Annual Report

2011/2012

Contents

About CS Energy's Annual Report

The 2011/2012 Annual Report provides a detailed review of our financial and non-financial performance for the financial year from 1 July 2011 to 30 June 2012. The Annual Report aims to provide our key stakeholders with information on our performance against our strategies, objectives and targets. This report does not include long term comparisons of measures as CS Energy was restructured by its owner, the Queensland Government, on 1 July 2011 and prior year results were for a significantly different portfolio.

About CS Energy

CS Energy is an electricity generator, trader and retailer, and a supplier of coal for electricity generation. We have a unique mix of technology and an innovative approach that is powered by experienced, skilled and talented people.

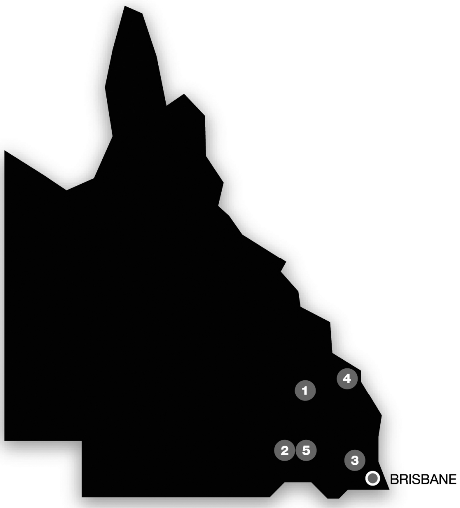
Approximately 500 people are employed at CS Energy across our three power station sites and corporate office in Brisbane. Our power station sites are the:

- Callide Power Station, near Biloela in Central Queensland;
- Kogan Creek Power Station, near Chinchilla in South West Queensland; and
- Wivenhoe Power Station, near Esk in South East Queensland.

We own the Kogan Creek Mine, which supplies black coal to the Kogan Creek Power Station, as well as the undeveloped Glen Wilga and Haystack Road coal resources near Chinchilla.

CS Energy is a party to the Interconnection and Power Pooling Agreement which entitles us to trade the output of Gladstone Power Station in excess of the requirements of the Boyne Aluminium Smelter.

Our corporate office provides a range of support services and functions for the management and operation of these power station sites.



Power generation
1 Callide Power Station (1,630 MW)
2 Kogan Creek Power Station (750 MW)
3 Wivenhoe Power Station (500 MW)

4 **Trading rights**
Gladstone Power Station (1,680 MW)

5 **Coal assets**
Kogan Creek Mine (MDL 335 – 400 Mt)
Glen Wilga (MDL 382 – undeveloped)
Haystack Road (MDL 383 – undeveloped)

Key performance outcomes 2011/2012	
Lost time injury rate	4.26
Employee numbers (full time equivalent)	491
Employee retention (%)	89.9
Apprentices, trainees and graduates	27
Total energy sent out (GWhso)	17,138
Availability (%)	82.8
Reliability (%)	89.7
Greenhouse intensity (kgCO_2e/MWhso)	959
Significant environmental incidents	0
Profit (loss) after tax ($000)	(51,458)
Return on productive assets (%)	(3.4)
Queensland average pool price ($/MWh)	29.07
Gearing (%)	60.2

2011/2012 Corporate Scorecard

CS Energy's corporate scorecard outlines our key objectives, targets and strategies. The corporate scorecard is agreed between CS Energy and our shareholder, the Queensland Government, and is included in our 2011/2012 Statement of Corporate Intent.

The following table sets out CS Energy's performance against our corporate scorecard.

PEOPLE		
Objective	2011/2012 Target	Results
Safety performance	Lost Time Injury Frequency Rate less than 2	✗
Employee engagement and effectiveness	Employee availability of greater than 97 per cent	✓

- In 2011/2012, CS Energy recorded eight lost time injuries, which translates into a Lost Time Injury Frequency rate of 4.26 injuries per million hours worked by employees and contractors. The majority of injuries were related to manual handling and slips and trips. Actions have been taken to address this trend.
- Overall employee availability remains high.

PERFORMANCE		
Objective	2011/2012 Target	Results
Optimise revenue on a portfolio basis	Gross Margin of greater than target	✗
Be cost competitive	Operations and Maintenance (including water) and Services costs less than target	✓
Improve availability and reliability	Portfolio availability (excluding Gladstone Power Station) greater than 86 per cent	✗

- Gross Margin was impacted by low plant reliability, low average pool prices and falling contract prices.
- Costs were better than target as the result of savings in the Corporate Office, offsetting higher site costs due to low plant reliability.
- The reliability of our plant was 89.7 per cent, which was lower than our target 92.4 per cent. This contributed to a portfolio availability of 82.8 per cent. To address reliability issues, an ongoing multi-faceted program to drive reliability improvement has been implemented.

INNOVATION		
Objective	2011/2012 Target	Results
Low emission technology evaluation and selection	Callide Oxyfuel Project achieves successful base load operation of the oxyfired boiler	✓
Diversified revenue sources	Two revenue improvement initiative business proposals developed for Board approval	✓

- The Callide Oxyfuel Project reached a major milestone in March 2012, with the first operation of the boiler in oxyfiring mode.
- Revenue improvement initiatives, relating to our commercial and industrial retail electricity business and coal resources, were developed and submitted to the Board.

RESPONSIBILITY		
Objective	2011/2012 Target	Results
Return to shareholders	EBITDA (excluding fair value and financial year-end adjustments) greater than $84 million	✗
Responsible environmental performance	Less than two significant reportable environmental incidents	✓
Positive relationships with shareholders and stakeholders	Stakeholder engagement plans in place for each site and coal resources	✓

- EBITDA was also impacted by the same factors that affected Gross Margin: low plant reliability; low average pool prices; and falling contract prices.
- During 2011/2012, CS Energy reported no significant environmental incidents.
- Stakeholder engagement plans were in place for each site and our coal resources.

