2014–15 ANNUAL REPORT

OUR CHALLENGES, OUR FUTURE

Endeavour Energy

About this report

This report provides an account of Endeavour Energy's performance during the financial year 2014–15. It notes successes, areas for improvement and our future direction and challenges.

Endeavour Energy has a proud tradition of dedicated service to our communities and of efficiently distributing electricity to customers in a way that is safe, reliable and sustainable.

The contents of this report are guided by the requirements of the *Annual Report (Statutory Bodies) Act* and the *State Owned Corporations Act 1989*.

Statutory financial statements were audited by the NSW Auditor-General.

The report can be found on our website at www.endeavourenergy.com.au.
It was produced at a cost of $12,518 (GST inclusive).

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Letter to Shareholding Ministers

31 October 2015

The Hon Gladys Berejiklian MP
Treasurer
GPO Box 5341
SYDNEY NSW 2000

The Hon Dominic Perrottet MP
Minister for Finance, Services and Property
GPO Box 5341
SYDNEY NSW 2000

Dear Ministers

REPORT ON PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015

We are pleased to submit Endeavour Energy's annual report detailing performance, operations and financial results for the year ended 30 June 2015.

The report has been prepared in accordance with the *Annual Reports (Statutory Bodies) Act 1984* and is submitted for tabling in Parliament.

Copies are being sent to the Premier of New South Wales (NSW), the Auditor-General, the Minister for Industry, Resources and Energy, and other key stakeholders.

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

Sincerely

Roger Massy-Greene
Chairman

Vince Graham
Chief Executive Officer

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OUR ORGANISATION

Endeavour Energy is a NSW Government owned electricity distributor. We are a 'poles and wires' business, responsible for the safe and reliable supply of electricity to 2.3 million people in households and businesses across Sydney's Greater West, the Blue Mountains, Southern Highlands, the Illawarra and the South Coast.

With assets valued at $5.8 billion, our network spans 24,800 square kilometres and is made up of more than 416,000 power poles and street light columns, 189 major substations and 31,500 distribution substations connected by over 35,000 kilometres (about the distance from Sydney to London and back) of underground and overhead cables.

We power some of the fastest growing regional economies in NSW, including the Priority Growth Areas in Sydney's north west and south west sectors. Over the next 25–30 years, the Priority Growth Areas will become new communities for up to 500,000 people with 181,000 homes set amid employment lands, schools, shops, bushland, parks and new or upgraded infrastructure.

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

As a result of the NSW Government reforms to state-owned electricity networks since 1 July 2012, the three NSW Government owned electricity distribution networks Ausgrid, Endeavour Energy and Essential Energy operated as separate legal entities managed by a joint Board of Directors and common Chief Executive Officer (CEO).

On 4 June 2015, the *Electricity Network Assets (Authorised Transactions) Act 2015* and the *Electricity Retained Interest Corporations Act 2015* were enacted. The legislation allows the NSW Government to deliver its policy to lease 49 percent of the state's electricity networks and to use the proceeds from those transactions to build new infrastructure.

In preparation for this partial lease, Endeavour Energy will transition to operate as a stand alone business over the six month period to December 2015.

Our purpose

To be of service to our communities by efficiently distributing electricity to our customers in a way that is safe, reliable and sustainable.

Our values

Our values and their supporting behaviours define the standard of ethical behaviour we expect of each other and our communities expect from us. They form the basis for everything we do.

Safety excellence

- Put safety as your number one priority
- Do not participate in unsafe acts, and challenge unsafe behaviours
- Think before you act
- Lead by example
- Take responsibility for the health and safety of yourself and others.

Respect for people

- Treat all people with respect, dignity, fairness and equity
- Demonstrate co-operation, trust and support in the workplace
- Practise open, two-way communication.

Customer and community focus

- Deliver value and reliable service to our customers and communities
- Use resources responsibly and efficiently
- Be environmentally and socially responsible.

Continuous improvement

- Look for safer and better ways to do your job
- Improve our financial performance
- Support innovation to add value to our business.

Act with integrity

- Act honestly and ethically in everything you do
- Be accountable and own your actions
- Follow the rules and speak up.

Year at a glance

ITEMS		2013–14	2014–15	% CHANGE
OUR PEOPLE				
Total employees[1]		2,533	**2,378**	(6.1)
Lost time injury frequency rate (LTIFR)[2]		4.8	**2.7**	43.8
OUR SHAREHOLDER				
EBITDA	$m	770.1	**795.4**	3.3
Operating profit after tax	$m	301.0	**243.6**	(19.1)
Returns to NSW Government	$m	255.1	**270.8**	6.2
Dividend	$m	178.1	**166.6**	(6.5)
Income tax equivalents	$m	77.0	**104.2**	35.3
Net assets	$m	1,720.3	**1,833.8**	6.6
Return on assets	%	8.7	**8.4**	(4.3)
Return on equity	%	18.2	**13.7**	(24.7)
OUR OPERATIONS				
Reliability (unplanned interruptions to supply)	Min/lost/cust	83.0	**103.7**	(25.3)
Capital expenditure[3]	$m	531.5	**380.8**	(28.4)
Output (GWh)	GWh	15,637	**16,128**	3.1
Sales revenue[4]	$m	1,274.4	**1,303.4**	2.3
OUR CUSTOMERS				
Total network customer connections		922,205	**933,557**	1.2
Customer Service Indicator	%	78	**80**	2.6
ENVIRONMENT				
Transformer oil recycled	litres	460,585	**505,772**	9.8
Greenhouse gas emissions – direct emissions[5]	t CO_2e	595,183	**613,072**	3.0
Reportable environmental incidents	No	0	**0**	0

1 Full-time equivalent employees as at 30 June.

2 The LTIFR indicates how frequently lost time injuries have occurred per million hours worked. It is calculated by taking the number of LTIs reported in the previous 12 months (multiplied by 1,000,000) and then dividing by the average number of employees for the previous 12 months (multiplied by 2,000 hours worked per FTE).

3 Capital expenditure referenced throughout this report is exclusive of capitalised interest.

4 Sales revenue includes total network use of system income only.

5 We have reported our emissions using the National Greenhouse and Energy Reporting Scheme Determination where available, or, if unavailable, using methods consistent with the emission estimates published by the Department of Climate Change and Energy Efficiency in the National Greenhouse Accounts, or relevant environmental key performance indicators developed the Energy Network Association of Australia. Includes all Scope 1 and 2 emissions minus offsets purchased.

YEAR IN REVIEW

Endeavour Energy achieved another year of strong results in 2014–15. In the third year of the NSW Government's network reform program, we continued to safely improve the productivity and efficiency of the network to deliver benefits to families and businesses in our franchise area. We also continued to enhance our safety culture for our people and communities and improved our engagement with customers.

Safety matters

Safety excellence is our top priority. Our overarching safety objective is to create a workplace that is safe and a culture where no one knowingly participates in an unsafe act.

We met two of our three safety improvement targets in 2014–15 with better than target results for the number of recordable injuries and serious electrical incidents. Although the frequency of lost time injuries exceeded our target of 2.0, our strong focus on earlier intervention strategies helped deliver a result of 2.7, a marked improvement from our result of 4.8 in 2013–14.

As we worked through significant change in 2014-15, we continued to reinforce the need to stay focused on safety and drive ongoing improvements in employee, contractor and public safety. We know safety outcomes are significantly influenced by culture and the choices we all make, so we undertook a detailed safety culture assessment and identified a series of actions for safety culture improvement.

We enhanced safety leadership skills with a strong focus on building safety behaviours and communication competencies of frontline leaders. This initiative formed an important foundation for our "fair and just culture" program where everyone knows what's expected of them, the right behaviours are recognised and reinforced, and the right responses are applied to all behaviours.

We continued work on the network fatal risk program to minimise high consequence, low frequency life-changing events that have the potential to result in loss of life or permanent disabilities. To this end, we developed the "rules we live by" from the know-how and experience of employees across Endeavour Energy as well as our colleagues at Ausgrid and Essential Energy.

In the year ahead, we will continue to drive improvements in our safety culture, primarily via embedding the "rules we live by," supported by the continued implementation of a fair and just culture. To continue to improve the safety of our people and the community we serve, we are aiming for at least a 10% improvement in our safety measures in 2015–16.

Three years of network reform

The NSW Government's Network Reform Program commenced in July 2012 to identify $400 million of savings over four years across Ausgrid, Endeavour Energy and Essential Energy to fund electricity rebates for low income consumers and families.

Since then, we have delivered this target more than seventeen times over. Endeavour Energy, Ausgrid and Essential Energy have identified savings of more than $6.8 billion from forecast expenditure through to 30 June 2016. Endeavour Energy's contribution to these savings included $769 million in capital expenditure and $108 million in operating expenditure since July 2012.

Under the reform program, the three NSW networks have safely and gradually reduced their combined workforce by more than 3,500 jobs (446 at Endeavour Energy) through natural attrition, a recruitment freeze and voluntary redundancy. The road vehicle fleet across the three businesses has reduced by 2,400 vehicles (155 vehicles or 14% of Endeavour Energy's fleet) and fuel use has been cut by 8.8 million litres per year.

These capital and operating efficiencies have been challenging for our people but necessary for our customers. These reforms have helped to contain network electricity costs for businesses and keep electricity prices affordable for families and have seen Endeavour Energy's network electricity charges fall in real terms each year since 2013.

Our customers

Our customer and community focus is set out in our core values and forms the basis for everything we do.

In 2014–15 we undertook extensive customer engagement to align our investment and operating decisions to better reflect our customers' long term needs and priorities. The majority of our customers told us that while electricity affordability is important to them, they didn't want us to compromise service, safety, or reliability.

With input from employees and our Customer Consultative Committee, we developed a new customer Commitment Statement which outlines how we will listen to and respect our customers, safely deliver on our promises and place customers at the centre of everything we do. We also refreshed our Customer Hardship Policy.

We developed a program to enhance our service to 19,530 registered life support customers who depend on medical equipment powered by electricity. This customer group has steadily increased from 1.3% of our total customer base in 2013 to 2.0% of our total customer base in July 2015. The growth of registered life support customers requires additional customer care and management of planned outages.

Where this does not happen, significant fines may be imposed by the Australian Energy Regulator if it is not satisfied we have fulfilled our customer obligations. In 2014–15 we entered into a three year administrative undertaking with the AER to enhance internal procedures to ensure we meet obligations under the National Energy Retail Rules for life support customers. More details are on page 20.

Investing for a safe, sustainable, reliable network

To meet the needs of the 2.3 million people who rely on a safe and reliable electricity supply every day, we invested $781 million in our network during the year, delivering a capital program of around $381 million and an operating program of $400 million. We worked on 48 major building construction projects, replaced over 71 kilometres of steel mains and 14,604 service mains, and completed 57 reliability projects.

In November 2014 and February 2015, we submitted substantive and revised revenue proposals to the AER for the five years to 2019. In April 2015, the AER's final determination accepted our proposal to reduce our capital program by 49%. The AER also cut our proposed revenue by 23%, including a retrospective cut of $247 million to our operating expenditure (see page 12 for further details). As a result, Endeavour Energy does not have funding or sufficient work for 255 positions. We have briefed our unions on proposals for phased job reductions and a revised redundancy policy, and regret the inevitable loss of many dedicated employees this decision entails.

Endeavour Energy's overriding objective is to protect the long term interests of electricity consumers by providing a safe, reliable and affordable electricity network. We therefore decided to appeal some aspects of the AER's decision and legal appeals will be heard by the Australian Competition Tribunal in late 2015.

Regardless, work continued throughout the year to address long-term changes in our operating environment by safely and sustainably improving the productivity of our business by applying greater operational and financial discipline to capital and operating programs across our business.

Financial performance

In 2014–15 Endeavour Energy maintained strong performance, achieved through continued focus on business fundamentals, financial discipline and corporate governance.

Profit after tax was $243.6 million and earnings before interest, tax, depreciation and amortisation were $795.4 million. Revenue was above budget due to higher than expected energy consumption and higher than expected capital contributions. Under our current revenue cap, regulated revenue above the cap set by the AER will be returned to customers as lower network distribution prices in the next year.

In April 2014 the AER published a transitional regulatory determination and approved network charges to apply for the 2014–15 financial year. The AER's final determination was published in April 2015 and applied retrospectively to 1 July 2014. As a consequence of the AER's retrospective reduction in network revenue, $90.9 million of revenue collected from Endeavour Energy's customers in the 2014–15 financial year is being returned to customers through lower charges from 1 July 2015.

Network reliability

Reliability deteriorated due to a significant increase in storm activity over summer and autumn. Overall unplanned SAIDI deteriorated from 83 minutes in 2013–14 to 104 minutes in 2014–15.

In addition to repairing the significant storm damage in our own network over 400 Endeavour Energy staff and contractors assisted our colleagues at Ausgrid restore supply to 370,000 customers in late April 2015, after one of the worst storms experienced to date across their network.

From 1 July 2015, Endeavour Energy's customers will benefit from the AER's new Service Target Performance Incentive Scheme (STPIS) which will see our revenue go up or down each year depending on key service indicators of network reliability and response times of our call centres. This presents both a challenge and opportunity as we need to focus on achieving network reliability within the constraints of AER approved funding.

Challenges ahead

Endeavour Energy's shareholder, the NSW Government, introduced legislation in April 2015 for the long term lease of 50.4% of Endeavour Energy. As a result, Endeavour Energy started a six month transition to a stand-alone business model on 1 July 2015, after operating under the strategic direction of Networks NSW for the past three years. At this stage, it is anticipated that the transaction relating to Endeavour Energy will be completed during the 2016–17 financial year.

Regardless of future ownership arrangements, we will continue to drive improvements in productivity and efficiency across all parts of the business. To that end, we plan to implement our five year plan called *Endeavour 2020* to drive further efficiency and productivity reforms for our sustainable future. The four key themes of *Endeavour 2020* include:

- reforming corporate and support areas to match staffing levels to other parts of the business
- enhancing procurement to drive ongoing savings
- optimising asset management to safely and sustainably improve what work gets done across the network and
- safely improving works management.

Thanks to all employees who have worked hard to achieve strong results in 2014–15. With their dedication and support we have delivered improvements in our safety performance and produced productivity and efficiency gains for the benefit of our customers.

1

2014–15 Corporate plan

The strategic objectives and related key actions outlined in our 2014–15 Corporate Plan were designed to promote the long-term interests of our customers, employees and shareholders.

Over the past twelve months external factors have driven dramatic changes to our business including:

- the Australian Energy Regulator (AER) has imposed unprecedented cuts to our approved capital and operating expenditure
- our customers are embracing new technology
- our business will likely have a new ownership structure during the 2016–17 financial year.

These challenges present us with choices for shaping our future by safely improving the productivity and efficiency of our business to meet the needs of our customers and the community, and to help secure sustainable jobs for our employees.

Endeavour Energy 2014–15 balanced scorecard

KEY RESULT AREAS	MEASURES	TARGET	ACTUAL
SAFETY			
Safe, capable, motivated employees	Lost time injury frequency rate (LTIFR) – Pathway to Zero	≤ 2	2.7
	Total recordable injury frequency rate (TRIFR)	≤ 22.8	19.8
	Reportable incidents – controllable SENI	≤ 18	13
	High Potential Incident Frequency Rate (HPIFR)	Monitor	4.1
CUSTOMER & COMMUNITY			
Valued by our community	Customer satisfaction	≥ 80%	80%
	Immediately reportable incidents – NECF Type 1	≤ 18	16
Protect public safety & environment	Reportable incidents – environmental	≤ 1	0
Reliable & sustainable network	Network reliability – unplanned SAIDI	≤ 89.4 mins	103.7 mins
	S factor revenue benefit/penalty ($m)	Monitor	($24.4m)
FINANCIAL OUTCOMES			
Financial sustainability	NPAT ($m)	≥ $150.6m	$243.6m*
Efficient operations	OPEX ($m)	≤ $406.6m	$399.5m
BUSINESS PROCESSES			
Network plan delivery	Capital delivery – % complete of agreed milestones	≥ 95%	98%
	Capital delivery – % budget spent on delivered milestones	≤ 95%	87%
	Maintenance delivery - % complete of agreed milestones	≥ 98%	91%
Governance, risk & compliance management	Corrective actions outstanding greater than 60 days – safety, audit & risk	0	0
BUSINESS ENABLERS			
Safe, capable, motivated employees	Absenteeism days (excluding family/carer's leave)	≤ 6.3	6.6
	Gross to base ratio (at or above 1.5)	≤ 10	12

* In April 2014 the AER published a transitional regulatory determination and approved network charges to apply for the 2014–15 financial year. The AER's final determination was published in April 2015 and applied retrospectively to 1 July 2014. As a consequence of the AER's retrospective reduction in network revenue, $90.9 million of revenue collected from Endeavour Energy's customers in the 2014–15 financial year is being returned to customers through lower charges from 1 July 2015.

	Objective	Target	Result	Focus for 2015–16
1 IMPROVE OUR SAFETY PERFORMANCE	• Implement our safety strategic plan with a focus on fatal risk management, safety leadership, competency training and development of the "Network Fatal Risks: Rules we live by".	• LTIFR of ≤ 2.0 by June 2015 on a pathway to zero • Total recordable injuries frequency rate ≤ 22.8 • Serious electrical network incidents ≤ 18.	• LTIFR of 2.7 • Total recordable injuries frequency rate 19.8 • Serious electrical network incidents 13.	• Continue to focus on fatal risk controls including rolling out the "Network Fatal Risks: Rules we live by", safety culture improvements, Lifeguard program and enhancements to our WHS Contractor Management.
2 IMPROVE CUSTOMERS' EXPERIENCE	• Build a customer centred culture by focussing on improving customer service at five key customer touch points – Life Support customers, Accredited Service Providers, retailers, Contact Centres and planned outage notification.	• Customer satisfaction ≥ 80% • Reportable incidents – controllable NECF breaches ≤ 18 – controllable environmental ≤ 1 • Network reliability – average unplanned SAIDI ≤ 89 minutes.	• Customer satisfaction 80% • 16 NECF type 1 breaches • 0 controllable environmental incidents • Network reliability – average unplanned SAIDI 104 minutes.	• Embed the principles of our customer commitment statement – listen, respect and deliver – into everything we do.
3 DEVELOP OUR SUSTAINABILITY PROGRAM	• Meet customers' long term priorities and build business value through: – efficient capital investment – improved labour productivity – blended delivery – efficient network support costs – competitive Enterprise Agreements.	• Financial stability net profit after tax (NPAT) ≥ $150.6 million • Efficient operations operating expenditure (OPEX) ≤ $406.6 million.	• NPAT favourable to budget by $93.0 million at $243.6 million • OPEX was favourable to budget by $7.1 million at $399.5 million.	• Implement our sustainability program, called Endeavour 2020, through: – efficient capital investment – improved labour productivity – optimised blended delivery – efficient network support costs – competitive Enterprise Agreement – streamlining back office operations.
4 ALIGN OUR WORKFORCE PLAN TO THE AER'S DECISIONS ON OUR PROPOSALS	• Respond to the AER's determination through productivity benchmarking and our workforce plan.	• Capital delivery: – ≥ 95% of agreed milestones completed – ≤ 95% of budget spent on delivery of milestones • ≥ 98% of agreed maintenance milestones delivered.	• 98% of agreed capital delivery milestones completed • 87% of budget spent on delivered milestones • 91% of agreed maintenance milestones delivered.	• Absenteeism (excluding family/carer's leave) above target at 6.6 • Number of employees with gross-to-base ratio at or above 1.5 above target at 12.
5 DELIVER PERFORMANCE THROUGH PEOPLE	• Develop the leadership performance, workplace culture and organisational capability required to execute the Network Reform Program.	• Absenteeism (excluding family/carer's leave) ≤ 6.3 • Number of employees with gross-to-base ratio at or above 1.5 ≤ 10.	• Absenteeism (excluding family/carer's leave) above target at 6.6 • Number of employees with gross-to-base ratio at or above 1.5 above target at 12.	• Support employees and provide them with skills to cope with ongoing changes by: – ongoing investment in targeted leadership training – embedding a Fair & Just Culture consistently throughout our business – building employee productivity, resilience and engagement.

2

OUR PERFORMANCE

1. Improve our safety performance

While our organisation undergoes significant change, it is vital that we remain focused on safety and continue to improve our safety performance in relation to our employees, contractors and the public. Our overarching objective is to create a workplace that is safe, and a culture in which no one knowingly participates in an unsafe act.

One of the ways we measure our success in these efforts is by reducing our lost-time injury frequency rate (LTIFR).

Though we did not reach our LTIFR target of equal to or less than 2.0 in 2014–15, our strong focus on earlier intervention strategies helped deliver a LTIFR result of 2.7 which was a substantial improvement on our 2013–14 result.

For 2015–16, our focus is on continuing to implement the key strategic elements of our Health, Safety and Environment Plan to reach our overarching safety objective and reduce our LTIFR below 2.0 by June 2016.

Mitigating network fatal risks

Through our Network Fatal Risk Program, we continued to mitigate and eliminate high-consequence events that may result in loss of life or life-changing injuries.

In support of this, we delivered two key initiatives in 2014–15: the Network Fatal Risk Control Standard and the Rules We Live By.

The Network Fatal Risk Control Standard defines mandatory standards and minimum performance requirements in the Network Fatal Risk categories for Endeavour Energy. This standard is a key component of our Health and Safety Management System.

Through extensive consultation with our workforce, we have also developed the Rules We Live By, which clearly explain the basic rules our workers should embrace and use to prevent serious injury or fatality when they perform work involving a network fatal risk.

Our focus in 2015–16 is to educate and embed the rules into our culture and monitor their effectiveness.

Safety Competency Leadership Framework

To maintain a consistent approach to safety among frontline leaders, we collaborated with Ausgrid and Essential Energy to develop a Safety Competency Leadership Framework.

The framework includes a Safety Task and Position Competency Matrix for safety critical roles. To enhance leaders' safety competency, we developed a curriculum comprising four modules:

- key leadership skills for work, health and safety
- basic incident investigation
- management of health, safety and environment contractors and sub-contractors
- safety interactions.

Face-to-face training in these modules was delivered to over 450 frontline leaders throughout 2014–15 including Leading Hands, Operations Managers and Distribution and Transmission Managers.

'Safety Actions Plans' were developed to facilitate transfer of knowledge and the required safety behaviour changes to the workplace.

Safety culture assessment

In conjunction with Griffith University and an independent safety consulting firm, we undertook a detailed assessment to identify ways to improve our safety culture.

This assessment made use of interviews, surveys, focus groups and field observations, and had a particularly strong focus on frontline workers and supervisors. Most participants had strong overall perceptions of safety initiatives with 'Communication and Feedback' and 'Leadership and Management Commitment' viewed as being areas of particular strength at Endeavour Energy. Based on the feedback received as part of this assessment, opportunities for improvement were identified in the following areas:

- safety data management and trending
- our safety observation process
- communication of how we handle safety incidents
- time taken to complete incident investigations
- closing corrective actions arising from incident investigations.

Improvement initiatives are underway in each of these areas and will continue to be implemented during 2015–16.

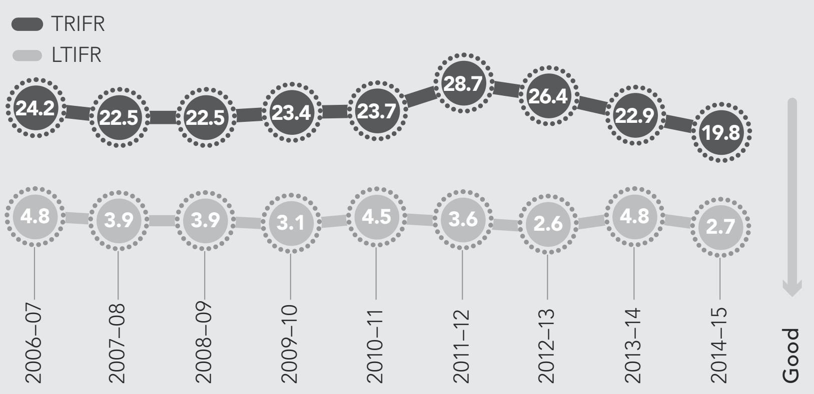
Lifeguard program

Our Lifeguard program is designed to minimise the risk of a worker being affected by alcohol, drugs or fatigue causing injury or death to themselves or their colleagues. An important component of the program is random drug and alcohol testing by an accredited independent third party. In 2014–15, 1,088 tests were completed across all sites including managers, office and field-based staff with four results above the acceptable threshold for drugs or alcohol. We enhanced our processes to include random testing at work sites in the field, with post-incident testing becoming a routine component of our incident management process.

Fatigue management was an area of particular focus in 2014–15. We identified and addressed organisational and local safety risks associated with fatigue through awareness and education initiatives, and by developing local fatigue management plans. We also undertook training and provided support information and tools to all employees to develop their skills and knowledge in relation to identifying and managing fatigue.

PERFORMANCE INDICATOR

Lost time injury frequency rate and total recordable injuries



This year also saw the development of a Fitness for Work framework which included work-capacity assessments for high-risk positions such as high-voltage live line workers and employees who operate heavy vehicles. We will continue to implement this framework in 2015–16 to support employees and make sure they are fit and able to perform their duties.

Public safety

Endeavour Energy is committed to keeping the public safe near our network and has an ongoing public safety awareness program that continues to inform the community about electrical risks and hazards and how to work safely around the network.

YEAR	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
LTI	24	21	22	18	26	22	14	25	13
TRI	122	120	127	134	137	163	143	118	96

2. Improving our customers' experience

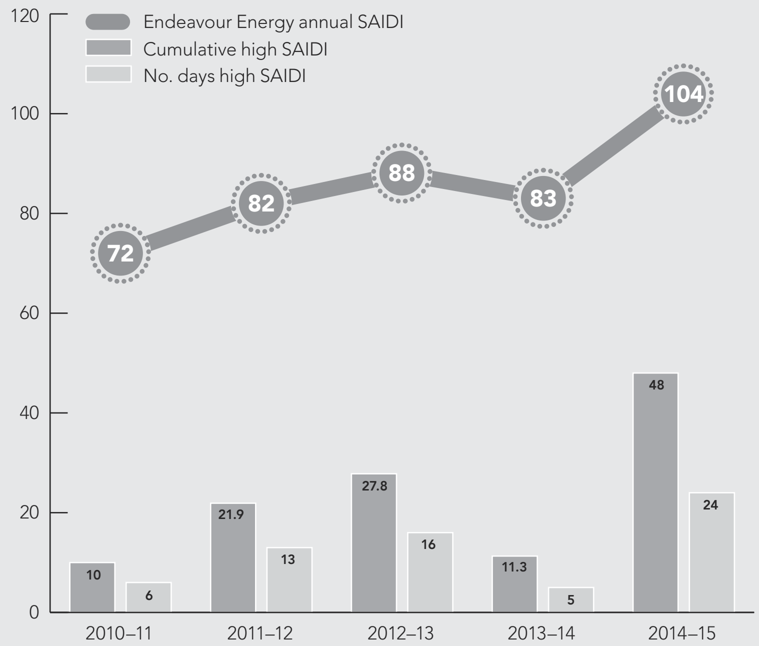
Our customers continued to be at the centre of our plans in 2014–15 as we sought to further improve their experience of Endeavour Energy. We are committed to delivering to our customers a safe and reliable supply at an affordable price, and great service when they needed it.

