



we generate*



Annual Report 1998/99

Contents

History	2
1998/99 Highlights	3
Corporate Plan	4
Organisational Structure	5
Chairman's Report	6
Board of Directors	8
Corporate Governance	10
Chief Executive Officer's Report	14
Management	16
People	18
Trading for Future Growth	20
Competitive Operations	22
Creating a Better Business	24
Environment and Community	26
Year 2000	28
Financial Report	29
Glossary and Abbreviations	56

Additional copies of the 1998/99 Annual Report are available by contacting 07 3228 4316 or by downloading it off the web site www.tarongenergy.com.au

TARONG ENERGY CORPORATION LIMITED
ACN 078 848 736



energy*

HISTORY

2

* To deliver outstanding service and value to our customers in the energy business and increase Shareholder value by competing vigorously in the energy delivery market.

Our Mission

* To have established profitable alliances with our customers, partners and suppliers that enable us to serve our customers, develop new markets and significantly grow Shareholder value.

Our Vision

Tarong Energy is one of Queensland's largest electricity generation companies.

It owns and operates the 1400 megawatt (4x350MW) coal-fired Tarong Power Station, the 500 megawatt (2 x 250MW expanded to 2 x 300MW) pumped storage, hydro-electric Wivenhoe Power Station and also the 15MW gas turbine at the Tarong Power Station site. Tarong Energy also owns a 123 million tonne coal reserve located at Chinchilla East.

Tarong Energy through Entergy Power Group, has a 50% option to purchase the Wandoan coal resource and an Engineer, Procure and Construct (EPC) licence on Taabinga, a 25 million tonne coal resource near Kingaroy.

An Energy Services Company (ESCO) is also being developed and is in the final stages of negotiating with several energy management customers including the Carole Park Industrial Estate.

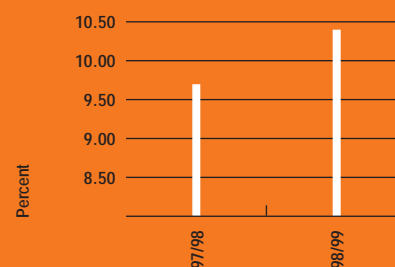
Tarong Energy sells electricity into the electricity pool of the National Electricity Market and provides ancillary services to the Queensland System Operator through its Wivenhoe Power Station to help ensure the secure and reliable supply of electricity throughout Queensland.

As well as being a generator, Tarong Energy offers services including wholesale market hedging, firm prices for metered energy quantities, bidding generation or interruptible loads into the spot market, load aggregation across multiple sites, connection and access agreements and contestability arrangements. Tarong Energy is able to assist customers with total energy solutions including energy auditing, embedded generation and co-generation options.

Committed to growing long-term partnerships in energy trading and energy services while providing creative, committed solutions for its customers, Tarong Energy's skilled, flexible teams of innovative business and engineering specialists deliver results in improving the energy efficiency of the production processes.

Financial Performance

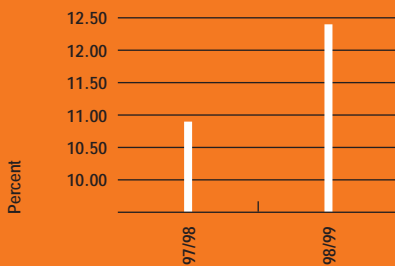
	1 July 1997 to 30 June 1998	1 July 1998 to 30 June 1999	Change
	\$ 000	\$ 000	
Revenue	439 109	432 535	-1.5%
Operating Profit Before Interest and Tax	162 272	162 282	0%
Operating Profit after Tax	81 666	87 636	+7.3%
Dividends Payable	73 500	52 582	-28.5%
Total Assets	1 391 294	1 263 103	-9.2%
Total Liabilities	586 242	422 997	-27.8%
Total Equity	805 052	840 106	+4.4%
Return on Total Avg Assets	10.9%	12.4%	+1.5%
Return on Total Avg Equity	9.7%	10.4%	+0.7%



RETURN ON TOTAL AVERAGE EQUITY

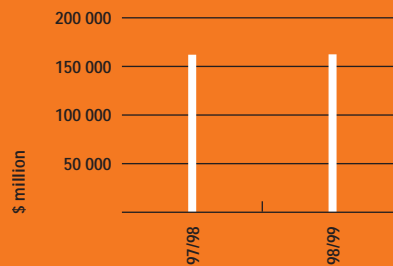
1998/99 HIGHLIGHTS

- * Tarong Energy achieved a Queensland power generating industry record of 1.55 Lost Time Injury Frequency Rate (LTIFR). This improved further on the organisation's previous best figure of 4.66 achieved in 1997/98. The average LTIFR of the Queensland major power generating companies for 1997/98 was 19.09.
- * Tarong Energy started trading in the National Electricity Market (NEM) on 12 December 1998.
- * Operating Profit after Tax was \$87.6 million, a 7.3% increase on the previous year.
- * Return on Total Average Equity was 10.4%, an increase of 0.7% on the previous year.
- * Tarong Energy purchased a 123 million tonne product coal resource near Chinchilla in Queensland.
- * Tarong Energy is investigating developing a co-generation facility fueled by renewable resources to supply energy to the SYNERGY Industrial Park in Brisbane's western suburbs.



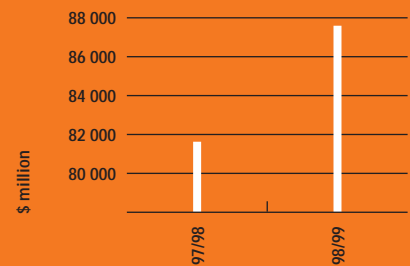
RETURN ON TOTAL AVERAGE ASSETS

- * Unit 1 at Tarong Power Station went off-line in August 1998 due to severe damage caused by an explosion in a transformer. The findings of the investigation into damage and subsequent repair work were shared with other Queensland generator companies.
- * An industry record was achieved in October 1998 when Tarong Power Station's new Unit 1 generator transformer was installed and brought back on-line in 61 days.
- * As part of the repair work on Unit 1, a new generator transformer was sent from Western Power in Western Australia. At the time of transportation, it was the longest road haul of its kind ever undertaken in Australia.
- * Tarong Energy is storing its repaired Unit 1 generator transformer as a spare to provide future industry security for the benefit of generators and electricity consumers alike.



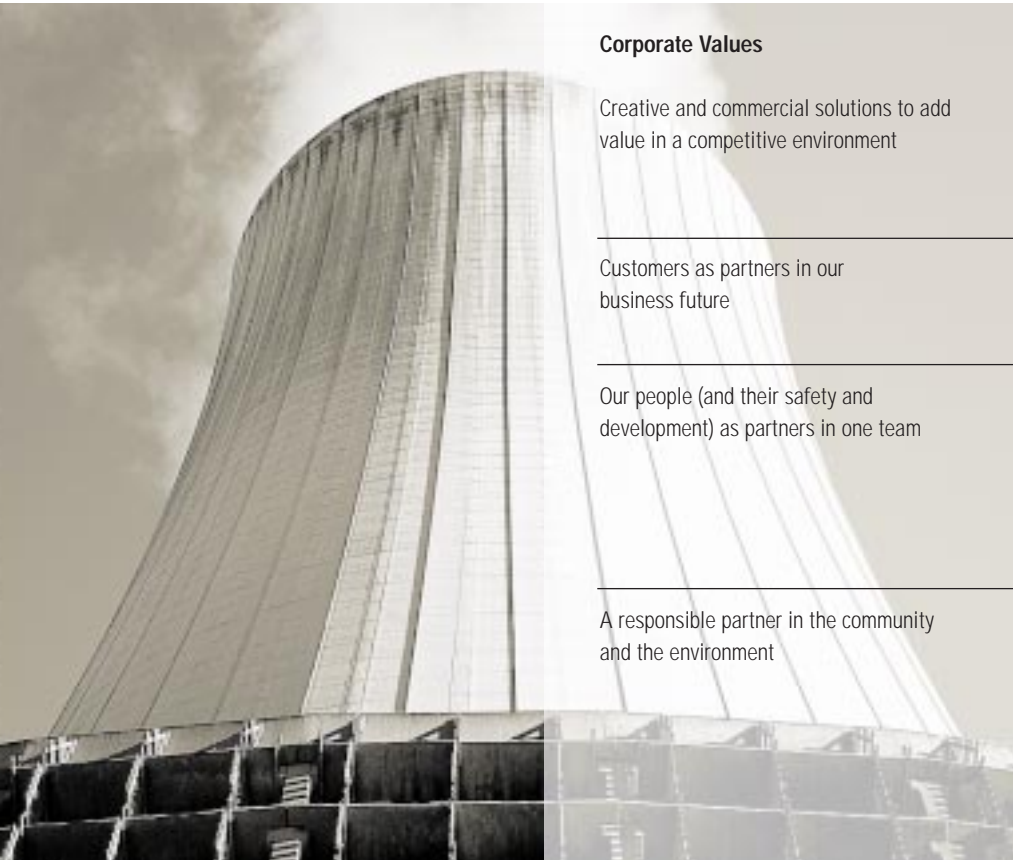
OPERATING PROFIT BEFORE INTEREST AND TAX

- * The feasibility study for the Tarong Power Station extension project was approved by the Board of Directors and submitted to the Shareholding Ministers for consideration.
- * In October 1998, Wivenhoe Power Station transferred its remote control operation capability from the Queensland System Operator in Brisbane to Tarong Power Station near Kingaroy.
- * Wivenhoe Power Station's generating capacity was increased from 500MW to 600MW through modification works.
- * Tarong Energy undertook an initiative that saw the Australian Competition and Consumer Commission (ACCC) authorise Queensland generators to coordinate generation output in the event of tight supply over the summer period.
- * A new environmental report was released.



OPERATING PROFIT AFTER TAX

CORPORATE PLAN



Corporate Values

Creative and commercial solutions to add value in a competitive environment

Customers as partners in our business future

Our people (and their safety and development) as partners in one team

A responsible partner in the community and the environment

Objectives

To operate our business in a manner which creates value for our Shareholders

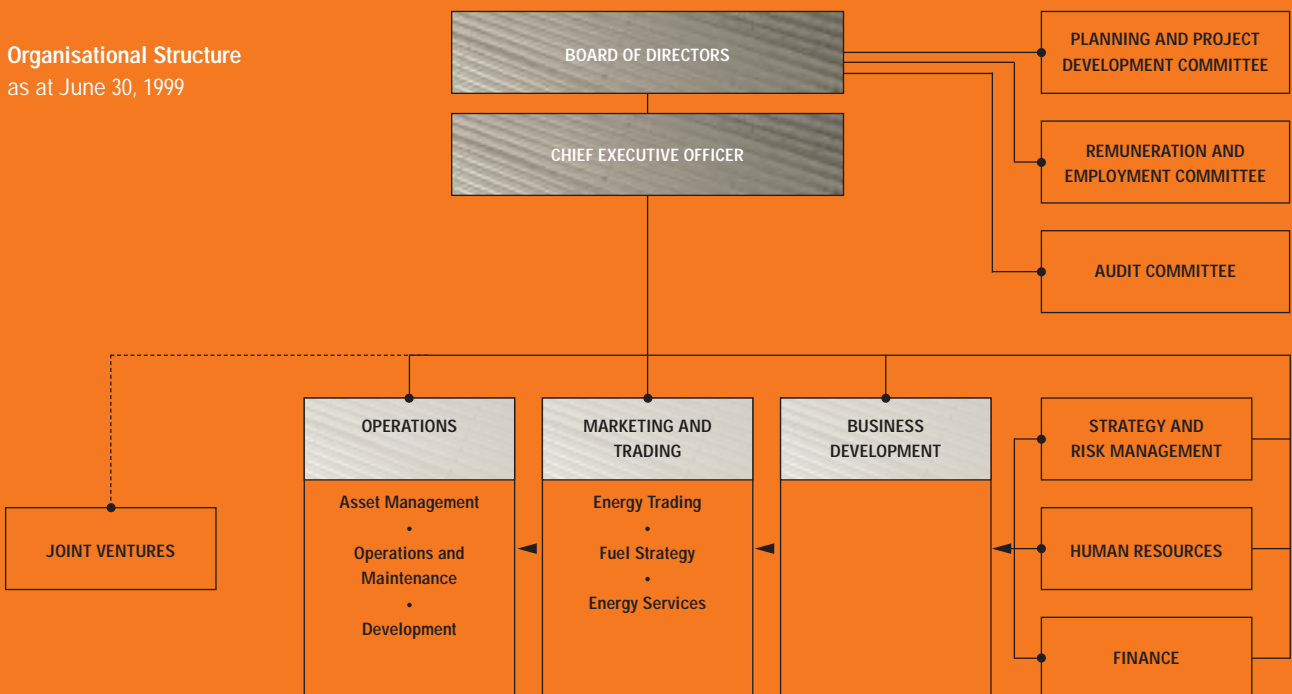
To be the preferred supplier of energy and energy related services

To provide a safe working environment and to have access to the people, skills and resources committed to achieve our mission

To establish partnerships within our communities to achieve environmental, social and economic objectives

Strategy	1998/99 Performance	Objectives for 1999/00
<ul style="list-style-type: none"> restructure and reduce costs to meet the competitive marketplace; diversify fuel sources to reduce fuel costs and improve fuel quality; 	<ul style="list-style-type: none"> profit increased by 7.3% to \$87.6 million; acquired Glen Wilga coal resource and transported coal from Jeebropilly coal mine near Ipswich; 	<ul style="list-style-type: none"> to create a competitive market for fuel supplies at Tarong Power Station; commence construction of the Tarong Power Station extension;
<ul style="list-style-type: none"> develop strategic alliances to diversify opportunities in new as well as existing markets; 	<ul style="list-style-type: none"> developed a program to target niche power generation projects as part of a strategic Energy Services Company; 	<ul style="list-style-type: none"> commence construction and complete the Carole Park renewable resources co-generation facility;
<ul style="list-style-type: none"> develop partnerships to deliver new skills and capabilities; provide opportunities for developing, retaining and enhancing employees' critical skills; 	<ul style="list-style-type: none"> enterprise agreement submitted to the QIRC in July 1998; reviewed the remuneration strategy and established a simplified and fair process; reduced LTIFR safety figures from 4.6 in 1997/98 to 1.5 in 1998/99; 	<ul style="list-style-type: none"> introduce an incentive scheme for all employees; maintain LTIFR safety figures to less than 5 in 1999/00;
<ul style="list-style-type: none"> reduce Greenhouse gas emissions by 4%; develop Best Practice environmental management by utilising the latest technology available; and ongoing consultation with key stakeholders wherever Tarong Energy operates. 	<ul style="list-style-type: none"> developed an Environmental Management System; and conducted Quarterly Community Consultation meetings. 	<ul style="list-style-type: none"> achieve ISO14001 accreditation; and establish community based business opportunities in the utilisation of station waste.

Organisational Structure
as at June 30, 1999



CHAIRMAN'S REPORT

6

Tarong Energy has had a year of generally strong performance. There has been tangible progress towards resolving the major issues facing the Corporation, namely:

- a strong and competent management group was installed under the leadership of Alan du Mée, and the strategic direction established.
- employee morale and contribution have lifted tangibly, following changes to the organisation, clear direction and moves to remove some negative influences from the work culture.
- achievements in operating and commercial areas have lifted performance and reduced risk of failure to satisfactory levels by year-end.

The results are evident in key areas – profits, plant availability and production, safety and maintenance backlog reduction are some. In his report, the Chief Executive, Alan du Mée, has outlined performance and progress and noted the main issues and strategy elements.