Chairman's review

The 2011/2012 financial year was marked by immense change and challenge for CS Energy and the energy sector.

CS Energy's future success will be determined by our ability to respond and adapt to this change. The Board and management have a clear strategic vision for CS Energy, and we are committed to working with our owner, the Queensland Government, and employees to create a commercially viable and sustainable energy business.

Financial performance

CS Energy delivered a consolidated loss after tax of $51.5 million in 2011/2012. This year's loss is attributed to poor reliability of CS Energy's generation portfolio, low average pool prices and falling contract prices.

Safe, reliable and cost efficient operation is critical to the financial performance of CS Energy. The Board and management are focused on safety and plant improvement initiatives.

Electricity market challenges

The market for electricity has, for some years now, been characterised by low average pool prices and falling contract prices. This is driven by a range of factors, including:

- A downward trend in electricity demand growth;
- The over supply of generation;
- The dominance of vertically integrated retailers; and
- Uncertainty surrounding the timing of the introduction of the carbon price.

In 2011/2012, the average pool price was $29.07 per megawatt hour. The short term market outlook confirms that merchant generators, such as CS Energy, will continue to be impacted by depressed wholesale market conditions. In line with our strategy to diversify CS Energy's channels to market, we have dedicated resources to strengthening our position in the market for large commercial and industrial customers.

From 1 July 2012, CS Energy will pay a price for the carbon we emit, starting at $23 per tonne for the 2012/2013 year. As a predominantly coal-fired generator, paying for our carbon emissions will be CS Energy's single largest operational cost in 2012/2013. The carbon liability we will be able to recoup from the part of our output supplied to the pool will be determined by the market, making our focus on cost and performance efficiency critical to our profitability.

Our Kogan Creek Solar Boost Project, the largest solar integration with a coal-fired power station in the world, is now well into the construction phase. On completion, the solar addition has the potential to provide up to 44 gigawatt hours of additional electricity per year using the same amount of coal. Each gigawatt hour of electricity generated using this technology will avoid carbon dioxide being emitted.

Our international joint venture, the Callide Oxyfuel Project, achieved significant milestones. This included operating on oxyfiring for the first time in the financial period. The Project continued to progress through the complex commissioning process. The Callide Oxyfuel Project is one of only a handful of coal-fired low emission projects in the world to move beyond concept into construction.

Looking forward

In 2012/2013, the safe, reliable and cost efficient operation of our power stations will be the primary focus company-wide. Our primary focus will be plant reliability and optimising our trading strategy.

As Chairman, I wish to acknowledge the dedication of Board members, the Executive Management Team and CS Energy employees as we work together to meet the challenges of this period of change. I also wish to thank my predecessor, Denis Byrne, for his stewardship during the implementation of CS Energy's restructure and the first months of CS Energy's emergence as a new company with a revised portfolio.

I look forward to working with our shareholding Ministers to pursue a strategic direction that delivers greater value to the people of Queensland.

Chief Executive's review

Our results for the year were very disappointing, delivering a consolidated net loss after tax of $51.5 million. Whilst the market for electricity has low pool and wholesale contract prices, our results were adversely impacted by lower than forecast generation revenue due to poor plant reliability.

The priority for the Company is to return to a profitable position which will require a step change in operating performance.

Opportunities for change

On 1 July 2011, the Queensland Government restructured its generation companies from three companies into two – CS Energy and Stanwell Corporation. The Generator Restructure provides us with an opportunity to improve our operational and financial performance by optimising the new portfolio, improving plant performance and reducing costs.

The business improvement strategy is focused on the following key areas:

- Operating safely and responsibly;
- Improving the reliability and availability of our generating plant;
- Reducing the unit cost of electricity production;
- Optimising our revenue from the sale of electricity; and
- Securing competitive fuel supplies for our power stations and creating opportunities to monetise our coal resources.

Safety and environment

The safety of our employees and contractors working across our sites is our top priority. In 2011/2012, we recorded eight lost time injuries.

Zero harm is the only acceptable outcome and this is the target that each and every person in CS Energy must strive toward. Improving safety performance remains a key focus across the Company.

The priorities for 2012/2013 include:

- Further embedding safety behaviours and actions by a continued focus on leading safety indicators, such as toolbox talks and safety observations;
- Enhancing the safety leadership program across CS Energy through the Health and Safety Taskforce; and
- Focusing on improved management of critical risks, such as manual handling.

CS Energy's power station sites and our corporate office operate within an Environmental Management System that has been certified to the international standard ISO 14001. In May 2012, we undertook a re-certification audit against the ISO 14001 standard, and have been recommended for re-certification for a further three years.

No significant environmental incidents were reported during the year. This is a positive result which was better than our target of less than two incidents.

Operational reliability and efficiency

In 2011/2012, we recorded a generation portfolio reliability of 89.7 per cent, falling below our target of 92.4 per cent. This resulted in lower revenue than budget and increased plant maintenance costs. Unexpected plant issues at our Callide and Kogan Creek power stations, combined with coal supply issues at the Callide Power Station, contributed to our poor reliability result.

Improving CS Energy's financial performance requires our plant to be more reliable. Therefore, improving the performance of our plant is vital to our future success.

The priorities for 2012/2013 include executing a program of work to address the unexpected plant issues experienced this year, driving an effective asset management and maintenance program, greater accountability and a culture of delivery.

In addition to improving plant reliability, we need to reduce our unit cost of electricity production to ensure we remain competitive in the market.

Our comprehensive business improvement program will continue in 2012/2013 to improve efficiency and drive down costs.