Our efforts to build on this commitment in 2014–15 have focused on enhancing our customers' experience at the key points where we contact them by improving our communications and re-engineering our processes to be more customer-centred. This included:

- partnering with retailers to deliver better outcomes for customers
- working with Accredited Service Providers to make connections easier
- enhancing customer engagement by making it easier for customers to interact with us
- improving planned outage communication and engagement with customers.

PERFORMANCE INDICATOR

Supply reliability – normalised unplanned SAIDI (minutes)



To create a common understanding across Endeavour Energy of the behaviours and actions required to support and foster a more customer-centred organisation, we developed a new Customer Commitment Statement which outlines how we will listen to and respect our customers, safely deliver on our promises and place customers at the centre of everything we do. This commitment statement was prepared with input from employees across Endeavour Energy and feedback from our Customer Consultative Committee.

We completed the development and delivery of an improvement program to enhance the services provided to customers who have registered life support equipment in their homes. Life support customers are now routinely contacted when unplanned interruptions occur or when planned works extended beyond their allocated timings.

We also refreshed our Customer Hardship Policy for those who face financial hardship due to obligations associated with rectification of defects, particularly the new laws introduced by the NSW Parliament in November 2014 giving electricity network operators additional powers to direct property owners to undertake work to mitigate the risk of bushfires.

To deliver more accessible outage information to customers, we developed a mobile app to give customers ready access to the latest information on planned and unplanned interruptions in their area. The app will enable customers to report faulty streetlights or give us feedback at any time on aspects of our operations.

Extensive engagement with customers was also undertaken in 2014–15 to align our investment and operating decisions to reflect their long term needs and priorities. Throughout the year engagement with customers was conducted through our Customer Consultative Committee, customer workshops, choice modelling research and interactions with retailers and peak consumer bodies so they could express their preference regarding network prices and the level of service. This engagement identified that customers wanted the price increases of the past to end, that they were happy with the current level of reliability and did not want to pay for extra improvements, and they expected safety to be our continuing priority.

Improving reliability

While the reliability performance of our network has improved markedly over the past decade, a significant increase in the number of storms impacting customers in our network over summer and autumn saw a decline in overall unplanned SAIDI from 83 minutes in 2013–14 to 104 minutes in 2014–15.

Events that impacted our reliability included 21 storm days, 57 interruptions to the sub-transmission network, 2,373 interruptions to the distribution network and 2,243 interruptions to the low-voltage network, mainly due to adverse weather, defective equipment, interference with powerlines and vegetation.

Moving forward, our customers will benefit from the AER's new Service Target Performance Incentive Scheme (STPIS), which took effect from 1 July 2015.

STPIS is intended to balance the incentives to reduce expenditure with the need to maintain or improve service quality through financial rewards and penalties (as revenue at risk) which take into account the Value of Customer Reliability (VCR).

3. Meeting our customers' long-term priorities and building business value

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

As the structure and resources of our organisation have changed, so has our operating environment. Our customers are adapting to new technologies – like solar panels and battery storage solutions – for generating, monitoring, managing and potentially storing energy. They are also using less energy than they did five years ago and are changing the way they use the grid.

The environment in which Endeavour Energy currently operates is complex and challenging. We face reduced regulatory revenue allowances as well as ongoing rapid developments in the areas of embedded energy generation and storage. While these issues challenge our current business model, they also provide us with the opportunity to continue to identify further improvements in productivity and efficiency, while ensuring we operate safely and sustainably.

Our strong history of focusing on improving efficiency has built a solid foundation for future reform. Since 2009, we have consistently exceeded savings program targets by reducing costs and improving how we work. But the challenges we face as an organisation mean that we need to build on these past successes.

To meet such challenges, Endeavour Energy has embarked on the next chapter of our journey to improve our productivity, continue to safely maintain and build our network with fewer resources, increase our competitiveness and ultimately control our network charges.

Endeavour 2020

We will continue our improvement journey through 2015 and beyond with the introduction of Endeavour 2020. Endeavour 2020 is designed to reduce the cost of operating and maintaining our network over the next five years while positioning us to efficiently deliver services to customers of the future.

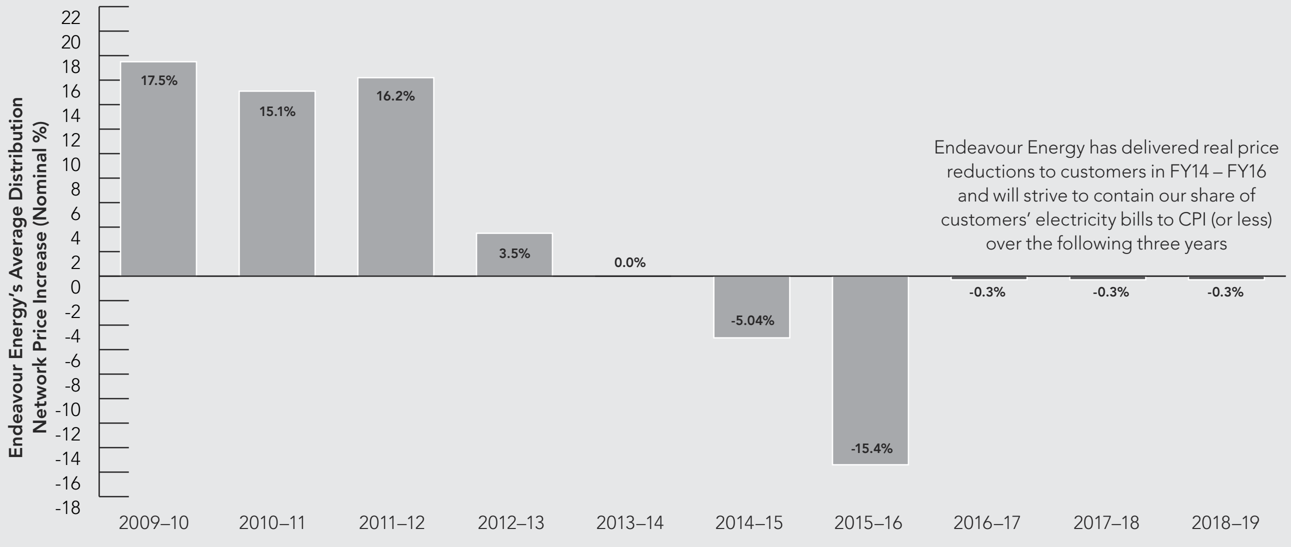
As part of the program we will continue to assess the risks we manage to determine the projects and programs we will implement.

Other initiatives will include continuing to market test the competitiveness of our internal functions. By doing this, we will find the lowest cost for safely and efficiently delivering our various services. This will include reviewing the types of business operations that we perform to ensure we are using our expertise in the areas in which it is most valued. This phase of our reforms is designed to achieve a sustainable basis from which we can pursue our goal of providing our customers with the services they need at a competitive price while using a network that is safely managed and operated.

To oversee the delivery of the initiatives identified under Endeavour 2020, we have established a specific Strategy and Transformation division which also takes responsibility for driving our corporate planning and the oversight and coordination of our obligations in supporting the implementation of the NSW Government's long term network leasing proposal.

PERFORMANCE INDICATOR

Distribution Network Prices Increases (2009–2019)



4. Aligning our organisation to the AER's decisions

Every five years, we submit a regulatory proposal to the AER, which includes our capital and operating plans and the funding needed to deliver those plans. The AER reviews our proposal, considers feedback, and decides the revenue we can recover from customers to fund our operations. Our regulatory proposal reflects Endeavour Energy's vision and objectives to keep our network safe, reliable and affordable for our customers.

It also reflects a more concerted effort by Endeavour Energy to engage with our customers to better match the network plans with the long-term interests of consumers. Our regulatory proposal was supported by extensive customer and stakeholder engagement that identified that customers wanted the price increases of the past to end. We also found that most customers were happy with reliability, do not want to pay for extra improvements and that they expect safety to be our continuing priority.

The regulatory proposal submitted to the AER in May 2014 reflected these comments from customers. It set out our plans to keep our network electricity charges at or below CPI for the next five years, and included plans to improve safety for staff, contractors and the public and maintain a reliable network.

In November 2014, the AER released its draft determination which foreshadowed revenue reductions of 24% compared to our proposal. In responding to the draft determination in January 2015, we submitted a revised proposal outlining the safety, reliability and financial risks and impacts with particular emphasis on sustainability of such a significant and sudden reduction to our capital and operating plans.

Our revised proposal highlighted that the AER reductions would impact our ability to maintain the network, conduct sufficient vegetation management to maintain safe clearances and service the substantial customer growth in the Priority Growth Areas. We also highlighted several areas of error in the draft Determination including the AER's new benchmarking approach, the calculation of the substitute capital forecast and the cost of capital.

After considering our initial and revised proposals together with stakeholder feedback, the AER released their final determination for Endeavour Energy on 30 April 2015. The final determination imposed revenue reductions of 23% compared to the revised proposal primarily driven by the AER's rejection of changes proposed in relation to forecast vegetation management costs, the proposed cost of capital, and incentive scheme payments. The AER did, however, accept our proposed capital investment program in its entirety.

After careful consideration, the Board of Endeavour energy concluded that the AER's final determination was not in the long term interests of our customers.

In May 2015 Ausgrid, Essential Energy and Endeavour Energy lodged applications for leave to appeal to the Australian Competition Tribunal against the significant cuts to operating programs in the AER's final determination. The applications appeal cuts to operating expenditure due to its impact on vegetation and bushfire risk mitigation programs and the AER's decision do not provide a workable transition plan to implement continued efficiency improvements.

5. Deliver performance through people

With a business environment that is constantly changing, we need capable and skilled people to successfully deliver our business strategy. While change can be challenging, change is now the 'new normal'. Against this backdrop, it's important we know what's expected of us and conduct ourselves in a manner consistent with Endeavour Energy's values.

In 2014–15, we focused on building a 'fair and just' culture by educating leaders and employees on what this means, and how fair and just principles and corporate values can be applied to everyday behaviours. We want to build a culture in which strong performance is recognised and where we inspire each other to deliver quality customer service while operating a safe, reliable and financially sustainable network. One thing that will not change is our commitment to safety. We want all employees to know what's expected and have the training and skills they need to deliver a safe and reliable network for the benefit of the community we serve.

Developing leaders' capabilities

We continued to develop the capabilities of our leaders during the year, focusing on safety leadership training for frontline managers, senior leaders' development, and providing intranet resources to help employees develop their own leadership abilities. Through all these initiatives there was a strong focus on self-development.

Our Executive Leadership Team dedicated considerable time and focus on developing their own effectiveness including quarterly leadership-focused meetings; leadership development, succession planning and talent identification sessions; and input into the pilot program of the Cultural Pulse Check and Leadership effectiveness measure, which will be used in 2015–16.

The pilot of the pulse check measure, which aims to help us monitor our progress in developing leaders, was run in May 2015. The results communicated in June indicated a high level of engagement and have given us a clear direction for 2015–16. The main elements of this direction are:

- engage and inspire – develop leaders' ability to communicate, and to engage and inspire their teams
- reward and recognition – rejuvenating our reward and recognition program
- leadership development – continue to develop leadership capabilities and build leadership resilience in relation to uncertainty and change.

Cultural transformation

'Fair and just' is a cultural transformation program that runs over three years. The focus for phase one of the program, rolled out between October 2014 and April 2015, involved educating leaders and employees on what a fair and just culture is – and is not – and how its tenets can be applied to everyday behaviours that align with corporate values.

Leaders attended externally facilitated workshops and subsequently ran sessions with their teams to communicate key principles and messages from the program. Participation was high, with 95% of employees being trained in the program's cultural principles.

In total, 85% of leaders were educated on the new leadership competencies, 85% of frontline leaders in safety critical roles were trained in safety leadership, and over 90% were trained in fatigue management. The latter, in turn, trained their field-based staff. Office workers will complete online fatigue-management training in 2015–16.

3

NETWORK

Our network strategy

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

New laws have resulted in changes in the way we go about network planning, with the removal of minimum supply-security standards (such as levels of network redundancy) in our licence conditions and amendments to the National Electricity Rules. This is reflected in our reduced network capital expenditure program over the years from 2014 to 2019. In this period our forecast capital expenditure of approximately $1.6 billion is 41% lower than allowed capital expenditure for the previous five-year regulatory period. The lower capital expenditure also reflects strategic realignment of objectives under industry reform, with a greater focus on minimising prices for customers and reductions in the rate of growth in peak demand.

There is still a need, however, to invest in new growth. Investment over the coming five years is primarily focused on servicing the Priority Growth Areas within our network in north west and south west Sydney. We will also continue to focus on replacing deteriorated assets, while our overall strategy with respect to our investment programs is to maintain current levels of reliability performance.

Growth

Endeavour Energy needs to augment its network to connect new customers, and ensure there is sufficient capacity to meet the forecast peak demand for electricity.

Over the 2014–19 period, the Australian Electricity Market Operator (AEMO) forecasts state average growth of 1% a year in peak demand. Our forecast growth in peak demand averages 1.3% per annum over the same period.

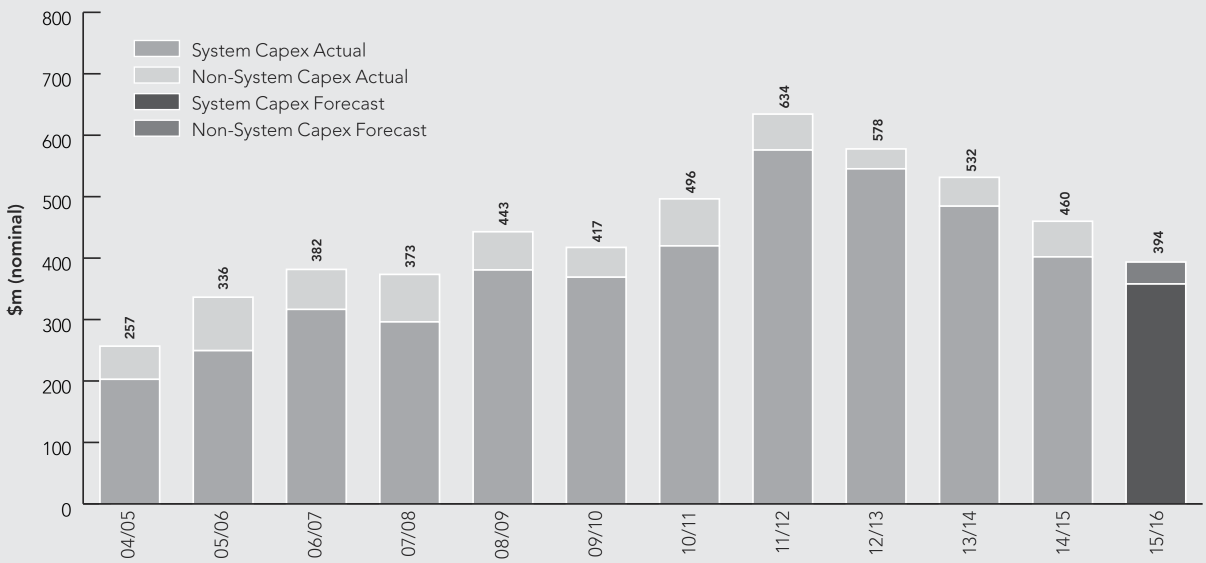
Endeavour Energy's forecast growth is also driven by the connection of new customers in greenfield development areas, particularly the Priority Growth Areas. These Priority Growth Areas are a key driver of growth-related investment for 2014–19 as we need to provide the network infrastructure to service these developments now.

Asset renewal/ replacement

We invest in the renewal and replacement of assets when their condition indicates that their continued safe and reliable operation is no longer viable. The key drivers of this investment are:

- degradation in the condition of assets
- safety, environmental or other asset-related risks.

ANNUAL CAPITAL EXPENDITURE



Reliability

We invest to ensure compliance with reliability performance targets set out in NSW distribution licence conditions which ensure customers connected to the worst-performing parts of the network receive at least the minimum specified levels of reliability. The main driver of investment in this capital expenditure category is our performance against licence condition reliability targets.

Effective from 1 July 2015, the AER's Service Target Performance Incentive Scheme (STPIS) has taken effect in NSW.

For the current regulatory period, the AER has determined that Endeavour Energy's STPIS will carry revenue at risk each year of 2.25% for reliability performance and 0.25% for call centre telephone answering. Our reliability performance targets were set by the AER as the average of Urban and Rural Short feeder category performance in the previous regulatory period.

The introduction of STPIS presents both a challenge and opportunity that will require an ongoing focus on maintaining reliability and customer service performance coupled with prudent and efficient strategies to improve performance where it is justified to do so.

Major works

Note: ZS = Zone Substation, TS = Transmission Substation, SS = Switching Station, BSP = Bulk Supply Point

	COST ($)M*				
DESCRIPTION	BEFORE 2014–15	2014–15	TOTAL INVESTMENT TO 30 JUNE 2015	PRACTICAL COMPLETION DATE	COMMENTS
Abbotsbury ZS establishment	20.1	2.2	22.4	Dec–14	Construct a new 132/11kV substation
Bulli ZS redevelopment	12.0	1.0	13.0	Complete	Rebuild existing 33/11kV substation
Canley Vale ZS redevelopment	13.7	0.9	14.5	Complete	Rebuild existing 33/11kV substation
Castle Hill ZS redevelopment	7.4	(1.4)	6.0	Jul–18	Rebuild existing 66/11kV substation
Casula ZS establishment	18.7	0.5	19.2	Complete	Construct a new 33kV/11kV substation
Cattai ZS feeders 443 and 458	22.2	2.0	24.3	Complete	Replace 33kV outdoor switchgear with indoor and augment 33kV feeders
Chipping Norton ZS establishment	14.6	1.0	15.6	Complete	Construct a new 33/11 kV substation
Claremont Meadows ZS establishment	31.1	0.2	31.3	Complete	Construct a new 33/11kV substation
Connection works for the establishment of Macarthur BSP	19.8	4.0	23.8	Sep–15	Connection works associated with the new TransGrid Macarthur BSP
Corrimal ZS redevelopment	12.3	1.2	13.6	Complete	Rebuild existing 33/11kV substation
Culburra ZS augmentation	8.3	2.1	10.4	Mar–15	Install indoor 33KV switchgear, construct new 33KV feeder
Doonside ZS establishment	50.6	1.2	51.8	Complete	Construct a new 132/11kV substation to replace the existing Doonside ZS

Major works

DESCRIPTION	COST ($)M*			PRACTICAL COMPLETION DATE	COMMENTS
	BEFORE 2014–15	2014–15	TOTAL INVESTMENT TO 30 JUNE 2015		
East Liverpool TS works	26.0	0.1	26.2	Complete	Construct a new 132/33kV substation
East Parramatta SS & West Parramatta ZS establishment	87.7	4.0	91.7	Complete	Construct a new 132/11kV substation and a new 132kV switching station
Edmondson Park ZS	2.7	8.6	11.3	Dec–15	Construct a new 33/11kV substation
Feeder 512 to Kemps Creek rebuild	2.0	0.9	2.9	Oct–14	Augment existing 33kV feeder
Glenorie ZS establishment	15.9	0.7	16.6	Jul–14	Construct a new 33/11kV substation
Granville ZS establishment	44.4	2.2	46.6	Complete	Construct a new 132/11kV substation to replace the existing Granville ZS
Guildford TS redevelopment	50.0	4.1	54.1	Complete	Rebuild existing 132/33kV substation
Holroyd ZS redevelopment	13.9	0.3	14.3	Complete	Replace 33 kV and 11kV switchgear with new indoor switchgear
Homepride ZS Establishment	5.6	1.0	6.6	Aug–14	33kV sub transmission augmentation
Huntingwood ZS establishment	21.3	0.2	21.5	Complete	Construct a new 132/11kV substation
Jordan Springs ZS establishment	19.9	3.1	23.0	Complete	Construct a new 33/11kV substation (initially deploy mobile substation)
Lawson TS Railcorp connections works	0.9	0.2	1.2	Complete	Permanent connection of RailCorp 66kV busbars to indoor 66kV switchboard
Leabons Lane ZS redevelopment	7.3	2.8	10.0	Dec–16	Rebuild existing 33/11kV substation
Leppington South ZS establishment	8.3	2.0	10.3	Jan–15	Construct a new 132/11kV outdoor substation
Liverpool TS 132 kV and 33kV feeders	23.6	0.6	24.2	Complete	Construct a new 132kV transmission substation, two 132kV feeders and 16 33kV feeders
Mamre ZS augmentation	4.9	0.1	5.1	May–15	Increase the substation capacity with an additional power transformer
Marsden Park 132kV transmission line	0.3	2.0	2.3	Jun–16	Establish temporary 132/11kV substation
Marsden Park ZS (residential)	1.5	6.5	7.9	Jun–16	Establish new 45MVA substation with provision to increase to 90MVA

Major works

DESCRIPTION	COST ($)M* BEFORE 2014–15	2014–15	TOTAL INVESTMENT TO 30 JUNE 2015	PRACTICAL COMPLETION DATE	COMMENTS
Nepean ZS establishment	15.0	0.3	15.3	Complete	Construct a new 66/11kV substation to replace the existing Camden ZS
Northmead ZS redevelopment	13.1	3.7	16.8	Dec–14	Redevelopment of existing 33/11kV substation
OPGW on feeders 98W and 98F	1.9	0.6	2.5	Feb–15	Installation of fibre optic cables for feeders 98W & 98F
Oran Park establishment – line works	11.5	3.2	14.7	Dec–15	Construct two new 132kV feeders to supply to Oran Park ZS and deploy mobile substation
Oran Park ZS establishment	7.8	5.7	13.5	Dec–15	Construct a new 132/11kV substation
Penrith TS redevelopment	39.8	1.3	41.1	Complete	Construct a new 132/33kV transmission substation to replace the existing Penrith TS
Port Kembla ZS redevelopment	13.4	1.7	15.1	Complete	Construct a new 33/11kV substation to replace the existing Port Kembla ZS
Richmond ZS establishment	26.4	2.9	29.4	Complete	Construct a new 33/11kV indoor substation to replace the existing Richmond ZS
Russell Vale ZS augmentation	8.2	0.6	8.9	Dec–14	Replace two transformers with higher capacity units
Rydalmere ZS redevelopment	20.1	3.1	23.2	Jan–16	Rebuild existing 66/11kV substation
Springwood to Hazelbrook 66kV feeder renewal	0.1	1.2	1.2	Jul–15	Renew existing 66kV Feeder between Hazelbrook and pringwood
South Granville ZS redevelopment	15.0	2.5	17.5	Complete	Rebuild 33/11kV indoor substation
St Marys ZS redevelopment	8.3	4.9	13.2	Nov–16	Rebuild existing 33/11kV substation
Tomerong BSP connection works	0.2	0.2	0.4	Jun–16	Improve voltage constraints in the 'southern' South Coast network
Tomerong ZS establishment	17.2	0.7	17.9	Complete	Construct a new 33/11kV substation
West Tomerong TS establishment	30.5	0.7	31.3	Complete	Construct a new 132/33kV substation
Westmead ZS redevelopment	5.1	2.2	7.3	Complete	Rebuild existing 33/11kV substation
Windsor ZS augmentation	17.0	1.1	18.1	Complete	Rebuild existing 33/11kV substation
Total	**817.6**	**91.0**	**908.9**		

* Figures rounded to the nearest $100,000

Major projects approved 2014–15

To replace ageing assets, cater for future growth and ensure the security and reliability of electricity supply to customers, the Board approved one major project, valued at $16.2 million to upgrade the 11kV network supplying Liverpool CBD to cater for significant growth in high-density residential development and refurbish ageing substation equipment. Phase one of construction will commence in 2015–16.

Network maintenance

Our Network Maintenance Implementation Plan, part of our broader Strategic Asset Management Plan, analyses maintenance needs against business objectives and details the strategies we need to embrace to maintain our network.

This work includes vegetation management, asset inspections and pre-summer bushfire inspections of our overhead electricity lines in bushfire-prone areas. The plan is reviewed and updated annually to identify what network maintenance activities will be needed over the next 12 months.

In 2014–15, we delivered our maintenance program at a cost of $262 million and in compliance with our maintenance targets. Maintenance activities and expenditure for the year included:

- $38.6 million on vegetation management to maintain safety clearances, reduce outages, improve reliability and manage bushfire risk
- $15.4 million on metering, including reading of meters and providing information for billing purposes
- $19.3 million for fault and emergency work following weather-related events and third-party incidents
- $31.3 million on preventative maintenance and inspections on the transmission and distribution network
- $22.3 million for expenses related to contestable customer connection works and contributions, including transformers and switchgear paid for by the customer
- $11.4 million for the overhead line and pole inspection program, involving the inspection of 93,527 poles
- $6.4 million on street lighting, including replacing 63,700 lamps
- $117.2 million largely on network operating overheads and other maintenance activities.

Feeder automation and demand management trials

Technology underpins Endeavour Energy's infrastructure and the way we deliver electricity to our customers. The use of technology is also key to achieving our business goals in the most effective and efficient way. During the year we made progress on a number of important initiatives, providing significant benefits to the organisation in savings, productivity improvements and the delivery of business objectives.

Endeavour Energy delivered the supervisory control and data acquisition (SCADA) Mosaic Master Station Upgrade in November 2014. Work commenced on the upgrade of our SCADA system, the core operational technology for supervision, management and control of our electricity network. This platform will maintain the technical currency of the system, helping ensure we maintain the safe and reliable operation of our network.

Endeavour Energy's technology strategy for the next five years was included in our submission to the Australian Energy Regulator. The strategy was based on the use of technology which has been proven in pilots and trials to provide benefits to our customers. We made significant progress on key pilots during the year which helped us develop our strategy.

Examples include:

- low-cost substation monitors which can defer the need for augmentation by providing better information
- feeder automation that can help us maintain our reliability at low cost
- capacitor control to influence voltage and increase feeder capacity
- the use of optical fibres to improve the operation of our network through better protection, communication and cyber security.

In addition, various trials were implemented including trials of neutral integrity metering and the further rollout of distribution substation monitoring. Neutral integrity metering allows for the proactive detection of hazardous conditions and faults on the network, while distribution substation monitoring allows us to measure the loading of a substation in real time. The monitoring has allowed us to avoid the upgrading of around 30 substations, at a cost of $80,000 per substation.

Our feeder automation program, which helps maintain reliability to customers, recorded good results, with two successful restorations of service that resulted in customers experiencing only momentary outages. It is now being extended to areas such as Bomaderry, Wentworth Falls and West Wollongong.

Vegetation management

Endeavour Energy is committed to best practice in asset inspection and vegetation management. A key component of this strategy is to minimise the risk of bushfires and risks relating to our assets and reliability resulting from trees coming in contact with our network.

We are currently participating in the procurement of vegetation management services across Networks NSW through three open-market two-phase tenders. The key objectives include realising benefits by aligning standards and changes to current contracting models, increasing labour utilisation and reducing the workload for currently outsourced services for Ausgrid, Essential and Endeavour Energy.

Endeavour Energy continued to use LiDAR (light detection and ranging) technology to inspect our network in bushfire-prone areas as part of our pre-summer bushfire preparations.

Street lighting

Endeavour Energy owns and maintains over 201,000 streetlights on behalf of its 29 public lighting customers, including 23 local councils. During the year we replaced more than 63,000 lamps as part of the bulk change maintenance program. Defective mercury lights were replaced with more efficient light-emitting diode (LED) lights, compact or T5 fluorescent lamps, or high-pressure sodium lamps that use around half as much energy and have a longer service life which helps to reduce maintenance costs.