This situation is pleasing. Clearly, good selections of key managers and endorsement of sound and decisive policies have paid off. Tarong Energy's personnel have shown clear support for the leadership and direction of management. On behalf of the current Board and Shareholders, this significant contribution to the Corporation's well being from its people is much appreciated.

These outcomes are a credit to the Board that was responsible for the Corporation during the financial year. My predecessor as Chair, Marian Gibney, and her Directors have cause for satisfaction. Their contributions are acknowledged with gratitude.

The Queensland Government appointed four new Board members on 1 July, 1999 following my appointment to the Chair two months earlier. The new Board is suited to the new situation and keen to do the job well. With the assistance of management, the baton changes involved were achieved smoothly.

There have been some serious challenges throughout the year. The Unit 1 transformer failure at Tarong Power Station required

exceptional effort to minimise the time lost by the generating sets, and to be sure that on this occasion the true cause of the failure had been identified and resolved.

The long-term issues facing the Corporation are critical and challenging. The Tarong Power Station is old by comparison to new generators and its fuel cost is high by the standards of competitors in the state. Fuel costs have to be reduced and this need has required elaborate effort to develop competitive arrangements for future supply. Approval is being sought from Shareholders for the Tarong North development to ensure future viability of the Tarong Power Station by



introducing more efficient sets to the site. The possibility of gas generation at Wivenhoe is also subject of study.

Looking ahead, market conditions have to be expected to become tougher, particularly when the interconnection of the New South Wales and Queensland electricity grids occurs in 2001. There is a risk that not all actions in the expanded market will be rational. A bold and thorough strategy for addressing the Corporation's situation has been developed. Tangible progress is now evident. The key actions now have to be put into effect so that the Corporation will compete successfully in the coming tight conditions.

The Board's priorities are first to bring to fruition the key elements of the recovery strategy, and second to consolidate the Corporation's performance to hold high performance standards in a period of substantial change.

Whilst conscious of its stewardship role of looking after the interests of its owners, the people of Queensland, we seek to protect and enhance the value of the business and to deliver electricity reliability and competitively. Tarong Energy has the people and established strategies to achieve its goals, and aspirations to demonstrate further growth in Shareholder value in coming years.

A handwritten signature in black ink that reads "Ken Dredge". The signature is written in a cursive, flowing style.

Ken Dredge
Chair



potential*

* Our coal stockpile contains enough **thermal energy** to generate power for two weeks

Tarong Power Station

BOARD OF DIRECTORS

Ken Dredge was appointed Chairman in May 1999 following the resignation of Marian Gibney who accepted a senior position with a major Queensland company.

The terms for The Honourable Martin Tenni, Kevin Blinco, Alan Piper and Lieutenant General John Grey AC expired on 31 June 1999 and four new Directors were appointed – Peter Carne, Neil Hatherly, Susan Johnston and Michael Spencer.

Chairperson (1 July, 1997 to May 1999)

Marian Gibney B.A., L.L.B. (Hons)
41 years

Marian Gibney was previously a partner with Allen, Allen and Hemsley Solicitors, specialising in work for the mining, manufacturing and heavy engineering sectors. She currently holds a senior management position with MIM Holdings Limited. She is Governor of the University of Queensland Foundation and a previous member of the Queensland Generation Corporation Board.

Chairperson (from May 1999)

Ken Dredge B.E. (Chem), B. Econ, F.T.S.E., F.I.E.Aust., F.Aus.I.M.M., F.A.I.C.D.
59 years

Ken Dredge has held senior management positions with MIM Holdings Limited, Utah Development Company and was most recently Managing Director of Dominion Mining Limited. He has also been a member of listed company boards in Australia, Canada and Germany and management committees of businesses in England, Germany and the USA.

Director (1 July, 1997 to June 30, 1999)

Kevin Blinco B.Bus., F.C.A.
52 years

Kevin Blinco is Chairman of Hart Larwill Pty Ltd Chartered Accountants, Director of Hart Larwill Pty Ltd, Hart Larwill Rural Pty Ltd and member of the board of JL Mactaggarts Holdings Pty Ltd and Australian Pastoral Industries Pty Ltd. He has 20 years public accounting experience.

Director (from 1 July, 1999)

Peter Carne B.A., LLB, M.A.I.M.
48 years

Peter Carne is President of the Queensland Law Society, Chairman of the Queensland Law Society Specialist Accreditation Board and is on a number of other committees in the Queensland Law Society. He is a Law Society approved Mediator and Accredited Family Law Specialist and served as the Commissioner of the Legal Aid Commission (Old) from 1994 to 1997.

Director (from 1 July, 1997)

Donald Coates C.P.A., F.A.I.C.D.
61 years

Donald Coates is Chairman of Coates Holdings Pty Ltd and was previously Chairman of the Queensland Performing Arts Trust and the Brisbane Bullets. He has also served as a Director for GWA Ltd, the Queensland Industry Development Corporation and the Queensland Events Corporation.

Director (1 July, 1997 to June 30, 1999)

Lieutenant General John Grey AC
F.A.I.M., G.A.I.D.C., N.D.C.(I), J.S.S.C., psc(UK).
60 years

John Grey retired as Chief of the Australian Army in 1995 after a distinguished military career of 38 years and is a graduate of the Australian Public Service Top Management Program. In 1995 he was promoted from Officer to Companion of the Order of Australia for exceptional leadership, strategic vision, integrity and exemplary performance. He now runs his own leadership and management consultancy in Cairns. During the year he was appointed Chancellor, James Cook University.

Director (from 1 July, 1999)

Neil Hatherly B.Sc. (Hons), F.A.I.M., F.Aus.I.M.M., M.A.I.C.D.
50 years

Neil Hatherly is Partner with global executive search firm TASA Worldwide. He was previously Queensland State Manager of PA Consulting Group and has held senior management positions with MIM Holdings Limited. He is currently a Trustee and member of Queensland Advisory Committee for Economic Development of Australia and Board member and Chairman of the Development Committee for the Abused Child Trust.

Director (from 1 July, 1999)

Susan Johnston B.A.
35 years

Susan Johnston is Principal Consultant with ACIL Consulting. Previously, she was Director, Office of Energy Management for the Queensland Department of Mines and Energy and Senior Advisor and Director Environment and Land Use Planning for the Queensland Office of Cabinet and senior advisor to two Queensland and two Federal Ministers for Resources.

Director (from 1 July, 1997)

Stephen Maitland RFD B.Ec., F.C.P.A., F.A.I.B., F.C.I.S., F.A.I.M., F.A.I.C.D.
48 years

Stephen Maitland was formerly Chief Executive Officer of the Queensland Office of Financial Supervision and has 25 years experience in banking and finance. He is a board member of the Surf Life Saving Foundation Inc.

Director (1 July, 1997 to June 30, 1999)

Alan Piper B.Com., M.B.A.
54 years

Alan Piper is Managing Director of AP Eagers Ltd, Australia's largest listed retail automotive group ranked by turnover and market capitalisation. He is Director of MTO Insurance Services Pty Ltd, The Totalisator Administration Board of Queensland and Auto Group Limited. He is also Chairman of the Brisbane Bears-Fitzroy Football Club Limited.

Director (from 1 July, 1999)

Michael Spencer M.A.I.M.
46 years

Michael Spencer is Director of Queensland Corrections, Branch Secretary of the Australian Services Union and Secretary of the Queensland Services Industrial Union of Employees. He is a past Commissioner of the Queensland Corrective Services Commission.

Director (1 July, 1997 to June 30, 1999)

The Honourable Martin Tenni JP.
65 years

Martin Tenni retired in 1989 after 15 years service as Member for the far north Queensland electorate of Barron River. During his parliamentary career he was Minister for Mines and Energy; Northern Development; Water Resources and Maritime Services; and Environment, Valuation and Administrative Services. Prior to entering Parliament, he was Chairman of Directors and Managing Director of four Mitre 10 Hardware stores and Chairman of the Mareeba Shire Council.



Above from left to right: Stephen Maitland, Donald Coates, Neil Hatherly, Ken Dredge, Susan Johnston, Michael Spencer and Peter Carne.

Below from left to right: Marian Gibney, Kevin Blinco, Lieutenant General John Grey AC, Alan Piper and The Honourable Martin Tenni.

CORPORATE GOVERNANCE

The Board of Tarong Energy strives to achieve international best practice in its activities on behalf of the Corporation.

While the Corporations Law outlines specific requirements that the Board must undertake, the Board recognises the need to establish additional practices in order to ensure the best interests of the Corporation are properly served.

This statement outlines the main corporate governance practices undertaken during the financial year.

Shareholders

Tarong Energy, as a Government Owned Corporation (GOC), has two Shareholders with voting rights: the Minister for Mines and Energy and the Treasurer of Queensland. The Shareholding Ministers vote on the appointment of Directors.

The Board reports major developments of the Corporation to the Shareholding Ministers through quarterly reports, advising of key issues affecting the Corporation and submitting proposed major changes for voting approval.

Appointment and Retirement of Directors

Directors are appointed by the Governor in Council for a period of not more than five years in accordance with the *Government Owned Corporations (GOC) Act 1993* and Tarong Energy's Articles of Association.

A director may resign by written notice to the Governor in Council or Tarong Energy. By ordinary resolution of the Shareholding Ministers, the appointment of all or any directors may be terminated at any time.

Remuneration of Directors

Directors' fees and termination or retirement benefits are determined by the Shareholding Ministers under the Company's Articles of Association.

The annual remuneration rate of directors was:

Chairperson	\$44 800
Directors	\$18 368
Committee Chairperson	\$4 000
Committee Member	\$3 000

The voting shares in the Corporation are held by two Shareholding Ministers in accordance with Division 2 of Part 3 of

Chapter 3 of the GOC Act. There is no provision or requirement for directors to hold shares in the Corporation.

Appointment and Remuneration of Auditors

Section 128 of the GOC Act in conjunction with Section 76(1) of the *Financial Administration and Audit (FA&A) Act 1977*, provides that the Auditor-General be appointed auditor by the Shareholding Ministers of a Company GOC. Tarong Energy is a Company GOC under the GOC Act.

Under Section 95 of the FA&A Act, fees for an audit must first be assessed at rates approved by the Treasurer and then, at the completion of the audit, charged at the same rates.

Planning and Control Mechanisms

The major planning and control mechanisms are the Corporate Plan, the Statement of Corporate Intent (SCI), Quarterly Reports (comparing performance with items in the SCI and provided to the Shareholding Ministers) and the Annual Report.

Corporate Plan

The Board of each GOC must produce an annual Corporate Plan and submit it to the Shareholding Ministers (Chapter 3, Part 7, GOC Act).

Statement of Corporate Intent

The GOC Act (Chapter 3, Part 8) specifies matters that may be included in the SCI, for each financial year, including:

- an outline of objectives;
- an outline of the nature and scope of activities;
- an outline of the proposed main undertakings;
- financial and non-financial performance targets;
- capital structure and dividend policies;
- an outline of the proposed main infrastructure investments;
- an outline of borrowings made and proposed;
- an outline of policies adopted to reduce risk of investments and borrowings;
- an outline of policies and procedures relating to the acquisition and disposal of major assets;

- the accounting policies that apply to the preparation of the annual accounts; and
- the type of information to be given to Shareholding Ministers in quarterly and annual reports.

The SCI must be consistent with the Corporate Plan.

Quarterly Reports

Quarterly Reports by the Board to the Shareholding Ministers are required under Section 130 of the GOC Act. There is no set format, but the Report must include the information required to be given in the report by the GOC's Statement of Corporate Intent.

Annual Report

There are specific matters to be included in the Annual Report under Section 131 of the GOC Act. These include:

- information that is required by the Shareholding Ministers to enable an informed assessment to be made of the operations of the GOC;
- dividend policy for that year;
- the SCI (or a summary) for that year and any modifications;
- particulars of any directions or notifications given to the Board by the Shareholding Ministers; and
- a statement that the Corporation will be able to pay its debts as and when they fall due.

Directions from Shareholding Ministers

In accordance with the *Government Owned Corporations Act 1993*, Tarong Energy's Board discloses the following directions from its Shareholding Ministers, which were received during the 1998/99 financial year and the impact of these directions on Tarong Energy:

- 1 Direction under section 299 of the *Electricity Act 1994* to enter into ancillary services agreements and schedules with Queensland Electricity Transmission Corporation Limited and National Electricity Market Management Company Limited. Once completed, Tarong Energy will receive commercial returns for the provision of this service.



process^{*}

* Our electrostatic precipitators are the largest in the southern hemisphere for the size of unit

Tarong Power Station

CORPORATE GOVERNANCE CONTINUED

<p>2 Direction to pay the State of Queensland (Treasury Department) the sum of \$991 264.93 as interest on funds that were loaned to Tarong Energy. This interest payment was accounted for in the 1997/98 financial year and reduced the profit before tax during this period by the above amount.</p> <p>Size and Composition of the Board of Directors</p> <p>The Board currently consists of seven Directors, all of whom are non-executive Directors (including the Chairman).</p> <p>The names and biographical details of the Directors in office as at the date of this report are set out on page 8.</p> <p>Board Committees</p> <p>The Board is responsible for the overall corporate governance of the Corporation including working with management to determine the strategic direction, establishing goals for management and monitoring the achievement of those goals currently agreed.</p> <p>The following Board Committees were in place during the reporting period:</p> <p>Audit Committee</p> <p>The Audit Committee is chaired by a member of the Board and has two other non-executive Directors.</p> <p>The committee advised the Board on aspects relating to risk management practices, internal and external audit and the adequacy of accounting procedures, systems, controls and financial reporting within the Corporation.</p> <p>Planning and Project Development Committee</p> <p>The Planning and Project Development Committee was formed in early 1999 by the Board to obtain further information on Tarong Energy's major projects and advise on new project proposals. It is chaired by a member of the Board and has two other non-executive Directors. The Chief Executive Officer attends by invitation.</p> <p>The committee monitors and reviews the progress of major projects like the Tarong North extension and Carole Park.</p> <p>Remuneration and Employment Committee</p> <p>The Remuneration and Employment Committee is chaired by a member of the</p>	<p>Board and has two other Board members.</p> <p>Its objectives are to assist the Board in fulfilling its responsibilities relating to staff remuneration and employment practices of the Corporation.</p> <p>It recommends to the Board an overall remuneration and employment strategy that is consistent with the business objectives and human resources needs of the Corporation and which complies with all applicable laws.</p> <p>Internal Audit</p> <p>A major accounting firm, Arthur Andersen, was appointed in July 1998 to conduct the internal audit function.</p> <p>Risk Management</p> <p>The management of risk is the responsibility of all management. Each business unit, in conjunction with the Corporate Risk Management department, manages its particular risks through the application of sound risk management techniques.</p> <p>A formal risk management framework has been established which requires each business unit to assess and quantify its particular risks and to develop risk management plans to minimise or manage high risks and to monitor medium risks. Contingency plans for high risks are provided to the Audit Committee for review and approval when required.</p> <p>The trading risk is managed through a Board approved Marketing and Trading risk management policy that not only assesses and quantifies risks and loss exposures but also sets clear limits and controls to minimise risk. A business unit risk management group oversees this policy and the Board is advised monthly on the risk exposure.</p> <p>Compliance risk is addressed through an integrated audit plan involving internal financial audits and audits for plant, environmental, workplace health and safety and quality assurance risks. A formal legal compliance audit is being initiated. This system of compliance auditing is coordinated by Risk Management and monitored by the Board's Audit Committee.</p> <p>New project risk is addressed through procedures established to require risk assessment and evaluation at all levels. Major projects are the subject of detailed and</p>	<p>extensive risk management assessments. Project Assessment Reports that identify high risks and indicate mitigation measures form part of the Board approval process.</p> <p>Operating risks capable of occasioning damage to property, loss of revenue or injury to personnel are addressed through regular engineering audits, maintenance procedures, loss control facilities and in the event of a plant failure, by fully assessing and rectifying the causes.</p> <p>All risks remaining after the application of the above risk management measures are transferred, wherever possible, through a comprehensive insurance program which is approved annually by the Board.</p> <p>Year 2000</p> <p>A Year 2000 disclosure statement about the operations of Tarong Energy Corporation has been made in accordance with the <i>Year 2000 Information Disclosure Act 1999 (Qld)</i> on page 28 of this report.</p> <p>The approximate Year 2000 project expenditure to date has been \$5.5 million.</p> <p>Limits of Management Authority</p> <p>The Corporation's risk management structure recognises the need for balancing control and management autonomy. Consequently, the Board has delegated certain expenditure to the Chief Executive Officer and these are reviewed periodically to ensure they remain appropriate.</p> <p>Ethical Standards</p> <p>All directors, senior executives and other employees are expected to act lawfully, in a professional manner and with the utmost integrity and objectivity in their dealings with the external environment and each other.</p> <p>Directors' Access to Independent Professional Advice</p> <p>Directors are entitled to seek independent professional advice at the Corporation's expense for the proper performance of their duties, subject to the approval of the Board.</p> <p>Environmental Management</p> <p>Each month the Chief Executive Officer reports to the Board on environmental performance. The report includes details of:</p> <ul style="list-style-type: none"> - non-compliance with legislation or the environmental authority; - incidents and actions;
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- results of audits and progress on actions;
- environmental complaints;
- significant activities of an environmental nature.