Recognising our people

Returning CS Energy to a profitable position in the current market conditions is the most significant challenge we have faced. This will be achieved through the dedication, commitment and performance of our people.

I would like to personally thank all CS Energy employees and contractors for their effort and dedication during the past year and look forward to their continued support to meet the challenges of 2012/2013.

Performance

The lower than forecast reliability of CS Energy's generation portfolio is the primary factor affecting our financial performance, as well as our overall performance in the National Electricity Market (NEM).

Operational performance

In 2011/2012, we did not meet performance expectations in our core business – the safe, reliable generation of electricity. The reliability of our plant was 89.7 per cent, which was significantly lower than our target of greater than 92.4 per cent.

In order to return CS Energy to a profitable position we must increase the reliability of our plant. We have implemented an ongoing, multi-faceted program to drive reliability improvement through:

- Improving asset management to achieve optimal efficiency of operation over the life of the plant;
- Finding solutions for unexpected plant issues including:
    - Rigorous Root Cause Analysis for major plant incidents to ensure full identification and closeout of actions
    - Implementation of a comprehensive Plant Risk Management System for driving optimised maintenance and capital expenditure;
- Bringing about cultural change through an operational excellence program and reliability taskforce; and
- Improving accountability for performance through optimising the organisational structure and increased individual accountability in a value based culture.

Financial performance

This year, CS Energy recorded a consolidated loss after tax of $51.5 million. Low plant reliability, low average pool prices and falling contract prices contributed to this loss.

Revenue from the sale of electricity was $380.4 million, which was lower than target due to:

- Lower dispatch due to a surplus of generation capacity in the market;
- Lower operating reliability caused in part by the quality of fuel at the Callide Power Station and unexpected plant failures at the Kogan Creek Power Station;
- Higher use of the Gladstone Power Station due to lower CS Energy owned portfolio availability; and
- Lower realised load weighted average pool price for the financial year.

The consolidated group's total expenses before finance costs and income tax expense was $450.1 million for the year.

Finance costs of $68.8 million were lower than target during 2012 due to a decrease in interest rates while overall debt remained relatively unchanged. The cost of sales of $293.9 million was lower than target due to reduced fuel and water costs resulting from the lower levels of generation.

CS Energy's long term borrowings with the Queensland Treasury Corporation are $824.9 million with a gearing ratio of 60.2 per cent.

CS Energy continues to maintain a credit rating of AA+ as determined by independent ratings agency Fitch Ratings with an outlook of negative on 19 June 2012. The ratings reflect very strong legal, operating and strategic linkages between CS Energy and the Queensland Government.

Market performance

CS Energy is a participant in the NEM. In 2011/2012, we continued to diversify our electricity trading products and customer base. CS Energy also modified systems and procedures in preparation for the introduction of the *Clean Energy Act 2011*.

CS Energy participates in the spot market to sell electricity into the NEM. There is currently excess generation capacity in the NEM, and in particular in Queensland, where the total installed capacity is 12,300 megawatts compared to the maximum summer 2012 demand of 8,806 megawatts. Significant surplus generation capacity has contributed to depressed electricity prices. In 2011/2012, the time weighted average pool price was $29.07 per megawatt hour.

CS Energy enters into financial contracts to supply a fixed amount of electricity for the contract period to manage the financial risks of spot price volatility. Financial contracts provide certainty of price for the period of the contract.

The 2011/2012 contract market was affected by softer than expected pool prices and uncertainty surrounding the introduction of a price on carbon. These factors led to falling contract prices across 2011 and 2012, together with a lack of liquidity as the market waited for certainty over the future implications of the carbon scheme.

CS Energy also retails electricity to large commercial and industrial customers.

2011/2012 performance	
Loss after tax ($000)	51,458
Return on productive assets (%)	(3.4)
Dividends payable ($000)	0
Capital investment in power stations ($000)	133,524
Costs (excluding finance costs) ($000)	450,105
Gearing (%)	60.2
Assets ($M)	1,875
Energy sent out (GWhso)	17,138
Reliability (%)	89.7
Sales revenue ($000)	380,417

People

Health and Safety

The safety of our workers and contractors is CS Energy's highest priority. We are committed to continually improving the safety of our employees and contractors, targeting zero lost time injuries.

In 2011/2012, CS Energy recorded eight lost time injuries, which translates into a lost time injury frequency rate of 4.26 injuries per million hours worked by employees and contractors.

Our lost time injury frequency rate was below target. Four injuries were caused by manual handling issues and the remaining injuries related to slips and trips. Each injury sustained was extensively investigated and detailed action plans were implemented, including developing tools to ensure all critical controls for significant risks are monitored and managed.

CS Energy's Health and Safety Taskforce, which includes representatives from each power station, is working to improve safety performance across the business. The Taskforce has driven key changes in safety management including the:

- Implementation of a Fair and Just Culture process;
- Completion of risk assessments for all hazardous manual tasks across the organisation; and
- Establishment of a Safety Pocket Guide to ensure all employees have the information they require at their finger-tips.

We met the targets set for leading safety indicators that help measure ongoing health and safety initiatives. Our all injury frequency rate, which includes all first aid incidents, medical treatment injuries and lost time injuries, has significantly reduced this year. While CS Energy's lagging indicator of lost time injury frequency rate was below forecast, this positive result for our leading indicators points to an anticipated improvement in safety performance.

On 1 January 2012, Queensland's new *Work Health and Safety Act 2011* came into effect, introducing further steps towards harmonising workplace health and safety requirements across Australia. Our systems were reviewed to ensure compliance with the new Act.

The management of alcohol and other drugs is also an integral part of our Fit for Duty Policy and includes random alcohol and drug testing at all CS Energy sites. In 2011/2012, 810 tests were performed with one positive test recorded, which was investigated appropriately and actioned in line with CS Energy's stringent policy.