In coming years our public lighting customers can expect to cut their energy use substantially and expect greater reliability through the use of LED technology. The replacement of 13,300 80W mercury vapour with more energy-efficient 18W LED streetlights began recently under the Western Sydney Regional Organisation of Councils (WSROC) Light Years Ahead project. The project is due in the first half of 2016.

Demand management

One way of reducing the cost of network expansion is to investigate demand management and alternatives to network augmentation for specific capital expenditure projects. Where feasible, we investigate and implement projects that modify demand as an alternative to investing in augmenting our network. Projects may involve negotiating with high-use customers to move electricity consumption away from peak times or implementing projects to reduce overall usage in those times. Other initiatives include financial help for customers to reduce their electricity consumption in peak periods.

The National Electricity Rules (NER) require distribution network service providers to investigate demand management options via a thorough consultation process. This provides an opportunity for all interested parties to submit options and ideas.

The NER calls for a 'screening test' to be performed for all capital projects above $5 million to determine if a non-network option is credible and should be further investigated. Endeavour Energy performs this test, even for projects under $5 million, and summarises the results in its annual Demand Management Plan and the Distribution Annual Planning Report.

If a non-network option is deemed feasible, a request for proposals in a Non-network Options Report is produced and issued, or an in-house demand management investigation is conducted. A Non-network Options Report involves a public consultative process in which we invite interested stakeholders to make submissions for system support options, to be evaluated against network options.

The table below outlines the screening tests performed in 2014–15 as part of the network demand management plan. In recent times demand growth has been flat or declining in some areas, with growth only occurring in new residential release areas. These areas contain relatively low capacity network assets and are unable to supply the new houses whose construction is planned.

AREA	DESCRIPTION	TARGET DEMAND REDUCTION (kVA)	DATE OF INVESTIGATION	RESULTS OF INVESTIGATION
Box Hill North ZS	New residential release area	2.0 MVA	October 2014	Insufficient opportunities to implement demand management
Nepean 33kV Feeders	Residential growth area	4.2 MVA	October 2015	Load transferred to adjoining major substations to remove supply constraints
Leppington North ZS	New residential release area	2.8 MVA	July 2015	Insufficient opportunities to implement demand management

Customer demand management programs

The Endeavour Energy PoolSaver trial was completed this year, with residential customers with pools in targeted areas receiving a financial incentive for switching their pump electricity supply from domestic to controlled-load 2 (off peak) supply. This cut their energy costs and demand from pool pumps during peak times. Overall satisfaction was strong with 92% of customers saying their expectations had been met or exceeded.

A Power Factor Correction Trial involving 30 large industrial and commercial customers was also completed which provided financial incentives for installing power-factor correction equipment. The trial found that those customers on a demand time-of-use tariff reduced their annual power bill and delivered a total demand reduction of 2.43 MVA.

Nightwatch

Our Nightwatch service provides customers with security and/or promotional lighting, with automatic dusk-to-dawn switching. The monthly rental for the service includes the energy, a network use charge and maintenance of the system. As at 30 June 2015, the service had more than 1,600 customer accounts servicing 2,763 lights. In the past year, our Nightwatch service also trialled the use of more energy efficient and longer lasting LED flood lights at strategic locations.

Dial-Before-You-Dig

We received 125,181 Dial-Before-You-Dig (DBYD) enquires in 2014–15, a 26% increase over the previous year. We have made further improvements and introduced additional efficiencies to this service, processing and responding to enquiries from customers within the service level agreement of 48 hours.

Data trials

A number of projects delivered improved data quality and efficiency in our spatial systems. These include the full automation of DBYD and the certified AutoCAD ('GISCAD') product that has reduced the work involved in capturing certified drawings into our geographic information system (GIS).

It has allowed information to be captured into the GIS more quickly and accurately and significantly improved the response time for our customers for DBYD enquiries.

Metering services

Endeavour Energy provided 6,853,119 routine meter reads to the market in 2014–15. We also supplied about 255,000 out-of-cycle meter reads to facilitate requests for reconnections, disconnections and special reads.

Customer service

During the year our customer contact centres answered 268,347 fault and emergency calls via the 131 003 number, at an average answer speed of 44 seconds, with 75% of calls answered by a human operator within 30 seconds. The average number of calls answered within 30 seconds is a 2% improvement on the previous year's results. Our outage management interactive voice response satisfied 167,976 customers. In total, 27,057 calls were answered via the 133 718 network general enquiries number.

We received 2,766 customer complaints during the year, representing a reduction of 6% on the previous year's results. The main complaint lodged by our customers related to not being notified of planned interruptions to their electricity supply.

National Energy Customer Framework

The National Energy Consumer Framework was implemented in NSW in July 2013 to streamline the regulation of energy distribution and retail functions under a harmonised national framework. It also gives residential and small business customers a much greater level of protection with respect to connection, supply and sale of energy.

There were, regrettably, a total of 16 Type 1 breaches throughout the year. This included the failure to provide life-support customers with sufficient notice of planned interruptions on four occasions, failure to de-energise a customer's premises within two business days of the date requested by their retailer on nine occasions, and failure to re-energise three customer's premises within set timeframes when requested by a retailer. In addition, there were 56 Type 3 breaches for the failure to notify customers (who were not flagged as life support) of planned interruptions.

We committed to a formal administrative undertaking with the AER for three years and accepted a $20,000 penalty infringement notice in response to a breach where we failed to appropriately notify a life support customer of a planned outage. We have undertaken steps to close a process gap with the notification of new Life Support registrations, and agreed to ongoing reporting to the AER on our progress in identifying and addressing gaps in our processes that may impact on life support customers.

While our performance improved on the 2013–14 results, and we continue to prioritise a number of activities to achieve improved performance. These include data projects to provide consistency between systems, process improvements relating to the management of planned outages, and ongoing staff communication and training to boost understanding of the process requirements.

Reliability projects

By the end of June 2015, 57 reliability projects had been completed against a target of 59, with one project in progress nearing completion. The remaining project will be carried over for completion in the 2015–16 works program. In addition, areas of poor reliability are being reviewed to help specify the remedial action needed by the use of thermovision and line patrols, analysis of fault patterns and resolution of priority defects.

Network connections

We continue to see an increase in the overall volume of customers connecting to our network in 2014–15. There were 18,451 new connections to our network, which is a 17% increase on the previous year. When compared to 2013–14, throughout the year there was a:

- 9.7% increase in connection applications
- 15% increase in planned developments requiring network development and certification
- 20% increase in construction activity.

To efficiently manage this increase in demand for new connections, we have allocated substantial resources throughout the year to implement new data-capture technology to collect connection services information. Consultation with and feedback from customers has been beneficial in helping to meet customers' needs and provide efficiency gains.

During the year we liaised and facilitated discussion with major customers seeking to connect loads to our network. These discussions involved examining connection options for the development of major rail infrastructure projects involving the north west and south west Sydney rail electricity supply points. The ongoing refurbishment and augmentation of traction substations along the main western line has required additional feeder capacity, which has been provided from our transmission substations.

The solar inspection regime introduced the previous year as a Government initiative to assure customers of the electrical integrity of their solar systems was concluded this year. A total of 59,367 installations were inspected as a part of the initiative and, where technically feasible, we provided assistance in the completion of minor electrical repairs to these installations.

Major network events

A significant increase in the number of storms impacting customers in our network over summer and autumn saw a decline in overall SAIDI from 83 minutes unplanned minutes without supply in 2013–14 to 104 minutes in 2014–15.

Events that impacted our reliability included 21 storm days, 57 interruptions to the sub-transmission network, 2,373 interruptions to the distribution network and 2,243 interruptions to the low-voltage network, mainly due to adverse weather, defective equipment, interference with powerlines and vegetation contact.

On 14 October 2014, Lithgow experienced the heaviest snowfall since 1970 and there was loss of supply to over 26,000 customers. Local teams were assisted by staff from Kings Park, Parramatta, Penrith, Windsor, Hoxton Park and Glendenning with patrols and repairs to restore supply within 24 hours.

On 27 October, a powerful windstorm brought down trees and power lines across several suburbs, leaving 12,000 customers without supply. A few days later on 1 November another windstorm and severe thunderstorms left 34,000 customers without power.

After Sydney had experienced several days of sustained storm activity in late April 2015, we restored power to around 72,000 customers over four days. Floodwaters prevented the restoration of power to the last 35 customers in outlying parts of Wisemans Ferry, St Albans and Glenorie until crews could safely access these areas.

From 21 to 29 April, Endeavour Energy staff assisted Ausgrid in repairing the most substantial storm damage to their network ever seen. Over 400 of our staff and contractors worked to assist Ausgrid's Hornsby, Wallsend, Ourimbah and Maitland field service centres and Silverwater customer contact centre to restore supply to over 200,000 customers. Endeavour Energy staff and contractors worked alongside Ausgrid, Essential Energy, Energex, local councils and SES workers to safely restore supply to customers who had been without power for up to two weeks due to the extent of the damaged wreaked by this natural disaster.

4

PEOPLE

Endeavour Energy employees

Endeavour Energy understands that to achieve our business goals and deliver better value to our customers, we need an engaged and capable workforce aligned with our values and culture.

Over the past twelve months external factors have driven dramatic changes to our business. The Australian Energy Regulator (AER) has imposed unprecedented cuts to our approved funding, our customers are embracing new technology and our business will likely have a new ownership structure by the end of 2016 under the NSW Government's long-term network leasing proposal.

During 2014–15 we continued to implement initiatives to improve productivity and provide the most efficient service possible for our customers. These efficiency improvements saw our workforce reduced to 2,378 full-time equivalent staff in 2014–15, a decrease of 6.1% on the previous year.

Recruitment and redeployment

The Redeployment Team has continued to support employees whose positions have been impacted by organisational change, with six being placed into permanent roles and 29 pursuing options outside Endeavour Energy.

We have continued to focus on projects and initiatives designed to increase opportunities for permanent redeployment, such as our 'Mix and Match' programs. We ran over 20 coaching sessions during the year for redeployed employees and general staff to help improve their employability. Topics covered included résumé writing, interview skills, setting career goals and an introduction to the use of online recruitment tools.

Apprentices, graduates and cadets

Our business is in a transition from a peak in our network investment over the past five years to a program which by comparison is 40% less over the next five years. This is a significant factor in the number of people, including apprentices, who can be responsibly employed by Endeavour Energy. Given these pressures, our workforce plan did not require us to take on any new apprentices during 2014–15.

Fifty-five apprentices completed their training during the year, with nearly 40 accepting fixed term employment with the organisation. In addition, in partnership with the API Bursary Program, we took on eight vacation students for three months over summer.

Three of our five electrical engineering graduates have been offered full-time employment, and the others are still completing their graduate program. We took on two cadets during the year. As at the end of the financial year, we employed 91 people in development programs, including 88 apprentices.

Employee relations

Endeavour Energy's current enterprise agreement nominally expired in December 2014. This agreement will continue to operate in accordance with the *Fair Work Act*.

Negotiations for a new agreement have been made more complex as a consequence of the Australian Energy Regulator's reductions to capital and operating expenditure.

Our objectives for the new agreement are to:

1. maintain a safe and reliable network for our customers
2. operate within the post appeals capital and operating expenditure determinations of the AER through to June 2019
3. improve the competitiveness of our enterprise agreements to sustain Endeavour Energy jobs into the future.

Regular meetings of the bargaining unit were held during the year.

EMPLOYEES	2010–11	2011–12	2012–13	2013–14	2014–15
Total staff	2,925	2,824	2,635	2,533	2,378#
Change (%)	1.3	(3.5)	(6.7)	(3.9)	(6.1)

Full time equivalent employees as at 30 June 2015. This figure does not include third party contractors or agency staff.

New rewards and recognition program

To drive a performance culture and shift perceptions about rewards and recognition, we launched a refreshed rewards and recognition plan, the 'Applause Program,' in June 2015. Its aim is to assist managers and employees to recognise other employees. This means seeking opportunities to recognise performance often and thank staff regularly. The program also encourages our people to recognise and nominate others who demonstrate the right behaviours and performance.

Diversity and inclusion

Endeavour is committed to developing and promoting diversity and inclusion. Over the past year we have developed a framework to support our efforts in this area, built on four guiding principles. These aim to:

- create a workplace environment in which everyone feels safe, motivated, valued, included and respected
- recognise different perspectives and provide all groups with a voice
- provide equitable access to employment, professional development and workplace participation for people under-represented in our workforce
- create an inclusive environment in which equal employment opportunity and diversity are everyone's responsibility.

Our Executive Diversity Council was initiated this year, which is made up of our Executive Leadership Team and other stakeholders, to ensure that diversity and inclusion are supported throughout the business. The Council provided the direction for a Diversity and Inclusion Matrix, and endorsed the formation of an employee nominated working group to deliver the objectives of the matrix in 2015–16.

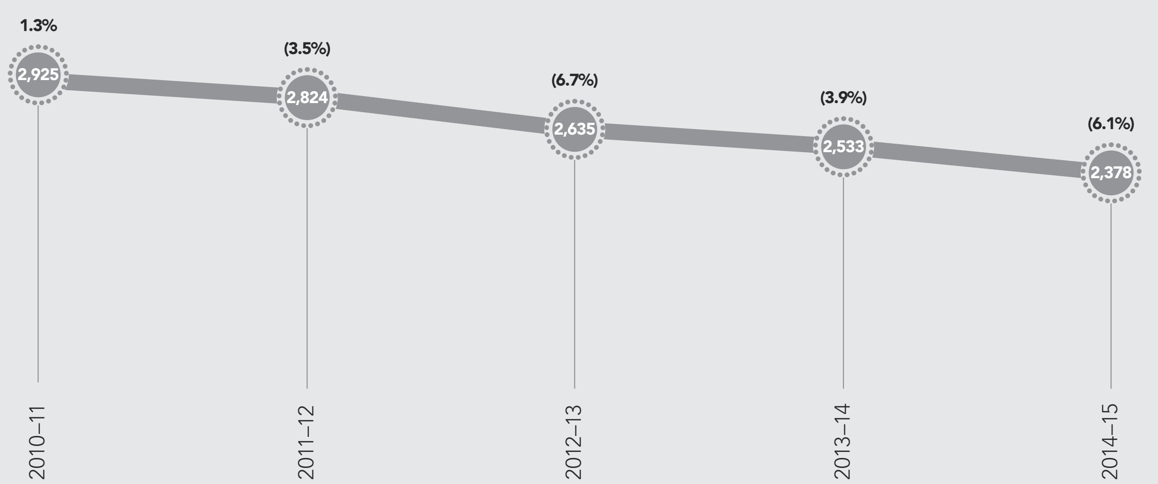
The matrix will focus on four priority areas:

- equal employment opportunity and anti-discrimination
- indigenous and multiculturalism
- gender
- disability.

This is an exciting way forward for Endeavour Energy, and it will provide a strong strategic direction for diversity and inclusion during a period in which the Company is facing a period of significant change.

PERFORMANCE INDICATOR

Employee numbers 2010–2015



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COMMUNITY

Public safety

Our Public Electrical Safety Awareness Plan (PESAP) targets groups in the community most at risk from electrical hazards. Over the past three years, we have worked with the other NSW electricity distributors to deliver several state-wide campaigns to boost safety education.

Work associated with PESAP in 2014–15 involved the launch of a program focused on underground cable strikes, to raise awareness of the risks among private contractors when working near our underground assets. We also ran a copper theft radio campaign and a program targeting hazards when members of the public choose 'do-it-yourself' solutions.

Once again we helped educate primary school students about electricity safety through the Electricity Safety Week program, which includes teaching children about the dangers of electricity.

Copper theft

Stealing copper from the electricity network is a dangerous crime that risks serious injury to both the perpetrator and the general public. Following significant efforts over the past five years to upgrade the security and raise public awareness about its dangers, we saw a further decline with just 20 incidents of copper theft being reported in 2014–15 compared to 30 cases in 2013–14.

Throughout the year, local paper and radio advertising were again used to encourage customers to contact Crime Stoppers if they observed suspicious activity around Endeavour Energy assets.

Graffiti

Graffiti vandalism remains a major issue for the community and Endeavour Energy's assets are not immune from this problem.

To help manage the problem, we have a target to remove graffiti from our assets within seven days of it being reported by customers, or within 48 hours if it is especially offensive. There were 1,460 graffiti-vandalism reports this financial year compared to 2,000 the previous year, representing a cost to Endeavour Energy of $132,000 compared to $168,000 the previous year.

Advice was provided to the general public via our website on how they can report unauthorised signs. A significant number of queries/removals associated with election posters and signs were managed this year via a new email address signsonpoles@endeavourenergy.com.au, or by calling 133 718. This enables customers to report unauthorised signs on poles, streetlight columns and other network assets.

Under our new graffiti removal contract established in October 2014, contractors removed unauthorised signs from our network assets.

Public consultation on major network projects

Endeavour Energy recognises that engaging the community and other key stakeholders in open, honest and respectful two-way dialogue is critical to our success. Community engagement provides us with the opportunity to understand and consider stakeholders' needs, issues, concerns and expectations into the planning and development of our network and its subsequent operation. This engagement may include informing, consulting and involving stakeholders at various points in project design and implementation.

The scope of our capital program continues to be driven by extensive investment in Sydney's Priority Growth Areas. For example, we gained valuable stakeholder feedback on the proposed 6.6km Schofields to Marsden Park feeder project as well as projects at Moss Vale, Parramatta and Castle Hill.

Customer Consultative Committee

Our Customer Consultative Committee has run successfully for over 20 years, and continues to provide valuable insights into the issues of importance to the community and the impact of our operations on our customers. Our members represent many stakeholders groups throughout our culturally diverse franchise area including local government, multicultural groups, disability and youth services, and indigenous organisations.

The Committee met three times in 2014–15 to discuss the input of customers and stakeholders into our 2014–19 regulatory proposals; the AER's regulatory determination and its impact on our prices and services; our Customer Commitment Statement; demand management and efficiency programs; and the development of our Customer Engagement Plan. Committee members participated in three Networks NSW stakeholder forums to discuss the AER's draft and final determinations and likely impacts on future capital and operating programs, tariffs, prices and services.

Feedback from the Committee helps Endeavour Energy develop our network strategies, plans and regulatory submissions and is provided to our Executive Leadership Team for review and consideration.

Community partnerships and sponsorships

Endeavour Energy invests in community partnership programs that align with our values and strategic objectives, provide mutual benefits to our communities, the organisation and employees.

Although our sponsorship commitment has reduced to ease pressure on electricity prices, we continued our sponsorship of events hosted by the Australia Day Council of NSW throughout the financial year, and also the Electric Energy Society of Australia NSW Annual Conference, held in November 2014.

Endeavour Energy has been a partner of the Power Quality and Reliability Centre since it was established at the University of Wollongong in 1996. The focus of the Centre is to work in conjunction with industry to improve the quality and reliability of electricity supply for the benefit of all consumers. Key areas of research include power quality issues that can affect the performance of the network and equipment, reliability of the distribution network, and integration of renewable energy into existing networks. 2014–15 was the third year of our current three year funding commitment to the Power Quality & Reliability Centre, which is used to employ two full-time academics.

I care!

Since its launch in July 2004, our workplace giving program I care! has donated over $1.9 million to charities. Employees can make pre-tax donations and their contributions are matched dollar-for-dollar by Endeavour Energy up to $150,000 per year. In 2014–15, we provided more than $72,000 to match payments made by our staff to 11 employee-selected charities including RSPCA, Cancer Council NSW, Disability Services, Salvation Army and Lifeline.

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ENVIRONMENT

Strategy

In 2014–15 our approach to the management of environmental risks continues to be guided by the Networks NSW Health, Safety and Environment (HSE) Strategic Plan. The plan supports a coordinated approach to the management of HSE issues and establishes a framework for excellence. Environmental initiatives focus on building environmental stewardship, effectively managing risk and embedding a positive culture.

Strategic risk management

As part of the Networks NSW Health, Safety and Environment Strategic Plan, we initiated a program to identify, assess and mitigate then developed environmental control standards to reduce environmental risks to 'as low as reasonably practical,' with the requirements based on current best practice controls derived from legislation, Australian Standards, industry codes, audit recommendations and incident investigations.

To support implementation of the control standards, we developed action plans in 2014–15 to address gaps representing 'partial conformance' (predominantly system or procedural requirements). Over the next year, we will begin implementing the action plans and strengthen the control environment.

Environmental compliance

Our focus on risk and compliance management resulted in no fines or prosecutions for the second year running.

While no incidents were reported to the regulator under the *Protection of the Environment Operations Act 1997*, Water NSW issued a Catchment Correction Notice following an incident in Maddens Plains Metropolitan Special Area after localised damage was sustained to an access track in April 2015 after Endeavour Energy vehicles became bogged during maintenance works. Although the incident resulted in no harm to the surrounding ecosystem, the works were undertaken without appropriate notification during a catchment wet weather closure period.

We worked in consultation with Water NSW to restore the access track and fully complied with the requirements of the Catchment Correction Notice. Further, our internal investigation gave us an opportunity to review our processes and improve employee awareness of procedures that apply to works in Water NSW Special Areas and National Parks and Wildlife Service lands.

Carbon policy

As part of our Carbon Management Policy, we continue to seek opportunities to improve our carbon management and optimise the use of resources. In 2014–15, initiatives included:

- upgrading the heating, ventilation and air conditioning system at our Huntingwood head office, resulting in a 46% decrease in energy consumption attributed to this asset
- continuing to reduce the number of fleet vehicles required, the kilometres travelled (by restricting take-home use of company vehicles) and replacing six-cylinder with four-cylinder vehicles where feasible
- replacing the IT servers within the data centres at our Huntingwood head office and Glendenning Field Service Centre which resulted in a 70% decrease in their energy consumption
- planning our Field Mobility initiative, with iPads to drive efficiency.

Waste management and minimisation

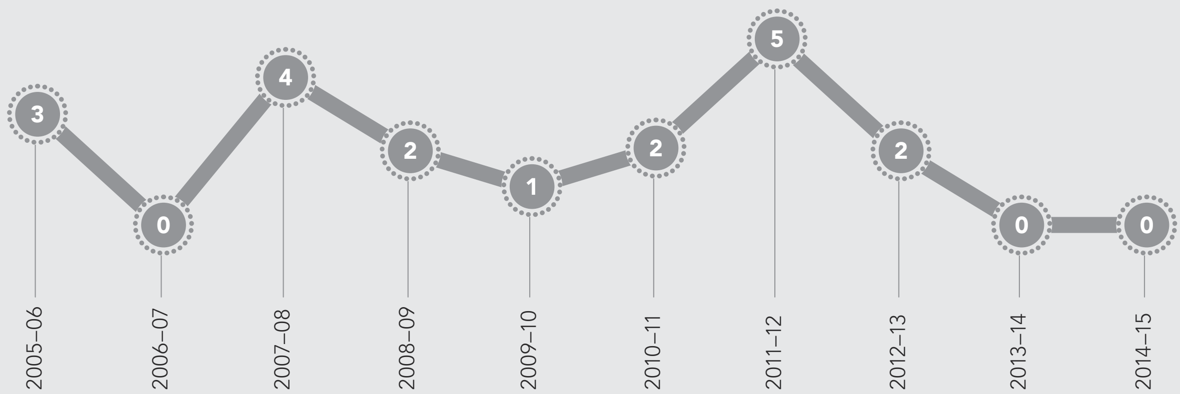
On 22 July 2014, the New South Wales Government's Waste Reduction and Purchasing Policy, and Government Sustainability Policy, were replaced by the Government Resource Efficiency Policy (GREP). The GREP details 12 measures designed to promote sustainability, productivity and reduce costs among government agencies. The measures are voluntary for state-owned corporations.

Recognising a high level of alignment between the GREP and its own initiatives, Endeavour Energy has adopted many of the measures, including those for waste management, and we are developing new systems to report and manage our top three waste streams. We will continue to implement existing practices to improve waste efficiency, including waste minimisation, recycling and purchasing recycled content materials as part of this initiative.

In 2014–15, education initiatives and audit programs focused on waste separation and resource recovery. Together with improvements in data collection, we recycled 2,424 tonnes of material, including scrap metal (842 tonnes) and transformer oil (505,772 litres).

PERFORMANCE INDICATOR

Reportable environmental incidents



* The 34% increase in recycled oil was due to an increase in transformer refurbishments, replacements and decommissioning in 2013–14.

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GOVERNANCE

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

Good governance is a critical prerequisite for a high-performance organisation. It provides a platform for a sustainable future and reflects board commitment to high standards of business integrity, ethics and professionalism across all activities. Our Code of Conduct sets out the expectations for staff behaviour that we believe are fundamental to our business success. The Code encourages a culture of responsibility and accountability that promotes ethical and responsible decision making.

Good governance helps to ensure the delivery of outcomes sought by our shareholders; supports our people and business operations; and helps ensure we adopt sound ethical, financial and risk management practices to benefit our customers, and effective compliance and auditing programs.

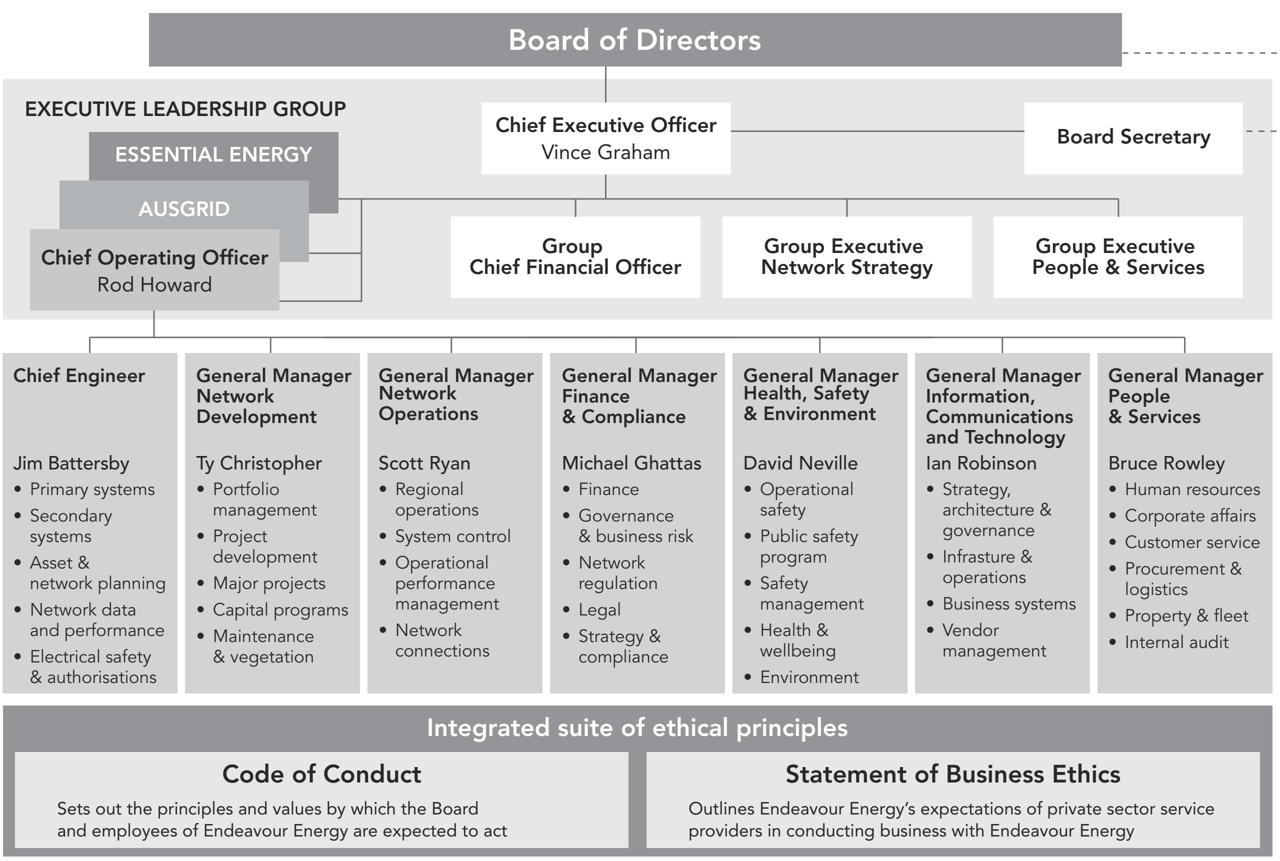
Joint Board of Directors

During 2014–15, Endeavour Energy, Ausgrid and Essential Energy continued to operate as separate legal entities although they were managed by a Joint Board of Directors and common Chief Executive Officer (CEO).