Environmental compliance is reported quarterly by the Board to the Shareholding Ministers.

Requests from Shareholding Ministers

Tarong Energy received a number of Ministerial requests. Two requests included recommendations that financial disclosures be made in the Annual Report. The requests included:

- 1 A request for all overseas travel to be submitted to the Minister for Mines and Energy for approval on the recommendation of the Chief Executive Officer.



Transmission lines linking to the electricity grid at Tarong (left) and electrostatic precipitators.

Tarong Energy's expenditure on overseas travel for 1998/99 was \$52 198.

- 2 A request that the Corporation establish a panel of legal firms that could be used for legal work. Tarong Energy has always selected from a range of legal firms to obtain legal advice when required. Tarong Energy has submitted its legal fee expenditure for 1998/99 to its Shareholding Ministers.

Statement of Corporate Intent (Summary)

Introduction

The Statement of Corporate Intent (SCI) for 1998/99 was prepared in accordance with Chapter 3, Part 8 of the *Government Owned Corporations Act 1993* (the GOC Act).

The SCI represents a formal performance contract between the Board of Directors of Tarong Energy and its Shareholding Ministers, the Minister for Mines and Energy and

Minister assisting the Deputy Premier on Regional Development and the Treasurer.

The SCI is consistent with, and complements Tarong Energy's Corporate Plan submitted by the Board of Directors of Tarong Energy to its Shareholding Ministers in accordance with Chapter 3, Part 7 of the GOC Act.

The Board has undertaken to take all reasonable steps to ensure that the SCI, and all reports to Shareholding Ministers, are prepared with accuracy and timeliness.

SCI Contents

The 1998/99 SCI contains an executive summary and also summaries of Tarong Energy's core business, corporate direction and strategic objectives. It outlines the nature and scope of Tarong Energy's actions and



Tarong Power Station's electrostatic precipitators.

presents performance indicators to measure the success of both financial and non-financial activities.

The SCI also includes policies for reporting arrangements, accounting, dividend and borrowing, remuneration and also identifies any intention by the Corporation to acquire or dispose of major assets.

Reports are required on an annual and quarterly basis. The Annual Report for Tarong Energy will satisfy all legislative accounting standards and reporting requirements.

Quarterly reports to Shareholding Ministers detail the actual operating results for each quarter and year to date. Results are compared against the approved budget and any forecasts used for planning.

No community service obligations are currently identified for Tarong Energy.

Tarong Energy is committed to ensuring

that the risk management process is given the attention needed to provide the Board and Shareholders with the confidence that areas of risk are identified, analysed, assessed and appropriate contingency and resolution plans implemented and managed.

An Employment and Industrial Relations Plan is also included in the SCI and allows the Corporation to satisfy all legislative requirements for employment standards and policy requirements in respect to workplace health and safety, workplace equity and superannuation.

Dividend Policy

The Board's recommendation on the actual dividend will be made after due consideration of end of year financial results, the



Tarong Power Station's coal supply conveyor belt (left) and turbine hall.

Corporation's existing and target capital structure, future capital investment commitments and the capacity to pay with prudent financial management.

The Board will make a recommendation on the dividend to be paid for the year ended 30 June, 1999 profit after consultation with the Shareholding Ministers by 31 October, 1999.

CHIEF EXECUTIVE OFFICER'S REPORT

14

Our People

Our people have worked tirelessly throughout the year to effectively handle the challenges presented to them, consistently demonstrating a capacity for speed, creativity and flexibility in their work.

The strong commitment of our people to improve the company's position has ensured significant progress was made in adapting to the new competitive forces of the National Electricity Market (NEM). Tarong Energy has come a long way to establish itself as a competitive company in the NEM.

Safety

Tarong Energy's safety performance significantly improved in the past year with a Lost Time Injury Frequency Rate of 1.5. This was achieved through the dedication and commitment of our people and of support from our safety specialists. We look to maintaining Tarong Energy sites as the safest possible places to work.

Our Customers and Business Performance

With the opening of the NEM, new retailers have entered the Queensland market. However, Ergon Energy and Energex remain Tarong Energy's two key customers. Our customers business is keenly sought after and appreciated.

As a result of creative and responsive risk management, the company was well sheltered from revenue exposures and price volatility and achieved an after tax profit for the year of \$87.6 million.

Profit before tax is \$135.9 million which is 6% higher than last year. This is a result of higher revenue from electricity sales and lower costs.

Sales were higher by \$5 million which is a 1.1% increase on last year. The higher electricity sales were achieved despite last years sales including seven months of Power Purchase Agreements.

Operating Performance

The unexpected failure of the Unit 1 transformer in August was a particular challenge. Our people worked around-the-clock to re-establish supply to our customers and manage the potential commercial

exposures to the business. The team response forged a sense of common purpose and individual responsibility across the company that allowed records to be broken in transportation, installation, commissioning and unit run up. The assistance from Western Power in Western Australia in providing the spare transformer was greatly appreciated.

To ensure the delivery of best practice in maintenance and the provision of a high degree of reliability for all its operating plants, Tarong Energy recently separated the company's Operations Business into Asset Management and Operations and Maintenance.



Strategy

Tarong Energy continued to deploy a multi-site, multi-fuel strategy to reduce costs, improve economies of scale and improve environmental performance. A number of key initiatives has progressed to deliver these outcomes during the year.

Extension of Tarong Power Station

The planning for the Tarong Power Station extension was completed during the year and submitted to the State Government in March 1999. This coal-fired power station extension and the ability to source coal from a competitive market forms a major component of the strategy to un-strand the Tarong site assets. This is required to maintain and improve future value for the Shareholders and owners of the business, the people of Queensland.

Coal By Rail From the Surat

Tarong Energy purchased a coal resource from BHP/Caburah during the year. The long

term competitive coal supply strategy for the Tarong site includes plans to construct a 144km rail line from the Surat Basin to Tarong Power Station.

Coal Supplies From Pacific Coal Pty Ltd

Discussions continued for the whole year with our existing suppliers. Negotiations on a competitive fuel supply were not successful within the financial year, but look promising.

Gas Power Station Proposed for Wivenhoe

Work has started on a feasibility study for a combined cycle power plant near the existing Wivenhoe Power Station site, based on gas from the proposed PNG pipeline.

Renewable Energy Projects

The company purchased the rights to a proposed renewable energy project at Carole Park near Ipswich. The proposed facility would be one of the first of its kind in Australia and will integrate manufacturing, logistics and energy facilities that use renewable biomass energy source. 'Green Future' is the name registered for Tarong Energy's renewable energy product.

Year 2000

With the Year 2000 only months away, a comprehensive plan to effectively address Y2K issues has been deployed. This will deliver confidence to our customers that electricity generation will continue normally as the new millennium starts. Y2K progress is published on the Tarong Energy web site at www.tarongenergy.com.au.

I would like to thank all our people, the management team and all the Directors for their commitment and unflinching support during a challenging period. Tarong Energy's people make Tarong Energy a company to be proud of.

Alan du Mée
Chief Executive Officer

A large industrial air duct at a power station. The duct is made of metal and has a corrugated interior. A worker in a hard hat and safety vest is standing at the bottom of the duct, providing a sense of scale. The lighting is dramatic, highlighting the metallic surfaces.

capacity*

*Every second our gigantic air ducts blow 420 kilograms of combustion air into each boiler

Tarong Power Station

MANAGEMENT

Two managerial appointments were made as a result of strategic internal restructuring to compete in the new electricity market – Gary Campbell to General Manager Operations and Maintenance and Howard Morrison to General Manager Asset Management.

Chief Executive Officer

Alan du Mée M.Sci., M.B.A.,
A.F.A.I.M., M.I.I.E.
Age 50

Alan has a broad range of business, strategic management, people and engineering skills and experiences across numerous industries in several countries. Alan was appointed as Chief Executive Officer in February 1998. He was Business Development Manager for AUSTA Energy and AUSTA Electric. Prior to joining AUSTA Electric in 1996, Alan held executive positions with BHP Engineering.

General Manager Operations Business and Operations Development

Burt Beasley B.E. Mech.,
Grad. Dip.(Bus Admin), M.I.E. Aust.,
A.F.A.I.M., M.A.I.E.
Age 48

Burt joined the electricity industry as a mechanical engineer at Bulimba Power Station in 1971 and moved to Swanbank Power Station in 1973 where he worked in a variety of roles. He transferred to Callide B as Resources Manager before the station opened in 1986 and was promoted to power station manager in 1990. Burt was seconded to the Queensland Generation Corporation Implementation Project in a support role to the Board of Directors in 1994 before moving to Tarong Power Station in 1995. Burt acted as Chief Executive Officer of Tarong Energy from its formation on 1 July 1997 until February 1998.

General Manager Operations and Maintenance

Gary Campbell B.E. Elect., M.I.P.E.N.Z.
Age 47

Gary Campbell joined Tarong Energy in February 1999. Prior to his appointment Gary was Chief Executive Officer of Waitaki Power in New Zealand. Since 1973, he has held positions of Station Manager New Plymouth Power Station and Group Manager Huntly Thermal Group in the corporatised New Zealand electricity generation industry.

General Manager Business Development (acting)

Mike Fewster B.E(Hons), B.Sc.,
Grad.Cert.(Bus).
Age 49

Mike Fewster joined the planning department of State Electricity Commission of Queensland (SECO) in 1973 and has spent 25 years in the electricity industry in a variety of roles. He spent five years as an electrical engineer at Tarong Power Station and five years as production superintendent and two years as engineering superintendent at Callide B. He was hydro-electric manager for AUSTA Electric for two years prior to the disaggregation of AUSTA Electric.

General Manager Strategy and Risk Management and Company Secretary

Ross Holden B.Bus.(Acc), G.D.A.A., C.P.A.
Age 48

Ross Holden joined the Queensland Electricity Commission (QEC) in 1989 after working in the private and public sectors in various administrative, accounting and financial management roles. He was appointed to the position of Finance Manager of the QEC Generation Business Unit in 1994 and continued as Finance Manager for AUSTA Electric following corporatisation.

General Manager Human Resources

Craig Hunter B.Bus.
Age 43

Craig joined Tarong Energy in June 1998. Prior to his current appointment, Craig was the Human Resources Manager for BHP Engineering. Craig has previously worked on a number of projects around Australia for BHP.

Company Secretary and Principal Legal Counsel

Jenny Kiss B.Sc., L.L.B.
Age 40

Jenny has been a commercial lawyer advising businesses in the public and private sectors for more than 14 years. She has worked extensively throughout Australia and overseas, particularly in the resources industry. Jenny joined Tarong Energy in March 1999.

General Manager Marketing and Trading

Andrew Kremor Ph.D, M.B.A.
Age 40

Andrew joined Tarong Energy in April 1998. He was Chief Executive Officer of Omega Energy before it was acquired by Ergon Energy in early 1998. Andrew started his career with the Electricity Trust of South Australia (ETSA) then worked as a consultant with Ernst & Young in New Zealand. In 1995, Andrew rejoined ETSA with the task of establishing ETSA's retail business in South Australia, Victoria, New South Wales and Queensland.

General Manager Asset Management

Howard Morrison B.E. Elect., M.I.E. Aust.,
R.P.E.Q., N.P.E.R.3.
Age 40

Howard joined the Queensland electricity industry (QEGB) in 1981, working in the transmission design area, and moved to Gladstone in 1982 as an assistant Electrical Engineer. In 1983, with the commencement of Tarong Power Station operations, he transferred to Tarong and has worked in a number of roles in the maintenance and electrical engineering fields. Prior to disaggregation he was appointed Technical Services Manager at Tarong Power Station. During the formation of Tarong Energy he was given the role of assimilating Wivenhoe into Tarong Energy.

General Manager Finance

Andrew Pickford B.Bus.(Acc), A.S.A.
Age 37

Andrew joined Tarong Energy in September 1998. Prior to joining Tarong Energy, Andrew was the Chief Financial Officer for WMC's copper division. Andrew has had extensive experience in all aspects of financial and commercial management, having previously held senior executive positions with Elders Australia and the Adelaide Steamship Company Ltd.



From left to right: Andrew Pickford, Andrew Kremor, Howard Morrison, Mike Fewster, Burt Beasley, Jenny Kiss, Gary Campbell, Ross Holden, Alan du Mée and Craig Hunter.

PEOPLE

Tarong Energy has 333 employees located at its two power stations and in the corporate office.

It is structured into three core businesses – Marketing and Trading Business, the Operations Business and Business Development (also incorporating Asset Management and Operations and Maintenance). Finance, Human Resources and Strategy and Risk Management support these core businesses.

The people working at Tarong Energy are highly skilled, creative and professional in their approach to business and are encouraged to develop effective leadership skills.

A wide range of skills are utilised by Tarong Energy in order to maintain a



Tarong Power Station's Emergency Response Team in training. The team trains every Wednesday.

competitive edge in the NEM. The Corporation also encourages its people to undertake further training to diversify and enhance existing skills.

Enterprise Agreements

The Tarong Power Station Enterprise Development Agreement (EDA) will expire in June 2000. In order to adopt a fairer, more equitable remuneration system, the Corporation undertook a detailed remuneration review over the past financial year.

Productive discussions have been ongoing with Unions and have reached the stage of possibly varying the EDA in order to implement an agreed job sizing process and appropriate market rate.

Shared Values Statement

The Corporation has a Shared Values Statement that provides guidelines on:

- how people work together;
- the type of working environment we wish to establish;
- the way that the Corporation will conduct its business; and
- how the work environment complements employees' lives.

Leadership

Leadership is an important and valued skill which Tarong Energy seeks to encourage among all employees.

The Leadership Team for the Corporation was finalised in February 1999 and embarked on a team building program linked to the Corporation's major business planning workshop. Future development plans are being put into place for each General



Rob De Vries (back), Geoff Kruger (front left) and Steve Limb in action.

Manager through active consultation with the Chief Executive Officer.

Equity

Tarong Energy values fairness and equality in the workplace and recognises its contribution to the wellbeing and performance of employees. Equity principles underpin the programs and processes which are aimed at developing people's skills, knowledge and personal attributes. An Equity team, representing people from all parts of the organisation, ensures that these principles are maintained throughout the Corporation.