Workforce profile

On 30 June 2012, CS Energy employed 503 people across our power station sites and the Brisbane Office, equating to 491 full time equivalent employees, in a range of technical and support occupations.

CS Energy maintains Enterprise Agreements at our Callide, Kogan Creek and Wivenhoe power stations and the corporate office in Brisbane. Approximately 46 per cent of CS Energy's employees are employed under Alternative Individual Agreements which are underpinned by an Enterprise Agreement. Approximately 54 per cent of employees are employed directly under Enterprise Agreements. Enterprise Agreements are tailored to each site based on the characteristics of the workforce, workplace efficiencies and plant technologies and associated requirements.

In 2011/2012, our employee retention rate was 89.9 per cent, which equates to a turnover rate of 10.1 per cent. Competition for skilled employees remains strong as activity in Queensland's resources industry continues to grow, particularly around Chinchilla and Gladstone. CS Energy will continue to compete against major mining and industrial operators for skilled employees as more projects commence across the state.

A 'grow your own' strategy has been implemented to encourage employee development and foster promotion from within. This year, 18 employees completed a Certificate IV in Business (Frontline Management) under our Supervisor Development Program, and 25 employees completed the Emerging Supervisor development program, which is a prerequisite to completing the Certificate IV.

At 30 June 2012, we had 27 apprentices and trainees, covering a range of skill areas including fitting/machining, electrical, warehousing, administration and information technology. Of these, 21 are hosted through Group Training Organisations, and six are adult apprentices who are existing CS Energy employees.

Innovation

Kogan Creek Solar Boost Project

Site preparation commenced on CS Energy's $104.7 million Kogan Creek Solar Boost Project in July 2011. Construction is well underway on this 44 megawatt solar addition to the Kogan Creek Power Station. It will use Compact Linear Fresnel Reflector technology to concentrate the sun's energy to heat feedwater into superheated steam, in parallel with the power station's coal-fired boiler.

AREVA Solar is the design and construct contractor for the solar field as well as the technology provider. AREVA Solar has appointed local firm FK Gardner and Sons Group as the civil contractor to undertake solar field site preparation, excavation, drainage and concrete works. The site has been prepared for installation of the Solar Steam Generators, which will include the erection of towers and the installation of heat-collecting receivers on the towers and reflectors to concentrate the sun's heat onto the receivers.

The Kogan Creek Solar Boost Project will enable CS Energy's Kogan Creek Power Station to produce more electricity with the same amount of coal. It will make the coal-fired plant more fuel efficient and reduce the power station's emissions intensity. The solar addition has the potential to provide up to 44 gigawatt hours of additional electricity per year, enough to power 5,000 homes. Each gigawatt hour of electricity generated using this technology will avoid carbon dioxide being emitted by other generators.

The construction and commissioning of the project is scheduled to be completed in the middle of 2013.

Callide Oxyfuel Project

The Callide Oxyfuel Project is one of the most advanced carbon capture demonstration projects in the world. The joint venture project reached a major milestone in March 2012, with the first operation of the boiler in oxyfiring mode.

The $200 million joint venture Callide Oxyfuel Project involves retrofitting oxy-combustion technology to a unit at CS Energy's Callide A Power Station and a cryogenic carbon dioxide capture plant. The main objectives of the project are to demonstrate the technology in an electricity market environment, determine technical merits and scale-up issues, and assess costs for future deployment.

The oxyfuel process involves burning coal in a mixture of oxygen and recirculated exhaust gases, instead of air, and results in a concentrated stream of carbon dioxide which is suitable for capture and storage.

Construction and commissioning of the oxygen plant and oxyfuel boiler were completed in June 2012. First oxyfiring was achieved in March 2012 and baseline performance testing comparing air firing with oxyfiring was completed in May 2012. The carbon dioxide capture plant construction phase was also completed in June and commissioning is expected to be completed by the end of 2012. To date, more than 150 employees and contractors have worked over 450,000 man hours during the construction and commissioning phases of the project.

The Callide Oxyfuel Project is a joint venture between CS Energy, the Australian Coal Association, Xstrata Coal, Schlumberger, and Japanese participants, J-POWER, Mitsui & Co., Ltd., and IHI Corporation, and is one of only a handful of coal-fired low emission projects in the world to move beyond concept into construction.

In addition to industry investment, the project has received funding from the Commonwealth Government under the Low Emissions Technology Demonstration Fund, Japanese Government and Queensland Government. The Callide Oxyfuel Project has also received technical support from JCOAL and was formerly a flagship project of the Asia-Pacific Partnership on Clean Development and Climate.

Business improvement

CS Energy's principal aim is to return to profit. We will do this by improving the performance in our core business areas of reliability and cost. Information about reliability can be found on page 6

A review of major business expenditure items was conducted post July 2011. A total of $10 million in savings was made in our corporate office against the operating expenditure budget. For example, we have reviewed, stopped or deferred non-essential projects, reduced contract and consulting costs, streamlined expenditure on key items and had an increased focus on everyday spending decisions.

A new CS Energy organisational structure was put into place on 1 July 2011. To ensure that we have the right balance of operational to corporate employees, the Executive Management Team reviewed the 2011/2012 workforce plans to ensure that our staff complement best meets the needs of our new portfolio while reducing our corporate overhead.

Responsibility

Carbon price

During the year, the Commonwealth Government passed the *Clean Energy Act 2011*. Under this Act, CS Energy will pay for every tonne of carbon we emit from our operations from 1 July 2012.

To ensure that CS Energy was prepared for the introduction of a carbon price, we established the Carbon Implementation Taskforce to establish the appropriate revenue, information technology and trading systems. New compliance procedures, negotiation and agreement of amendments to key contracts, and the development of internal management systems were implemented by the Taskforce to ensure compliance with the *Clean Energy Act 2011* and consequential changes to the *National Greenhouse Energy Reporting Act 2007*.