All directors on the Joint Board, with the exception of the CEO, are appointed by the voting shareholders for terms of up to five years. Appointments may be renewed by the voting shareholders, who may appoint other directors at their discretion.

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

Governance and organisational structure



Board of Directors as at 30 June 2015

Roger Massy-Greene

BSc BE (Hons) MBA, FAICD

Chairman

Term: 1 July 2012 to 30 June 2018 (including reappointments)

Chairman of the Board from 1 July 2012

Chairman, Nominations Committee

Member, Audit and Risk Committee

Other Directorships:

- Ausgrid, Chairman
- Essential Energy, Chairman
- Cranbrook School, Vice President
- Dovose Pty Limited, Director and Secretary
- Eureka Benevolent Foundation, Chairman
- Eureka Capital Partners Pty Ltd, Chairman
- ICC Holdings Pty Limited, Director
- Illawarra Coke Company Pty Limited, Director
- OneVentures Pty Ltd, Director
- Salvation Army Sydney Advisory Board, Chairman (from April 2015)
- The Hunger Project Australia, Director.

Peter Dodd

PhD, MSc MCom, BCom, Dip Ed

Non-Executive Director

Term: 1 July 2012 to 31 December 2016

Chairman, Audit and Risk Committee

Member, Nominations Committee

Other Directorships:

- Ausgrid, Director
- Essential Energy, Director
- Collgar Wind Farm Pty Ltd, Director
- CWF Holding Pty Ltd, Director
- Energy Industries Superannuation Scheme (EISS), Chairman
- Investa Listed Funds Management Limited (ILFML), Director
- Macquarie University Group of companies, Director
- Peter Dodd Pty Ltd, Director
- The Centre for Independent Studies Ltd, Director.

Diana Eilert

BSc, MComm, GAICD

Non-Executive Director

Term: 23 June 2014 to 22 June 2017

Other Directorships:

- Ausgrid, Director
- Essential Energy, Director
- AMP Life Ltd, Director
- Botanic Gardens, Trustee
- Navitas, Director
- Queensland Urban Utilities, Director
- Sydney Festival, Director
- The National Mutual Life Association of Australia Ltd, Director
- Veda Group Ltd, Director.

Philip Garling

B.Build, FAIB, FAICD, FIE (Aust)

Non-Executive Director

Term: 1 January 2013 to 31 December 2015

Chairman, Safety, Human Resources and Environment Committee

Other Directorships:

- Ausgrid, Director
- Essential Energy, Director
- Charter Hall Funds Management Limited, Director
- Charter Hall Limited, Director
- Downer EDI Limited, Director
- Tellus Holdings Limited, Chairman
- Water Polo Australia Limited, President.

Laura Reed

BBus, MBA, FCPA

Non-Executive Director

Term: 1 January 2013 to 31 December 2015

Member, Audit and Risk Committee

Member, Nominations Committee

Other Directorships:

- Ausgrid, Director
- Essential Energy, Director
- ATCO Australia Pty Limited, Director
- ATCO Gas Australia GP Pty Limited, Director
- Canadian Utilities Limited, Director (an ATCO company)
- MAPS Group, Director.

Patrick Strange

PhD BE (Hons)

Non-Executive Director

Term: 25 November 2013 to 24 November 2016

Member, Safety, Human Resources and Environment Committee

Other Directorships:

- Ausgrid, Director
- Essential Energy, Director
- Chorus Limited, Director (7 April 2015)
- Mighty River Power, Director
- NZX, Director (1 May 2015)
- WorkSafe NZ, Director.

Vince Graham

BE (Civil), Grad Dip Mgmt, FAICD

Chief Executive Officer and Executive Director

Ex-officio member Audit and Risk Committee and Safety, Human Resources and Environment Committee

Other Directorships:

- Ausgrid, CEO & Executive Director
- Essential Energy, CEO & Executive Director
- Networks NSW Pty Limited, Chairman
- Catholic Care Social Services Council, Diocese of Parramatta, Member
- Energy Supply Association of Australia, Director
- Graham Management Services Pty Limited, Director (inactive).

The role and responsibilities of the Joint Board

The Joint Board is responsible for governance and, ultimately, the performance of the Company. It gives direction and exercises judgment in setting the company's strategy and objectives, and is responsible for overseeing its implementation. The Joint Board's role is to govern the company rather than to manage it. The CEO is responsible to the Joint Board for the day-to-day management of the company and leads the Executive Leadership Group in delivering the approved strategy and achieving the performance targets set by the Joint Board.

In governing the company the directors must act in the overall best interests of the company, although in respect of any particular issue, the Joint Board may act in the best interests of the three companies as a combined entity (as if the individual businesses were being operated as parts of a single enterprise) even if acting in that way is not in the best interests of one company.

The Joint Board operates at all times in accordance with its Charter which is designed to provide an overarching statement of board authority and accountability for governance and management of Endeavour Energy, consistent with its Constitution and applicable legislation. The Joint Board has adopted Board Policies that implement the Board Charter and have declared that they will be bound by the company's Code of Conduct.

Conflicts of interest

To ensure their independent status, all directors of Endeavour Energy are subject to the statutory duties and prohibitions regarding conflicts of interest. We rely on the integrity of the Board of Directors to identify and disclose issues which may give rise to any conflict of interest. The Company Secretary maintains the Register of Disclosures which is reviewed, as a minimum, every six months to ensure the information held by the organisation is up to date.

Joint Board Committees

The role of the Joint Board is to provide strategic guidance and effective oversight of management. In undertaking this role, the Joint Board has established the following committees:

Audit and Risk

The Audit and Risk Committee meets at least five times per year. The committee's responsibilities cover matters relating to the financial affairs and business risks of Endeavour Energy, internal and external audits, risk management, compliance and fraud prevention. In addition, the committee examines any other matters referred to it by the Joint Board.

Safety, Human Resources and Environment

The Safety, Human Resources and Environment Committee meets at least four times per year. The committee assists the Board in fulfilling its responsibilities with regard to work health and safety and environmental practices, and to discharge the Joint Board's responsibilities of oversight and corporate governance in relation to human resources matters. In addition, the Committee examines any other matters referred to it by the Joint Board.

Nominations

The Nominations Committee meets as required and assists the Joint Board in fulfilling its responsibilities with regard to director appointments and reappointments. The Nominations Committee consists of the Chairman of the Joint Board and two non-executive directors. Membership is subject to rotation so that non-executive directors do not participate in the review of their own reappointment.

Code of conduct

Endeavour Energy's Code of Conduct states the corporate values and behaviours expected of employees. Supporting the Code is the Statement of Business Ethics which sets out the business principles for our dealings with suppliers. Both documents are available on our website.

Board and Board Committee meetings held in 2014–15

1 July 2014 to 30 June 2015 Directors' Attendance Schedule

MEETINGS HELD	BOARD OF DIRECTORS		AUDIT & RISK COMMITTEE		SAFETY, HUMAN RESOURCES & ENVIRONMENT		NOMINATIONS	
	A	B	A	B	A	B	A	B
R Massy-Greene	14	14	7	7	–	4#	–	–
P Dodd	14	14	8	8	–	–	1	1
P Garling	14	14	–	1#	4	4	–	1#
L Reed	14	13	8	8	–	–	1	1
P Strange	14	14	–	1#	4	4	–	1#
D Eilert	14	13	–	1#	3	1	–	1#
V Graham*	14	13	7	6	4	3	–	–

A Indicates number of meetings held during the period the Director was entitled to attend.

B Indicates number of meetings attended by the Director during the period.

* The CEO is an ex-officio member of the Audit & Risk and Safety, Human Resources and Environment Committees. The ARC held one meeting for non-executive directors only. The CEO was on leave for one Board meeting and one Audit and Risk Committee where the acting CEO attended on his behalf.

\# Attended meetings while not a member of the Committee.

Continued communications supporting our ethical culture have been delivered to make our corporate values meaningful to employees in their everyday work, encourage a culture of personal accountability for behaviour and provide tools to apply in ethical dilemmas.

Risk Management

Action was taken during 2014–15, to further align and embed a consistent governance, risk and compliance framework to deliver the company's objectives.

In conjunction with Ausgrid and Essential Energy, we continued to implement an improved framework for identifying and managing risks across all three networks to enable comparable assessment and reporting to the Board Audit and Risk Committee.

The 2015–2016 risk profile was updated to reflect the expected impacts of the AER final determination. We also strengthened risk management practices across the company aligned to the NSW Treasury's *Risk Management Toolkit for NSW Public Sector Agencies*, the Audit Office's *Governance Lighthouse Model and AS/NZS ISO 31000:2009-Risk Management-Principles and Guidelines.*

Throughout the year, the Audit and Risk Committee reviewed our risk management strategic plan to identify, monitor and manage hazardous events. This plan requires risk owners within the business to report regularly on their ongoing monitoring of the hazardous event and the implementation of the action plans to manage them.

Compliance

Our Compliance Management Plan (CMP) 2013–2015 is a key control for the business risk category BR4 Compliance in the company's corporate risk management plan. The Audit and Risk Committee approved the CMP 2015–2017 which builds on the company's progress in developing a culture of integrity and compliance, while enhancing the Compliance Management Framework through the implementation of risk-based actions.

The compliance framework is structured around four pillars that align with the focus areas of Commitment, Implementation, Monitoring and Measurement and Continuous Improvement. The Plan provides an efficient road map to maintain the Compliance Management Framework.

Insurance

Endeavour Energy reviews the adequacy of insurance policy coverage and limits during each annual insurance renewal process. All participating insurers must meet acceptable security requirements. A review was completed that achieved harmonisation of the claims management process across the three companies. The review also aligned claims management structures, implemented the required governance to support effective oversight of the claims function, and developed common policies and procedures to support the claims function.

Fraud & Corruption Prevention

Endeavour Energy's Fraud Risk Register is reviewed and updated by process owners throughout the year as the business environment changes. A review of the identified risks in the Fraud Risk Register was conducted in December 2014 to January 2015. Key initiatives in our Fraud and Corruption Control Plan (FCCP) 2013–2015 drive the continuous update of the register.

The FCCP 2013–2015 builds on past progress in developing a fraud and corruption-resistant culture and addresses new and emerging fraud and corruption risks at a time of increased economic uncertainty and industry restructure.

The new FCCP 2015–2017 was approved by the Audit and Risk Committee and, like the 2015–2017 CMP, is aimed at maintaining and supporting a strong governance framework.

Internal audit

The Board and Executive Leadership Team are committed to the operation of an objective and independent internal audit function. Internal Audit assists management to achieve our statutory and business objectives by adopting a disciplined approach to evaluating and improving risk management, controls and governance processes. During the year we completed 34 internal audits across the organisation, with suitable actions put in place to address the issues identified.

External audit

The Auditor-General of New South Wales provides independent external audit services through the Audit Office of New South Wales. It does not provide other services to Endeavour Energy. The Audit and Risk Committee reviews the NSW Audit Office Client Service Plan, issues raised in the Annual Management Letter and the results of the annual audit of financial statements.

Endeavour Energy's Executive Leadership Team at 30 June 2015

Rod Howard PSM
BE (Hons), MEngSc, BBus, MBA, GAICD
Chief Operating Officer

Jim Battersby
BE(Elec), GradDipMgmt
Chief Engineer

Ty Christopher
BE (Hons) MBA (Dist) FIEAust CPEng Ad Dip Proj Mgt
General Manager Network Development

Michael Ghattas
BBus, CPA
General Manager Finance and Compliance

David Neville
BA (Communication Studies), MA (Organisational Communication), MBA
General Manager Health, Safety & Environment

Ian Robinson
BE (Electrical)
General Manager Information Communication and Technology

Bruce Rowley
BBus, AssDipLG
General Manager People & Services

Scott Ryan
BE(Elec) MBA
General Manager Network Operations

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MANAGEMENT DISCUSSION & ANALYSIS

Performance

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

In 2014–15 Endeavour Energy maintained strong performance, achieved through continued focus on business fundamentals, financial discipline and corporate governance.

Profit results

Our profit before tax result was $347.8 million, $132.7 million greater than the 2014–15 SCI target of $215.1 million. The greater than expected profit result was primarily due to a greater Network Gross Margin, driven by higher energy consumption, and higher other income including capital contributions.

FINANCIAL RESULTS	2013–14 RESULT	2014–15 SCI	2014–15 RESULT	VARIATION TO SCI
Earnings before interest, tax, depreciation & amortisation (EBITDA) ($m)	770.1	670.2	795.4	125.2
Earnings before interest and tax (EBIT) ($m)	580.8	457.7	589.3	131.6
Operating profit before tax ($m)	378.0	215.1	347.8	132.7
Operating profit after tax ($m)	301.0	150.6	243.6	93.0
Dividend ($m)	178.1	166.3	166.6	0.3
Return on assets (%)	8.7	6.5	8.4	1.9
Return on equity (%)	18.2	8.7	13.7	5.0
Gearing ratio (%)	68.7	70.5	68.5	2.0
Capital Expenditure ($m)	531.5	460.1	380.8	(79.3)

Balance sheet

Endeavour Energy's total assets increased by $285.3 million compared to the prior year. The major contributing factor was an increase in property, plant and equipment in the amount of $294.2 million resulting from increased capital expenditure.

Return on assets, calculated as EBIT divided by the average asset base, decreased marginally from 8.7% in 2013–14 to 8.4% at 30 June 2015, with a 1.5% increase in EBIT compared to a 6.0% increase in average assets.

Total liabilities increased by $171.8 million compared to previous year, driven by an increase in borrowings (inclusive of discounts / premiums) of $213.7 million, primarily due to the need to fund the capital expenditure program, combined with an increase in deferred tax liabilities of $52.7 million. This was partly offset by decreases in provisions totalling $66.9 million, driven by EISS defined benefit superannuation and employee entitlement actuarial assessment outcomes, and reduced dividends, combined with decreases in trade and other payables of $26.8 million.

Return on equity, calculated as profit after tax divided by average equity, was 13.7% at 30 June 2015. This reflects a decrease of 4.5 percentage points compared to the 2013–14 outcome, with a 19.1% decrease in profit after tax compared to an increase of 7.5% in average equity.

Cash flows

Cash and cash equivalents at the end of the financial year increased by $1.5 million compared to the prior year. Net cash flows provided by operating activities for the year were $354.9 million, an increase of $27.6 million compared to 2013–14.

Net cash flows used in investing activities for the year were $385.1 million compared to $521.0 million in the prior year, driven by lower capital expenditure payments.

Net cash flows from financing activities for the year were $31.7 million compared to $192.1 million in the prior year. Net proceeds from borrowings were lower than the previous year due to lower capital expenditure payments, a lower dividend payment and higher cash from operating activities.

Debt

Balance sheet debt increased by $213.7 million compared to the prior year, primarily due to the requirement to fund the capital expenditure program. The gearing ratio, calculated as debt divided by debt plus equity, decreased marginally from 68.7% at 30 June 2014 to 68.5% at 30 June 2015.

Shareholder return

The dividend of $166.6 million was determined by the Directors and approved by the Shareholding Ministers before 30 June 2015. The dividend was calculated based on forecast profit adjusted for certain non-cash items, in accordance with NSW Treasury Policy TPP14-04 *Financial Distribution Policy for Government Businesses*. The dividend is marginally higher than the 2014–15 SCI target.

Capital expenditure

Capital expenditure for the 2014–15 financial year was $380.8 million, $79.3 million below the 2014–15 SCI target. The capital program continues to target asset renewals as well as growth-related projects, with 98% of target program milestones being delivered for 2014–15.

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

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FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENDEAVOUR ENERGY

FOR THE YEAR ENDED 30 JUNE 2015

AUDITOR-GENERAL NEW SOUTH WALES

INDEPENDENT AUDITOR'S REPORT

Endeavour Energy

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Endeavour Energy (the Corporation), which comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2015, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015
- comply with International Financial Reporting Standards as discussed in Note 1(b).

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

Directors' Responsibility for the Financial Statements

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

In Note 1(b), the directors state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements' that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

My opinion does *not* provide assurance:

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

Independence

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

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

A T Whitfield PSM
Acting Auditor-General

14 September 2015
SYDNEY

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $m	2014 $m
Profit and loss			
Revenue	2	1,576.7	1,497.6
Expenses excluding finance costs	3(a)	(987.4)	(916.8)
Finance costs	3(b)	(241.5)	(202.8)
Profit before income tax		347.8	378.0
Income tax expense	4	(104.2)	(77.0)
Profit for the year		243.6	301.0
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Superannuation defined benefits remeasurements	25(f)	45.5	16.8
Revaluation of land and buildings	10	5.7	–
Income tax (expense)/credit relating to items that will not be reclassified	4	(15.4)	(5.0)
		35.8	11.8
Items that will be reclassified subsequently to profit or loss			
Effective portion of changes in the fair value of cash flow hedges		1.0	(1.0)
Income tax (expense)/credit relating to items that will be reclassified	4	(0.3)	0.3
		0.7	(0.7)
Total other comprehensive income/(loss) for the year, net of tax		36.5	11.1
Total comprehensive income for the year		280.1	312.1

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	Note	2015 $m	2014 $m
ASSETS			
Current assets			
Cash and cash equivalents	6	0.3	–
Trade and other receivables	7	260.7	270.8
Inventories		23.0	30.2
Derivative financial instruments	8,16	–	0.3
Current tax receivable		8.8	12.1
		292.8	313.4
Assets classified as held for sale	9	13.9	4.8
Total current assets		306.7	318.2
Non-current assets			
Trade and other receivables	7	3.1	–
Property, plant and equipment	10	6,820.7	6,526.5
Intangible assets	11	67.7	68.2
Total non-current assets		6,891.5	6,594.7
Total assets		7,198.2	6,912.9
LIABILITIES			
Current liabilities			
Bank overdraft	6	–	1.2
Trade and other payables	12	219.9	246.7
Borrowings	13	534.6	376.3
Derivative financial instruments	8,16	–	1.7
Provisions	14	379.3	364.7
Other current liabilities	15	16.3	13.6
Total current liabilities		1,150.1	1,004.2
Non-current liabilities			
Borrowings	13	3,446.8	3,391.4
Deferred tax liabilities	5	658.5	605.8
Provisions	14	105.2	186.7
Derivative financial instruments	8,16	3.8	4.5
Total non-current liabilities		4,214.3	4,188.4
Total liabilities		5,364.4	5,192.6
Net assets		1,833.8	1,720.3
EQUITY			
Contributed equity		335.0	335.0
Reserves		930.8	927.4
Retained earnings		568.0	457.9
Total equity		1,833.8	1,720.3

The above Statement of Financial Position should be read in conjunction with the accompanying notes

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

	Note	Contributed Equity $m	Asset Revaluation Reserve $m	Hedge Revaluation Reserve $m	Retained Earnings $m	Total $m
Balance at 1 July 2013		335.0	932.0	(3.6)	322.9	1,586.3
Profit for the year		–	–	–	301.0	301.0
Other comprehensive income						
Superannuation defined benefits remeasurements, net of tax	25(f)	–	–	–	11.8	11.8
Effective portion of changes in fair value of cash flow hedges, net of tax		–	–	(0.7)	–	(0.7)
Total other comprehensive income		–	–	(0.7)	11.8	11.1
Total comprehensive income for the year		–	–	(0.7)	312.8	312.1
Transactions with owners recorded directly in equity						
Dividends provided for or paid		–	–	–	(178.1)	(178.1)
Transfers to retained earnings, net of tax		–	(0.3)	–	0.3	–
Total transactions with owners		–	(0.3)	–	(177.8)	(178.1)
Balance at 30 June 2014		335.0	931.7	(4.3)	457.9	1,720.3
Balance at 1 July 2014		335.0	931.7	(4.3)	457.9	1,720.3
Profit for the year		–	–	–	243.6	243.6
Other comprehensive income						
Superannuation defined benefits remeasurements, net of tax	25(f)	–	–	–	31.8	31.8
Revaluation of land and buildings, net of tax	10	–	4.0	–	–	4.0
Effective portion of changes in fair value of cash flow hedges, net of tax		–	–	0.7	–	0.7
Total other comprehensive income		–	4.0	0.7	31.8	36.5
Total comprehensive income for the year		–	4.0	0.7	275.4	280.1
Transactions with owners recorded directly in equity						
Dividends provided for or paid		–	–	–	(166.6)	(166.6)
Transfers to retained earnings, net of tax		–	(1.3)	–	1.3	–
Total transactions with owners		–	(1.3)	–	(165.3)	(166.6)
Balance at 30 June 2015		335.0	934.4	(3.6)	568.0	1,833.8

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $m	2014 $m
Cash flows from operating activities:			
Receipts from customers		1,606.6	1,622.5
Payments to suppliers and employees		(951.7)	(931.6)
Interest received		0.1	0.1
Interest paid		(236.2)	(236.4)
Income taxes paid		(63.9)	(127.3)
Net cash inflow from operating activities	24	354.9	327.3
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		5.4	3.5
Payments for property, plant and equipment and intangible assets		(390.5)	(524.5)
Net cash outflow from investing activities		(385.1)	(521.0)
Cash flows from financing activities:			
Proceeds from borrowings		241.8	468.9
Repayment of borrowings		(32.0)	(67.3)
Dividends paid		(178.1)	(209.5)
Net cash inflow from financing activities		31.7	192.1
Net increase (decrease) in cash and cash equivalents		1.5	(1.6)
Cash and cash equivalents at the beginning of the year		(1.2)	0.4
Cash and cash equivalents at the end of the year	6	0.3	(1.2)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1 Significant Accounting Policies

(a) Reporting entity

Endeavour Energy is a New South Wales State Owned Corporation (for-profit) established under the *Energy Services Corporations Act 1995*. The financial statements of the Corporation for the year ended 30 June 2015 comprises the Corporation only.

(b) Statement of compliance

The financial statements comprise a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015*, and the *State Owned Corporations Act 1989*. The financial statements of the Corporation also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

(c) Basis of preparation

(i) Basis of measurement

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, provisions, assets classified as held for sale, and property, plant and equipment.

(ii) Comparative figures

When the presentation or classification of items in the financial statements is amended in respect of changes in the current year, comparative amounts are reclassified to enhance comparability unless the reclassification is impracticable.

(iii) Presentation currency

The financial statements are presented in Australian dollars (AUD). The amounts shown in the accounts have been rounded to the nearest tenth of a million dollars, unless otherwise stated. The Corporation is exempt from Part 2 paragraph 5 of the *Public Finance and Audit Regulation 2015*.

(d) Fair value measurement

The Corporation measures financial instruments (such as derivative financial instruments), provisions and items of property, plant and equipment, at fair value each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 17.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible by the Corporation.

The fair value of an asset or liability is measured using assumptions that market participants would use when pricing an asset or liability, assuming that market participants act in their economic best interest. Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use, or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Corporation determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(e) Use of estimates and judgements

The preparation of financial statements require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1 Significant Accounting Policies *continued*

Judgements made by management in the application of AASBs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are included in the following notes:

Note 1(g)(ii) – Unread meters

Note 1(l)(i), 10 – Property, plant and equipment

Note 1(m), 11 – Intangible assets

Note 1(u), 14 – Provisions

Note 16 – Financial instruments

Note 17 – Fair value measurements

Note 25(i) – Superannuation Defined benefits plan – Significant actuarial assumptions at reporting date

(f) Income tax

Endeavour Energy is exempt from federal income tax under the Income Tax Assessment Acts. However, Endeavour Energy is subject to the National Tax Equivalent Regime which is based on the Income Tax Assessment Acts. Tax equivalents are payable to the Office of State Revenue.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity.

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

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill and initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured, and to the extent that it is probable that the future economic benefits will flow to the entity. Revenue for the sale of goods is recognised when significant risks and rewards of ownership of the goods has passed to the buyer. Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the following major business activities:

(i) Network use of system (NUOS) revenue

Endeavour Energy recognises revenue involving the rendering of electricity supply services in profit and loss on an accrual basis based on consumption. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or if the costs incurred or to be incurred can not be measured reliably.

(ii) Unread meters

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

(iii) Excess/shortfall in regulatory revenue

Network-use-of-system revenue comprises of the following three components:

- Distribution-use-of-system revenue – with effect from 1 July 2014, the AER determined Endeavour Energy start operating under a revenue cap pricing framework. Where revenue from distribution services exceeds or is below the Maximum Allowed Revenue (MAR) as determined by the Australian Energy Regulator (AER), and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.
- Transmission revenue – where revenue related to transmission costs, which operates as a pass-through cost to customers, exceeds or is below actual transmission costs paid to transmission network service providers and embedded generators, and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.
- Climate Change Fund revenue – where revenue related to receipt of contributions to the Climate Change Fund, which operates as a pass-through to customers, exceeds or is below actual contributions paid to the Office of Environment & Heritage, and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.

It is estimated that, at 30 June 2015, Endeavour Energy's NUOS exceeded the maximum amount permitted by regulatory agreements by $49.6 million (2014: $0.2 million shortfall). Future prices will be adjusted to reflect this excess.

1 Significant Accounting Policies *continued*

(iv) Rental income

Rental income from properties leased under property leases is recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(v) Contributions for capital works

This represents cash and non-cash capital contributed by customers and developers, mainly towards the capital cost of electricity connections. Cash and non-cash capital contributions have been reported in order to comply with Australian Accounting Interpretation 18 *Transfers of Assets from Customers*.

Contributions of non-current assets are recognised as revenue and an asset when Endeavour Energy gains control of the asset. The fair value of contributed assets is recognised at the date at which control is gained and the assets are ready for use.

(vi) Solar Bonus Rebate Scheme Recovery and other revenue

Endeavour Energy recognises solar and other revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Endeavour Energy's activities.

(h) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash balances and call deposits. For the purposes of the Statement of Cash Flows, cash includes cash assets net of bank overdraft.

(i) Trade and other receivables

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

Collectability of trade receivables is reviewed on an ongoing basis in accordance with AASB 139 *Financial Instruments*. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the entity will not be able to collect the receivables, such as evidence of financial difficulties of the debtor, and default in payments.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average purchase price of each item. In the case of manufactured stock for internal use, costs include direct labour, materials and a portion of variable overhead which comprises the cost of bringing the inventories to their appropriate location and condition.

(k) Assets classified as held for sale

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

Non-current assets held for sale for Endeavour Energy relate to non-system land & buildings surplus to requirements.

