programs	30				
Transition Services Agreement	5, 26–7, 43				
V					
vegetation management	23				
W					
waste management	36				
water use	36				
workplace giving	34				
Y					
year at a glance	3				

LOCATIONS AND CONTACTS

*Emergencies, streetlights out,
hot water hotline*

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(8am – 5.30pm Monday to Friday)

Fax: (02) 9853 6000

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PO Box 6366, Blacktown NSW 2148

Network Project Management Office

Level 5 and 9, Westpoint Tower
17 Patrick Street
Blacktown NSW 2148

Bowenfels Field Service Centre

9-13 Coerwull Road
Bowenfels NSW 2790

Coniston Office

Corner of Bridge Street and
Old Springhill Road
Coniston NSW 2500

Glendenning Central

Logistics Facility
49 Glendenning Road
Glendenning NSW 2761

Glendenning Civil Works Centre

15 Belfast Place
Glendenning NSW 2761

Glendenning Field Service Centre

43 Glendenning Road
Glendenning NSW 2761

Hoxton Park Field Service Centre

490 Hoxton Park Road
Hoxton Park NSW 2171

Hoxton Park Technical

Training Centre
109 Jemma Road Prestons NSW 2170

Kandos Field Service Centre

16 White Crescent
Kandos NSW 2848

Katoomba Field Service Centre

27-29 Whitton Street
Katoomba NSW 2780

Kings Park Field

Service Centre
10 Tasha Place
Kings Park NSW 2148

Moss Vale Field Service Centre

8-10 Old Dairy Close
Moss Vale NSW 2577

Narellan Field Service Centre

17 McPherson Road
Smeaton Grange NSW 2567

Nowra Field Service Centre

20 Depot Road
West Nowra NSW 2541

Parramatta Field Service Centre

84-86 Macarthur Street
Parramatta NSW 2150

Penrith Field Service Centre

96-120 Blaikie Road
Jamisontown NSW 2750

Picton Field Service Centre

94 Bridge Street
Picton NSW 2571

Shellharbour Field Service Centre

Buckleys Road
Shell Cove NSW 2529

Springhill Field Service Centre

191-195 Five Island Road
Unanderra NSW 2526

Ulladulla Field Service Centre

18 Deering Street
Ulladulla NSW 2539

Windsor Field Service Centre

Corner Ham Street and Fairey Street
South Windsor NSW 2756





**Endeavour
Energy**