Environmental performance

CS Energy's power station sites and our corporate office operate within an Environmental Management System that has been certified to the international standard ISO 14001. This provides a formal process for sound environmental management, and further strengthens the link between governance, environmental performance and sustainability.

In May 2012, audits against ISO 14001 were conducted by an external auditor, NCS International, with reports provided at the end of July 2012. While these preliminary reports are still subject to final review by the auditor in the first half of 2012/2013, the preliminary reports recommended all CS Energy sites be re-certified for a further three years.

CS Energy's systems categorise environmental incidents as internal (Category 1 and 2) or external (Category 3 and 4). Internal incidents are minor with no off site impact. External incidents are incidents that are reported to the Department of Environment and Heritage Protection (DEPH), which may result in off site impact.

During 2011/2012, CS Energy reported no significant environmental incidents to DEHP, however the department was notified of the following two Category 3 incidents:

- On 12 April 2012, samples from the water discharge from Callide A Power Station exceeded the total dissolved salts limit in our operating licence. DEHP was notified and an incident report, including the results of additional sampling, was submitted. DEHP was satisfied with the actions taken by CS Energy; and
- On 22 May 2012, an ash leak was contained on site at the Callide Power Station. The leak was immediately cleaned up and re-deposited into the power station's ash cells. DEHP was notified and was satisfied with the actions taken by CS Energy.

Environmental incidents	Internal	External[1]
Callide Power Station	61	2
Kogan Creek Power Station	25	0
Wivenhoe Power Station	0	0

1. CS Energy notifies external incidents to the Department of Environment and Heritage Protection.

Waste management

In addition to carbon dioxide, CS Energy's coal-fired power stations emit oxides of nitrogen and sulphur and water vapour as a result of using fossil fuels to generate electricity. CS Energy reports all emissions data to the National Pollutant Inventory, which is publicly available on the National Pollutant Inventory website www.npi.gov.au.

The Callide and Kogan Creek power stations also produce ash as a by-product of coal combustion. More than 99.9 per cent of this ash is collected before it is recycled or stored on site in ash dams. CS Energy is an active member of the Ash Development Association, which promotes the beneficial use and recycling of power station fly ash, one of the forms of ash produced. In 2011/2012, CS Energy recycled 116,975 tonnes of ash.

Water management

The energy industry is heavily reliant on water. CS Energy uses a combination of recycled, raw and town water at its sites. To emphasise the importance CS Energy places on this resource, each site has a water management strategy which highlights sustainable and efficient use of water.

Total consumption and water use intensity are measures used to track CS Energy's water consumption. Water use intensity shows how many megalitres of water are used per gigawatt hour of energy sent out. This year our total water consumption was 13,493 megalitres with a water intensity of 1.32 megalitres of water per megawatt hour of electricity sent out.

Stakeholder engagement

Engaging with stakeholders at all levels ensures CS Energy remains abreast of existing and emerging issues of importance within the communities in which we operate, as well as changes in the energy sector.

At our sites, the site managers and employees work together to facilitate CS Energy's participation and support for local activities and engagement with key stakeholders.

In 2011/2012, we invested $125,091 in donations, sponsorships, and grants in the regional communities that host our operations.

2011/2012 performance	
Total energy sent out (GWhso)	17,138[1]
Coal used as fuel (kilotonnes)	5,591[1]
Greenhouse gas equiv produced ($MtCO_2$-e)	9.7
Greenhouse gas intensity ($kgCO_2$/MWhso)	959
Water consumption (megalitres)	13,493[1]
Ash produced (kilotonnes)	1,674
Ash sold (kilotonnes)	117

1. Indicates CS Energy's share of outputs on the Callide C Power Station joint venture.

Generation portfolio

Callide Power Station

The Callide Power Station is located approximately 15 kilometres east of Biloela in Central Queensland. It comprises three power stations – Callide A, Callide B and Callide C.

There are 236 people working across the Callide Power Station sites, making CS Energy a major employer in Biloela. During the year, a new Callide Enterprise Agreement was approved by Fair Work Australia and took effect from 8 June 2012.

Reliability at the Callide Power Station was below target for the year predominantly due to coal supply issues. The Callide B Power Station sent out 3,606 gigawatt hours of electricity, with a reliability of 83.3 per cent. The Callide C Power Station recorded a reliability of 88.5 per cent, sending out 4,733 gigawatt hours of electricity (2,352 gigawatt hours comprising CS Energy's share of power sent out under the joint venture).

The three month, $24 million major overhaul of Unit B1 was completed in July 2011. In October 2011, Unit C3 was taken offline for burner repairs and the replacement of fabric filter bags. In March 2012, Unit C3 recorded 100 days continuous operation, a significant milestone that was achieved through a period of coal supply issues.

During the year, 116,975 tonnes of ash were supplied to Cement Australia and Maunsell for reuse. Ash that is not recycled from the power station is stored in the power station's ash dam.

In April 2012, a Transitional Environmental Program (TEP), provided by the former Department of Environment and Resource Management, was finalised. The TEP was put in place to allow for CS Energy to reduce excess water levels in the ash dam following unprecedented heavy rainfall during December 2010 and January 2011.

CS Energy also provides operation and maintenance services for the Callide Oxyfuel Project (see page 8). More than 60 employees and contractors worked on the Callide Oxyfuel Project during 2011/2012 to undertake construction and commissioning services, prior to the demonstration project entering the operational phase.

Kogan Creek Power Station

The 750 megawatt Kogan Creek Power Station, located near Chinchilla in the Surat Basin, commenced operations in 2007 and is one of Australia's newest and most efficient coal-fired power stations.