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are initially recognised at cost. Non-system assets purchased below $1,000 are expensed as acquired. All costs of assets constructed by Endeavour Energy (system assets) are capitalised. Cost includes expenditure that is directly attributable to the acquisition and or construction of the asset including costs of materials, services, direct labour, the initial estimate (where relevant) of the costs of dismantling and removing the items and restoring the site on which they were located, and an allocated proportion of supporting overhead costs. Capitalised costs also include borrowing costs in accordance with AASB 116 *Property, Plant and Equipment* and AASB 123 *Borrowing Costs*.

Management judgement is required in the assessment of the types of costs that are directly attributable to the construction of property, plant and equipment. Satisfying the directly attributable criteria requires an assessment of those unavoidable costs that, if not incurred, would result in the property, plant and equipment not being constructed. Directly attributable overheads are allocated to the cost of construction of an asset using direct labour dollars.

Property, plant and equipment transferred from customers is initially measured at fair value at the date on which control is obtained in accordance with Interpretation 18 *Transfer of Assets from Customers*, AASB 13 *Fair Value Measurement* and AASB 116 *Property, Plant and Equipment*.

After initial recognition as an asset, items of property, plant and equipment are measured at fair value. Fair value is determined in accordance with NSW Treasury Accounting Policy TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value*, AASB 13 *Fair Value Measurement* and AASB 116 *Property, Plant and Equipment*, and reviewed annually for impairment in accordance with AASB136 *Impairment of Assets*.

System assets

System assets are stated at fair value less accumulated depreciation and impairment losses. The fair value of system assets is determined using the income approach in accordance with AASB 13 *Fair Value Measurement*. The valuation methodology reflects a discounted cash flow methodology to value assets, and a calculation to subtract the value of other business assets and liabilities to arrive at a value for system assets.

1 Significant Accounting Policies *continued*

The income approach is based on a discounted cash flow model using the following methods and assumptions:

- Use of an estimate of future cash flows to be derived based on financial forecasts;
- Expectations about possible variations in the amount/timing of future cash flows to reflect the most likely outcome;
- The time value of money, represented by the current market risk-free rate and the price for bearing the uncertainty inherent in the asset, as encapsulated in the discount rate;
- Other factors such as liquidity that should be reflected in pricing future cash flows; and
- A multiple of the forecast regulated asset base (RAB) at the end of the forecast period used as a proxy for the terminal value. The terminal RAB multiple is determined with reference to market observable multiples.

System assets are revalued at least every five years in accordance with TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value* and AASB 13 *Fair Value Measurement*. However, an assessment is made at each reporting date to ensure the net carrying value of system assets does not differ materially from its fair value, which is calculated on a 'cash generating unit' (CGU) basis using the discounted cash flow. As at 30 June 2015 the net carrying amount of system assets did not differ materially to the discounted cash flows.

The Corporation's view is that the distribution network as a whole should be considered to be a "single asset" for the purposes of revaluation. This is because all components within the network must work together in order to reliably supply electricity. Further, due to the specialised nature of Endeavour Energy's network, system assets cannot be readily sold to third parties for different uses.

Non-system land and buildings

Non-system land and buildings are stated at fair value.

Following initial recognition at cost, non-system land and building assets are carried at fair value less accumulated depreciation and impairment losses. Non-system land and buildings are revalued at least every three years in accordance with TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value*. However, an assessment is made at each reporting date to ensure the net carrying value of non-system land and building assets does not differ materially from fair value. Valuations are based on market-based evidence in accordance with AASB 13 *Fair Value Measurement*. A revaluation of non-system land and buildings was undertaken by an independent valuer and recognised as at 30 June 2015.

Plant and equipment

Plant and equipment assets comprise non-specialised assets with short useful lives. These assets are stated at their depreciated historical costs (which is considered an acceptable surrogate for fair value in accordance with NSW Treasury Accounting Policy TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value* (TPP14-01), as any difference is unlikely to be material).

(ii) Revaluations

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that asset previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit or loss. Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same asset, they are debited directly to the asset revaluation reserve. Disclosures in note 10 reflect the gross method of presentation as a revaluation adjustment has not been recognised since the introduction of TPP14-01. When an asset is revalued using the income approach, the Corporation will disclose any future revaluation adjustment on a net basis in accordance with TPP14-01.

For non-system buildings, gross and accumulated depreciation amounts are restated in accordance with the revalued amount of the asset.

Gains and losses on disposal of revalued assets are included in profit and loss for the year. Any related revaluation increments in the asset revaluation reserve upon disposal are transferred to Retained Earnings.

(iii) Subsequent costs

The Corporation recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the entity and the cost of the item can be measured reliably. All other costs are recognised in profit and loss as an expense as incurred.

(iv) Depreciation

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

Depreciation is charged to profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- Buildings 40 years
- System assets 7 – 60 years
- Plant and equipment 4 – 15 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(m) Intangible assets

Intangible assets that are acquired externally or internally generated by the entity are stated at cost less accumulated amortisation and impairment losses (see Note 1(n)(ii)).

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

1 Significant Accounting Policies *continued*

Easements, which are interests in land allowing access to network assets, are not amortised as they are granted for an unlimited time.

Intangible assets are amortised from the date they are available for use. Amortisation is charged to profit and loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are assessed for impairment at each reporting date.

The estimated useful lives in the current and comparative periods are as follows:

- Computer software 4 – 9 years
- Easements Indefinite

(n) Impairment

(i) Financial assets (including receivables)

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying amount reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Significant receivables are individually assessed for impairment. Non-significant receivables are collectively assessed by placing them in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of economic and credit conditions existing at each balance date.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories, derivatives and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually irrespective of any indication of impairment. The recoverable amount of an asset or cash generating unit (CGU) is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit and loss, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of a CGU are allocated first to reduce the carrying amount of goodwill (if any) allocated to CGU and then, to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

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

(o) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to Endeavour Energy prior to the end of the financial year where there is an obligation to make future payment. The amounts are unsecured and usually paid within 30 days of recognition.

Subsequent to initial recognition of these liabilities at fair value, they are measured at amortised cost using the effective interest rate method. This measurement is equivalent to the original invoice amount.

(p) Loans and borrowings

Loans and borrowings are initially recognised at fair value, net of transaction costs incurred. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. This includes capital indexed bonds whose carrying amount is restated at each reporting date by way of an indexation adjustment based on the Consumer Price Index (CPI) in Australia.

Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. The difference between the face value and the capital value of these debt securities is amortised over the life of the specific instrument. Interest associated with these instruments is brought to account on an accrual basis. Indexation adjustments on CPI indexed bonds are also recognised as part of finance costs in profit and loss.

Gains and losses are recognised in profit and loss when the liabilities are derecognised as well as through the amortisation process.

Loan debt shown as a current liability is nominally due for repayment within twelve months. However due to the availability of roll-over facilities and the liquidity of the underlying debt instruments, Endeavour Energy may not necessarily need to repay these loans within twelve months.

1 Significant Accounting Policies *continued*

(q) Financial instruments

Derivative financial instruments and hedge accounting

(i) Initial recognition and subsequent measurement

The Corporation uses derivative financial instruments, such as forward currency contracts and interest rate futures, to hedge foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date at which a derivative contract is entered into, and subsequently re-measured to their fair value at the end of each reporting period. Derivatives are carried as financial assets when the fair value is positive, and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment.
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Corporation will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting the exposure to changes in the hedged items' fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the criteria for hedge accounting are accounted for as described below.

(ii) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Corporation revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

(iii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income and accumulated under the heading Hedge Revaluation Reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the "other gains or loss" line item.

Amounts previously recognised in profit or loss and accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or non-financial liability, the gains or losses previously recognised in Other Comprehensive Income and accumulated equity are transferred from equity and included in the initial measurement of the cost of the non-financial assets or non-financial liability.

Hedge accounting is discontinued when the Corporation revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. At that time, any gain or loss recognised in Other Comprehensive Income and accumulated in equity remains in equity, and is transferred to profit and loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derecognition of financial instruments

Endeavour Energy derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognise the financial asset and the associated liability. Endeavour Energy derecognises a financial liability when, and only when, Endeavour Energy's obligation specified in the contract is discharged, cancelled or expired.

(r) Employee benefits

All liabilities for employee benefits that are expected to be paid for services provided by employees to reporting date represent present obligations that are fully provided for in the financial statements.

Liabilities for wages and salaries, annual leave, long service leave, maturing allowance and pre 1993 sick leave that are expected to be settled wholly within 12 months of the reporting date represent present obligations resulting from employees' services provided to the Corporation at reporting date, and are calculated at undiscounted amounts based on wage and salary rates that the entity expects to pay as at reporting date, including related on-costs such as workers compensation and payroll tax.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

1 Significant Accounting Policies *continued*

Liabilities for annual leave, long service leave, maturing allowance and pre 1993 sick leave not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, have been based on an actuarial assessment undertaken as at May 2015. An associated formulae has been provided for intervening periods between assessments, noting that actuarial assessments are performed, as a minimum, every three years.

Liabilities for employee benefits (annual leave, long service leave, maturing allowance and pre 1993 sick leave) which are not expected to be settled within twelve months are discounted using market yields on national government bonds as at 30 June 2015. All other provisions have been calculated at nominal amounts based on expected settlement rates.

The actuary has based their assessment on the following assumptions:

(a) Market yields on national government bonds as at 30 June 2015 used as the gross discount rate; and

(b) Expected rate of general salary increases.

(s) Superannuation

Defined contribution plan

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

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the market yield on national government bonds as at 30 June 2015 that have maturity dates approximating to the terms of the Corporation's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All remeasurements arising from defined benefit plans are recognised in other comprehensive income in the year in which they occur.

Where the calculation results in a benefit to the Corporation, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced). Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Past service costs and net interest expense or income are recognised in profit and loss.

Endeavour Energy has classified the defined benefits schemes wholly as a non-current liability to reflect the appropriate timing of the obligation.

(t) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognises termination benefits at the earlier of the following dates: a) when the Corporation can no longer withdraw the offer of those benefits, or b) when the Corporation recognises costs for a restructuring that is within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(u) Provisions

A provision is recognised in the Statement of Financial Position when the Corporation has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(v) Other liabilities

Deferred revenue

Deferred revenue is recognised for customer prepayments for external, recoverable and contestable works carried out by Endeavour Energy at reporting date. The revenue is deferred pending completion of the works and services.

Deposits

Deposits represent liabilities for contractors' deposits which can be refunded at any time after the end of the financial year and unclaimed monies which are held up to 6 years before being transferred to the Office of State Revenue. The amount which can be refunded in the succeeding financial year and at any time is shown as current and the remainder of the liability as non-current.

(w) Share capital

Endeavour Energy is incorporated under the *State Owned Corporations Act 1989* with issued capital of two fully paid $1 ordinary shares.

Current shareholders are the Treasurer and the Minister for Finance Services and Property, on behalf of the NSW Government. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Corporation. The $2 share capital is included in Contributed Equity in the Statement of Financial Position.

1 Significant Accounting Policies *continued*

(x) Reserves

Asset revaluation reserve

The revaluation reserve relates to fair value movements in property, plant and equipment.

Hedging reserve

The hedging reserve is used to record unrealised gains or losses of effective cash flow hedges. The unrealised gains or losses of all other derivatives are recognised in profit and loss.

(y) Finance costs

Finance costs are recognised as expenses in profit and loss in the period in which they are incurred and include:

- interest expenses calculated using the effective interest method as described in AASB 139 *Financial Instruments: Recognition and Measurement* e.g. interest on overdrafts and short-term and long-term borrowings, including amounts paid or received on interest rate swaps, amortisation of discounts or premiums relating to borrowings, and indexation adjustments on CPI indexed bonds;
- a discount expense applied to provisions and amortised assets;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- a government loan guarantee fee assessed by NSW Treasury.

The amount excludes finance costs relating to qualifying assets, in which case they are capitalised as part of the cost of those assets in accordance with AASB 123 *Borrowing Costs*. Qualifying assets are assets that take a substantial period of time to get ready for their intended use. The Corporation considers this to be 12 months or more.

Capitalisation of borrowing costs is undertaken where a direct relationship can be established between the borrowings and the relevant projects giving rise to qualifying assets. Typically, these are projects whose expected total project expenditure is approximately $10 million or greater.

The amount of borrowing costs capitalised during the year was $13.4 million (2014: $44.4 million), and the capitalisation rate used to determine this amount was at a weighted average interest rate of 6.5% (2014: 6.8%).

(z) Leases

As lessee

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

Endeavour Energy has not entered into any finance leases as at reporting date. Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases.

As lessor

Endeavour Energy leases out its properties, including premises, land and communications towers, under operating lease agreements at market rentals, predominantly on a fixed term basis.

Rental income arising from operating leases is accounted for on a straight-line basis over the lease term and included in revenue in the statement of profit and loss. The costs of repairs and maintenance incurred on these properties are recognised as an expense in profit and loss.

(aa) Greenhouse legislation

The Corporation was required to surrender certificates in 2014/15 to acquit obligations placed on it by the various Commonwealth government greenhouse schemes, as noted below. The obligations arise from two power purchase agreements that were not transferred as part of the electricity sales transaction on 1 March 2011. These certificates are, in turn, provided by Origin Energy under an On-Sale Agreement entered into as part of the same electricity sales transaction. For the period commencing 1 July 2014, the following schemes applied:

Commonwealth

The RET scheme, from 1 January 2011, is split into Small-scale Renewable Energy Scheme (SRES) and Large-scale Renewable Energy Target (LRET) requiring the surrender respectively of Small-scale Technology Certificates (STCs) and Large-scale Generation Certificates (LGCs). The Act also imposes an annual liability statement to the Office of the Renewable Energy Regulator (ORER) in discharge of Endeavour Energy's renewable energy obligations under the RET Scheme.

(bb) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Statement of Financial Position.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

1 Significant Accounting Policies *continued*

(cc) Foreign currency

Foreign currency transactions are converted to Australian currency at the exchange rates at the date of the transaction, with resulting exchange differences recognised as income or expense in profit and loss.

(dd) New and revised accounting standards and Australian Accounting Interpretations

Accounting standards and Interpretations issued but not yet effective

Various new and revised accounting standards and Australian Accounting Interpretations have been published that are not mandatory for the 30 June 2015 reporting period.

Endeavour Energy's assessment of new standards and interpretations which may have an impact but have not been early adopted, is set out below. The main impact of these standards and interpretations will be on presentation and disclosure, except for the following:

- AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance including AASB 118 *Revenue*, AASB 111 *Construction Contracts*, *Interpretation 13 Customer Loyalty Programmes* and *Interpretation 18 Transfers of Assets from Customers*. AASB 15 is effective for Endeavour Energy from periods beginning on or after 1 July 2017, with early adoption permitted. The initial application of AASB 15 is not expected to materially affect the recognition of revenue in Endeavour Energy's financial statements. Application of the standard is expected to result in changes in the presentation and disclosure of information relating to revenue.
- AASB 9 *Financial Instruments*, published in December 2014, which replaces AASB 9 *Financial Instruments* (December 2009), AASB 9 *Financial Instruments* (December 2010), existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement* and *Interpretation 9 Reassessment of Embedded Derivatives*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedging accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning 1 July 2018, with early adoption permitted. The initial application of AASB 9 is not expected to materially affect the recognition of financial instruments in Endeavour Energy's financial statements. Application of the standard is expected to result in changes in the presentation and disclosure of information relating to financial instruments.
- AASB 2010-7 *Amendments to Australian Accounting Standards* arising from AASB 9 (December 2010) (as amended), Part E of AASB 2014-1 *Amendments to Australian Accounting Standards* and AASB 2014-7 *Amendments to Australian Accounting Standards* arising from AASB 9 (December 2014) are applicable to annual reporting periods beginning on or after 1 July 2018.

Endeavour Energy has not elected to adopt these standards early. The Corporation will apply these standards in the period determined by the Australian Accounting Standards Board. All other new standards and interpretations have no impact on Endeavour Energy and will not affect the Corporation's financial statements.

2 Revenue

	2015 $m	2014 $m
Revenue		
Network use of system income	**1,303.4**	1,274.4
Capital contributions	**128.9**	91.9
Solar Bonus Rebate Scheme Recovery*	**49.7**	54.4
Other income**	**94.7**	76.9
Total operating revenue	**1,576.7**	1,497.6

* Solar bonus scheme provides a feed-in tariff payment to households for small-scale solar system generation for a period to December 2016. Endeavour Energy is reimbursed the amount paid to households under the NSW Government's *Solar Bonus Scheme Reimbursement Program* (SBSRP) when conditions of the scheme are met.

** Other income consists of streetlighting income, transformer workshop sales, Accredited Service Provider (ASP) related fees, contestable metering income, pole rental income, other regulated fees, sale of scrap and Nightwatch income.

3 Expenses

(a) Expenses excluding finance costs

	Note	2015 $m	2014 $m
Expenses relating to operating activities			
Distribution of energy and other services		494.5	466.5
Employee benefits expense		226.9	209.5
Bad debts and impairment of trade receivables		0.3	0.3
Operating lease rentals		7.0	5.6
External consultants		0.2	0.4
Superannuation expense (defined benefit plan) recognised in profit for the year	25(f)	12.5	14.3
Superannuation expense (defined contribution plan)		29.2	29.6
Loss on disposal of assets		10.7	1.3
Total expenses relating to operating activities		781.3	727.5
Depreciation of property, plant and equipment	10	195.4	181.6
Plant and equipment depreciation capitalised*		(3.7)	(7.5)
Depreciation expense		191.7	174.1
Amortisation of intangible assets	11	14.4	15.2
Total expenses excluding finance costs		987.4	916.8

* Depreciation of heavy vehicles and related plant and equipment used in the construction and maintenance of network assets is allocated to the cost of projects. Costs allocated to capital projects are recognised in profit and loss as depreciation of constructed network assets.

(b) Finance costs

	2015 $m	2014 $m
Interest and finance charges paid/payable	241.5	202.8
Finance costs recognised in profit and loss	241.5	202.8

(c) Maintenance expenses

	2015 $m	2014 $m
Employee benefits expense	64.9	64.4
Contracted labour and other (non-employee related) expenses	69.2	69.3
Total maintenance expenses	134.1	133.7

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

4 Income tax expense

(a) Income tax expense recognised in profit and loss

	2015 $m	2014 $m
Current tax expense		
Current year	67.2	68.3
Adjustments for prior years	(0.1)	–
	67.1	68.3
Deferred tax expense		
Origination and reversal of temporary differences	37.2	8.7
Under/(over) provided in prior years	(0.1)	–
	37.1	8.7
Total income tax expense in profit and loss	104.2	77.0

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

	2015 $m	2014 $m
Profit before tax	347.8	378.0
Income tax using the domestic corporation tax rate of 30% (2014: 30%)	104.4	113.5
Increase (decrease) in income tax expense due to:		
Change in tax treatment of accrued unread meters (note 5)	–	(36.5)
Under/(over) provided in prior years	(0.2)	–
Income tax expense on pre-tax net profit	104.2	77.0

(c) Income tax recognised in Other Comprehensive Income

	2015 $m	2014 $m
Items not to be reclassified subsequently to profit or loss		
Superannuation defined benefits remeasurements	13.7	5.0
Revaluation of land and buildings	1.7	–
	15.4	5.0
Items to be reclassified subsequently to profit or loss		
Revaluation of hedge derivatives	0.3	(0.3)
	0.3	(0.3)
Income tax charged directly to Other Comprehensive Income	15.7	4.7

5 Deferred tax assets/liabilities

Recognised deferred tax assets and liabilities

	2015 $m	2014 $m
Land and assets subject to depreciation/amortisation/capital allowances	753.4	720.1
Employee benefits	(88.0)	(106.4)
Provisions and accruals	(6.3)	(5.9)
Other	(0.6)	(2.0)
Deferred tax (assets)/liabilities	658.5	605.8

The deductible temporary differences and tax losses do not expire under current tax legislation.

	1 July 2014 $m	Recognised in profit or loss $m	Recognised in Other Comprehensive Income $m	30 June 2015 $m
Movement in temporary differences during 2015				
Land and assets subject to depreciation/amortisation/capital allowances	720.1	31.6	1.7	753.4
Employee benefits	(106.4)	4.7	13.7	(88.0)
Provisions and accruals	(5.9)	(0.4)	–	(6.3)
Other	(2.0)	1.1	0.3	(0.6)
Total deferred tax (assets)/liabilities	605.8	37.0	15.7	658.5

	1 July 2013 $m	Recognised in profit or loss $m	Recognised in Other Comprehensive Income $m	30 June 2014 $m
Movement in temporary differences during 2014				
Land and assets subject to depreciation/amortisation/capital allowances	678.2	41.9	–	720.1
Unread meters income	31.5	(31.5)	–	–
Employee benefits	(114.2)	2.8	5.0	(106.4)
Provisions and accruals	(2.5)	(3.4)	–	(5.9)
Other	(0.7)	(1.0)	(0.3)	(2.0)
Total deferred tax (assets)/liabilities	592.3	8.8	4.7	605.8

Endeavour Energy had, for many years, treated certain income from network distribution services as being derived for income tax purposes in the year in which meters were read and the related income billed. This treatment reflected the consideration of expert advice and relevant taxation case law, and resulted in the recognition of a deferred tax liability of $31.5 million as at 30 June 2013.

Following a consultation process between the Australian Taxation Office (ATO) and the electricity industry, Endeavour Energy and the ATO agreed a revised approach effective from the 2014 year of income, whereby Endeavour Energy's tax treatment transitioned to the accrual method used for accounting. The resultant changeover adjustment gave rise to a reduction in tax payable of $5.0 million in 2014.

The change in tax treatment also resulted in an income tax benefit of $36.5 million, reflecting the tax effect on the closing unread meters balance in the 2009 year, which was not subject to tax as it fell outside the statutory amendment period. This change in tax treatment resulted in a reduction in the effective tax rate for the year ended 30 June 2014 from 30% to 20.3%. The ATO confirmed that, in the circumstances, penalties and interest were not applicable.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

6 Cash and cash equivalents

	2015 $m	2014 $m
Cash and bank balances	0.3	–
Cash and cash equivalents	0.3	–

Bank overdraft is classified as a current liability within the Statement of Financial Position. For the purposes of the Statement of Cash Flows, cash and cash equivalents includes bank overdraft which was nil in FY15 (2014: $1.2 million).

7 Trade and other receivables

	2015 $m	2014 $m
Current		
Trade receivables	70.9	68.1
Less: impairment of trade receivables	(1.1)	(1.5)
Trade debtors, net of provision	69.8	66.6
Other debtors	61.1	78.4
Prepayments	7.4	6.9
Unread meters	122.4	118.9
Total current trade and other receivables	260.7	270.8

	2015 $m	2014 $m
Non-current		
Other debtors	3.1	–
Total non-current trade and other receivables	3.1	–

The movement in the impairment of trade receivables is detailed below:

	2015 $m	2014 $m
Opening balance at 1 July	(1.5)	(1.7)
Additional provisions	(0.3)	(0.5)
Amounts used	0.7	0.7
Closing balance at 30 June	(1.1)	(1.5)

The Corporations' exposure to credit risks and impairment losses relating to trade and other receivables is disclosed in Note 16.

8 Derivative financial instruments

	2015 $m	2014 $m
Derivative financial assets – current		
Treasury derivatives	–	0.3
Derivative financial liabilities – current		
Treasury derivatives	–	1.7
Derivative financial liabilities – non-current		
Treasury derivatives	3.8	4.5

Endeavour Energy's exposure to credit, currency and interest rate risk related to derivatives is disclosed in Note 16.

9 Non-current assets classified as held for sale

	2015 $m	2014 $m
Non-system land	13.9	4.8
Total assets classified as held for sale	13.9	4.8

Non-current assets held for sale relate to vacant land surplus to requirements. There are a number of interested parties and the sales are expected to be completed within the next financial year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

10 Property, plant and equipment

	Note	System assets $m	Land and buildings $m	Plant and equipment $m	Total $m
At 1 July 2014 – fair value					
Gross carrying amount		15,769.6	247.2	277.7	16,294.5
Accumulated depreciation and impairment		(9,610.0)	(7.6)	(150.4)	(9,768.0)
Net carrying amount		6,159.6	239.6	127.3	6,526.5
At 30 June 2015 – fair value					
Gross carrying amount		16,204.9	336.8	241.8	16,783.5
Accumulated depreciation and impairment		(9,753.9)	(86.7)	(122.2)	(9,962.8)
Net carrying amount		6,451.0	250.1	119.6	6,820.7
Year ended 30 June 2015					
Net carrying amount at start of year		6,159.6	239.6	127.3	6,526.5
Additions		469.8	22.5	12.5	504.8
Disposals		(8.5)	(4.2)	(3.5)	(16.2)
Revaluation		–	5.7	–	5.7
Depreciation expense	3(a)	(173.3)	(4.8)	(13.6)	(191.7)
Other movements	17(c)	3.4	(8.7)	(3.1)	(8.4)
Net carrying amount at end of year		6,451.0	250.1	119.6	6,820.7
At 1 July 2013 – fair value					
Gross carrying amount		14,934.0	460.3	303.1	15,697.4
Accumulated depreciation and impairment		(9,469.4)	(3.0)	(169.2)	(9,641.6)
Net carrying amount		5,464.6	457.3	133.9	6,055.8
At 30 June 2014 – fair value					
Gross carrying amount		15,769.6	247.2	277.7	16,294.5
Accumulated depreciation and impairment		(9,610.0)	(7.6)	(150.4)	(9,768.0)
Net carrying amount		6,159.6	239.6	127.3	6,526.5
Year ended 30 June 2014					
Net carrying amount at start of year		5,464.6	457.3	133.9	6,055.8
Additions		610.4	20.9	17.3	648.6
Disposals		(2.2)	–	(2.2)	(4.4)
Depreciation expense	3(a)	(154.7)	(4.6)	(14.8)	(174.1)
Other movements		241.5	(234.0)	(6.9)	0.6
Net carrying amount at end of year		6,159.6	239.6	127.3	6,526.5

10 Property, plant and equipment *continued*

Assets under construction	
During the year ended 30 June 2015, the Corporation continued with its Network capital program. At the Statement of Financial Position date, construction in progress totalled:	
Land and buildings	$7.8 million (2014: $19.3 million)
System assets	$307.1 million (2014: $707.4 million)
Plant and equipment	$11.6 million (2014: $13.5 million)

Historical cost of revalued assets	
The carrying amount of assets had they been carried under the cost model is:	
Land and buildings	$78.1 million (2014: $73.4 million)
System assets	$5,320.3 million (2014: $5,028.9 million)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

11 Intangible assets

	Note	Computer software $m	Easements $m	Total $m
At 1 July 2014				
At cost		90.9	15.7	106.6
Accumulated amortisation and impairment		(38.4)	–	(38.4)
Net carrying amount		52.5	15.7	68.2
At 30 June 2015				
At cost		103.2	16.5	119.7
Accumulated amortisation and impairment		(52.0)	–	(52.0)
Net carrying amount		51.2	16.5	67.7
Year ended 30 June 2015				
Net carrying amount at start of year		52.5	15.7	68.2
Acquisitions		13.7	0.8	14.5
Amortisation	3(a)	(14.4)	–	(14.4)
Other movement		(0.6)	–	(0.6)
Net carrying amount at end of year		51.2	16.5	67.7
At 1 July 2013				
At cost		213.1	15.7	228.8
Accumulated amortisation and impairment		(156.5)	–	(156.5)
Net carrying amount		56.6	15.7	72.3
At 30 June 2014				
At cost		90.9	15.7	106.6
Accumulated amortisation and impairment		(38.4)	–	(38.4)
Net carrying amount		52.5	15.7	68.2
Year ended 30 June 2014				
Net carrying amount at start of year		56.6	15.7	72.3
Acquisitions		12.0	–	12.0
Disposals		(0.3)	–	(0.3)
Amortisation	3(a)	(15.2)	–	(15.2)
Other movement		(0.6)	–	(0.6)
Net carrying amount at end of year		52.5	15.7	68.2

Assets under construction

During the year ended 30 June 2015, the Corporation continued with its capital program.
At the Statement of Financial Position date, construction in progress totalled:

Computer software	$22.2 million (2014: $20.1 million)

12 Trade and other payables

	2015 $m	2014 $m
Current		
Trade payables	32.8	58.2
Interest payable	104.6	103.0
Accruals	75.1	76.4
Other payables	7.4	9.1
Total current trade and other payables	219.9	246.7

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis, in relation to the above payables are disclosed in Note 16.