Superannuation

Tarong Energy's employees participate in the Electricity Supply Industry Superannuation Fund (Qld). This professionally managed fund provides members with a secure and solid return.

Changing Culture

Changing work practices throughout the organisation have enabled many of the support functions to be incorporated into teams.

Past work to develop teams within Tarong Energy has been refocussed as part of the business reorganisation.

This recognises the particular challenges posed by a competitive electricity market and the role that every employee can play. This collective delivery of creative outcomes is a major source of competitive advantage for the future.

The Corporation has endeavoured to communicate more regularly with staff and to develop closer ties with the on-site



Allan Kirsch (left) and Glen Lumsden.

Single Bargaining Unit. To align the activities of staff to the business drivers and to support individual development plans, the Corporation has also introduced a performance management process for the first time.

Learning

Tarong Energy has invested in its people through management and leadership training, professional training and skills training in all areas of power station operation.

A significant number of employees are undertaking part-time studies to further their professional careers and personal development. Tarong Energy has a policy of supporting staff initiatives in this area, both financially and through study leave.

Furthermore, the Corporation has undertaken a training needs analysis to determine the most appropriate learning and

training strategies in order to achieve its critical business objectives.

Apprenticeships and Traineeships

Tarong Energy actively seeks to promote the development of skills through apprenticeships. There are 18 apprentices and three trainees employed under the auspices of the Wide Bay Group Training Scheme.

A mature age apprenticeship program began in 1996 at Tarong Power Station. Six employees have taken up the opportunity to complete a mature age apprenticeship.

Tarong Power Station apprentices have an excellent record in training, development and achievement and have competed successfully in Workskills competitions at a national level.



Key Radloff inspecting the generator circuit breakers at Wivenhoe (left), while Ray Morton tests the battery charger operations.

To support the local community, Tarong Power Station also agreed to a transfer of apprentices from local businesses in the region that were experiencing commercial difficulties, in order to guarantee the completion of their training.

Health and Welfare

The Occupational Health Centre at Tarong Power Station reviews and monitors the health of all employees and facilitates lifestyle seminars and skills programs to promote the health and wellbeing of all employees and their families.

This includes:

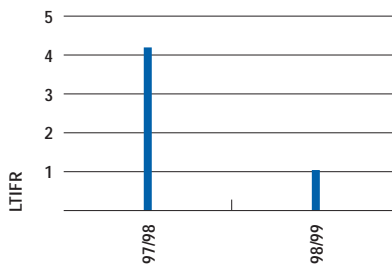
- resuscitation training;
- employee health services including the monitoring of individual health requirements;
- an employee rehabilitation program to assist return to work; and

- an Employee Relations specialist offering professional counselling and support services to all our people and their families.

Safety

Workplace Health and Safety is an integral part of the Corporation's business. Dedication to achieving better levels of safety has allowed Tarong Energy to deliver a significant improvement in Lost Time Injury Frequency Rate (LTIFR) performance during the year.

Safety is also being used as a key component in assisting the move to a more participatory and less hierarchial culture within the organisation. In this environment, the interests of all employees and contractors can be aligned behind a common goal, making our work places as safe as possible.



LTIFR PERFORMANCE

Tarong Energy has made significant progress during the year in improving the level of involvement of our staff in safety activities and planning in a proactive way. This effort has also been aligned to the human resource strategies and the re-organisation of the business, especially in the Operations and Maintenance business. There is much work to be done but the progress to date has demonstrated the single minded commitment to all our people to work together to achieve common goals for the organisation. The same standards for safety are applied to contractors and other visitors to our sites.

The challenge we all have is to improve our performance even further.

External Expertise

Tarong Energy has found it necessary to harness professional skills in areas such as

Information Technology, Engineering and Research and Development in its pursuit of business growth and project development. Sourcing skills from outside the Corporation offers employees the opportunity of skills transfer and up-to-date information about business practices and technology.

Communicating with People

Internal communications have been identified as a major element of Tarong Energy's success as a business. A changing energy market, cultural changes associated with new areas of work, technology and growth of the business have increased the need for open communication channels with employees. Tools including a telephone hotline, monthly newsletter, weekly electronic bulletins, team



Market trader, Melanie Sutton (left) and financial controller, Dean Wilkinson.

briefings and presentations promote two-way communication.

During the year, the organisation conducted a publication survey to establish if the methods used to communicate with employees were effective. This survey established that the current methods of communication were well received by staff.

Part of the Community

Tarong Energy is one of the largest employers in the South Burnett region and seeks to ensure that it has an excellent working relationship with all its neighbours and community organisations.

Tarong Energy encourages its people to develop their interests in all aspects of public life. This includes community-based organisations, charities, local schools and other education bodies, sports and recreation clubs.

TRADING FOR FUTURE GROWTH

20

The Marketing and Trading Business manages all the customer and market facing activities for Tarong Energy. The Marketing and Trading Business is responsible for:

- offering Tarong Energy's generating capacity into the NEM;
- managing all ancillary services arrangements;
- trading financial instruments in the wholesale electricity market; and
- purchasing and hedging fuel supplies for existing and proposed power stations.

In addition to the activities associated with the NEM, the Marketing and Trading Business also actively participates in electricity retailing, as well as small-scale generation developments, marketing of associated energy-related products and services such as energy performance contracts.

Market Performance

The Marketing and Trading Business has been operating in the Queensland Interim Market and from 13 December 1998 in the NEM. Despite having a reduced generating capacity as a result of the Unit 1 transformer failure, the Marketing and Trading Business was able to mitigate any financial impacts through strategic risk management planning.

The spot market price, since the start of the NEM, has been driven by the supply and demand balance, with high prices (\$000s/MWh) during periods of extremely low generation reserve and low prices (\$20s/MWh) during periods of high generation reserve. The high average spot price and price volatility during the year were mainly caused by supply shortages in August 1998, September 1998, January 1999 and March 1999. Involuntary demand interruption occurred in September 1998, causing prices to be set at the Value of Loss Load (VoLL) price cap of \$5 000/MWh.

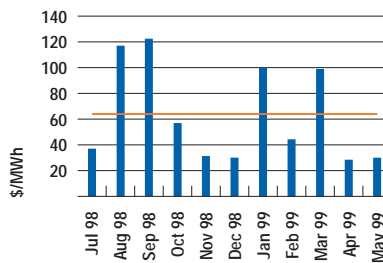
Plant failures in a market that experienced low generating reserve resulted in a relatively high spot price of \$64.0/MWh/average for the year. The Marketing and Trading Business has been able to significantly mitigate against the electricity price risk because of innovative market price risk management.

Competitive Market

The spot market is becoming more competitive due to:

- recent gas turbine generating plant commissioning at Mount Stuart (300MW), Yabulu (169MW), Roma (74MW) and Swanbank (37MW);
- the network augmentation between Central Queensland (Calvale) and Southern Queensland (Tarong);
- the evolving nature of the deregulated market; and
- the developing experience of participants.

This changing market environment presents both opportunities and threats to the Marketing and Trading Business. The Business has been able to respond to these challenges



QUEENSLAND MONTHLY SPOT PRICE

— Annual Average
 ■ Monthly

with a flexible organisational structure, a diverse mix of technical and commercial expertise and comprehensive energy risk management policies and procedures. Adjusted for the unexpected plant failure at Tarong Power Station, the increased competition has not adversely affected Tarong Energy's market share.

In future, the NEM in Queensland will become even more competitive with the addition of:

- a 276MW gas turbine at Oakey in January 2000;
- the 180MW DirectLink, between Terranora and Mullumbimby in New South Wales, planned for January 2000;
- an interconnector with New South Wales in December 2000 exporting 1 000MW and importing 500MW; and
- 840MW at Callide C in 2001.

Due to the volatility of the spot market, buyers and sellers seek to enter into hedging arrangements to reduce the market risk and mitigate against cash flow uncertainties. Tarong Energy's financial contract portfolio comprises vesting contracts with host Queensland retailers, long-term bilateral contracts and short-term trading contracts.

The successful operation of the NEM, improving market liquidity and retail contestability in eastern Australia should present the Marketing and Trading Business with opportunities to increase Shareholder value. Tarong Energy subsequently applied for and was granted a retail licence in Queensland in February 1999.

The Marketing and Trading Business is very active in pursuing opportunities in the Energy Services area. The Carole Park Energy project, near Ipswich, 30 kilometres west of Brisbane, is likely to be the first major integrated energy project of its kind in Australia. This project will bring competitively priced energy to industrial customers in a location convenient to major transport terminals. Realising the potential to attract new industries to Queensland, the Department of State Development has actively supported this project.

Looking Forward

Tarong Energy has started a program to target niche power generation projects as part of its energy services strategy. These developments will allow diversification of product and customer portfolios segments and allow Tarong Energy to use existing skills and resources to effectively lower the cost of delivering distributed generation. The Carole Park project is an example of the integrated co-generation, renewable and industrial processing opportunities that are being pursued.



power

* Each of our four units has
the power of 5 Boeing 747
jet engines

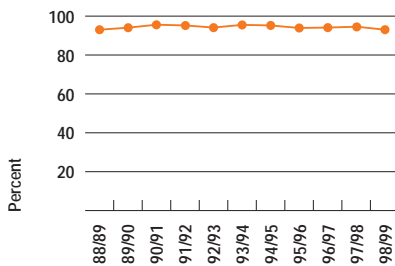
Tarong Power Station

COMPETITIVE OPERATIONS

The Operations Business is responsible for the commercially competitive operations of the Corporation's existing assets at Tarong and Wivenhoe Power Stations as well as the Chinchilla East coal resource. It is also responsible for the long-term management and development of these and any new assets.

The Operations Business restructured into three divisions: Asset Management, Operations and Maintenance and Operations Development.

Asset Management was established to ensure that the assets of the Corporation perform competitively over the long-term, while Operations and Maintenance ensures that the strategies developed by Asset



TARONG POWER STATION AVAILABILITY 1988/99

— Availability

Management are implemented in accordance with world's best practice.

Operations Development is responsible for all development activities on existing Tarong Energy assets and sites.

In conjunction with the State Government Maintenance Task Force, Tarong Energy's Operations and Maintenance group undertook an initiative to differentiate non-maintenance work from maintenance activities. Prior to this, there were 270 outstanding PPM's. By 31 June 1999, the number of outstanding PPM's fell to an acceptable 14.

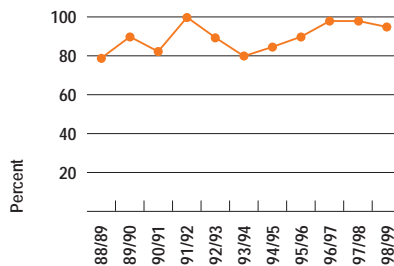
Plant Availability

Tarong Power Station experienced a slight decline in availability (93.0%) in the 1998/99 financial year due to the failure of Unit 1 transformer in August 1998. However, once the transformer was operational, availability remained, on average, at 94.1%.

Wivenhoe Power Station also experienced a decline in availability (94.2% down from 97.4%) during the year. This was attributed to both major and minor overhauls being undertaken on Wivenhoe units and modification work undertaken at the end of 1998 to improve plant flexibility.

On 25 August 1998, Unit 1 at Tarong Power Station was shut down due to severe damage to the generator transformer windings caused by an explosion in the transformer tap changer.

Tarong Energy acquired a new generator transformer from Western Power's Collie Power Station in Western Australia to replace the damaged generator transformer. The new transformer was safely transported by road to



WIVENHOE POWER STATION AVAILABILITY 1988/99

— Availability

Tarong Power Station making it the longest and largest road-haul of its kind in Australia.

The transformer arrived on 13 October and was commercially operating on 26 October. This was a record installation of a generator transformer in Australia and exemplified the tremendous commitment of the people and teams involved in the process.

The repaired transformer is now available to Tarong Energy and to other generating companies in Queensland or interstate if required.

Security of Supply

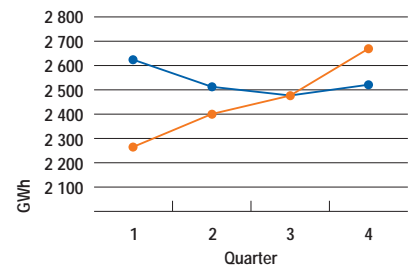
Tarong Energy, in conjunction with other generating and retail companies in Queensland, undertook a Summer Readiness Program to ensure maximum availability of plant and security of supply for the consumers in Queensland. Some of the

strategic decisions included rescheduling overhauls of plant equipment so it did not coincide with the summer period and liaising with other generating companies in the event of lost generating capacity. This latter procedure was initiated by Tarong Energy and subsequently approved by the ACCC.

Wivenhoe Power Station was modified to create greater flexibility in its generation capabilities. Prior to these modifications, each unit could only generate electricity in a limited power range.

Also, the units were modified to allow an extra 26MW to be generated for the electricity grid.

In November 1998, remote control of Wivenhoe Power Station was transferred



TOTAL ENERGY SENT OUT

— Budget

— Actual

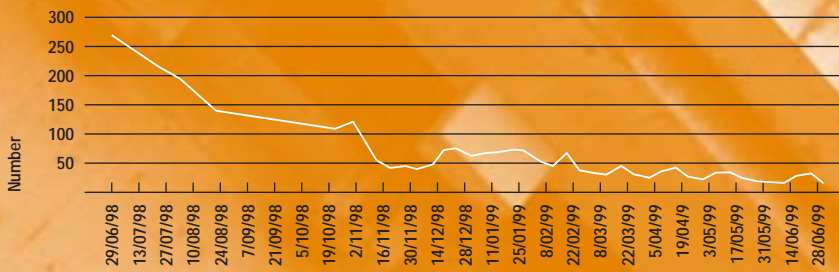
from the Belmont State Control Centre to Tarong Power Station.

Jeebropilly Coal

As part of its commitment to the environment and the Greenhouse Challenge, Tarong Energy purchased coal from Jeebropilly mine in order to reduce particulate emissions. The coal was transported to Tarong Power Station by road transport and was blended with the local Meandu coal.

Looking Forward

In order to sustain its competitiveness in the NEM, Tarong Energy is continually revising appropriate operational strategies to respond to new and proposed plants in Queensland and to improve its competitive position.



OVERDUE PPM'S (PLANNED PREVENTIVE MAINTENANCE)



Allan Kirsch (left) and Glen Lumsden inspecting a feed water tank in the turbine hall.

CREATING A BETTER BUSINESS

The Development Business aims to diversify the market and revenue position through creation and implementation of strategic growth and diversification strategies.

These include:

- identifying, assessing and acquiring viable investment opportunities that add strategic and commercial value to the company. The Development Business activities have so far focussed on infrastructure development opportunities in Queensland;
- assessment of vertical and horizontal value chain opportunities in Australia and New Zealand;
- developing an understanding of the emerging gas and coal seam methane industry in Queensland and the east coast of Australia;
- developing strategic alliances and joint ventures that mitigate risk and improve project completion rates; and
- re-assigning project implementation to operating divisions in the company.

Development Business staff currently support activities in the Operations Business and the ESCO business for projects under 100MW.

During the year, several projects were undertaken to re-position Tarong Energy in energy and energy related services described below. The Development Business continued to actively contribute to the Corporation's multi-fuel, multi-site strategy during the year.

TN Power Project

The TN Power project to add 900MW to the existing Tarong Power Station was approved by the Board of Tarong Energy in March 1999. The project utilises the technology of two advanced cycle coal fired units, significantly improving economic and environmental performance of the Tarong site and extending the economic life of the station.