In 2011/2012, there were 76 full time equivalent employees working at the Kogan Creek Power Station. A new Kogan Creek Power Station Enterprise Agreement came into effect on 26 July 2011 following approval by Fair Work Australia.

The Kogan Creek Power Station recorded a reliability of 90.4 per cent and sent out 4,265 gigawatt hours of electricity in 2011/2012. This was below target. Factors affecting reliability included clinker build-up and boiler tube leaks.

In July 2011, the Kogan Creek Power Station underwent its first major overhaul since the power station commenced operation in 2007. While the overhaul was in progress, CS Energy made other plant modifications to allow for the future connection of the Kogan Creek Solar Boost Project to the power station. The overhaul was completed in September 2011 and involved around 550 people at its peak. Approximately 175,000 hours were worked during the overhaul without a lost time injury. Further information on the Kogan Creek Solar Boost Project can be found on page 8.

Coal for the Kogan Creek Power Station is supplied via a conveyor from CS Energy's Kogan Creek Mine. In 2011/2012, the mine supplied 2.1 million tonnes of black coal to the power station. Golding Contractors employ approximately 73 employees to operate the Kogan Creek Mine on behalf of CS Energy.

CS Energy stores ash from the Kogan Creek Power Station at the Out of Pit Ash Cell at the Kogan Creek Mine. The ash is transferred four kilometres to the mine via a twin pipeline system, capable of delivering 2,000 tonnes of ash each day. CS Energy is also exploring a number of options for the beneficial reuse of fly ash from the power station, with 280 tonnes recycled in 2011/2012.

2011/2012 Performance snapshot	Callide[1,]	Kogan Creek	Wivenhoe
Total energy sent out (GWhso)	5,976[2]	4,265	-27[3]
Reliability (%)	86.1	90.4	99.6
Coal used (kilotonnes)	3,503	2,088	n/a
Greenhouse gas intensity (kgCO_2/MWh generated)	911	818	0
Water consumption (ML)	12,955[2]	538	0.2
Ash produced (kilotonnes)	1,236	438	n/a
Ash sold (kilotonnes)	117	0.3	n/a
Employees (full time equivalent)	235.5	76	12
Lost time injuries	6	2	0
Reportable environmental incidents	0	0	0

1. The Callide A Power Station is in storage. One unit is being used for the Callide Oxyfuel Project. As this is a demonstration project, only relevant data is reported.
2. The Callide C Power Station is owned in a 50 per cent joint venture with InterGen Australia. Data reported indicates CS Energy's share of outputs under the joint venture.
3. Wivenhoe Power Station is a pumped storage hydroelectric power station. In 2011/2012, the station generated 10 gigawatt hours, but imported 37 gigawatt hours of electricity to operate the power station's pumps.

Wivenhoe Power Station

The Wivenhoe Power Station is a 500 megawatt pumped storage hydroelectric plant located on the eastern side of Wivenhoe Dam, about 90 kilometres north west of Brisbane.

The Wivenhoe Power Station and a team of 13 employees, was transferred to CS Energy on 1 July 2011 as part of the Queensland Government's restructure of its generating companies.

The Wivenhoe Power Station achieved reliability of 99.6 per cent in 2011/2012. The power station sent out 10 gigawatt hours of electricity during the year and used a total of 37 gigawatt hours of electricity to operate the power station's pumps. Water is pumped from Wivenhoe Dam into Splityard Creek Dam during periods of low demand. Water is released from Splityard Creek Dam through tunnels to the turbines to generate electricity during periods of high demand.

In April 2012, we commenced the first major upgrade of the power station's control and instrumentation systems since it was commissioned in 1984. The $13.7 million project included the replacement of the control system, automatic voltage regulators and governors with new systems to ensure the plant continues to operate safely and reliably.

On 16 March 2012, the Floods Commission of Inquiry handed down its final report into the handling of the January 2011 floods, which included seven recommendations pertaining to the future operation of the Splityard Creek Dam and Wivenhoe Power Station. While CS Energy did not own the power station at the time of the floods, the Commission's report references CS Energy in its considerations and recommendations for the future operation of the Splityard Creek Dam and Wivenhoe Power Station. CS Energy is addressing all of the recommendations in the report.

Corporate Governance Report

CS Energy was established in 1997 under the *Government Owned Corporations Act 1993 (Qld)* (GOC Act) and is incorporated as a public company, under the *Corporations Act 2001 (Cth)* (Corporations Law). Shares in CS Energy are held by two Queensland Government Ministers on behalf of the people of Queensland.

At 30 June 2012, CS Energy's shareholding Ministers were:

- The Honourable Tim Nicholls MP, Treasurer and Minister for Trade; and
- The Honourable Mark McArdle MP, Minister for Energy and Water Supply.

Corporate Governance philosophy

CS Energy understands and respects its role and responsibility to our shareholders and the people of Queensland. We strive to ensure the highest level of transparency and accountability are achieved.

Our corporate governance framework provides the policies, procedures and guidelines to ensure we conduct business ethically and efficiently, and ensure prudent financial and risk management at all times. Responsibility for ensuring the highest levels of corporate governance are achieved rests with the CS Energy Board. For maximum transparency, the Board reports against the eight Principles of Good Corporate Governance, issued by the ASX.

Principle 1: Lay solid foundations for management and oversight

Role of the Board

As at 30 June 2012, the Board comprised nine independent, non-executive Directors, whose profiles and periods of service can be found on pages 16 and 17. The CS Energy Board Charter outlines the Board's responsibilities and functions and can be found on our website.

The Board meets monthly to provide overall strategic guidance and oversee the management performance and management of risk. The Board reports to our shareholding Ministers on our performance against the objectives set out in CS Energy's Statement of Corporate Intent. These objectives can be found on page 14.