13 Borrowings

	2015 $m	2014 $m
Current liabilities		
Current portion of loans	534.6	376.3
Non-current liabilities		
Non-current portion of loans	3,446.8	3,391.4

Loans are unsecured and repayable in full on various maturity dates. For information about the Corporations exposure to interest rate and foreign currency risks, see Note 16.

14 Provisions

	Insurance $m	Dividends $m	Employee benefits $m	Other $m	Total $m
Opening balance at 1 July 2014	6.3	178.1	343.6	23.4	551.4
Additional provisions	4.5	166.6	142.2	9.1	322.4
Amounts used	(0.9)	(178.1)	(139.6)	(6.7)	(325.3)
Amounts reversed	–	–	(63.9)	(0.1)	(64.0)
Closing balance at 30 June 2015	9.9	166.6	282.3	25.7	484.5
Current	1.4	166.6	185.6	25.7	379.3
Non-current	8.5	–	96.7	–	105.2
Closing balance at 30 June 2015	9.9	166.6	282.3	25.7	484.5
Current	1.0	178.1	162.2	23.4	364.7
Non-current	5.3	–	181.4	–	186.7
Closing balance at 30 June 2014	6.3	178.1	343.6	23.4	551.4

The current provision for employee benefits includes accrued annual leave, vesting sick leave, maturing allowance and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of $150.1 million (2014: $162.2 million) is presented as current, since the Corporation does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Corporation does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.
The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

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FOR THE YEAR ENDED 30 JUNE 2015

14 Provisions *continued*

	2015 $m	2014 $m
Current leave obligations expected to be settled after 12 months	120.2	111.1

(i) Worker's compensation insurance

Endeavour Energy is a self-insurer through its insurance provision for workers' compensation and meets all liabilities under the Workers' Compensation legislation in NSW and other States. The liabilities cover claims incurred but not yet reported and the anticipated fund management fees in respect of the management of those claims.

During 2014/15, a consulting actuary undertook the annual investigation of Endeavour Energy's estimated liability for workers' compensation as at 30 June 2015. The liability is measured as the present value of future payments at 30 June 2015 and was estimated to be $9.9 million (2014: $6.3 million). This includes the liability for dust related diseases which is estimated at $2.1 million (2014: $1.4 million).

(ii) Dividends

Provision is made for the amount of any dividend and other payments determined by the Directors and approved by the Shareholding Ministers prior to 30 June 2015, but not distributed at reporting date. The dividend has regard to the annual performance agreement (Statement of Corporate Intent) with NSW Treasury.

The dividend is calculated in accordance with TPP14-04 *Financial Distribution Policy for Government Businesses*. The dividend payable was approved by the Shareholding Ministers before 30 June 2015 and was calculated based on forecast profit adjusted for certain non-cash items.

(iii) Employee benefits

The provision for employee benefits relates to amounts accruing to employees up to reporting date in respect of employee benefits including defined benefit superannuation obligations, annual leave, maturing allowance, pre-1993 sick leave and long service leave. Amounts provided for in relation to maturing allowance and long service leave are based on an actuarial assessment and associated formulae provided for intervening periods between assessments as outlined in note 1(r). All other employee benefit amounts expected to be settled within 12 months have been measured at amounts expected to be paid when the liabilities are settled.

The non-current provision for employee benefits also includes $50.7 million (2014: $96.0 million) relating to the Defined Benefits Superannuation liability as detailed in note 25.

(iv) Other

The balance of $25.7 million (2014: $23.4 million) generally relates to matters of a legal nature.

15 Other liabilities

Current

	2015 $m	2014 $m
Deposits and retentions	12.5	10.1
Unearned income	3.8	3.5
Total other current liabilities	16.3	13.6

16 Financial instruments

(a) Financial risk management objectives and policies

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

The Corporation's treasury function, leadership team and Board manage the Corporation's exposure to key financial risks including credit risk, currency risk, interest rate risk, liquidity risk and commodity price risk, in accordance with the Board's financial risk management policies. The Board reviews and agrees policies for managing each of the key financial risks.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Derivative financial instruments can be used to hedge exposure to fluctuations in foreign exchange rates, commodity prices and interest rates.

(b) Credit risk

Credit risk is the risk of financial loss arising if counterparties fail to meet their financial obligations.

The credit risk on trade and other receivables and accrued income from unread meters that have been recognised in the Statement of Financial Position, is generally the carrying amount net of any impairment provisions. The Corporation's policy requires customers to pay in accordance with agreed payment terms. Payment terms are generally 15–30 days. All credit and recovery risks associated with trade receivables have been provided for in the Statement of Financial Position.

The ageing of trade receivables past due but not impaired at 30 June 2015 is detailed below:

	2015 $m	2014 $m
Less than 3 months overdue	2.3	1.9
3 months to 6 months overdue	0.2	–
	2.5	1.9

The Corporation's credit risk on other assets is minimised as it transacts predominantly with other corporations in the energy industry. Where the counterparty is a non-Government owned corporation, credit worthiness is established in accordance with the Corporation's risk management policies which include the use of external credit ratings to derive risk limits as approved by the Board.

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation's exposure to foreign currency risk is immaterial. The Corporation limits currency risk by entering into foreign currency options and forward foreign exchange contracts. The Corporation uses forward exchange contracts to hedge its foreign currency risk for all foreign exchange exposures that exceed $A 500,000 in value. As the foreign currency risk is immaterial in terms of a possible impact on profit and loss or total equity, a sensitivity analysis has not been completed.

(d) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rate.

The Corporation adopts a policy of ensuring that its debt portfolio is managed within a risk framework including Board approved weighted average life ranges and debt maturity profiles. Interest rate risk is managed through a combination of fixed rate long term debts, inflation linked securities, floating rate debts and interest rate derivative instruments.

16 Financial instruments *continued*

The interest rate profile for the Corporation's interest bearing financial instruments at the reporting date was:

	2015 $m	2014 $m
Carrying amount		
Fixed rate		
Financial liabilities	(2,985.8)	(2,783.7)
	(2,985.8)	(2,783.7)
Floating rate		
Financial assets	0.3	–
Financial liabilities	(276.0)	(271.7)
	(275.7)	(271.7)
Inflation indexed		
Financial liabilities	(719.6)	(713.5)
	(719.6)	(713.5)

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. The Corporation has variable rate financial liabilities at year end and it is estimated that a change in interest rates by one percentage point at reporting date would have a $2.8 million impact on the Corporation's profit before tax (2014: $2.7 million). The Corporation also has variable rate financial assets at year end, and it is estimated that a change in interest rates by one percentage point at reporting date would have an immaterial impact on the Corporation's profit before tax.

(e) Capital risk management

Consistent with TPP02-7 NSW *Treasury Policy Capital Structure Policy for Government Businesses* which is a component of the NSW Government's Commercial Policy Framework, the Corporation's objectives are to determine an appropriate capital structure to enable an appropriate return on equity and efficient investment decisions to be made on a commercial basis.

Under the policy, both an appropriate capital structure and minimum-to-maximum capital structure range are determined whilst considering the following criteria:

- provision of an acceptable stream of dividends;
- maintenance of an appropriate investment grade rating, taking into account industry and entity specific factors;
- ability to meet key debt service criteria, based on industry benchmarks;
- capacity to finance the approved capital expenditure program through internally generated cash flows and debt, with consideration of the current phase of the investment cycle; and
- provision of sufficient flexibility for relevant contingencies.

The minimum-to-maximum capital structure 'range' includes an acceptable range of gearing levels within the Corporation's capital structure. The Corporation monitors gearing levels and ratios. The key ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and TCorp short term accommodation less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position plus net debt.

16 Financial instruments *continued*

	2015 $m	2014 $m
Total loans	3,981.4	3,767.7
Add/(less) bank overdraft/(cash and cash equivalents)	(0.3)	1.2
Net debt	3,981.1	3,768.9
Total equity	1,833.8	1,720.3
Total capital	5,814.9	5,489.2
Gearing ratio	68.5%	68.7%

The Corporation's agreed capital structure and range is reviewed every year as part of the Statement of Corporate Intent process. The purpose of such a review is to confirm whether or not the current capital structure and range continue to be appropriate and, if not, to negotiate revised arrangements between the Board and Shareholders.

(f) Liquidity risk

Liquidity risk is the risk of difficulty in ensuring the availability of sufficient funds to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Corporation's liquidity risks are managed with the availability of readily accessible standby facilities and other funding arrangements and by investing surplus funds in marketable securities and deposits (see Notes 1(h), 1(p), 6 and 13).

The Corporation has an approved TCorp core debt borrowing limit of $4,431.0 million (2014: $3,833.0 million) of which $451.1 million was unused as at 30 June 2015 (2014: $65.3 million). The Corporation also has an approved TCorp Come and Go Facility limit of $150.0 million (2014: $150.0 million) and a commercial bank overdraft facility limit of $2.0 million (2014: $2.0 million) to fund working capital. Planned future capital expenditure will be funded through TCorp borrowings. Future committed expenditure is disclosed in Note 22.

While current liabilities are greater than current assets as at 30 June 2015, the Corporation continues to trade as a going concern. It is noted that the Corporation derives revenue from non-current assets. The TCorp Come and Go Facility had $150.0 million (2014: $150.0 million) unused and the commercial bank overdraft facility limit had $2.0 million (2014: $0.8 million) unused as at 30 June 2015.

The Corporation's policy established prudential limits on the amount of debt that can mature within set periods. The policy sets out that no more than 20% of the Corporation's short term borrowings can mature less than one year, and no more than 20% of the Corporation's long term borrowings can mature in any 12 month period beyond one year. Furthermore, the combined maximum portion of total debt that has a maturity of less than one year cannot exceed 25%. At 30 June 2015 13.4% (2014: 10%) of the Corporation's debt will mature in less than one year. During the current and prior years, there were no defaults or breaches on any loans payable, and no assets have been pledged as collateral.

The Corporation maintains a balance between continuity of funding and flexibility through the use of bank overdrafts and debt. The Corporation's funding requirement and strategy is reviewed annually and monitored on an ongoing basis. The Corporation manages debt via a portfolio approach. At 30 June 2015 the weighted average life of the Corporation's debt portfolio was within the policy limit approved by the Board.

NOTES TO THE FINANCIAL STATEMENTS
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16 Financial instruments *continued*

The contractual maturity of the Corporation's fixed and floating rate financial liabilities and derivatives are shown in the following table.

	Carrying amount $m	Contractual cash flows Total $m	1 year or less $m	1–5 years $m	More than 5 years $m
30 June 2015					
Derivative financial liabilities					
Treasury derivatives	3.8	3.7	1.7	2.0	–
Non derivative financial liabilities					
AUD fixed rate loans	2,985.8	3,794.9	460.2	1,866.3	1,468.4
AUD floating rate loans	276.0	276.9	226.9	50.0	–
AUD inflation indexed loans	719.6	919.6	18.5	40.5	860.6
Trade and other payables (excluding statutory payables)	193.1	193.1	193.1	–	–
	4,178.3	5,188.2	900.4	1,958.8	2,329.0
30 June 2014					
Derivative financial liabilities					
Treasury derivatives	6.2	4.2	1.3	2.9	–
Non derivative financial liabilities					
AUD fixed rate loans	2,783.7	3,645.3	278.3	1,841.6	1,525.4
AUD floating rate loans	271.7	273.3	173.3	100.0	–
AUD inflation indexed loans	713.5	939.7	18.8	40.0	880.9
Trade and other payables (excluding statutory payables)	221.3	221.3	221.3	–	–
	3,996.4	5,083.8	693.0	1,984.5	2,406.3

Note: Amounts disclosed above for loans are the contractual undiscounted cash flows. Disclosed contractually committed cash flows will not differ from the timing and amounts expected to be incurred for fixed rate loans, however liabilities will change for floating loans and inflation indexed loans due to changes in market rates and CPI inflation rates.

Cash flow hedges

The following table separately discloses the undiscounted contractual net cash inflows and outflows on derivative liabilities that settle on a net basis and that require gross disclosure. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to projected prices as illustrated by forward curves at the end of each reporting period.

	Carrying amount $m	Total contractual cash flows $m	1 year or less $m	1–5 years $m	More than 5 years $m
30 June 2015					
Derivative financial liabilities					
Net settled:					
– Treasury derivatives	3.8	3.7	1.7	2.0	–
	3.8	3.7	1.7	2.0	–
30 June 2014					
Derivative financial liabilities					
Net settled:					
– Treasury derivatives	6.2	4.2	1.3	2.9	–
	6.2	4.2	1.3	2.9	–

17 Fair Value Measurements

This note provides information about how the Corporation determines the fair value of all assets and liabilities for which fair value is measured or disclosed in the financial statements.

(a) Fair value hierarchy

(i) Recognised fair value measurements

The following table presents the Corporation's assets and liabilities measured and recognised at fair value at 30 June 2015.

	Note	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
At 30 June 2015					
Recurring fair value measurements					
Non-financial assets					
System assets	10	–	–	6,451.0	6,451.0
Land and buildings	10	–	250.1	–	250.1
Total non-financial assets		–	250.1	6,451.0	6,701.1
Financial liabilities					
Treasury derivatives	8,16	–	3.8	–	3.8
Total financial liabilities		–	3.8	–	3.8
Non-recurring fair value measurements					
Assets classified as held for sale		–	13.9	–	13.9
At 30 June 2014					
Recurring fair value measurements					
Financial assets					
Treasury derivatives	8,16	–	0.3	–	0.3
Total financial assets		–	0.3	–	0.3
Non-financial assets					
System assets	10	–	–	6,159.6	6,159.6
Land and buildings	10	–	239.6	–	239.6
Total non-financial assets		–	239.6	6,159.6	6,399.2
Financial liabilities					
Treasury derivatives	8,16	–	6.2	–	6.2
Total financial liabilities		–	6.2	–	6.2
Non-recurring fair value measurements					
Assets classified as held for sale		–	4.8	–	4.8

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

17 Fair Value Measurements *continued*

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 measurements refer to (c) below.

The Corporation's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(ii) Disclosed fair values

The Corporation also has a number of assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes.

Receivables and payables

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows at current market interest rates that are available to the Corporation for similar financial instruments. The fair value of current borrowings approximates carrying amount, as the impact of discounting is not significant (level 2).

Interest rates used for determining fair value

The Corporation uses the government yield curve as at 30 June 2015 plus an adequate constant credit spread to discount financial instruments. Interest rates used were as follows:

	2015	2014
Loans and borrowings	2.0% – 4.0%	2.5% – 4.5%

Deposits and retentions

Deposits and retentions represent liabilities for contractors' deposits which can be refunded at any time after the end of the financial year. The net fair value is the carrying value.

(b) Valuation techniques used to derive level 2 and level 3 fair values

The Corporation measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Derivatives
- System assets
- Land and buildings

The Corporation has also measured assets and liabilities at fair value on a non-recurring basis as a result of the reclassification of assets as held for sale.

(i) Recurring fair value measurements

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair value of financial assets and financial liabilities is determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices. In the absence of quoted market prices, the price of the most recent transaction provides evidence of the current fair value.

The fair values of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using maximum observable market input data which includes prices from observable current market transactions and dealer quotes for similar instruments.

17 Fair Value Measurements *continued*

System assets

System assets are valued using techniques described in note 1(l). All resulting fair value estimates for system assets are included in level 3.

Land and buildings

Land and buildings are valued using techniques described in note 1(l). All resulting fair value estimates for land and buildings are included in Level 2.

(ii) Non-recurring fair value measurements

Non-current land and buildings classified as held for sale during the reporting period is measured at the lower of its carrying amount and fair value less cost to sell.

(c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the periods ended 30 June 2015 and 2014 for recurring fair value measurements.

	Assets System assets $m	Total $m
Opening balance 1 July 2013	5,464.6	5,464.6
Acquisitions	610.4	610.4
Disposals and transfers	(2.2)	(2.2)
Depreciation and impairment	(154.7)	(154.7)
Other movements*	241.5	241.5
Closing balance 30 June 2014	**6,159.6**	**6,159.6**
Acquisitions	469.8	469.8
Disposals and transfers	(8.5)	(8.5)
Depreciation and impairment	(173.3)	(173.3)
Other movements	3.4	3.4
Closing balance 30 June 2015	**6,451.0**	**6,451.0**

* Fair value measurements of non-financial assets take into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Land under infrastructure has been reclassified from land and buildings to system assets, reflecting that the assets generate economic benefits in combination with other network system assets.

(i) Transfers between levels 2 and 3 and changes in valuation techniques

There were no transfers between Level 2 and 3 and no changes in valuation techniques during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

17 Fair Value Measurements *continued*

(ii) Valuation inputs and relationships to fair value

The following table summarises quantitative information about significant unobservable inputs used in level 3 fair value measurements.

	Fair value at 30 June 2015	Fair value at 30 June 2014	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
System assets	**$6,451.0m**	$6,159.6m	Discount rate	+/- 50 basis points	The higher the discount rate, the lower the fair value. A 50 basis point increase/decrease in discount rate results in a $163.4m decrease/$168.0m increase in fair value.
			5 year forecast capital expenditure	+/- 10%	The higher the capital expenditure, the lower the fair value. A 10% increase/decrease in capital expenditure results in a $5.6m increase/decrease in fair value.
			5 year forecast operating expenditure	+/- 10%	The higher the operating expenditure, the lower the fair value. A 10% movement in operating expenditure results in a $115.1 million change in fair value.
			Forecast terminal RAB multiple	+/- 5%	The higher the terminal RAB multiple, the higher the fair value. A 5% increase/decrease in terminal RAB multiple results in a $266m increase/decrease in fair value.

(iii) Valuation processes

The finance division of the Corporation includes a team that performs valuations of system assets required for financial reporting purposes, including level 3 fair values. This team reports directly to the Chief Financial Officer. Valuation outcomes are considered by the Chief Financial Officer and the valuation team at least once every year. The main level 3 inputs used by the Corporation are derived and evaluated as follows:

- System assets – a discounted cash flow model is used to determine fair value using inputs such as future cash flows and discount rates to determine fair value (refer note 1(l)(i)). The cash flow model is used to formulate a discount rate to discount cash flows based upon several inputs, primarily the risk free rate and debt risk premium, and adjustments which are made within the model. The risk free rate is observable data based on government bond rates, and the debt risk premium data is obtained from observable data of corporate bond yields and spreads, and is adjusted as required for use in the model.
- Forecast capital expenditure represents capital expenditure expected to be spent between 1 July 2015 and 30 June 2020, based on latest management estimates.

17 Fair Value Measurements *continued*

(iv) Fair values versus carrying amount

The carrying amounts and fair values of financial assets and liabilities at reporting date were:

	Note	2015 Carrying amount $m	2015 Fair value $m	2014 Carrying amount $m	2014 Fair value $m
Financial instruments					
Financial assets carried at amortised cost					
Cash and cash equivalents	6	0.3	0.3	–	–
Trade and other receivables (excluding prepayments and statutory payables)	7	236.2	236.2	244.1	244.1
		236.5	236.5	244.1	244.1
Financial assets carried at fair value					
Treasury derivatives	8	–	–	0.3	0.3
Financial liabilities carried at amortised cost					
Bank overdraft		–	–	1.2	1.2
Borrowings	13	3,981.4	4,342.3	3,767.7	4,058.9
Trade and other payables (excluding statutory payables)	12	193.1	193.1	221.3	221.3
		4,174.5	4,535.4	3,990.2	4,281.4
Financial liabilities carried at fair value					
Treasury derivatives	8	3.8	3.8	6.2	6.2

18 Key management personnel

Key management personnel comprise members of the Board of Directors, Networks NSW (NNSW) executive management team and the Corporation's leadership management team.

The following were key management personnel of the entity at any time during the reporting period, and unless otherwise indicated were key management personnel for the entire period.

Directors

Mr Roger Massy-Greene (Chairman)

Dr Peter Dodd

Ms Laura Reed

Mr Phil Garling

Dr Patrick Strange

Ms Diana Eilert

Mr Vince Graham (Chief Executive Officer)

Key management personnel remuneration

In addition to their salaries, the entity also provides post employment benefits to Directors and Executive Officers (see Notes 1(r) and 1(s)). For Directors, post employment benefit relates to compulsory superannuation contributions.

The allocation of Networks NSW executive management team remuneration to Endeavour Energy is based on the proportion of customer numbers to the total customer numbers of Ausgrid, Endeavour Energy and Essential Energy combined.

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18 Key management personnel *continued*

Key management personnel compensation included in "employee benefits expense" (see Note 3(a)) is as follows:

	2015 $m	2014 $m
Short-term employee benefits	3.8	3.6
Long-term benefits	0.1	0.2
Post-employment benefits	0.2	0.2
Total	4.1	4.0

19 Related parties transactions

(i) Networks NSW structure

On 1 July 2012, the Networks NSW (NNSW) operating model commenced with Ausgrid, Endeavour Energy and Essential Energy (DNSPs) having separate Boards with common Directors, a common Chairman and common Chief Executive Officer (CEO). NNSW is not a legal entity.

The Umbrella Cooperation Agreement facilitates cooperation between the energy distributors to enable the identification and delivery of reform and other efficiency measures by acting collectively and co-operatively.

On 27 August 2013 amendments to the *Energy Services Corporations Act* (the governing legislation) were enacted to provide for the appointment of a single Board of Directors as the Board of Ausgrid, Endeavour Energy and Essential Energy, to act in their best interests as if they formed part of a combined operation.

On 4 June 2015 the *Electricity Network Assets (Authorised Transactions) Act 2015* and the *Electricity Retained Interest Corporations Act 2015* were enacted to allow the New South Wales Government to proceed with the long-term lease of 49% of the State's electricity network (the Transaction), which is to include 50.4% of Ausgrid and Endeavour Energy (each being an electricity network SOC).

The *Electricity Retained Interest Corporations Act 2015* comes into effect upon proclamation (on a date yet to be announced).

Under the *Electricity Network Assets (Authorised Transactions) Act 2015* the joint board arrangements for Ausgrid, Endeavour Energy and Essential Energy (provided for by Section 9A of the *Energy Services Corporations Act 1995*) will cease on a day to be notified by the Treasurer (this date has not yet been notified by the Treasurer).

The corporation has determined that, at the date of this report, the proposed plan to lease 50.4% of Endeavour Energy does not meet the provisions of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* and, as such, no assets or liabilities have been treated as held for sale as at 30 June 2015.

(ii) Joint venture

Further to the Umbrella Cooperation Agreement, the DNSPs have entered into a joint venture agreement for the purpose of realising cost savings through joint procurement and service provision activities. A legal entity Networks NSW Pty Limited has been used as the vehicle for this joint venture. Networks NSW Pty Limited will not incur any costs in its own right or enter into any sourcing agreements. Endeavour Energy has a one-third ownership interest in Networks NSW Pty Limited.

(iii) Directors

Some Directors of Endeavour Energy are also Directors of other companies or have an interest in other companies or entities that may have had transactions with Endeavour Energy during the financial year. A Register of Directors' interests is maintained by the Board Secretary and updated as required during the year. In particular, in accordance with the Board Charter and the Corporation's Code of Conduct, Directors' have declared any potential conflicts of interest in matters discussed at meetings.

(iv) Transactions with other related parties

Proclamation of the *Energy Services Corporations Amendment (Distributor Efficiency)* legislation discussed above has placed Ausgrid, Endeavour Energy and Essential Energy under the control of a single Board of Directors. This new requirement means that transactions between these Corporations, starting from 27 August 2013, should be disclosed as related party transactions. Transactions prior to 27 August 2013 are not considered to be between related parties. The following transactions occurred with Ausgrid and Essential Energy:

19 Related parties transactions *continued*

	2015 $m	2014 $m
Network use of system income	16.3	12.6
Management fee recharge income	5.8	4.4
Management fee recharge expense	7.0	4.4
Provision of other services	7.4	0.8
Purchases of other services	2.9	3.4

On 1 June 2015 Endeavour Energy's contestable metering business was sold to Ausgrid. The transaction is considered immaterial to Endeavour Energy's operations and financial results. Consequently, AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* has not been applied. The transaction was conducted at arms length.

(v) Outstanding balances arising from sales/purchases of goods and services.

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	2015 $m	2014 $m
Current receivables – Related parties	8.1	3.3
Current payables – Related parties	3.0	3.5

No impairment provision (2014: $nil) in respect of receivables has been raised in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables from related parties.

(vi) Terms and conditions

Management fee recharge income and recharge expenses are calculated at a rate which reflects the cost of providing the service, based on normal commercial terms and conditions.

Network use of system income recoveries are based on normal commercial terms and conditions. Network use of system income recoveries represent inter distributor charges where Endeavour Energy supplies electricity to other distribution network service providers (DNSPs), Ausgrid and Essential Energy, where the respective DNSPs are not in a position to obtain supply from a Bulk Supply Point.

Amounts receivable are unsecured and made on normal commercial terms and conditions. Amounts payable are unsecured and made on normal commercial terms and conditions.

20 Remuneration of auditor

	2015 $m	2014 $m
Amounts paid and payable to the Audit Office of New South Wales	0.3	0.3

21 Contingent liabilities and contingent assets

Contingent liabilities

	2015 $m	2014 $m
Self insurance	0.6	0.5
Sundry general claims	2.4	6.2
	3.0	6.7

The contingent liabilities relate to injury claims (self insurance) and sundry general claims.

The Directors are of the opinion that provisions are not required in respect of matters associated with self insurance and sundry general claims, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Springwood/Winmalee and Mount Victoria bushfire on 17 October 2013

Class action proceedings relating to the Springwood/Winmalee bushfire ("the bushfire") on 17 October 2013 have commenced in the NSW Supreme Court on behalf of residents and business owners who suffered loss or damage arising from the bushfire. The hearing date for the class action proceedings is listed to commence on 15 February 2016. Separate to the class action proceedings, a Coronial inquiry into the Springwood and Mt Victoria bushfires was heard from 1 to 5 June 2015 at Katoomba Local Court. The second week of the inquiry was conducted from 24 August to 28 August 2015.

In respect of the class action proceedings, as the parties haven't yet finalised their evidence in the proceedings, it is not possible for Endeavour Energy to estimate the quantum of the claims that have been instituted on behalf of class members. Endeavour Energy has liability insurance which provides cover for bushfire liability. Endeavour Energy reviews its insurance cover annually and ensures it is commensurate with the scale and size of its operations, the risks assessed to be associated with its operations and with industry standards and practice.