Glen Wilga Coal Resource

The purchase of the 123 million tonne Glen Wilga coal reserves from BHP Coal and Caburah was the first step taken to create a competitive coal supply market and reduce fuel costs enabling the Corporation to continue to compete with the new

Independent Power Producers in the Surat Basin.

The flexibility afforded by alternative mine mouth coal supplies is essential in maintaining the long term competitiveness and continued improvement in the environmental performance of Tarong Power Station. Tarong Power Station currently uses coal from Meandu mine (a Rio Tinto company) adjacent to the station.

A proposed 144km rail line is required to transport fuel to Tarong Power Station from the coal resources in the Surat Basin.

SUDAW Rail Line

Tarong Energy has been negotiating with SUDAW for the construction of a rail line to transport coal from the Glen Wilga resource in the Surat Basin to Tarong Power Station. A draft Impact Assessment Study and associated community consultation activities were undertaken during the last quarter of the financial year.

Gas

The need to diversify Tarong Energy's dependence on coal as a fuel source for power generation purposes is recognised.

A gas project also to be located on the existing Tarong site was progressed in parallel with the TN Power project. Economic supplies of gas could not be sourced to allow the project to proceed.

One possible site for a gas turbine was selected adjacent to Tarong Energy's existing Wivenhoe Power Station. The site has several significant advantages including its proximity to water, is owned by Tarong Energy for generation purposes, is close to two gas pipelines (the existing Roma-Brisbane and the proposed PNG Gas Pipeline) and it will not be limited by transmission constraints.

Work has also been undertaken on other potential sites for gas power generation.



volume

* In just 7 seconds each of our huge pumps could fill an Olympic size swimming pool

Wivenhoe Power Station

ENVIRONMENT AND COMMUNITY

During the period, Tarong Energy identified and completed two Greenhouse Action Plans that included the installation of an on-line condenser cleaning system to reduce condenser fouling and the installation of energy efficient lighting to reduce energy consumption by ancillary plant.

Tarong Energy is committed to reducing Greenhouse gas emissions through:

- the installation of oxygen treatment to reduce turbine fouling;
- the development and implementation of an environmental management system;
- financial support into research and development by the Cooperative Research Centre for Black Coal Utilisation;
- reducing auxiliary energy use and



Paul Veivers (left) conducting field tests at Tarong.

improving thermal efficiency by reducing boiler air heater leakage; and

- increasing Greenhouse awareness through workplace staff training initiatives.

A number of potential action plans are also being considered for the future and will be investigated further to determine their feasibility. These include actions to further reduce auxiliary energy use and improve thermal efficiency including:

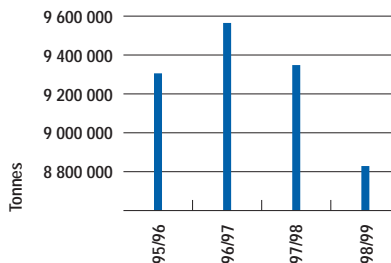
- increasing boiler efficiency to the level of similar new plant;
- installing variable speed drives to high power fixed speed electric drives;
- improving coal pulveriser performance;
- reducing the turbine heat rate;
- identifying opportunities for including green power in Tarong Energy's portfolio; and

- hardwood plantation research and development project.

New Greenhouse Initiatives

As a result of Tarong Energy's commitment to the Greenhouse Challenge Program, it is investigating methods to reduce the net emissions of carbon dioxide (CO₂) into the atmosphere. Part of this program focuses on reducing auxiliary power consumption and investigations into renewable energy. Initiatives have included:

- signing on to Greenfleet, an organisation that plants trees to mitigate exhaust emissions from vehicles in the corporate fleet;
- recovering energy on the Boondooma – Tarong raw water pipeline by installing a



TOTAL CO₂ EMISSIONS (t)

mini-hydro system. This system utilises energy in the form of a stored gravity head and converts it in to electrical energy through the use of a small turbo-machine and generator;

- energy savings through the reduction of water consumption and pumping requirements; and
- actions to reduce auxiliary energy use and/or improve thermal efficiency by using alternate fuel sources to reduce plant wear.

Forecast Emissions and Savings

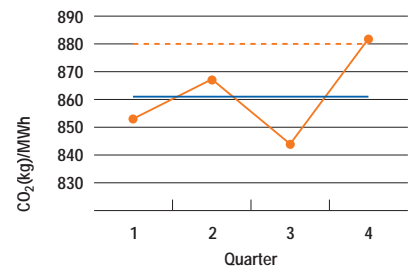
The CO₂ emissions for 1998/99 show a continuation of a downward trend of CO₂ per annum since 1996/97. The reduction in 1998/99 is attributed to an overall decrease in the average CO₂ intensity (KgCO₂/MWh) and the Unit 1 transformer failure in August.

The potential to bring total reductions, up to 320 000 tonnes of CO₂ per annum, or approximately 3.5% of static efficiency projections, has also been identified.

An economic assessment of potential Greenhouse actions will need to be conducted before a decision is made on implementing these initiatives.

Tarong Energy's emissions of CO₂ per MWh decreased in the third quarter due to a slight increase in plant efficiency. The increase in plant efficiency was a result of the plant running at higher loads.

The longer term opportunity to run at higher loads in an electricity market will require Tarong Power Station to maintain its competitive position.



EMISSIONS OF CO₂(kg)/MWh 1998/99

--- 1998/99 Target ● 1998/99 Results per Quarter
— 1998/99 Average

The largest increase in CO₂ emissions occurred in the fourth quarter and was mainly due to a decrease in thermal plant efficiency that normally occurs between overhauls.

Despite the fourth quarter increase, Tarong Energy's emissions of CO₂ per MWh remained, on average, below the target for the year.

Environmental Policy

In order to respond quickly and proactively to various environmental expectations and to instill confidence in our business partners, customers and communities, Tarong Energy is committed to working towards:

- protecting as far as practicable the environment wherever we operate;
- endeavouring to meet (or improve on) accepted environmental standards and honouring all legal obligations;
- efficiently using natural resources,

- particularly fossil fuels and water;
- actively participating in the Greenhouse Challenge Program to reduce emissions of carbon dioxide;
- reducing the waste produced from the operations and recycling wherever possible;
- implementing and reviewing effective management systems that result in sound environmental performance at all sites;
- incorporating the principles of ecologically sustainable development into business goals and objectives wherever it is practicable;
- creatively utilising current and new technology to continuously improve environmental performance;



Wivenhoe Power Station is Queensland's only pumped storage hydro power plant.

- promoting environmental awareness with business partners, staff and contractors to ensure their willing participation in managing environmental issues;
- publishing a regular review of environmental performance to demonstrate Tarong Energy's commitment to sound environmental practice; and
- being a responsible partner in the community and informing and involving the community in relevant issues and activities.

Environmental Policy and Performance Review

Tarong Energy released a new Environmental Policy and Performance Review. The performance review, which covers the period from 1 January 1998 to 30 December 1998, outlines the environmental objectives, policy, initiatives, management systems and performance data.

Tarong Energy's Community Relations Policy

It is the policy of Tarong Energy to be honest and fair in its dealings with the community, responsive to communities needs for interactive communications, a responsible partner in the community and willing to consult with and inform the community about relevant issues and activities.

To effectively achieve the policy objectives, Tarong Energy recognises that it needs to maintain a communication process for establishing a co-operative and supportive relationship within the community. It also recognises the necessity to maintain regular consultation with the community through a community consultation group.



Peter McGuigan routinely inspects the oil booms at Wivenhoe Power Station.

Community Consultation

Tarong Power Station employees meet with representatives from the neighbouring communities on a quarterly basis to discuss issues of relevance to the local community.

The community consultation group held five meetings during the financial year and topics included:

- updates on environmental studies;
- Greenhouse Challenge initiatives;
- future Electricity Market in Queensland;
- restructuring of the Electricity industry in Queensland;
- studies concerned with prevention of transfer of noxious fish from Wivenhoe pipeline to the Burnett catchment;
- water discharge issues;
- TN Power project;
- launch of the Environmental Performance Review;

- National Pollutant Inventory initiatives; and
- restructure of the Department of Environment and Heritage.

Two community stakeholder groups were established during the financial year to assist in the development of strategies for:

- controlling of translocation of unwanted fish species into the Burnett catchment via the Wivenhoe to Tarong water pipeline; and
- reducing the impact of copper released from the cooling tower blowdown on the Meandu Creek water system.

Tarong Energy also commenced a comprehensive community consultation program for the proposed development of the Glen Wilga coal resource. The consultation has included a range of government bodies, councils, business groups, indigenous groups, environment bodies, accommodation providers, employees and the general public.

Environment Training

An important element of environmental management within the company is to provide awareness training to people about environmental responsibilities, operations and objectives.

During the financial year, Tarong Energy employees were given general environmental awareness training covering legislation, environmental licences, environmental issues and environmental studies/monitoring programs.

Oil spill response training was also conducted in the use of the emergency spill trailer and wheelie bins, both designed to combat oil spills. These contain absorbent material that allows spilt oil to be recycled and reused. An absorbent wringer has been purchased to allow the absorbent material to be reused during the clean-up of a particular oil spill.

YEAR 2000

Disclaimer: *This statement is a Year 2000 disclosure statement for the purposes of the Year 2000 Information Disclosure Act 1999. A person may be protected by that Act from liability for this statement in certain circumstances.*

Tarong Energy has taken the Year 2000 issue very seriously.

Year 2000 testing has been in progress for a number of years and a Year 2000 Project Office, appropriately staffed and resourced has been directing the Tarong Energy Year 2000 effort. The project team identified and assessed approximately 5 000 items ranging from pressure gauges to measuring equipment.

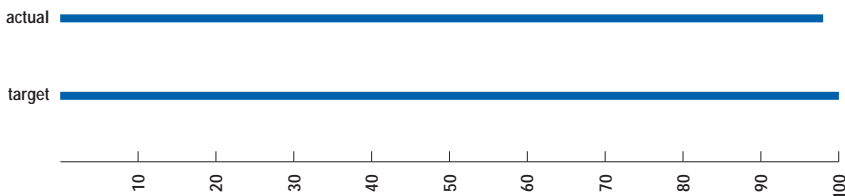
- establishing a Project Office to promote and coordinate Year 2000 activities across the organisation;
 - defining the standards, processes and procedures for identifying and dealing with Year 2000 issues;
 - identifying software, hardware and processes that may be impacted by Year 2000 issues;
 - developing strategies and plans for identifying, correcting and testing systems that have Year 2000 issues; and
 - collecting and exchanging Year 2000 information with other utilities and relevant organisations.
- Extensive discussions have been undertaken with suppliers whose materials and

contingency plans for all critically assessed applications. These are designed to assess any possible residual risk and where appropriate have mitigation and/or contingency action ready for implementation.

Particular attention has been paid to critical supplies including fuels, water and spares.

Although Tarong Energy does not expect disruption of electricity generation, the contingency plans to restore power in event of a complete shutdown have been tested.

At both Tarong and Wivenhoe Stations, "black start" tests have been satisfactorily conducted to ensure employees are familiar with the procedures and to demonstrate Tarong Energy's ability to restore power



YEAR 2000 PROJECT PROGRESS (PERCENTAGE COMPLETE)

In addition, Tarong Energy is working closely with national bodies like the Electricity Supply Association of Australia (ESAA), state authorities such as the Queensland Electricity Supply Industry Year 2000 coordinating body, critical suppliers to Tarong Energy and other generators across Australia to minimise the possibility that a Year 2000 problem could affect the ability to generate electricity.

The main unit computers at Tarong Power Station have been run in Year 2000 date mode for extended periods without any problems associated with generating capabilities. The plant was generating normal load levels during these tests. Secondary systems have also been tested and have performed satisfactorily.

Tarong Energy's Year 2000 project plans included:

equipment are assessed as critical to ensure Year 2000 issues should not affect electricity generation at Tarong Energy's power stations. It is Tarong Energy's intention to hold higher than normal levels of critical supplies during the Year 2000 rollover period as part of a broad range of contingency planning.

The Corporation's business objective is to continue to generate electricity into the Year 2000 and beyond. Transmission and distribution to consumers are the responsibility of a number of other organisations.

All scheduled Year 2000 testing of critical generation equipment was completed by Spring 1999.

The status table (above) is Tarong Energy's estimate of progress (at the time of printing) with Year 2000 readiness.

Tarong Energy is devising and implementing an extensive program of

quickly even in the worst case situation. "Black start" tests ensure that Tarong Energy is capable of starting generating units without the use of any power supply external to the power station.



Tarong Power Station's turbine hall.

Contents

Directors' Report	30
Profit and Loss Account	36
Balance Sheet	37
Statement of Cash Flows	38
Notes to and Forming Part of the Financial Statements	39
Directors' Declaration	54
Independent Audit Report and Additional Financial Information	55
Glossary and Abbreviations	56

financial

report

DIRECTORS' REPORT

The Directors present their report together with the financial report of Tarong Energy Corporation Limited ACN 078 848 736 for the year ended 30 June 1999 and the Auditor's report thereon.

DIRECTORS

The Directors of the Company at any time during or since the financial year being reported on are:

NAME AND QUALIFICATION	AGE	EXPERIENCE AND SPECIAL RESPONSIBILITIES
<p>Ms Marian F Gibney B.A., L.L.B. (Hons) Chairperson Non-Executive Director</p>	41	<p>Ms Gibney was previously a partner with Allen, Allen and Hemsley Solicitors, specialising in work for the mining, manufacturing and heavy engineering sectors. Ms Gibney currently holds a senior management position with MIM Holdings Limited. She is Governor of the University of Queensland Foundation and a previous member of the Queensland Generation Corporation Board.</p> <p>Appointed Chairperson 1 July 1997 Resigned on 6 May 1999</p>
<p>Mr Kenneth H Dredge B.E. (Chem), B. Econ, F.T.S.E., F.I.E.Aust., F.Aus.I.M.M., F.A.I.C.D. Chairperson Non-Executive Director</p>	59	<p>Mr Dredge has held senior management positions with MIM Holdings Limited, Utah Development Company, and most recently Managing Director of Dominion Mining Limited. Mr Dredge has also been a member of listed company boards in Australia, Canada and Germany and management committees of businesses in England, Germany and the USA. He is currently a member of the following boards, K.H. Dredge & Associates Pty Ltd and K.H. Dredge Nominees Pty Ltd.</p> <p>Appointed Chairperson 6 May 1999 Term Expires 30 June 2003</p>
<p>Mr Kevin P Blinco B.Bus., F.C.A. Non-Executive Director</p>	52	<p>Mr Blinco is Chairman of Hart Larwill Pty Ltd Chartered Accountants, Director of Hart Larwill Pty Ltd, Hart Larwill Rural Pty Ltd and member of the board of JL Mactaggarts Holdings Pty Ltd and Australian Pastoral Industries Pty Ltd. He has 20 years public accounting experience.</p> <p>Appointed Director 18 July 1997 Term expired on 30 June 1999 Chair of Audit Committee (1998/99)</p>
<p>Mr Peter Carne B.A., LLB, M.A.I.M. Non-Executive Director</p>	48	<p>Mr Carne is President Queensland Law Society, Chairman of Queensland Law Society Specialist Accreditation Board and several Queensland Law Society committees. Mr Carne is a Law Society approved Mediator and Accredited Family Law Specialist and served as the Commissioner of the Legal Aid Commission Qld from 1992 to 1997.</p> <p>Appointed Director 1 July 1999 Term expires on 30 June 2003 Member Audit Committee (1999/2000)</p>
<p>Mr Donald J Coates C.P.A., F.A.I.C.D. Non-Executive Director</p>	61	<p>Mr Coates is Chairman of Coates Holdings Pty Ltd. Mr Coates was previously Chairman of the Queensland Performing Arts Trust and the Brisbane Bullets. He has served as a Director for GWA Ltd, the Queensland Industry Development Corporation and the Queensland Events Corporation.</p> <p>Appointed Director 1 July 1997 Term expires 30 June 2001 Member of Remuneration and Employment Committee (1998/99) Member of Planning & Project Development Committee (1998/99)</p>