Board committees

During 2011/2012, the Board used three committees to assist in the management of specialist business areas and provide a forum for Directors and the Executive Management Team to discuss more complex business issues. These committees report to the Board and a summary of these committees can be found in the following pages. A register of Board committee memberships and attendances is on page 15.

New Directors

On appointment, new Directors receive a Board handbook and induction to enhance operational and industry knowledge and ensure they are fully aware of their governance responsibilities. Site visits and briefings are arranged to ensure Directors maintain the knowledge and skills needed to fulfil their roles.

Executive Management Team

The Board approves the appointment of CS Energy's Chief Executive and other members of the Executive Management Team. The Chief Executive is accountable to the Board, and is responsible for managing the performance of CS Energy's business and the Executive Management Team.

Assessing Executive Management performance

All CS Energy employees, including the Executive Management Team, have role purpose statements and associated performance scorecards. Key performance measures are established for each Executive at the start of the financial year. Some critical measures, such as financial performance and health and safety targets, are common for all Executives. Other performance measures are set in line with individual roles and responsibilities.

The Board assesses the performance of the Chief Executive and oversees the assessments of the Executive Management Team against their divisional performance scorecards on an annual basis. Reviews were undertaken for the 2011/2012 financial year. More information on performance and remuneration of CS Energy employees, Executives and the Board can be found under Principle 8, on page 15.

Principle 2: Structure the Board to add value

Board of Directors

The Board of Directors, including the Chairman, are all non-executive Directors, appointed by the Governor-in-Council in accordance with the GOC Act. A brief summary of the skills, experience and expertise of each Director of CS Energy can be found on pages 16 and 17.

The Board regularly assesses the independence of Directors, and reviews the relationship each Director and the Director's associates have with CS Energy. The Board has determined that each Director is, and was throughout the financial year, independent.

Given the process for selection of directors under the GOC Act, CS Energy is not required to establish a Board Nominations Committee.

Directors are entitled to seek independent professional advice on matters before the Board, after receiving approval from the Chair. CS Energy bears the cost of this external advice. Directors can also seek professional information from CS Energy employees, and members of the Executive Management Team.

The performance of the Board is periodically evaluated at a formal workshop facilitated by an independent corporate governance specialist. An independent review of the Board performance was not undertaken during 2011/2012 as there were changes to membership on 1 July 2011 and to the Chairman in May 2012.

Principle 3: Promote ethical and responsible decision making

CS Energy is committed to conducting all business activities with integrity, honesty and in compliance with relevant laws and standards. Our key governance policies to promote ethical and responsible decision making include our Equal Employment Opportunity (EEO) Policy, Code of Conduct and various policies to ensure compliance with the Corporations Law and prevent conflicts of interest.

CS Energy has an EEO Policy to ensure our workforce remains free from unlawful discrimination, workplace harassment, bullying and vilification. The CS Energy Board, Chief Executive and Executive Management Team are responsible for ensuring that our EEO objectives are met and the policy is implemented.

CS Energy's Code of Conduct applies to all employees. The Code of Conduct outlines the principles for conducting business in an ethical and responsible manner and can be found on our website.

The Board has adopted the Director's Code of Conduct from the Articles of Association of the Australian Institute of Company Directors.

Conflict of interest and trading policies

To ensure compliance and prevent conflicts of interest, we have a number of policies and procedures in addition to the Code of Conduct, including a Share Trading Policy, Compliance Policy, and procedures for Pecuniary Interest, Conflict of Interests and Protected Disclosures.

The Share Trading Policy provides guidance on the legal requirements of the Corporations Law with respect to inside information and insider trading. The policy requires employees, officers and Directors to not engage in share trading transactions with companies with whom CS Energy has a contractual relationship and where the employee or officer could be in possession of price-sensitive information or be placed in a position of a conflict of interest.

Declaration of conflicts of interest by the Board is a standing item on the agenda of the monthly Board meetings. Members of the Executive Management Team are also required to make declarations of companies in which they hold shares, or with which they have relationships that have the potential to lead to a conflict of interest. An external, independent check of these declarations against publicly available databases is carried out periodically.

Directors and employees are encouraged to report any conduct they observe that they believe is a potential breach of CS Energy policies or external regulations or laws. The CS Energy Procedure for Pecuniary Interest, Conflict of Interests and Protected Disclosure outlines the process for responding to these disclosures and confidentiality provisions for the individual making the disclosure.

Principle 4: Safeguard integrity in financial reporting

Audit Committee

The Audit Committee assists the Board in overseeing the reliability and integrity of financial reporting practices, accounting policies, auditing and external reporting. The committee provides advice to the Board on financial statements, financial systems integrity and business risks. It also oversees the monitoring of compliance with laws, regulations and company policies and reviews the adequacy of the current internal control system.

The committee oversees the development of the Internal Audit Plan and monitors the results of internal audit activities and recommendations. It is the primary point of reference for CS Energy's external auditor, the Auditor-General of Queensland. The committee accepts reports from the Queensland Audit Office and oversees progress on implementing recommendations flowing from Queensland Audit Office reports, on behalf of the Board of Directors. The Audit Committee Charter can be found on CS Energy's website.

Principle 5: Make timely and balanced disclosure

CS Energy is open and accountable, while protecting information that is commercially sensitive. CS Energy must ensure accountability and transparency to shareholding Ministers, and ultimately the people of Queensland.

In the spirit of continuous disclosure, our shareholding Ministers have access to information concerning our operations, performance, governance and financial position. In addition to the formal reports outlined in Principle 6, we provide submissions, including regular briefing notes, to ensure our shareholding Ministers are informed.

Release of information

CS Energy strives to be open and accountable, while protecting information that is commercially sensitive.