Contingent assets

	2015 $m	2014 $m
Sundry general claims	1.3	3.4
	1.3	3.4

The contingent asset relates to insurance claims.

22 Commitments

	2015 $m	2014 $m
Capital commitments		
Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities payable (including GST)	65.8	96.3
GST credits	6.0	8.8

In addition, Endeavour Energy has two Power Purchase Agreements where Endeavour Energy remains the counterparty. However, through an on-sale agreement as part of the Retail sale, energy transferred to Endeavour Energy is automatically transferred to Origin Energy. Energy purchase commitments to be transferred through the on-sale agreement as at 30 June 2015 total $176.3 million (2014: $1,207.4 million).

23 Operating leases

Leases as lessee

	2015 $m	2014 $m
Non-cancellable operating leases are payable as follows:		
Within twelve months	6.5	7.0
Twelve months or longer and not longer than five years	9.9	10.4
Longer than five year	0.6	1.5
Total (including GST)	17.0	18.9
GST credits	1.5	1.7

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

Leases as lessor

The Corporation leases out its properties, including premises, land and communications towers, under operating lease agreements at market rentals, predominantly on a fixed term basis. The future minimum lease payments under non-cancellable leases are:

	2015 $m	2014 $m
Within twelve months		
Twelve months or longer and not longer than five years	0.3	0.8
Longer than five years	0.1	0.8
Total (including GST)	0.1	–
	0.5	1.6
GST payable	0.1	0.1

During the year ended 30 June 2015, $0.8 million (2014: $0.7 million) was recognised as rental income in profit and loss in relation to these properties.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

24 Reconciliation of profit for the year to net cash from operating activities

	2015 $m	2014 $m
Profit for the year	243.6	301.0
Add/(less) non-cash items		
Depreciation non-current assets	191.7	174.1
Amortisation non-current assets	14.4	15.2
Amortisation of discounts/premiums	3.8	7.7
Non cash additions including capital contributions	(128.8)	(91.8)
Net (profit)/loss on disposal of property, plant and equipment	10.7	1.2
Reserve movements	30.9	11.1
Asset revaluation impacts	(0.1)	–
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	10.4	(34.6)
(Increase)/decrease in unread meters	(3.5)	3.8
(Increase)/decrease in derivative financial assets	0.3	0.6
(Increase)/decrease in inventories	7.3	(3.7)
Increase/(decrease) in trade and other payables	(26.8)	1.5
Increase/(decrease) in provisions	(55.4)	(15.5)
Increase/(decrease) in current tax balances	3.3	(59.1)
Increase/(decrease) in deferred tax liabilities	52.7	13.5
Increase/(decrease) in derivative financial liabilities	(2.4)	0.7
Increase/(decrease) in other liabilities	2.8	1.6
Net cash from operating activities	354.9	327.3

25 Superannuation – Defined benefits plan

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

(a) Nature of the benefits provided by the fund

The Energy Industries Superannuation Scheme (the Scheme) is divided into seven divisions, of which Divisions B, C and D provide defined benefits, that is at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. Divisions B, C and D are closed to new members except for members of eligible schemes who can transfer their entitlements into the Scheme.

Disclosures below are prepared in relation to Divisions B, C and D only, these Divisions are referred to collectively as "the Fund" hereafter.

(b) Description of the Regulatory Framework

The Scheme was established on 30 June 1997 by a Trust Deed made under an Act of the NSW Parliament, for the purpose of providing retirement benefits for employees of certain Energy Industries bodies in NSW.

The Scheme is regulated primarily by the *Superannuation Industry (Supervision) Act 1993 (Cth)* ("the SIS legislation"), but is also subject to regulation under the *Superannuation Administration Act 1996 (NSW).*

The SIS legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions, unless an exemption has been obtained.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

The Scheme has received an exemption from annual actuarial valuation and therefore actuarial valuations are only required triennially. The last actuarial valuation of the Scheme was performed as at 30 June 2012. The next triennial review is due as at 30 June 2015, with the report expected to be released by the end of 2015.

25 Superannuation – Defined benefits plan *continued*

(c) Risk exposure

There are a number of risks to which the Fund exposes the employer. The more significant risks relating to the defined benefits are:

- Investment risk – the risk that investment returns will be lower than assumed and the employer will need to increase contributions to offset the shortfall.
- Longevity risk – the risk that pensioners live longer than assumed, increasing future pensions.
- Pension indexation risk – the risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- Salary growth risk – the risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk – the risk that legislative changes could be made, increasing the cost of providing defined benefits.

Defined benefit fund assets are invested with independent fund managers and have a diversified asset mix.
The Fund has no significant concentration of investment risk or liquidity risk.

(d) Description of other entities' responsibilities for governance of the fund

The Scheme's Trustee is responsible for governance of the Scheme. The Trustee has a legal obligation to act solely in the best interests of Scheme beneficiaries. The Trustee has the following roles:

- Administration of the Scheme and payment to beneficiaries from Scheme assets when required, in accordance with Scheme rules;
- Management and investment of Scheme assets;
- Compliance with other applicable regulations; and
- Compliance with the Trust Deed.

(e) Description of significant events

There were no fund amendments, curtailments or settlements during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

25 Superannuation – Defined benefits plan *continued*

(f) Reconciliation of the Net Defined Benefit (Liability)/Asset

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

	Present value of obligation $m	Fair value of plan assets $m	Net amount $m
At 1 July 2013	(420.0)	308.5	(111.5)
Current service cost	(10.9)	–	(10.9)
Interest (expense)/income	(15.0)	11.6	(3.4)
(Expense)/income recognised in profit or loss	(25.9)	11.6	(14.3)
Contributions by fund participants			
Employers	–	13.0	13.0
Plan participants	(3.2)	3.2	–
	(3.2)	16.2	13.0
Remeasurements			
Return on plan assets, excluding amounts included in interest expense/(income)	–	23.1	23.1
Gain/(loss) from liability experience	2.8	–	2.8
Gain/(loss) from change in financial assumptions	(9.1)	–	(9.1)
(Expense)/income recognised in Other Comprehensive Income	(6.3)	23.1	16.8
Benefits paid	29.0	(29.0)	–
Taxes, premiums and expenses paid	2.3	(2.3)	–
At 30 June 2014	(424.1)	328.1	(96.0)
At 1 July 2014	**(424.1)**	**328.1**	**(96.0)**
Current service cost	**(9.7)**	**–**	**(9.7)**
Interest (expense)/income	**(14.3)**	**11.6**	**(2.7)**
(Expense)/income recognised in profit or loss	**(24.0)**	**11.6**	**(12.4)**
Contributions by fund participants			
Employers	**–**	**12.2**	**12.2**
Plan participants	**(2.7)**	**2.7**	**–**
	(2.7)	**14.9**	**12.2**
Remeasurements			
Return on plan assets, excluding amounts included in interest expense/(income)	**–**	**10.6**	**10.6**
Gain/(loss) from liability experience	**19.9**	**–**	**19.9**
Gain/(loss) from change in financial assumptions	**15.0**	**–**	**15.0**
(Expense)/income recognised in Other Comprehensive Income	**34.9**	**10.6**	**45.5**
Benefits paid	**90.1**	**(90.1)**	**–**
Taxes, premiums and expenses paid	**3.7**	**(3.7)**	**–**
At 30 June 2015	**(322.1)**	**271.4**	**(50.7)**

25 Superannuation – Defined benefits plan *continued*

(g) Fair value of fund assets

All Division B, C and D assets are held in Pool B of the Scheme. Pool B, in turn, holds units invested in the Energy Investment Fund, a pooled superannuation trust. As such, assets are not separately invested for each employer and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. Disclosures below relate to total assets of Pool B of the Scheme.

	Total $m	Quoted prices in active markets for identical assets Level 1 $m	Significant observable inputs Level 2 $m	Unobservable inputs Level 3 $m
30 June 2015				
Asset category				
Energy Investment Fund	2,351.2	–	2,351.2	–
Total	2,351.2	–	2,351.2	–
30 June 2014				
Asset category				
Energy Investment Fund	2,377.1	–	2,377.1	–
Total	2,377.1	–	2,377.1	–

Some Pool B assets are invested in accordance with member investment choices. For Pool B assets invested in the Energy Investment Fund but not subject to member investment choice, the percentage invested in each asset class at the reporting date is:

	2015 %	2014 %
Australian equities	12	17
International equities	36	23
Emerging market equities	–	4
Property	4	7
Private equity	2	1
Infrastructure	7	10
Alternatives	32	25
Fixed income	–	12
Cash	7	1
Total	100	100

Derivatives can be used by investment managers, however strict investment guidelines detail all limits approved on the use of derivatives. The use of derivatives is governed by investment policies, which permit the use of derivatives to change the Fund's exposure to particular assets. The Trustee requires that derivative financial instruments are not entered into for speculative purposes or to gear the Fund, and that all derivative positions are (a) fully cash covered; (b) are offset to existing assets; or (c) are used to alter exposures in underlying asset classes. Compliance with policies and exposure limits are reviewed by the Trustee on a continual basis. As such, investment managers make limited use of derivatives.

(h) Fair value of the Corporation's own financial instruments

The fair value of Plan assets includes no amounts relating to any of the Corporation's own financial instruments, or any property occupied by, or other assets used by, the Corporation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

25 Superannuation – Defined benefits plan *continued*

(i) Significant actuarial assumptions at reporting date

	2015 %	2014 %
Expected salary increase rate (excluding promotional increases)	0% pa until 31 Dec 2016 and 2.5% thereafter	3.5
Rate of CPI increase	2.5	2.5
Expected rate of return on assets	7.0	7.0
Discount rate	3.03	3.57
Pensioner mortality	Based on Mercer 2005 –09 Standard Pensioner Mortality table	Based on Mercer 2005 –09 Standard Pensioner Mortality table

(j) Sensitivity analysis

The Corporation's total defined benefit obligation as at 30 June 2015 under several scenarios is presented below. Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, while scenarios G and H relate to sensitivity to demographic assumptions.

30 June 2015

	Base case	Scenario A -1.0% discount rate	Scenario B +1.0% discount rate
Discount rate	3.03%	2.03%	4.03%
Rate of CPI increase	2.5%	2.5%	2.5%
Salary inflation rate	0% pa until 31 Dec 2016 and 2.5% thereafter	0% pa until 31 Dec 2016 and 2.5% thereafter	0% pa until 31 Dec 2016 and 2.5% thereafter
Defined benefit obligation	$322.2m	$361.5m	$290.4m

	Base case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	3.03%	3.03%	3.03%
Rate of CPI increase	2.5%	3.0%	2.0%
Salary inflation rate	0% pa until 31 Dec 2016 and 2.5% thereafter	0% pa until 31 Dec 2016 and 2.5% thereafter	0% pa until 31 Dec 2016 and 2.5% thereafter
Defined benefit obligation	$322.2m	$330.1m	$314.9m

	Base case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	3.03%	3.03%	3.03%
Rate of CPI increase	2.5%	2.5%	2.5%
Salary inflation rate	0% pa until 31 Dec 2016 and 2.5% thereafter	0.5% pa until 31 Dec 2016 and 3.0% thereafter	0% pa until 31 Dec 2016 and 2.0% thereafter
Defined benefit obligation	$322.2m	$333.5m	$313.7m

	Base case	Scenario G +5% pensioner mortality rate	Scenario H -5% pensioner mortality rate
Defined benefit obligation	$322.2m	$320.8m	$323.6m

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

25 Superannuation – Defined benefits plan *continued*

(k) Asset-Liability matching strategies

We are not aware of any asset and liability matching strategies currently adopted by the Fund.

(l) Funding arrangements

Funding arrangements are reviewed at least every three years following release of the triennial actuarial review, and was last reviewed following completion of the triennial review as at 30 June 2012. Contribution rates are set following discussions between the employer and the Trustee. The next triennial review is due as at 30 June 2015, with the report expected to be released by the end of December 2015. Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

Surplus/deficit

The following is a summary of the 30 June 2015 financial position of the Fund calculated in accordance with AAS 25 *Financial Reporting by Superannuation Plans*.

	2015 $m	2014 $m
Accrued benefits	236.3	312.9
Net market value of fund assets	(271.4)	(328.2)
Net (surplus)/deficit	(35.1)	(15.3)

Contribution recommendations

Recommended contribution rates for the Corporation are:

• Division B – multiple of member contributions	1.9x
• Division C – % member salary	2.5%
• Division D – multiple of member contributions	1.64x
• Additional lump sum $p.a.	$5.2m

Significant actuarial assumptions at reporting date

Economic assumptions adopted for the 30 June 2015 calculations above:

Weighted-average assumptions

Expected rate of return on fund assets backing current pension liabilities	7% pa
Expected rate of return on fund assets backing other liabilities	7% pa
Expected salary increase rate	0.0% pa until 31 Dec 2016 and 2.5% thereafter
Expected rate of CPI increase	2.5% pa

Expected contributions

Expected employer contributions for the financial year to 30 June 2016

	2016 $m
Expected employer contributions	10.2

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13.5 years (2014: 13.1 years).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

25 Superannuation – Defined benefits plan *continued*

(m) Nature of asset/liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary. Where a deficiency exists, the employer is responsible for any difference between the employer's share of Fund assets and the defined benefit obligation.

26 Events subsequent to reporting date

The financial statements of Endeavour Energy for the year ended 30 June 2015 were authorised for issue in accordance with a resolution of the Directors on 10 September 2015.

There are no known events that would impact the state of affairs of the entity or have a material impact on the financial statements up to that date.

End of audited Financial Statements

STATEMENT BY DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2015

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

(a) The accompanying financial statements and notes are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (and complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board), the State *Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and Accounting Interpretations, and give a true and fair view of the financial position of Endeavour Energy as at 30 June 2015 and its financial performance for the year ended on that date;

(b) At the date of this statement, there are reasonable grounds to believe that Endeavour Energy will be able to pay its debts as and when they become due and payable; and

(c) We are not aware of any circumstances at the date of this statement that would render any particulars included in the financial report to be misleading or inaccurate.

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

Vince Graham
Chief Executive Officer

Sydney
10 September 2015

Roger Massy-Greene
Chairman

10 September 2015

10

APPENDICES

FOR THE YEAR ENDED 30 JUNE 2015

Five-year statistical table

		2010–11	2011–12	2012–13	2013–14	2014–15
EFFICIENCY						
Employment	(1)	2,925	2,824	2,635	2,533	**2,378**
Output/employee (GWh)	(2)	6.0	5.7	5.9	6.1	**6.6**
Sales revenue ($m)	(3)	1,936.2	1,225.0	1,299.2	1,274.4	**1,303.4**
Customer/employee ratio	(4)	300.0	306.3	328.2	354.1	**377.9**
System loss index (%)	(5)	3.9	4.0	4.2	4.0	**4.0**
Days sick leave/employee		7.0	7.2	7.2	6.5	**6.6**
Lost time incidents frequency rate (LTIFR)	(6)	4.5	3.6	2.6	4.8	**2.7**
EFFECTIVENESS						
Output (GWh)	(7)	17,501	16,506	16,001	15,637	**16,128**
Supply reliability (minutes)	(8)	72.0	81.8	88.0	83.0	**103.7**
Customer service indicator	(9)					
Target		82%	75%	75%	75%	**80%**
Result		79%	76%	75%	78%	**80%**
FINANCIAL INDICATORS						
EBIT ($m)		546.9*	585.9	625.8	580.8	**589.3**
Operating profit after tax ($m)		244.7*	s265.5	298.9	301.0	**243.6**
Revenue ($m)	(10)	2,156.8	1,476.9	1,492.8	1,497.6	**1,576.7**
Return on assets (%)	(11)	10.8*	10.6	10.1	8.7	**8.4**
Return on equity (%)	(12)	20.5*	19.8	19.7	18.2	**13.7**
Asset base ($m)		5,159.1	5,936.4	6,400.8	6,912.9	**7,198.2**
Asset sales ($m)	(13)	3.6	3.8	10.7	3.5	**5.4**
Financial distribution ($m)		266.4	302.3	337.7	255.1	**270.8**
Tax equivalent ($m)	(14)	109.6	115.7	128.2	77.0	**104.2**
Dividend ($m)		156.8	186.6	209.5	178.1	**166.6**
Special Dividend ($m)		863.7	0.0	0.0	0.0	**0.0**
Gross external debt ($m)		2,617.5	3,003.8	3,358.4	3,768.9	**3,981.4**
Gearing ratio (%)	(15)	68.0	67.4	67.9	68.7	**68.5**
Times interest earned	(16)	2.9*	2.9	3.2	2.9	**2.4**

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

* Excludes the impact resulting from the gain on the sale of retail net assets amounting to $759.3m.

(1) Full time equivalent staff as at 30 June.

(2) Network GWh sold per average number of FTE employees.

(3) Sales revenue includes total electricity sales and network use of system income only. Following the sale of the Retail net assets on 28 February 2011, there have been no further sales of electricity.

(4) Average network customers per average number of FTE employees.

(5) Energy imported less energy consumption, divided by energy imported.

(6) The LTIFR indicates how frequently lost time injuries have occurred per million hours worked. It is calculated by taking the number of LTI's reported in the previous 12 months (multiplied by 1,000,000) and then dividing by the average number of employees for the previous 12 months (multiplied by 2,000 hours worked per FTE).

(7) Network sales (GWh) including accruals and off peak bulk transfers.

(8) In 2013–14 Endeavour Energy changed the reporting of SAIDI to the AER's Service Target Performance Incentive Scheme (STPIS) methodology. Prior to this, SAIDI was calculated on the methodology provided in the licence conditions for NSW electricity distributors. The AER further amended the STPIS methodology in 2015 which we will report against in 2015–2016.

(9) The Customer Service Indicator was based on an index covering both Retail and Network factors up to and including March 2011. From 1 July 2011, the Customer Satisfaction Indicator was determined on Network factors only, which means this data is not comparable.

(10) Revenue includes sales revenue and other income, including capital contributions.

(11) EBIT divided by the average asset base.

(12) Operating profit after tax divided by average equity.

(13) Total proceeds from asset sales.

(14) Defined as income tax expense per NSW Treasury.

(15) Debt divided by debt plus equity.

(16) Times interest earned calculated by adding the net interest expense to the profit before income tax and dividing by the net interest expense.

Consultants

In 2014–15 Endeavour Energy engaged one consultant for a project (equal to or greater than $50,000) totalling $0.15 million, as detailed below:

Consultant	Purpose	Cost $m
CEG Asia Pacific Pty Ltd	Professional services in relation to Networks NSW AER submission on the cost of capital	0.15
	Total	0.15

Endeavour Energy also engaged one consultant for less than $50,000 during 2014–15 at a cost of $0.02m for provision of managerial advice.

Endeavour Energy also participated in two Networks NSW consultancies: a safety culture assessment with Leading Edge Safety Systems and a sustainability review project with PWC Strategy & (Australia) Pty Ltd. The total costs are disclosed in the Appendices section of Ausgrid's 2014–15 Annual Report as they were the commissioning agency for Networks NSW. Endeavour Energy paid Ausgrid $1.7M for its share of these consultancies through a management fee.

Credit card certification

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

Digital information security

Endeavour Energy has adopted the NSW Government recommended standard for the implementation of the information security management system (ISMS), ISO27001 and has developed internal policies and procedures related to digital information security in alignment to that standard. Endeavour Energy undertakes a managed process of penetration testing and internal audits to test its controls to mitigate identified risks to its digital information. The current ISMS and associated digital information systems security controls are currently deemed adequate for the foreseeable future.

Disclosure of approved exemptions

Reference	Comment
s. 41B(c) PF&AA[1] Financial statements	Exemption from preparing manufacturing, trading, and profit and loss statements. Endeavour Energy is required to prepare a summarised Operating Statement, summarising major categories of revenues and expenses.
Schedule 1 ARSBR[2] Payment of accounts	Statutory SOCs are not subject to the payment of accounts provision in c13 of the *Public Finance and Audit Regulation 2015.*
Schedule 1 ARSBR Time for Payment of Accounts	As above.
s. 7(1)(a)(ia) ARSBA[3] Financial Statement of Controlled Entities	Exemption from preparing manufacturing and trading statements. Endeavour Energy is required to prepare a summarised Operating Statement (i.e. summarising major categories of revenues and expenses).

1 *Public Finance and Audit Act 1983.*

2 *Annual Reports (Statutory Bodies) Regulation 2005.*

3 *Annual Reports (Statutory Bodies) Act 1984.*

Funds granted to non-government organisations

Endeavour Energy lends support to selected community organisations that reflect its obligations as a state-owned corporation and align to its Corporate Plan.

Government Information (Public Access) Act 2009

The Government Information (Public Access) Act 2009 (NSW) (GIPA Act) replaced the *Freedom of Information Act 1989 (NSW)* on 1 July 2010.

The GIPA Act has established a comprehensive system for public access to government information. Endeavour Energy is subject to the GIPA Act and is committed to complying with the Act in a fair and objective manner when dealing with external requests for access to company information. We support the proactive release of information where it is in the public interest to do so.

Review of program for release of information

During 2014–15 Endeavour Energy's review of its program for release of information, which was undertaken as required by section 7(3) of the GIPA Act, included the review of its policies, procedures, forms and templates regarding processing requests for access to government information; the training of staff in GIPA Act compliance; publication of contractual information into a centralised database; a review of its website and publication of relevant information regarding corporate governance and the network business.

Total number of access applications received during the year

In 2014–15 Endeavour Energy received 13 new formal access applications for information pursuant to the GIPA Act. As at 30 June 2015, no formal access applications were ongoing. The applications were from members of the public, members of parliament, media, private sector businesses, lawyers and investigators.

In response to the formal access applications that were finalised in 2014–15 (including one application carried over from 2013–14), full access was provided on eight occasions. With respect to the remaining access applications, four were granted in part and two were withdrawn by the applicant following assistance provided by Endeavour Energy regarding the information requested. A variety of public interest considerations were taken into account in dealing with these applications. These are set out in Table E below.

In the course of determining access applications during the financial year, Endeavour Energy did not rely on any of the conclusive presumptions of overriding public interest against disclosure (as set out in schedule 1 of the GIPA Act).

Statistical information about access applications

As required by section 7 and schedule 2 of the *Government Information (Public Access) Regulation 2009 (NSW)*, the following tables provide a summary of the responses to requests made pursuant to the GIPA Act in 2014–15.

Table A: Number of applications by type of applicant and outcome

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Media	1	–	–	–	–	–	–	–
Members of Parliament	2	–	–	–	–	–	–	–
Private sector business	1	–	–	–	–	–	–	1
Not for profit organisations or community groups	–	–	–	–	–	–	–	–
Members of the public (application by legal representative)	2	1	–	–	–	–	–	1
Members of the public (other)	2	3	–	–	–	–	–	–

Table B: Number of applications by type of applicant and outcome

	Access granted in full	Access granted in part#	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Personal information applications*	1	–	–	–	–	–	–	–
Access applications (other than personal information applications)	7	3	–	–	–	–	–	2
Access applications that are partly personal information applications and partly other	–	1	–	–	–	–	–	–

* A personal information application is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

Relates primarily to employee details.

Table C: Invalid applications

Reason for invalidity	Number of applications
Application does not comply with formal requirements (section 41 of the Act)	–
Application is for excluded information of the agency (section 43 of the Act)	–
Application contravenes restraint order (section 110 of the Act)	–
Total number of invalid applications received	–
Invalid applications that subsequently became valid applications	–

Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 of the Act

	Number of times consideration used
Overriding secrecy laws	–
Cabinet information	–
Executive Council information	–
Contempt	–
Legal professional privilege	2
Excluded information	–
Documents affecting law enforcement and public safety	–
Transport safety	–
Adoption	–
Care and protection of children	–
Ministerial code of conduct	–
Aboriginal and environmental heritage	–

Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of the Act

	Number of times consideration used
Responsible and effective government	–
Law enforcement and security	–
Individual rights, judicial processes and natural justice	2*
Business interests of agencies and other persons	–
Environment, culture, economy and general matters	–
Secrecy provisions	–
Exempt documents under interstate Freedom of Information legislation	–

* Part of requested information only – balance provided in full.

Table F: Timeliness

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	8
Decided after 35 days (by agreement with applicant)	4
Not decided within time (deemed refusal)	–
Total	**12**

Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)

	Decision varied	Decision upheld	Total
Internal review	–	–	–
Review by Information Commissioner*	1	–	1
Internal review following recommendation under section 93 of Act*	1	–	1
Review by NCAT	–	–	–
Total	**2**	**–**	**2**

* The Information Commissioner does not have the authority to vary decisions, but can make recommendation to the original decision-maker. The data in this table indicates whether a recommendation to vary or uphold the original decision has been made.

Table H: Applications for review under Part 5 of the Act (by type of applicant)

	Number of applications for review
Applications by access applicants	1
Applications by persons to whom information the subject of access application relates (see s.54 GIPA Act)	–

Greenhouse gas emissions[1]

Emissions Source	Tonnes CO_2	% Total
SCOPE 1 EMISSIONS		
Petroleum products combusted in transport vehicles	13,241	2.16
Petroleum products combusted in stationary units (generators)	598	0.10
SF6	8,541	1.39
Petrolum based oils	7	0.00
Ethanol	3	0.00
Total Scope 1 Emissions	**22,390**	**3.65**
SCOPE 2 EMISSIONS		
Electricity consumed by Endeavour Energy	12,741	2.08
Distribution Network Losses	577,941	94.27
Total Scope 2 Emissions	**590,682**	**96.35**
Total Scope 1 and Scope 2 Emissions	**613,072**	**100.00**
EMISSION REDUCTIONS		
Energy production	23	
Total emission reduction (solar generation)	**23**	
NET GHG EMISSIONS		
Scope 1 + Scope 2 – Reductions	**613,049**	

1 Data categories have been updated to reflect NGERS reporting requirements.

Guaranteed Customer Service Standards

The New South Wales Government introduced Customer Service Standards for reliability in 2006 to provide financial compensation to eligible customers who have experienced poor reliability of supply from our distribution network and who make a valid claim.

The standards require us to compensate eligible customers who experience too many supply interruptions in one year or if supply is interrupted for too long. Eligibility criteria apply. Power outages that are part of normal network operations or are beyond our reasonable control are not eligible for compensation.

Interruption Frequency Standard

The Interruption Frequency Standard is the maximum number of supply interruptions a customer should experience in a financial year. Depending upon where the customer's premises are located, a different standard will apply as set out in the table below.

Location	Number of interruptions
Metropolitan area	4 interruptions (each interruption must be ≥ 4 hours duration)
Non metropolitan area	4 interruptions (each interruption must be ≥ 5 hours duration)

Interruption Duration Standard

The Interruption Duration Standard is the maximum duration of any supply interruptions you should experience. Depending upon where a premises is located, a different standard will apply as set out in the table below.

Location	Duration of interruption (in hours)
Metropolitan area	12
Non metropolitan area	18

Further information on eligibility criteria, exclusions and how to make a claim are available on our website www.endeavourenergy.com.au.

As at 30 June 2015, Endeavour Energy compensated three customers for a total cost of $240 for not meeting these service levels.

Investment performance

In accordance with NSW Treasury guidelines, investment return is benchmarked against the NSW Treasury Corporation's hourglass cash facility.

Endeavour Energy is a net borrower in the marketplace. The interest income disclosed in the audited accounts represents income which is derived from the receipt of interest on our bank account being in credit and investment returns of average surplus funds over the reporting period.

In 2014–15, our investment performance was 2.5% compared to the benchmark of 2.7%, with an average investment balance of $3.6m. This reflected the short-term nature of our investments, with the return closely in line with the Reserve Bank of Australia cash rate.