DIRECTORS' REPORT

CONTINUED

31

NAME AND QUALIFICATION	AGE	EXPERIENCE AND SPECIAL RESPONSIBILITIES
<p>Lt Gen. John C Grey, AC F.A.I.M., G.A.I.D.C., N.D.C.(I), J.S.S.C., psc(UK). Non-Executive Director</p>	60	<p>Lt Grey retired as Chief of the Australian Army in 1995 after a distinguished military career of 38 years and is a graduate of the Australian Public Service Top Management Program. In 1995 he was promoted from Officer to Companion of the Order of Australia for exceptional leadership, strategic vision, integrity and exemplary performance. He now runs his own leadership and management consultancy in Cairns. During the year he was appointed Chancellor, James Cook University.</p> <p>Appointed Director 18 July 1997 Term expired on 30 June 1999 Chair of Remuneration and Employment Committee (1998/99) Chair of Planning & Project Development Committee (1998/99)</p>
<p>Mr Neil Hatherly B.Sc. (Hons), F.A.I.M., FAus.I.M.M., M.A.I.C.D. Non-Executive Director</p>	50	<p>Resident Partner of TASA Worldwide since 1995. Mr Hatherly was previously Queensland State Manager of PA Consulting Group. Has also held senior management positions with MIM Holdings Ltd in a diverse range of areas including General Management, Information Technology, Internal Consulting, Personnel, Supply and Administration. He is currently the Trustee and member of Queensland Advisory Committee for Economic Development of Australia and Board member and Chairman of the Development Committee for the Abused Child Trust. He is also past Chairman of Southern Queensland Branch of AusIMM.</p> <p>Appointed Director 1 July 1999 Term expires on 30 June 2001</p>
<p>Ms Susan Johnston B.A. Non-Executive Director</p>	35	<p>Ms Johnston is Principal Consultant, ACIL Consulting. She has previously held appointments including Director, Office of Energy Management, Queensland Department of Mines and Energy, Senior Advisor, and Director Environment and Land Use Planning, Queensland Office of Cabinet and Senior Advisor to two Queensland and two Federal Ministers for Resources. Ms Johnston provides policy advice to companies on government approvals processes, environmental issues, and safety management. She is a member of the Queensland Sustainable Energy Innovation Fund Board.</p> <p>Appointed Director 1 July 1999 Term expires on 30 June 2003 Member of Audit Committee (1999/2000)</p>
<p>Mr Stephen J Maitland RFD B.Ec., F.C.P.A., F.A.I.B., F.C.I.S., F.A.I.M., F.A.I.C.D. Non-Executive Director</p>	48	<p>Mr Maitland was formerly Chief Executive Officer of the Queensland Office of Financial Supervision and has 25 years experience in banking and finance. He is a board member of Surf Life Saving Foundation Inc.</p> <p>Appointed Director 1 July 1997 Term expires 30 June 2001 Member of Audit Committee (1998/99) Chair of Audit Committee (1999/2000)</p>
<p>Mr Alan W Piper B.Com., M.B.A. Non-Executive Director</p>	54	<p>Mr Piper is Managing Director of AP Eagers Ltd, Australia's largest listed retail automotive group ranked by turnover and market capitalisation. He is Director of MTQ Insurance Services Pty Ltd, The Totalisator Administration Board of Queensland and Auto Group Limited. He is also Chairman of the Brisbane Bears Fitzroy Football Club Limited.</p> <p>Appointed Director 18 July 1997 Term expired on 30 June 1999 Member of Audit Committee (1998/99)</p>

DIRECTORS' REPORT

CONTINUED

32

NAME AND QUALIFICATION	AGE	EXPERIENCE AND SPECIAL RESPONSIBILITIES
<p>Mr Michael Spencer M.A.I.M. Non-Executive Director</p>	46	<p>Mr Spencer is Director Queensland Corrections, Branch Secretary Australian Services Union (Qld Services Branch) and Secretary Queensland Services Industrial Union of Employees. Mr Spencer also held the position of Commissioner Queensland Corrective Services Commission, Director of Queensland Corrections and President of the Local Government Training Council.</p> <p>Appointed Director 1 July 1999 Term expires on 30 June 2003</p>
<p>Hon. Martin J Tenni JP. Non-Executive Director</p>	65	<p>Mr Tenni retired in 1989 after 15 years service as Member for the far north Queensland electorate of Barron River. During his parliamentary career he was Minister for Mines and Energy; Northern Development; Water Resources and Maritime Services; and Environment, Valuation and Administrative Services. Prior to entering Parliament, he was Chairman of Directors and Managing Director of four Mitre 10 Hardware stores and Chairman of the Mareeba Shire Council.</p> <p>Appointed Director 18 July 1997 Term expired on 30 June 1999 Member of Remuneration and Employment Committee (1998/99) Member of Planning & Project Development Committee (1998/99)</p>

DIRECTORS' MEETINGS

The number of Directors' meetings, including meetings of committees of Directors, and number of meetings attended by each of the Directors of Tarong Energy Corporation Limited (the Corporation) during the financial year were:

Director	Board of Directors		Audit Committee		Remuneration Committee		Planning & Project Development Committee	
	A	B	A	B	A	B	A	B
M F Gibney	10	10	–	–	–	–	–	–
K H Dredge	2	2	–	–	–	–	–	–
K P Blinco	11	12	8	8	–	–	–	–
D J Coates	11	12	–	–	7	9	3	3
J C Grey	12	12	–	–	9	9	3	3
S J Maitland	12	12	8	8	–	–	–	–
A W Piper	11	12	5	8	–	–	–	–
M J Tenni	12	12	–	–	8	9	2	3

A Number of meetings attended.

B Number of meetings held during the time the Director held office during the year.

DIRECTORS' REPORT

CONTINUED

33

PRINCIPAL ACTIVITIES

The principal activities of the Corporation during the year was the generation and sale of electricity. There were no significant changes in the nature of the activities of the entity during the year.

	1999 \$'000	1998 \$'000
RESULT		
Operating profit before income tax	135,949	127,310
Net profit attributable to members of the Corporation	87,636	81,666
DIVIDENDS PAID OR RECOMMENDED		
The following dividends of the Corporation have been paid or recommended since the end of the preceding financial year.		
Final dividend for 1997/1998 provided for in preceding financial year paid 31 December 1998		73,500
Interim dividend for 1998/1999 paid 30 June 1999		36,000
Final dividend for 1998/1999 recommended and provided for in this report		16,582

REVIEW OF OPERATIONS

This year the Corporation operated in a competitive market place. The Corporation started the year operating under the Queensland Interim Market before moving to the National Electricity Market on 13 December 1998. The majority of revenue for this financial year was based on electricity pool prices set in a competitive market. Electricity revenue is slightly higher than last year despite the fact that for part of last year the Corporation had the benefit of Power Purchase Agreements with Queensland Transmission and Supply Corporation.

Tarong Power Station operations were affected during the year by the failure of one of the four generator transformers. The unit was out of service for two months while a replacement transformer was transported to the station and installed. Down time was used to perform an overhaul of the whole unit. The transformer failure was partially covered by the Corporation's insurance policy. Costs in relation to the repair of the transformer are the subject of an insurance claim.

STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Corporation that occurred during the financial year not otherwise disclosed in this report or the financial statements set out on pages 36 to 53.

EVENTS SUBSEQUENT TO BALANCE DATE

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

During July the Corporation signed a Heads of Agreement with Energy Holdings Limited for the supply of gas to a proposed new power station at Wivenhoe to be constructed by the Corporation. The Heads of Agreement is not binding and is conditional on a number of factors including negotiations between Energy Holdings Limited and the Papua New Guinea gas producers. The quantities of gas under the agreement are based on the proposed power station comprising two 350 megawatt generating units. The Corporation is continuing negotiations with Energy Holdings Limited.

DIRECTORS' REPORT

CONTINUED

34

LIKELY DEVELOPMENTS

The Corporation has lodged a proposal with the Queensland Government to construct a 900 megawatt coal fired base load power station adjacent to the existing power station at Tarong. The project is subject to approvals.

The Corporation is in the process of developing alternative coal supply options in order to reduce fuel costs. These options include use of the existing coal supplier and/or transporting coal from other mines. The Corporation has purchased the rights to several mining leases in the Surat Coal basin. Transporting coal would involve the construction of a rail line from the Surat Coal basin to Tarong power station.

ENVIRONMENTAL REGULATION

The Corporation's operations are subject to significant environmental regulation under both Commonwealth and State legislation. The Corporation has a dedicated Environmental Management Team that monitors compliance with environmental regulations. The Chief Executive officer reports to the Board of Directors on environmental performance on a monthly basis. The Directors are not aware of any significant breaches during the period covered by this report, except as detailed below.

During the financial year, ten significant environmental incidents were recorded. Of the ten incidents, four were considered non notifiable and included minor and contained oil spills and authorised exceedances under section 37(2e) of the Environmental Protection Act (Qld) 1994 and Schedule B of the Tarong Power Station Environmental Authority.

The six remaining incidences were notified to the Department of Environment and Heritage. These incidents involved spills of waste water, oil, chemical or other contaminant that entered or had the potential to enter the storm water system.

All these incidents were addressed and corrected immediately upon detection. As a result of this corrective action all spills were contained or it was determined that there was no adverse impact on water quality in nearby waterways.

The Corporation is subject to the following particular and significant pieces of environmental legislation:

QUEENSLAND LEGISLATION

Environmental Protection Act (Qld) 1994 ("EP Act"), Environmental Protection Regulation 1998, Environmental Protection (Interim Waste) Regulation 1996, Environmental Protection (Air) Policy ("Air EPP"), Environmental Protection (Noise) Policy 1997 ("Noise EPP"), Environmental Protection (Water) Policy 1997 ("Water EPP"), Contaminated Land Provisions of the EP Act, Water Resources Act 1989, Electricity Act 1994, National Environment Protection Council Act, Nature Conservation Act 1992 and Soil Conservation Act 1986.

COMMONWEALTH LEGISLATION

Environment Protection (Impact of Proposals) Act 1974 (Commonwealth), National Environment Protection Council Act (Commonwealth) 1994, Ozone Protection Act (Commonwealth) 1989.

DIRECTORS' INTERESTS IN CONTRACTS

A number of Directors have given written notices, in accordance with Section 231(1) of the Corporations Law, stating that they hold office in specified companies and accordingly are to be regarded as having an interest in any contract or proposed contract that may be made between the Corporation and any of those companies.

DIRECTORS' REPORT

CONTINUED

35

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

INDEMNIFICATION

Under the Corporation's Articles of Association, the Corporation indemnifies each person who is or has been a Director or Officer of the Corporation. The indemnity relates to all liabilities to another party (other than the Corporation) that may arise in connection with the performance of their duties to the Corporation, except where the liability arises out of such conduct involving a lack of good faith. The Articles stipulate that the Corporation will meet the full amount of such liabilities, including costs and expenses incurred in successfully defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under Corporations Law.

INSURANCE

During the financial year the Corporation has paid an insurance premium in respect of an insurance policy for the benefit of Directors and Officers. The insurance grants indemnity against liabilities permitted to be indemnified by the Corporation under section 241A(1) of the Corporations Law.

ROUNDING OFF

The Corporation is of a kind referred to in ASC Class Order 97/1005 dated 9 July 1997 and, in accordance with that class order, amounts in the financial statements have been rounded off to the nearest one thousand dollars, unless otherwise stated.


Class Order 97/1005 does not permit the Corporation to round amounts in the Directors' Report in relation to Directors' interests in contracts, Directors' benefits under contracts and details of indemnification and insurance. However, as the Corporation is of a kind referred to in Regulation 3.6.05(6) of the Corporations Regulations, such amounts in this report have been rounded off to the nearest one thousand dollars in accordance with Section 311 and the Regulations unless otherwise indicated.

Signed in accordance with a resolution of the Directors:



K H Dredge

Chairperson



S J Maitland

Director

Dated 24 September 1999

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 1999

36

	Notes	1999 \$'000	1998 \$'000
REVENUE	2	432,535	439,109
OPERATING PROFIT BEFORE INCOME TAX		135,949	127,310
Income tax attributable to operating profit	5	48,313	45,644
OPERATING PROFIT AFTER INCOME TAX		87,636	81,666
NET PROFIT ATTRIBUTABLE TO MEMBERS OF THE CORPORATION		87,636	81,666
Retained profits at the beginning of the financial year		8,166	–
TOTAL AVAILABLE FOR APPROPRIATION		95,802	81,666
Dividends provided for or paid	6	52,582	73,500
RETAINED PROFITS AT THE END OF THE FINANCIAL YEAR		43,220	8,166

The profit and loss account is to be read in conjunction with the notes to the financial statements set out on pages 39 to 53.

BALANCE SHEET

AS AT 30 JUNE 1999

37

Notes	1999 \$'000	1998 \$'000
CURRENT ASSETS		
Cash	25 7,760	114,373
Receivables	7 35,628	35,825
Inventories	8 13,117	13,081
Other	9 9,723	9,329
TOTAL CURRENT ASSETS	66,228	172,608
NON-CURRENT ASSETS		
Property, plant and equipment	10 1,174,124	1,202,421
Exploration, evaluation and development expenditure	11 11,894	–
Other	12 10,857	16,265
TOTAL NON-CURRENT ASSETS	1,196,875	1,218,686
TOTAL ASSETS	1,263,103	1,391,294
CURRENT LIABILITIES		
Accounts payable	13 26,956	25,101
Borrowings	14 21,116	19,448
Provisions	19 22,979	84,083
Other	206	264
TOTAL CURRENT LIABILITIES	71,257	128,896
NON-CURRENT LIABILITIES		
Borrowings	14 266,278	415,561
Provisions	19 85,462	41,785
TOTAL NON-CURRENT LIABILITIES	351,740	457,346
TOTAL LIABILITIES	422,997	586,242
NET ASSETS	840,106	805,052
SHAREHOLDERS' EQUITY		
Converting loan from State	20 –	796,886
Issued capital	21 796,886	–
Retained profits	43,220	8,166
TOTAL SHAREHOLDERS' EQUITY	840,106	805,052

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 39 to 53.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 1999

38

Notes	1999 \$'000	1998 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
	429,971	404,914
	(214,527)	(193,939)
	2,057	3,020
	(26,333)	(34,962)
	(10,332)	–
25(B)	180,836	179,033
CASH FLOWS FROM INVESTING ACTIVITIES		
	(14,932)	(12,230)
	440	192
	(3,948)	(14,587)
	(11,894)	–
	(30,334)	(26,625)
CASH FLOWS FROM FINANCING ACTIVITIES		
	796,886	–
	(796,886)	–
	–	(27,000)
	(147,615)	(16,035)
	(109,500)	–
	(257,115)	(43,035)
	(106,613)	109,373
25(A)	114,373	5,000
25(A)	7,760	114,373

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 39 to 53.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

39

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of these financial statements are:

(A) BASIS OF PREPARATION

The financial statements are a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Law.

They have been prepared on the basis of historical cost and, except where stated, do not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied by the Corporation and, except where noted, are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

(B) REVENUE RECOGNITION

SALES REVENUE

Sales revenue comprises revenue earned from the provision of electricity to entities outside the Corporation. Sales revenue is recognised when the goods are provided, or when the fee in respect of services provided is receivable.

INTEREST INCOME

Interest income is recognised as it accrues.