Land disposal

Endeavour Energy did not dispose of any land worth more than $5.0 million during the reporting year. Access to documents concerning the details of properties disposed of during the reporting year may be made in accordance with the *Government Information (Public Access) Act 2009*.

Liability management performance

At 30 June 2015, our total debt was $4.0 billion (current capital value), sourced entirely through NSW Treasury Corporation. The business actively manages the debt portfolio to limit the cost of funds by using the portfolio approach. Weighted average cost of debt for the year was 6.5%.

We continued to use NSW Treasury Corporation's short-term borrowing facility to help meet cash requirements and reduce fixed borrowings.

At 30 June 2015, 75% of our total debt was fixed-rate debt maturing out to 2041, 18% was inflation-indexed debt maturing out to 2035, and the remaining 7% was floating rate debt.

Network prices 2014–15

Each June the AER is required to approve Endeavour Energy's proposed network prices for the upcoming financial year. On 12 June 2015, the AER advised that Endeavour Energy's pricing proposal was compliant with Part I of the National Electricity Rules and the AER's distribution determination.

Endeavour Energy's network tariff strategy aims to move towards prices that better reflect the underlying costs of supplying network capacity while constraining average distribution price increases to no more than the rate of inflation.

Consistent with the network tariff objectives outlined above, our network tariff strategy aims to:

- constrain our share of a customer's bill to no more than the rate of inflation for the current determination period
- align the largely fixed costs of the network and revenues
- provide outcomes that recognise the impacts that pricing decisions have on our customers
- pass through the full cost of TransGrid's transmission services and preserve transmission price signals where possible
- explore tariff based demand management opportunities, including voluntary time of use tariffs, and tariffs that target network constraints on a locational basis.

For the residential tariff in 2015–16, Endeavour Energy will implement a three block structure with declining prices while continuing to keep its share of customer bill increases to the rate of inflation or below. This will help make distribution charges more stable and predictable for customers in the longer term.

Overseas travel 2014–15

Name	Title	Travel to	Dates	Reason
Justin Byrnes	Electrical Engineer – Mains	Vietnam	3–6 September 2014	Factory inspection and accreditation of cable supplier
Kamal Bandara	Electrical Engineer – Mains	New Zealand	22–25 April 2015	Factory inspection for manufacturing and testing of low voltage aerial bundled cable

Public Interest Disclosures Act

In compliance with the *Public Interest Disclosures Act 1994 (PID Act)*, Endeavour Energy has a policy for receiving, assessing and investigating public interest disclosures. Employees have been informed of the contents of the policy and the protection available under the Act through the publication and distribution of the Code of Conduct.

During the period 1 July 2014 to 30 June 2015, Endeavour Energy dealt with twenty-six public interest disclosures alleging corrupt conduct. Twenty-three of the disclosures were received from public officials performing their day to day function and three were received from a statutory authority. There were no public interest disclosures received in relation to maladministration, serious and substantial waste or government information contravention. Twenty-eight public interest disclosures were finalised during the financial year.

Summary of Legislative changes and Judicial Decisions for 1 July 2014 to 30 June 2015

Material changes to Commonwealth legislation

Clean Energy Legislation (Carbon Tax Repeal) Act 2014 (Cth)

This Act, which came into effect in stages between 1 and 18 July 2014, repealed legislation establishing the previous Commonwealth Government's carbon pricing mechanism, including the *Clean Energy Act 2011* (Cth). Following the repeal, the 2013–14 financial year was the last financial year in which Endeavour Energy may have been required to pay a price for carbon emissions under the *Clean Energy Act 2011* (Cth).

Material changes to New South Wales legislation

Electricity Network Assets (Authorised Transactions) Act 2015 (NSW)

This Act amended various Acts regulating Endeavour Energy's operations to authorise and facilitate the lease of up to a 49% interest in the State's electricity network assets to the private sector for an initial term of up to 99 years. The Act prevents transfer of any assets, rights or liabilities of Essential Energy.

The Act places a number of restrictions on the transaction, including that a public sector agency must not transfer any interest in a network infrastructure asset lease or in the lessee of such a lease and that authorised network operators will be required to provide an electricity price guarantee.

The Act grants the Treasurer power to transfer existing employees of the relevant State owned corporations to other public sector agencies or to private sector entities, with or without their consent. It also provides for an 'employment guarantee' for five years ending on 30 June 2020, during which a lessor of a transacted distribution systems is restricted in the extent to which it can vary the number of employees of the relevant entity, the terms of an employee's employment, and enterprise bargaining agreements. In both situations, the Act provides for the continuity of employment entitlements of the relevant employees.

Electricity Retained Interest Corporations 2015 (NSW)

This Act creates corporations to manage the electricity network assets retained by the State of NSW following the long term lease of electricity network assets to private operators as facilitated by the proposed *Electricity Network Assets (Authorised Transactions) Act 2015* (NSW) above. The Act places obligations on these corporations to properly manage the retained assets.

Electricity Supply Act 1995 (NSW)

This Act was amended by the *Electricity Supply Amendment (Bush Fire Hazard Reduction) Act 2014* (NSW), which came into effect on 11 November 2014. The amendments give network operators power to direct owners of private land in bush fire prone areas to conduct work to mitigate bush fire risks. Network operators have the power to enter the land and perform the works themselves if the owner does not comply. The *Electricity Supply (Safety and Network Management) Amendment (Directions for Bush Fire Risk Mitigation Work) Regulation 2014* (NSW) makes further provision for the contents of a notice issued under the new provisions.

Electricity Supply (Safety and Network Management) Regulation 2014 (NSW)

This regulation came into effect on 1 September 2014, replacing the *Electricity Supply (Safety and Network Management) Regulation 2008* (NSW). Like the 2008 Regulation, this regulation creates an obligation on network operators to put in place by 1 March 2015, comply with, and measure their performance against, a 'Safety Management System'. The 2014 Regulation is less prescriptive than its predecessor and includes an overarching obligation 'to take all reasonable steps to ensure' the safety of the network and includes references to standards and codes.

Electricity Supply (General) Regulation 2014 (NSW)

This Regulation commenced on 1 September 2014 and remakes, with certain omissions, the *Electricity Supply (General) Regulation 2001* (NSW). The Regulation contains provisions relating to consumer consultative groups, the energy ombudsman scheme, distributor service standards, the solar bonus and energy savings schemes and other matters.

Electricity Supply (Consumer Safety) Regulation 2006 (NSW)

The repeal of this legislation was postponed from 1 September 2014 to 1 September 2015.

Home Building Act 1989 (NSW)

This Act was amended by the *Home Building Amendment Act 2014* (NSW), which came into effect in stages by 1 March 2015. The amendments were outlined in Endeavour Energy's 2013–14 annual report. The *Home Building Regulation 2004* (NSW) remakes the *Home Building Regulation 2014* (NSW), and makes additions to support the amendments referenced above.

Work Health and Safety Amendment (Miscellaneous) Regulations 2015 (NSW)

This Regulation, which commenced on 13 February 2015, amends the *Work Health and Safety Regulation 2011* (NSW) to, among other things, exempt work carried out by or on behalf of an 'electricity supply authority' (which includes Endeavour Energy) on electrical equipment owned by the authority to generate, transform, transmit or supply electricity, and to exempt contestable services authorised by an electricity supply authority, from the application of Division 4 of Part 4.7 of the *Work Health and Safety Regulation 2011* (NSW).

Environmental Planning and Assessment Amendment Act 2014 (NSW)

The *Environmental Planning and Assessment Amendment Act 2014* (NSW) introduced a new tiered penalty framework for offences against the *Environmental Planning and Assessment Act 1979* (NSW), which is to commence on an as yet unannounced date fixed by proclamation. The maximum penalty for Tier 1 offences will be $5 million, increased from $1.1 million. Other changes will include enhanced enforcement powers, and a new offence of providing false or misleading information in connection with planning matters.

National Electricity Rules

The National Electricity Rules apply in NSW under the *National Electricity (New South Wales) Act 1997* (NSW). The Australian Energy Market Commission has made the following rule changes in the last financial year:

(a) *Connecting embedded generators under Chapter 5A* – effective 1 March 2015, the key components of this rule change are:

(i) proponents of non-registered embedded generators for whom a basic or standard connection offer is not available may elect to use the Chapter 5 embedded generator connection framework instead of the Chapter 5A arrangements; and

(ii) distributors must publish information to assist customers and maintain a register of Chapter 5 and Chapter 5A embedded generator projects on their websites.

(b) *Customer access to information about their energy consumption* – effective 1 December 2014 (1 March 2016 for some provisions), this rule allows customers, or parties authorised by customers, to request access to their electricity consumption data from their distributor. This information must be provided free of charge and subject to prescribed formats and timeframes. A corresponding change was made to the National Energy Retail Rules.

(c) *Distribution Network Pricing Arrangements* – effective 1 December 2014, this rule sets out a new pricing objective, new pricing principles and a new process for setting network prices, with the first tariffs based on the new principles to apply from 1 July 2017. Under transitional arrangements, NSW distributors are required to submit 'Tariff Structure Statements' (TSS) for approval by the AER by 27 November 2015. The AER will make a decision in relation to these TSS by 31 October 2016, with tariffs based on the new principles to apply from 1 July 2017.

(d) *Improving demand side participation information provided to AEMO by registered participants* – effective 26 March 2015, this rule allows the Australian Energy Market Operator (AEMO) to set guidelines requiring distributors to provide it with Demand Side Participation Information (DSP Information), which the AEMO will use in making its short and long term load forecasts. AEMO must have regard to registered participants' costs of compliance when making guidelines and must publish details annually on the extent to which DSP Information it has obtained has informed the development or use of its electricity load forecasts.

Distributor Licence Conditions

The Minister for Resources and Energy reviewed and varied conditions relating to reliability and performance in distributor licence pursuant to the *Electricity Supply Act 1995 (NSW)*, effective from 1 July 2014. The new conditions, among other things, specify minimum reliability performance for individual feeders and minimum average reliability performance for distributors across their network, by feeder type. Distributors must compensate customers that receive poor supply reliability from the distributor. Distributors must also make quarterly reports to the Minister relating to individual feeder standards, network overall reliability standards and customer service standards.

Executive remuneration

General principles for remuneration of Executive Officers

Endeavour Energy's remuneration strategies are designed to attract and retain Executive Officers who drive business performance and who consistently demonstrate high standards of behaviour consistent with Endeavour Energy's values and Code of Conduct. Remuneration recommendations for Group Executive Officers that report to the Chief Executive Officer are considered and approved by the Board. The Chief Executive Officer considers and approves those recommendations for Executives that report to the Chief Operating Officer.

Components of remuneration

Endeavour Energy Executive Officers are employed under performance-based employment contracts. Total remuneration for Executive Officers consists of fixed remuneration, ie the annual salary paid inclusive of superannuation contributions and all salary sacrificed benefits; and an annual "at risk" payment that represents the proportion of total remuneration that is 'at risk' for each Executive Officer.

Two year wage freeze

All Endeavour Energy managers employed under contract have their fixed remuneration reviewed in April each year. The NSW Government wages policy constrains the average increase to 2.5%. Following a 2.5% average increase in April 2014 contract manager remuneration was not increased in April 2015, and is not intended to be increased in April 2016. This two year wages freeze also affects the funding pool available for "at risk" payments for contract managers.

Fixed remuneration

As a condition of employment, remuneration of Executive Officers is reviewed in April each year and is based on rigorous performance assessments of each Executive Officer. In approving increases to the remuneration of Executive Officers, the Board or the Chief Executive Officer considers the outcomes of these performance assessments, and NSW Government Wages Policy.

In April 2014, the Board approved an average 2.5% increase in the remuneration of Group Executive Officers consistent with the NSW Government Wages Policy. Endeavour Energy's Chief Executive Officer subsequently approved the same average increase for Executive Leadership Team members. This increase, however, was not applied to the remuneration of Vince Graham until July 2014 to align with his appointment as Chief Executive Officer of Ausgrid and Essential Energy as well as Endeavour Energy from 1 July 2012.

There was no remuneration review for Executive Officers, the Executive Leadership Team or other contract managers at Endeavour Energy during 2014–15. The data presented in this report represents twelve months of remuneration after the average 2.5% increase approved by the Board and Chief Executive Officer in April 2014. The remuneration data presented in the 2013–14 Endeavour Energy annual report reflects just three months at this higher fixed remuneration and nine months at a rate that, on average, was 2.5% less.

Annual "at risk" payment

Annual "at risk" payments are made to contract managers on the basis of individual performance assessed against pre-agreed measures and targets aligned to Endeavour Energy's corporate plan and Statement of Corporate Intent (SCI). Eligibility is contingent on a rigorous assessment of leadership performance and achievement of business targets and priorities for each manager during the course of the year. The Board or the Chief Executive Officer as appropriate reviews these performance assessments and approves the at risk performance payments to Executive Officers.

Group Executive employed by Endeavour Energy

An Executive Leadership Group (ELG) was established in October 2012 to drive industry reform. Each Group Executive is paid by a nominated business. Endeavour Energy is responsible for contractual payments to the following executives and these costs are then shared by the three network businesses.

Name	Position at 30 June 2015	Remuneration for 2014–15[a]	"At risk" payment[b]	Performance criteria
V. Graham	CEO Ausgrid, Endeavour Energy and Essential Energy	$787,970	165,474	Led strategic safety initiatives including implementation of the fair and just culture and network fatal risk programs and drove improved safety performance across the three networks. Successfully concluded the NSW Government's Network Reform Program with savings of more than $6.8b from forecast expenditure through to June 2016. Supported the NSW Government's long term lease transaction. Exceeded all financial performance targets. Championed improved customer outcomes and delivered real network price decreases for NSW families and businesses. Developed a workforce plan to safely balance workforce numbers with the AER's approved revenue. Sustained a common focus on network maintenance and reliability. Supported the development and implementation of leadership programs.
D. Lucas	Group Executive People and Services	$451,769	$61,290	Led business transformation to fast track significant productivity and business improvements. Led development of common governance, ethics, planning, human resources and risk management frameworks across Networks NSW. Led the customer strategy and renewed customer commitment across the three networks. Fostered leadership development programs and supported the NSW Government's long term lease transaction

a excludes "at risk" payment.

b "at risk" payments are based on 2014–15 performance against key criteria, approved by the Board in September 2015.

Network business Executive employed by Endeavour Energy

Name	Position at 30 June 2015	Remuneration for 2014–15[a]	"At risk" payment[b]	2014–15 Performance criteria
R. Howard	Chief Operating Officer	$483,287	$74,860	Delivered significant improvement in all safety indicators. Capital program exceeded both physical delivery and efficiency targets. Developed and delivered sustainability program and AER submission.
J. Battersby	Chief Engineer	$304,250	$40,300	Led the improvement of our framework for mitigating network risks and efficient network investment strategies.
T. Christopher	General Manager Network Development	$304,000	$40,300	Built business value through leading the efficient delivery of our network capital and maintenance programs through a blended delivery model.
M. Ghattas	General Manager Finance and Compliance	$279,900	$43,400	Played a key role in the delivery of our regulatory submissions and responses to AER.
D. Neville	General Manager Health, Safety & Environment	$274,750	$40,100	Implemented our safety strategic plan with a focus on embedding the network fatal risks and fair and just culture programs, safety leadership training programs and various other HSE programs.
I. Robinson	General Manager IC&T	$273,050	$29,000	Built business value by using technology to deliver significant efficiencies in business performance.
B. Rowley	General Manager People & Services	$366,200	$51,100	Led initiatives to improve customer service and engagement, delivered savings in strategic procurement and drafted a new enterprise agreement to make our workforce more competitive.
S. Ryan	General Manager Network Operations	$332,000	$49,800	Delivered strong safety performance, drove productivity improvements and developed new resource management initiatives.

a excludes "at risk" payment

b "at risk" payments are based on 2014–15 performance against key criteria, and approved by the Board or Chief Executive Officer in September 2015.

Senior managers[1]

	2013–14		2014–15	
Band[2]	Female	Male	Female	Male
Above Band 4[3]	0	3	0	3
Band 4	0	0	0	0
Band 3	3	11	3	11
Band 2	2	18	2	15
Band 1	30	108	30	121
Below Band 1	71	194	69	200
Totals	**106**	**334**	**104**	**350**
	440		**454**[4]	

1 Senior executives are defined by the *Annual Reports (Statutory Bodies) Regulation 2015* as "a person who is concerned in, or takes part in, the management of a statutory State Owned corporation or any of its subsidiaries (regardless of the person's designation)." Endeavour Energy reports all contract managers who are paid according to the NSW Public Service SES Bands.

2 Bands are as defined in the 2014 NSW Public Service Senior Executives Determination (dated 11 July 2014) under the Government Sector Employment Act 2013 (dated 3 February 2014). Reporting is limited to contract managers employed on individual performance-based employment contracts.

3 Includes contract managers employed on individual performance based contracts receiving remuneration at levels above Band 4. The common CEO of all three network businesses is included in Endeavour Energy's statistics.

4 The net increase in senior managers is due to a range of factors. From 2013-14 to 2014-15, Endeavour Energy had: 21 contract managers who departed the organisation; two employees who moved from contract to award employment; 22 new employees appointed to contract manager roles; and 15 existing employees appointed to contract manager roles.

Band	Band	Average Remuneration[1] 2013–14[2]	2014–15[4]
Above Band 4	$497,300 +	$660,813[3]	$668,373
Band 4	$430,451–497,300	-	-
Band 3	$305,401–430,450	$345,019	$345,460
Band 2	$242,801–305,400	$265,247	$264,966
Band 1	$170,250–242,800	$199,034	$197,298
Below Band 1	< $170,250	$143,779	$145,598

1 Average remuneration is based on: FTE Fixed Annual Remuneration (FAR); 60% of the maximum At Risk Reward for eligible employees, calculated on FTE FAR; and car allowance, if applicable.

2 Average remuneration amounts above for 2013/2014 have been re-calculated to accommodate the revised PSC bands for 2014/2105 reporting.

3 This amount corrects an error in 2013–14 Endeavour Energy Annual Performance Report whereby the at risk component of the Chief Executive Officer's remuneration was not included in the calculation of average remuneration for senior executives above Band 4. The correct at risk payment for the Chief Executive Officer, however, was included in the Executive Remuneration table on p.87 of the 2013–14 Endeavour Energy Annual Report.

4 There was no remuneration review for Executive Officers, the Executive Leadership Team or other contract managers at Endeavour Energy during 2014–15. The increase in average remuneration for senior executives above Band 4 between 2013–14 and 2014–15 reflects the application of the Board's average 2.5% increase in remuneration in April 2014 being applied to the remuneration of the Chief Executive Officer from July 2014. See page 90 for further details.

12.22% of Endeavour Energy's employee related expenditure in 2014–15 was related to senior managers, compared with 12.20% in 2013–14.

Workforce diversity statistics

Trends in the representation of workforce diversity groups (% of total employees excluding casual employees)

Workforce Diversity Group	Benchmark/Target[1]	2012	2013	2014
Women	**50%**	17.3%	17.6%	18.2%
Aboriginal people and Torres Strait Islanders	**2.6%**	1.2%	1.2%	1.3%
People whose first language spoken as a child was not English	**19.0%**	9.9%	10.1%	10.7%
People with a disability	**N/A**	4.2%	4.1%	4.2%
People with a disability requiring work-related adjustment	**1.5%**	0.3%	0.3%	0.3%

1 As set by the NSW Government.

Trends in the distribution of workforce diversity groups

Workforce Diversity Group	Benchmark/Target[1]	2012	2013	2014
Women	**100**	104	103	102
Aboriginal people and Torres Strait Islanders	**100**	92	95	96
People whose first language spoken as a child was not English	**100**	114	114	113
People with a disability	**100**	103	104	103
People with a disability requiring work-related adjustment[2]	**100**	N/A	N/A	N/A

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

2 The Distribution Index is not calculated where Workforce Diversity group or non-Workforce Diversity group numbers are less than 20.

Glossary

AER	Australian Energy Regulator
AS	Australian Standard
BSP	Bulk supply point
CIC	Customer interaction centres
CPI	Consumer Price Index
CEO	Chief Executive Officer
CSS	Customer service standard
D-B-Y-D	Dial before you dig
DM	Demand management
DNSP	Distribution network service providers
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EEO	Equal employment opportunity
EPA	Environment Protection Authority
FBT	Fringe benefit tax
FCCP	Fraud and Corruption Control Plan
GWh	Gigawatt hour
GST	Goods and Services Tax
ICAC	Independent Commission Against Corruption
ICAM	Incident cause analysis method
iCare!	Endeavour Energy's workplace giving program
ICT	Information and communications technology
IHD	In-home display
IT	Information technology
kV	Kilovolt
kVA	Kilovolt ampere
kWh	Kilowatt hour
LED	Light-emitting diode
LiDAR	Light detection and ranging
LTI	Lost-time injury
LTIFR	Lost-time injury frequency rate
MW	Megawatt
MVA	Megavolt Ampere
NECF	National Energy Customer Framework
NER	National Electricity Rules
NPAT	Net profit after tax including capital contributions
NSW	New South Wales
ODRC	Optimised depreciated replacement cost
OHS	Occupational health and safety
OPEX	Operating expenditure
OT	Operational technology
PESAP	Public Electrical Awareness Safety Plan
RFP	Request for proposals
SAIDI	System Average Interruption Duration Index
SAMP	Strategic Asset Management Plan
SCADA	Supervisory Control and Data Acquisition
SENI	Significant electrical network incident
TRI	Total recordable injuries
TRIFR	Total recordable injuries frequency rate
TS	Transmission substation
ZS	Zone substation

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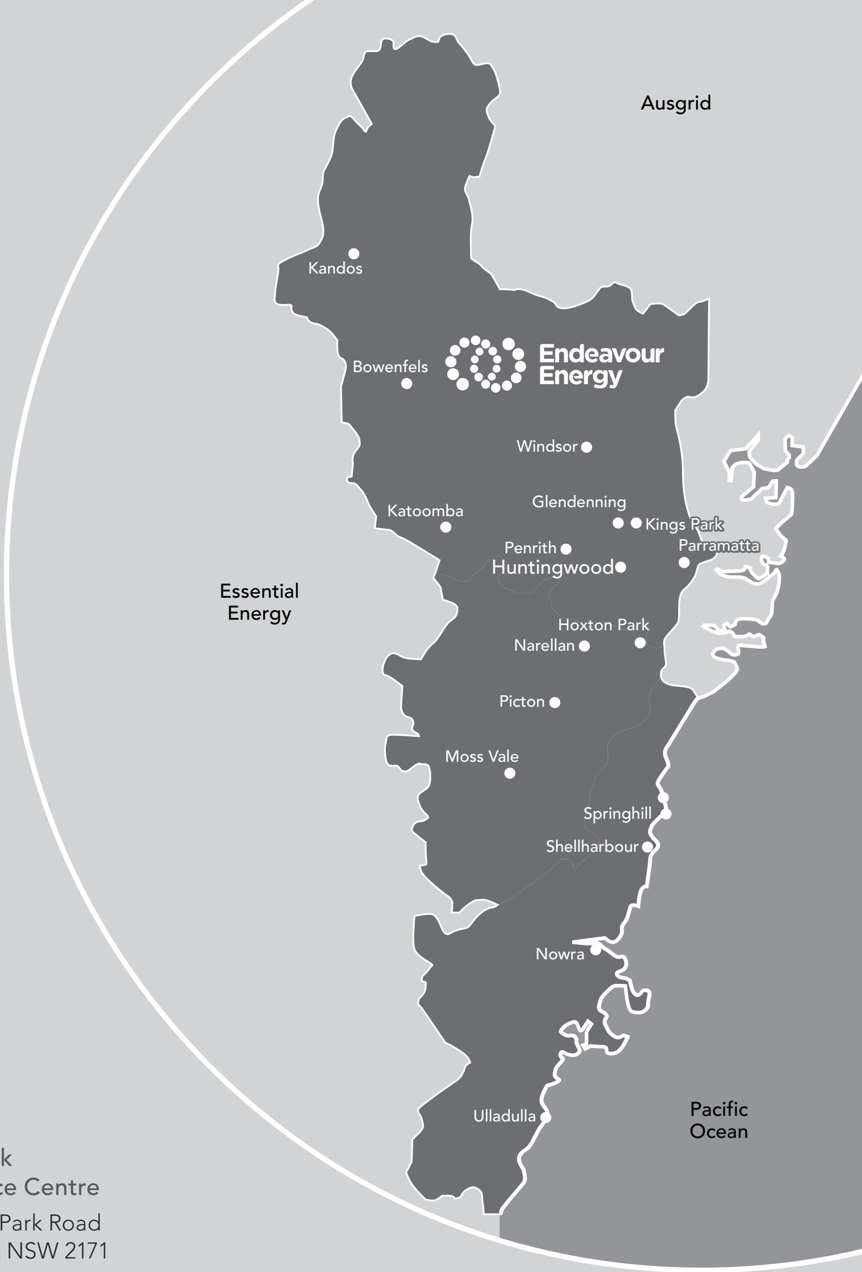
LOCATIONS AND CONTACTS



Location, addresses, phone numbers and hours of operation

Emergencies, streetlights out, hot water hotline

Phone: 131 003 (24 hours)

Customer enquiries

General enquires phone: 133 718

Head Office

Phone: 131 081 or (02) 9853 6666
(8.00am – 5.30pm Monday to Friday)

Interpreter services

Phone: 131 450

Fax

(02) 9853 6000

Email

endeavourenergy@endeavourenergy.com.au

Website

www.endeavourenergy.com.au

Ethics hotline

1800 ETHICS (384 427)

Main office

51 Huntingwood Drive
Huntingwood NSW 2148
PO Box 811, Seven Hills NSW 1730

Bowenfels Field Service Centre

9–13 Cooerwull Road
Bowenfels NSW 2790

Glendenning Central Logistics Facility

49 Glendenning Road
Glendenning NSW 2761

Glendenning Civil Works Centre

15 Belfast Place
Glendenning NSW 2761

Glendenning Field Service Centre

43 Glendenning Road
Glendenning NSW 2761

Hoxton Park Field Service Centre

490 Hoxton Park Road
Hoxton Park NSW 2171

Hoxton Park Technical Training Centre

109 Jedda Road
Prestons NSW 2170

Kandos Field Service Centre

16 White Crescent
Kandos NSW 2848

Katoomba Field Service Centre

27–29 Whitton Street
Katoomba NSW 2780

Kings Park Field Service Centre

10 Tasha Place
Kings Park NSW 2148

Moss Vale Field Service Centre

8–10 Old Dairy Close
Moss Vale NSW 2577

Narellan Field Service Centre

17 McPherson Road
Smeaton Grange NSW 2567

Nowra Field Service Centre

20 Depot Road
West Nowra NSW 2541

Parramatta Field Service Centre

84–86 Macarthur Street
Parramatta NSW 2150

Penrith Field Service Centre

96–120 Blaikie Road
Jamisontown NSW 2750

Picton Field Service Centre

94 Bridge Street
Picton NSW 2571

Shellharbour Field Service Centre

Buckleys Road
Shell Cove NSW 2529

South Windsor Field Service Centre

Corner Ham Street and Fairey Street
South Windsor NSW 2756

Springhill Field Service Centre

191–195 Five Island Road
Unanderra NSW 2526

Ulladulla Field Service Centre

18 Deering Street
Ulladulla NSW 2539

Endeavour Energy