ASSET SALES

The net proceeds of asset sales are included as revenue of the Corporation. The profit or loss on disposal of assets is brought to account at the date an unconditional contract of sale is signed.

OTHER REVENUE

Other revenue is recognised when an invoice is issued.

(C) FOREIGN CURRENCY

TRANSACTIONS

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the profit and loss account in the financial year in which the exchange rates change.

(D) TAXATION

INCOME TAX

The Corporation adopts the liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arises from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the balance sheet as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to entities with tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

40

1 Statement of Significant Accounting Policies continued

(E) NON-CURRENT ASSETS

The carrying amounts of non-current assets, other than exploration, evaluation and development expenditure carried forward, are reviewed to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds the recoverable amount the asset is written down to the lower amount.

In assessing recoverable amounts of non-current assets the relevant cash flows are not discounted to their present value, except where specifically stated.

(F) RECEIVABLES

TRADE DEBTORS

The settlement of trade debtors varies depending on the nature of the contractual arrangements entered into. The collectibility of debts is monitored on a regular basis and a specific provision is made for any likely doubtful debts. Bad debts are written off during the period in which they are identified.

OTHER DEBTORS

The settlement of other debtors varies depending on the nature of the business. The collectibility of debts is monitored on a regular basis and a specific provision is made for any likely doubtful debts. Bad debts are written off during the period in which they are identified.

(G) INVENTORIES

Inventories comprising fuel and stores are carried at cost.

Cost comprises the cost of purchase that is assigned to individual items on the basis of weighted average cost.

(H) PROPERTY, PLANT AND EQUIPMENT

ACQUISITION

Items of property, plant and equipment are initially recorded at cost and depreciated as outlined below.

Items acquired with a cost of less than \$500 are immediately expensed at the date of purchase.

The cost of property, plant and equipment constructed by the Corporation includes the cost of materials and direct labour and an appropriate proportion of fixed and variable overheads.

SUBSEQUENT ADDITIONAL COSTS

Costs incurred on property, plant and equipment subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Corporation in future years. Where these costs represent separate components they are accounted for as separate assets and are separately depreciated over their useful lives.

REVALUATIONS

Land, buildings and generation assets are independently valued every three years on an existing use basis of valuation and included in the financial statements at the revalued amounts. Specific assets may be revalued downwards by Directors where the carrying value of the asset exceeds its recoverable amount and included in the financial statements at their revalued amounts.

A provision for capital gains tax is provided only when it is known that the asset will eventually be sold. This provision, when required, is made against the asset revaluation reserve.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

41

1 Statement of Significant Accounting Policies continued

DEPRECIATION AND AMORTISATION

Items of property, plant and equipment, including buildings but excluding freehold land, are depreciated/amortised over their estimated useful lives.

The estimated useful lives and depreciation methods used are as follows:

	Life	Method
Buildings	33 – 62 years	Straight line
Generation assets	2 – 62 years	Straight line
Non Generation assets	2 – 10 years	Straight line

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

The method above used to depreciate generation assets represents a change from the previous financial year in which depreciation was determined using the diminishing value method. This change was made to better align depreciation charges with the anticipated future revenue pattern from the assets. The financial effect of this change in method was a decrease in depreciation expense of \$15m.

LEASED PLANT AND EQUIPMENT

Leases of plant and equipment under which the Corporation assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the accounting period in which they are incurred. Capitalised lease assets are amortised on a straight line basis over the term of the relevant lease, or where it is likely the Corporation will obtain ownership of the asset, the life of the asset. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged to the profit and loss account.

Payments made under operating leases are charged against profits in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(1) EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Exploration and evaluation costs are carried forward where material and where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or where activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploration of the area of interest.

When an area of interest is abandoned or the Directors decide that it is not commercial, all accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

When production commences, carried forward exploration, evaluation and development costs are amortised on a units of production basis over the life of the economically recoverable reserves.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

42

1 Statement of Significant Accounting Policies continued

(J) DEFERRED EXPENDITURE

Material items of expenditure are deferred to the extent that management considers that it is probable that future economic benefits embodied in the expenditure will eventuate and can be measured reliably.

OVERHAULS OF GENERATION ASSETS

The Corporation has established a program of major overhauls. Major overhaul costs are deferred and amortised over the period in which the Corporation expects to derive the benefits of the overhaul.

The unamortised balance of deferred major overhaul expenditure is reviewed at least each reporting date. Where the balance exceeds the value of expected future benefits, the difference is charged to the profit and loss account.

(K) RESEARCH AND DEVELOPMENT COSTS

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred and amortised on a straight line basis over the period in which the related benefits are expected to be realised.

(L) ACCOUNTS PAYABLE

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Corporation. Trade accounts payable are normally settled within 30 days.

(M) BORROWINGS

Borrowings are carried on the balance sheet at their principal amount, subject to offset arrangements. Interest expense is accrued at the contracted rate and included in "Accounts Payable".

(N) DERIVATIVES

Derivative financial instruments designed as hedges are accounted for on the same basis as the underlying exposure.

Payments and receipts under option and swap agreements are recognised on an accruals basis in the profit and loss account as an adjustment to the electricity income during the period.

As a result of its operating activities the Corporation is exposed to changes in electricity prices. The Corporation uses option and swap agreements to hedge its exposure to significant volatility in electricity prices. Derivative financial instruments are not held for speculative purposes.

(O) YEAR 2000 COMPLIANCE COSTS

Costs related to ensuring computer software is Year 2000 compliant are charged as expenses when incurred.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

43

1 Statement of Significant Accounting Policies continued

(P) EMPLOYEE ENTITLEMENTS

WAGES, SALARIES, ANNUAL LEAVE AND SICK LEAVE

The provisions for employee entitlements to wages, salaries, annual leave and sick leave represent the amount which the Corporation has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at nominal amounts based on current wage and salary rates and includes related on-costs.

LONG SERVICE LEAVE

The liability for employees' entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the Corporation's experience with staff departures. Related on-costs have also been included in the liability.

SUPERANNUATION PLAN

The Corporation contributes to a defined benefits plan and several defined contribution superannuation plans, these contributions meet or exceed the contribution requirements under the Superannuation Industry (Supervision) Act 1993. Contributions are charged against income as they are made.

(Q) JOINT VENTURE

The Corporation's interest in an unincorporated joint venture is brought to account by including its interest in the following amounts in the appropriate categories in the balance sheet and profit and loss account:

- each of the individual assets employed in the joint venture;
- liabilities incurred by the Corporation in relation to the joint venture and the liabilities for which it is jointly and/or severally liable; and
- expenses incurred in relation to the joint venture

	1999 \$'000	1998 \$'000
2 REVENUE		
Revenue from operating activities:		
Electricity sales	419,406	414,442
Ancillary services revenue	7,476	-
By-product sales	2,937	2,660
Revenue from outside operating activities		
Transmission network recoveries	-	11,357
Interest received/receivable	2,057	3,124
Recoverable works	12	728
Proceeds from sale of non-current assets	29	192
Other	618	6,606
	432,535	439,109

The National Electricity Market (NEM), administered by National Electricity Market Management Company Ltd (NEMMCO), commenced operation on 13 December 1998. Prior to the NEM the Corporation operated in the Queensland Interim Market (QIM) administered by Queensland Electricity Transmission Supply Corporation Ltd (Powerlink). Powerlink and NEMMCO were responsible for calculating the official published pool price for each half hour time period. The Directors have relied upon the official published pool prices in calculating income for the Corporation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

44

	1999 \$'000	1998 \$'000
3 OPERATING PROFIT		
Operating profit before abnormal items and income tax has been arrived at after charging the following items:		
Borrowing costs	26,333	34,962
Depreciation of:		
Plant and equipment	41,247	59,206
Buildings	1,476	2,206
	42,723	61,412
Amortisation of overhauls	9,637	10,845
Lease rental expense – operating leases	396	274
Loss on sales of property, plant and equipment	95	14
4 REMUNERATION OF AUDITORS		
Audit services:		
Auditors of the Corporation – Queensland Audit Office	98	120
5 TAXATION		
The Corporation is exempt from Commonwealth Government Taxation under Section 24AD of the <i>Income Tax Assessment Act 1996</i> but subject to the Queensland Treasurer's Tax Equivalents Regime pursuant to the <i>Government Owned Corporations Act 1993</i> .		
(A) INCOME TAX EXPENSE		
Prima facie income tax calculated at 36% on the operating profit and extraordinary items	48,942	45,832
Increase in income tax expense due to:		
Non-deductible depreciation on buildings and revaluations	570	808
Non-deductible costs	580	296
Sundry items	13	4
Decrease in income tax expense due to:		
Special building write off	(1,252)	(1,252)
Research and development allowance	(26)	–
Sundry items	(4)	(44)
	48,823	45,644
Less: Income tax over provided in prior year	(510)	–
Income tax attributable to operating profit	48,313	45,644
Income tax expense attributable to operating profit is made up of:		
Current income tax provision	6,641	7,856
Deferred income tax provision	42,330	40,133
Future income tax benefit	(148)	(2,345)
Over provision in prior year	(510)	–
	48,313	45,644

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

45

	1999 \$'000	1998 \$'000
5 Taxation continued		
(B) PROVISION FOR CURRENT INCOME TAX		
Movements during the year:		
Balance at beginning of year	7,856	–
Income tax paid	(10,331)	–
Current year's income tax expense on operating profit	6,641	7,856
Over provision in prior year	(969)	–
	3,197	7,856
(C) PROVISION FOR DEFERRED INCOME TAX		
Provision for deferred income tax comprises the estimated expense at current income tax rates on the following items:		
Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes	75,115	32,162
Overhaul provisions	4,416	4,607
Expenditure currently deductible for tax but deferred and amortised for accounting purposes	4,059	1,498
Employee entitlements transferred in	–	1,292
Expenditure not currently deductible for tax purposes	(22)	–
Income recognised for accounting purposes but not assessable for tax	–	574
Sundry items	2	–
	83,570	40,133
(D) FUTURE INCOME TAX BENEFIT		
Future income tax benefit comprises the estimated future benefit at current income tax rates on the following items:		
Provisions and accrued payments not currently deductible for tax purposes	3,142	2,345
The deferred income tax liability and future income tax benefit recorded in the financial report have been measured applying the current company tax rate of 36%. These balances have not been adjusted to reflect any reductions that may result if legislative effect is given to the proposal to decrease the company tax rate to 34% and then to 30% as part of the Business Tax Reform announced on 21 September 1999.		
6 DIVIDENDS		
Dividends proposed or paid by the Company are:		
Interim dividend paid for current year	36,000	–
Final dividend proposed for current year	16,582	73,500
Total dividends paid or provided for	52,582	73,500
Pursuant to the Queensland Treasurer's Tax Equivalents Regime the Corporation is not required to maintain a franking account. The proposed dividend for the current year is subject to Shareholding Ministers' approval.		
7 RECEIVABLES		
CURRENT		
Trade debtors	34,379	29,919
Other debtors	1,249	5,906
	35,628	35,825

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

46

	1999 \$'000	1998 \$'000
8 INVENTORIES		
Raw Materials:		
Stores	6,231	8,998
Coal stocks	6,536	4,020
Other fuel	350	63
	<u>13,117</u>	<u>13,081</u>
9 OTHER CURRENT ASSETS		
Deferred expenditure	9,627	9,250
Prepayments	96	79
	<u>9,723</u>	<u>9,329</u>
10 PROPERTY, PLANT AND EQUIPMENT		
Land		
At cost	6,413	6,413
Buildings		
At cost	50,290	50,290
Less accumulated depreciation	3,720	2,244
	<u>46,570</u>	<u>48,046</u>
Generation Assets		
At cost	1,195,900	1,180,077
Less accumulated depreciation	94,474	52,580
	<u>1,101,426</u>	<u>1,127,497</u>
Non-Generation		
At cost	19,615	17,286
Less accumulated depreciation	5,528	2,033
	<u>14,087</u>	<u>15,253</u>
Works in progress		
At cost	5,628	5,212
Total Property, Plant and Equipment – Net Book Value	<u>1,174,124</u>	<u>1,202,421</u>

The value of property plant and equipment is reviewed annually by the Directors of the Corporation. The carrying value of the Wivenhoe Power Station is of a concern to the Directors. The national electricity market has been operating less than a year and is continuing to go through structural changes including the use and value of ancillary service contracts. These factors have resulted in a high level of uncertainty over the future income expected to be produced by Wivenhoe Power Station. In light of this uncertainty the Directors have not adjusted the valuation in these financial statements. Each class of property plant and equipment will be independently valued next year in accordance with the Corporation's accounting policy. The value of the Wivenhoe Power Station assets will be subject to this review.

The Directors have reviewed the future earning stream of the Corporation's assets and are satisfied the total assets are not overstated.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

47

	1999 \$'000	1998 \$'000
11 EXPLORATION EVALUATION AND DEVELOPMENT EXPENDITURE		
Costs carried forward in respect of areas of interest in exploration and/or evaluation phase	11,894	–
The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the areas of interest.		
12 OTHER NON-CURRENT ASSETS		
Deferred expenditure	7,706	13,772
Future income tax benefit	3,142	2,345
Other	9	148
	<u>10,857</u>	<u>16,265</u>
13 ACCOUNTS PAYABLE		
Trade creditors	26,956	25,101
14 BORROWINGS		
CURRENT		
Unsecured loans from Queensland Treasury Corporation (QTC)	21,116	19,448
NON-CURRENT		
Unsecured loans from QTC	266,278	415,561
Loans to the Corporation from QTC are guaranteed by the Treasurer of Queensland.		
15 FINANCING ARRANGEMENTS		
The Corporation has access to the following lines of credit:		
Total facilities available:		
Unsecured bank overdraft	1,000	1,000
Unsecured loan from QTC	409,309	435,009
Facilities used at balance date:		
Bank overdraft	–	–
Loan from QTC	287,394	435,009
Facilities not used at balance date:		
Bank Overdraft	1,000	1,000
Loan from QTC	121,915	–

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

48

16 INTEREST RATE RISK

The Corporation's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

1998	Note	Weighted average interest rates %	Floating interest rate \$'000	Fixed interest maturing in:			Non-interest Bearing \$'000	Total \$'000
				1 year or less \$'000	1 to 5 yrs \$'000	More than 5 yrs \$'000		
FINANCIAL ASSETS								
		5.25	499	113,870	–	–	4	114,373
	7	–	–	–	–	–	35,825	35,825
			499	113,870	–	–	35,829	150,198
FINANCIAL LIABILITIES								
		6.97	–	19,448	93,001	322,560	–	435,009
	14	–	–	–	–	–	25,101	25,101
	13	–	–	–	–	–	25,101	25,101
			–	19,448	93,001	322,560	25,101	460,110

The expected final repayment date on borrowings is 30 April 2011.

1999	Note	Weighted average interest rates %	Floating interest rate \$'000	Fixed interest maturing in:			Non-interest Bearing \$'000	Total \$'000
				1 year or less \$'000	1 to 5 yrs \$'000	More than 5 yrs \$'000		
FINANCIAL ASSETS								
		5.10	726	7,028	–	–	6	7,760
	7	–	–	–	–	–	35,628	35,628
			726	7,028	–	–	35,634	43,388
FINANCIAL LIABILITIES								
		6.97	–	14,854	71,296	201,244	–	287,394
	14	–	–	–	–	–	26,956	26,956
	13	–	–	–	–	–	26,956	26,956
			–	14,854	71,296	201,244	26,956	314,350

The expected final repayment date on borrowings is 18 June 2011.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

49

17 CREDIT RISK EXPOSURE

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

ON-BALANCE SHEET FINANCIAL INSTRUMENTS

Credit risk on on-balance sheet financial instruments (electricity and other debtors) is minimised as the Corporation has a small number of customers and counterparties, the majority of which are Government Owned Corporations operating in the electricity industry.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Credit risk on off-balance sheet derivative contracts (option and swap agreements) is minimised as the majority of counterparties are Government Owned Corporations operating in the electricity industry.

	1999 \$'000	1998 \$'000
18 NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES		
ON-BALANCE SHEET FINANCIAL ASSETS AND LIABILITIES		
The carrying amounts of financial assets and liabilities equal their fair values except for financial liabilities.		
Financial liabilities carrying amount	287,394	435,009
Financial liabilities fair value	288,676	447,667
OFF-BALANCE SHEET FINANCIAL ASSETS AND LIABILITIES		
The Corporation enters into financial contracts in its normal course of operations. These contracts are related to the electricity market operation and are dependent on the official pool price. This pool price is calculated each half hour. The pool price has varied to make the financial contracts both favourable and unfavourable. The term to maturity for the financial contracts varies from one day to three years. Given the volatility of pool prices created by the tight supply demand situation in the Queensland Market pool prices can not be predicted with accuracy. Consequently, an accurate value cannot be assigned to these contracts.		
19 PROVISIONS		
CURRENT		
Dividends	16,582	73,500
Income tax	3,197	7,856
Employee entitlements	3,200	2,727
	22,979	84,083
NON-CURRENT		
Deferred income tax	83,570	40,133
Employee entitlements	1,892	1,652
	85,462	41,785

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

50

	1999 \$'000	1998 \$'000
20 CONVERTING LOAN FROM STATE		
CURRENT		
Loan from State of Queensland	–	823,886
Loan to State of Queensland	–	(27,000)
	–	796,886
On the 16 November 1998, 796,886,382 one dollar shares were issued to the Shareholding Ministers. These shares were issued in satisfaction of the debt owing to the State.		
21 SHARE CAPITAL		
Issued and Paid-Up Capital		
4 voting (A class) shares of \$1.00 each fully paid	–	–
796,886,388 non-voting (B class) shares of \$1.00 each fully paid	796,886	–
	796,886	–
Refer to Note 20 regarding conversion of Loan from State of Queensland to equity.		
22 EMPLOYEE ENTITLEMENTS		
Aggregate employee entitlement liability		
Current	3,199	2,727
Non-current	1,892	1,652
	5,091	4,379
THE QUEENSLAND ELECTRICITY SUPPLY INDUSTRY EMPLOYEES' SUPERANNUATION SCHEME		
The Corporation contributes to an industry multiple employer superannuation fund, the Electricity Supply Industry Superannuation Fund (Old) (ESI Super). Employer contributions are based on the advice of the Fund's actuary. Employee contributions are based on various percentages of their base salaries. After serving a qualifying period, members are entitled to benefits from this Scheme on retirement, retrenchment, disability or death. The Defined Benefit Account of this fund provides lump sum benefits based on years of service and final average salary.		
ESI Super has reported that the most recent actuarial assessment of the fund, as at 30 June 1996, was carried out by Mr John Smith B.A. (Maths) F.I.A.A. on 6 January 1997. The actuary concluded that the assets of the plans were sufficient to meet all benefits payable in the event of the plan's termination, or voluntary or compulsory termination of employment of each employee of the Corporation. The Corporation is under no legal obligation to make up any shortfall in the Fund's assets to meet payments due to employees nor does the Corporation have an entitlement to any excess.		
The Corporation's employees' portion of the estimated accrued benefits and fund assets at the date of the most recent actuarial assessment, 30 June 1996, of the fund based on financial statements of the scheme, were:		
	1999 \$'000	1998 \$'000
Net market value of assets held by the fund to meet future benefit payments	42,946	42,780
Present value of employee's accrued benefits	33,748	33,618
Excess of assets held to meet future benefit payments over present value of employees' accrued benefits	9,198	9,162
Vested benefits	32,883	32,757

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

51

	1999 \$'000	1998 \$'000
23 COMMITMENTS FOR EXPENDITURE		
CAPITAL COMMITMENTS		
Total capital expenditure contracted for at balance date but not provided for in the accounts, payable:		
Not later than one year	4,838	8,871
Later than one year but not later than two years	1,350	2,801
Later than two years but not later than five years	57	1,118
	6,245	12,790
OPERATING LEASE COMMITMENTS		
Future operating lease rentals not provided for in the financial statements and payable:		
Not later than one year	597	216
Later than one year but not later than two years	253	196
Later than two years but not later than five years	499	735
	1,349	1,147
24 CONTINGENT LIABILITIES		
Contingent liabilities at balance date, not otherwise provided for in these financial statements are categorised as follows:		
CONSTRUCTION CONTRACT		
The Corporation and Entergy Power Group have signed a conditional agreement with an engineering firm to construct the Tarong power station extension. The contract is conditional upon approvals being granted for the project. This contract has a fixed price for construction and was initially to terminate on 30 June 1999. A Deed of Variation has been signed with the engineering firm, extending the contract for three months but including financial penalty clauses for cancellation or increases to the contracted price depending on the length of delays until approvals are granted.		
The maximum amount of the financial penalties payable by the Corporation under the Deed of Variation is \$6.0m.		
LITIGATION		
Following the restructure of AUSTA Electric, the Corporation was allocated a number of litigation matters under the Government Owned Corporations (OCC Restructure – Stage 2) Regulation 1997. The Corporation became a party to the matters instead of AUSTA Electric. The matters relate to personal injury claims by former employees of Queensland Electricity Commission (QEC) which were transferred to AUSTA Electric on restructure of QEC.		
The maximum amounts that may become payable relating to these claims is not expected to be material.		

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

52

	1999 \$'000	1998 \$'000	
25 NOTES TO THE STATEMENT OF CASHFLOWS			
(A) RECONCILIATION OF CASH			
For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to			
Cash	732	503	
Short-term deposits	7,028	113,870	
	<u>7,760</u>	<u>114,373</u>	
(B) RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating profit after income tax	87,636	81,666	
Add/(less) items classified as investing/financing activities:			
(Profit)/loss on sale of non-current assets	66	15	
Add/(less) non-cash items:			
Depreciation	42,723	61,412	
Overhaul amortisation	9,637	10,845	
Amounts set aside to provisions	713	–	
(Increase)/decrease in future income tax benefit	(797)	(2,345)	
Increase/(decrease) in income taxes payable	(4,659)	7,856	
Increase/(decrease) in deferred taxes payable	43,437	40,133	
Net cash provided by operating activities before change in assets and liabilities	<u>91,120</u>	<u>117,916</u>	
Change in assets and liabilities during the financial year:			
(Increase)/decrease in inventories	(36)	(634)	
(Increase)/decrease in prepayments	(17)	(80)	
(Increase)/decrease in trade debtors	197	(31,089)	
(Increase)/decrease in loans receivable	139	–	
Increase/(decrease) in accounts payable	1,797	11,254	
Net cash provided by/(used in) operating activities	<u>180,836</u>	<u>179,033</u>	
	Bands \$'000	Numbers 1999	Numbers 1998
26 REMUNERATION OF DIRECTORS			
The numbers of Directors of the Corporation whose income from the Corporation or related bodies corporate was within the specified bands are as follows:			
	0 – 10	1	–
	20 – 30	6	6
	30 – 40	1	–
	40 – 50	–	1
Directors' remuneration excludes insurance premiums of \$29,410 paid in respect of directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual directors and officers. Information relating to the insurance contracts is set out in the Directors' Report.			

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 1999

53

27 RELATED PARTIES

DIRECTORS

The names of the persons who were Directors at any time during the year are as follows: Mr K Dredge, Ms M F Gibney, Mr K P Blinco, Mr D J Coates, Lt Gen J C Grey AC, Mr S J Maitland, Mr A W Piper, Hon. M J Tenni. Ms M F Gibney retired as a Director during the year. No Director has entered into a material contract with Tarong Energy Corporation Limited since the date of incorporation and there were no material contracts involving Directors interests existing at year end.

REMUNERATION OF DIRECTORS

Information on remuneration of Directors is disclosed in Note 26.

TRANSACTIONS WITH OTHER RELATED PARTIES

During the year the Corporation converted a loan from the State to equity. Refer Note 20 for details.

	1999 \$'000	1998 \$'000
28 INTEREST IN JOINT VENTURES		
The Corporation holds a 50% interest in a joint venture named Private Forestry Plantation Joint Venture whose principal objective is the commercial production of timber from plantations.		
Aggregate share of elements relating to joint venture:		
Assets employed		
Land	802	802
Total assets employed	802	802

29 SEGMENT INFORMATION

INDUSTRY SEGMENTS

The Corporation operates predominantly in the electricity generation industry.

GEOGRAPHICAL SEGMENTS

The Corporation operates predominantly in Queensland, Australia.

30 ECONOMIC DEPENDENCY

Significant volumes of coal used in the production of electricity is supplied by Pacific Coal Pty Ltd. This Company owns and operates the coal mine adjacent to Tarong Power Station. Obtaining commercial quantities of coal from an alternative source was considered uneconomic during the period.

The Corporation's customers are predominantly Queensland based due to limitations of physical delivery to other regions and the entities currently participating in the market are mainly Queensland based. A large volume of electricity is sold to Southern Electricity Retail Corporation Pty Ltd (Energex) and Central Electricity Retail Corporation Ltd (Ergon).

The Corporation is reliant on Queensland Electricity Transmission Supply Corporation Ltd (Powerlink) to provide fully available and functioning transmission lines to enable physical delivery of electricity.

31 EVENTS SUBSEQUENT TO BALANCE DATE

During July the Corporation signed a Heads of Agreement with Energy Holdings Limited for the supply of gas to a proposed new power station to be constructed by the Corporation. The Heads of Agreement is not binding and is conditional on a number of factors including negotiations between Energy Holdings Limited and the Papua New Guinea gas producers. The quantities of gas under the agreement are based on the proposed power station comprising two 350 megawatt generating units. The Corporation is continuing negotiations with Energy Holdings Limited.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 1999

54

In the opinion of the Directors of Tarong Energy Corporation Limited:

- (a) the financial statements and notes set out on pages 36 to 53 are in accordance with the Corporations Law, including:
- (i) giving a true and fair view of the financial position of the Company as at 30 June 1999 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



K H Dredge

Chairperson



S J Maitland

Director

Dated 24 September 1999

INDEPENDENT AUDIT REPORT AND ADDITIONAL FINANCIAL INFORMATION

TO THE MEMBERS OF TARONG ENERGY CORPORATION LIMITED

55

SCOPE

I have audited the financial statements, being the Directors Declaration, the Profit and Loss Account, Balance Sheet, Statement of Cash Flows and Notes to and forming part of the financial statements of Tarong Energy Corporation Limited for the financial year ended 30 June 1999 as set out on pages 36 to 54. The Directors of the company are responsible for the preparation and the presentation of the financial statements and information they contain. I have audited these financial statements in order to express an opinion on them to the members of the company.

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

The year 2000 issue has been addressed only in the context of my existing audit responsibility under Australian Auditing Standards to express an opinion on the financial statements. Plans and associated actions to address the year 2000 issue have been reviewed for action taken to date, but the adequacy of those plans has not been assessed. Accordingly, the audit of the financial statements does not provide specific assurance, nor is a specific opinion expressed that the systems of Tarong Energy Corporation Limited or other systems such as those of suppliers, vendors, service providers, customers, associates, joint venture parties or third parties are year 2000 compliant.

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

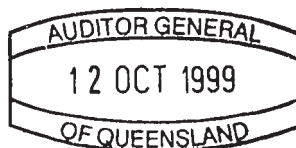
AUDIT OPINION

In my opinion, the financial statements of Tarong Energy Corporation Limited have been properly drawn up –

- (a) so as to give a true and fair view of –
 - (i) the company's state of affairs as at 30 June 1999 and its profit and cash flows for the financial year ended on that date; and
 - (ii) the other matters required by sections 292 to 297 and section 336 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with –
 - (i) the provisions of the Corporations Law; and
 - (ii) the applicable Accounting Standards and other mandatory professional reporting requirements.



L J Scanlan
Auditor-General of Queensland
Queensland Audit Office
Brisbane



ADDITIONAL FINANCIAL INFORMATION (AS REQUESTED BY THE MINISTER FOR MINES AND ENERGY)


Tarong Energy's expenditure on overseas travel for 1998/99 was \$52,198. This comprised five trips for the purposes of business and trading development and operations research.

These visits were to:

- USA – CEO, \$8,168;
- USA – General Manager Marketing and Trading, \$7,576;
- USA – 2 officers, \$21,240;
- New Zealand – General Manager Business Development and 2 officers, \$4,455; and
- Japan – 2 officers, \$10,759.

GLOSSARY AND ABBREVIATIONS

<p>GLOSSARY</p> <p>AVAILABILITY The total energy available to the system, allowing for planned maintenance and breakdowns, as a percentage of maximum total energy available.</p> <p>BASELOAD The minimum electrical load that is always present in the system. Baseload stations operate more or less continuously to meet demand.</p> <p>CARBON SINKS Anything that absorbs and retains carbon (eg plants and oceans). The term is generally used in relation to plant growth (usually trees) absorbing carbon dioxide gas (CO₂) from the air and converting it to carbon (wood), thereby reducing CO₂ levels in the atmosphere.</p> <p>MARKET HEDGING Hedging instruments (such as options or forward contracts) are used to reduce financial risk in the market.</p> <p>STATIC EFFICIENCY CO₂ The 'static efficiency' level is the 'business as usual' prediction for CO₂ emissions (no specific greenhouse gas reduction plan). It predicts future CO₂ emissions taking into account things like expected fuel consumption, generation load demand and drop in unit efficiency due to age of the machinery.</p> <p>AUXILIARY ENERGY Energy consumed by a power station unit for the purpose of running pumps and motors.</p>	<p>CO-GENERATION Generation of two forms of energy (typically steam and electricity) for customer use.</p> <p>SPOT PRICE The average half-hour trading price of five minute dispatch prices set by marginal generation.</p> <p>SPOT MARKET The physical market managed by NEMMCO for the dispatch of generating units and dispatchable loads.</p> <p>ELECTROSTATIC PRECIPITATORS Charged plates that remove ash from flue gas before it flows to the stack.</p> <p>TOTAL ENERGY SENT OUT Total energy generated less auxiliary consumption.</p> <p>BLACK START Starting generating units without the use of any power supply external to the power station.</p> <p>BIOMASS Biomass is organic matter present in the Earth's biosphere such as forestry, agricultural and animal wastes. This matter contains energy stored from the sun through photosynthesis.</p> <p>ABBREVIATIONS</p> <p>W (WATT) A watt is the unit of power or the rate of doing work.</p> <p>MW (MEGAWATT) One MW = one million watts</p> <p>GW (GIGAWATT) One GW = one thousand megawatts</p>	<p>CO₂ Carbon dioxide</p> <p>NEM National Electricity Market is a competitive wholesale electricity market for eastern and south eastern Australia. Initially, only NSW, Victoria, South Australia and ACT are linked physically with a high voltage transmission network.</p> <p>NEMMCO The National Electricity Market Management Company Limited was created by the governments of the ACT, NSW, Queensland, South Australia and Victoria in May 1996 to manage the NEM.</p> <p>ACCC Australian Competition and Consumer Commission</p> <p>VOLL (VALUE OF LOST LOAD) The current price cap in the spot market which is currently set at \$5000/MWh.</p> <p>LTIFR Lost Time Injury Frequency Rate</p> <p>QIRC Queensland Industrial Relations Commission</p> <p>ESCO Energy Services Company</p> <p>PPM Planned preventive maintenance</p>
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