To ensure compliance with the openness measures in the *Right to Information Act 2009 (Qld)*, a publication scheme is available on our website, which shows the classes of information available, links to the information and contact details for members of the public wishing to access additional information.

Principle 6: Respect the rights of shareholders

Shareholder reporting

CS Energy produces five key documents to report on performance:

- A Corporate Plan that outlines key strategies, objectives for the next five years and performance indicators. The plan also provides an industry and economic outlook and the potential impact on CS Energy;
- A Statement of Corporate Intent (SCI) that outlines goals and objectives for the next financial year. A summary of the 2011/2012 SCI appears below;
- Quarterly Reports on progress against the performance targets and measures in the SCI;

- An Interim Report on mid-year financial performance; and
- An Annual Report on performance for each financial year, which meets statutory requirements for government-owned corporations and the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

In addition, CS Energy's website provides information regarding CS Energy and its current operations and projects.

Statement of Corporate Intent

Under the GOC Act, CS Energy is required to prepare a SCI each financial year. The SCI is a performance agreement between CS Energy and its shareholding Ministers and complements the five year Corporate Plan.

The full SCI, which includes details of the vision, objectives, activities, capital structure and dividend policies, is tabled in the Queensland Legislative Assembly in accordance with Section 121 of the GOC Act.

In summary, the 2011/2012 SCI outlines the following key business objectives:

People

- Pursue a zero harm approach to health and safety;
- Ensure CS Energy employees have the commitment and capability to deliver business outcomes;
- Create a performance-based culture supported by people systems, policies and procedures that align with CS Energy's business model and strategic direction; and
- Maintain a constructive and consultative approach to industrial relations, enabling CS Energy to successfully reach new Enterprise Agreements.

Performance

- Improve the reliability, efficiency and profitability of the portfolio;
- Optimise revenue on a portfolio basis;
- Enhance responsiveness to market conditions by implementing trading strategies which make the best use of CS Energy's assets;
- Increase cost competitiveness, balancing risk management and commercial prudence;
- Reassess the life expectancy of existing assets and ongoing capital investment programs to optimise returns in a carbon constrained future; and
- Secure fuel supplies.

Innovation

- Develop and deploy new commercial products (wholesale and retail energy offerings and coal sales);
- Continue to investigate and deploy new economically viable green or low emissions technologies to reduce the carbon intensity of the portfolio; and
- Improve systems and processes that support CS Energy's operations.

Responsibility

- Ensure CS Energy maintains its 'licence to operate' through good governance, prudent financial and environmental management, and social investment;
- Make positive contributions to the communities in which CS Energy operates; and
- Manage CS Energy's impact on the environment.

Dividend policy

Section 131 of the GOC Act requires the CS Energy Board to make a dividend recommendation for a financial year between 1 May and 16 May within that financial year.

The dividend recommendation is based on the current forecast of the net profit after tax for the CS Energy Limited consolidated group, adjusted for the net after tax impact of any material non cash transactions, resulting in the adjusted net profit after tax.

The timeframe for dividend payment is governed by Section 131 of the GOC Act, which provides that the dividend must be paid within six months after the end of the financial year, or any further period that the shareholding Ministers allow.

Directions and notifications

Under the *Electricity Act 1994*, CS Energy's shareholding Ministers can issue directions and notifications to our Board. During 2011/2012, CS Energy received one direction under Section 299 of the Act in relation to the negotiation of new Enterprise Agreements for Wivenhoe Power Station and CS Energy's Corporate Office.

CS Energy received a notification under Section 114 of the *Government Owned Corporations Act 1993* outlining that the Public Interest Disclosure Standard No. 1 is to apply to CS Energy and as far as practicable, our subsidiaries.

Principle 7: Recognise and manage risk

Risk and assurance

The Board has ultimate responsibility for managing potential risks for CS Energy and ensuring compliance with relevant laws, regulations and policies. The Enterprise Risk function oversees this activity and reports independently to the Board and management. This group incorporates risk management, insurance oversight and the compliance function.

CS Energy's risk management framework is designed to ensure all potential financial, operational and other risks are identified, assessed, monitored and reported to the Board.

The Internal Audit function was transferred from the former risk and assurance function into the secretariat function on 1 July 2012.

This function reports to the Audit Committee and is responsible for reviewing activities, information and records to ensure that:

- Financial and operational information is reliable;
- Compliance with laws, regulations, policies and procedures occurs;
- Business risks are identified and appropriate management plans are adopted; and
- Procedures are in place to safeguard assets and revenue, and ensure effective use of resources.

Risk Committee

The Board's Risk Committee oversees the risk management framework and responsibilities. The Risk Committee Charter is available on CS Energy's website. The Board's responsibilities in risk, compliance and audit are facilitated by the work of the Risk and Compliance Committee which oversee operational risks, audit reports, audit recommendations and compliance activities. The separate Market Risk Committee oversees market, credit and financial risks and associated compliance activities.

The Risk and Compliance and the Market Risk committees meet monthly to coordinate responses to market and operational risks as they arise. CS Energy's Risk Management Policy provides guidance for the Board and employees on the approach to risk management.

Principle 8: Remunerate fairly and responsibly

People and Safety Committee

The People and Safety Committee provides advice on our people and safety policies and practices, including remuneration. The committee makes recommendations to the Board on negotiation parameters for enterprise bargaining as well as remuneration packages and other terms of employment for the Executive Management Team. The committee ensures employees are fairly remunerated for their work and that the Company acts in the best interests of its shareholders on remuneration matters. Each year, the committee reviews executive remuneration against agreed performance measures. The People and Safety Committee Charter can be found on CS Energy's website.

Remuneration policy

CS Energy is committed to attracting, retaining and developing high calibre employees at all levels by balancing a competitive remuneration package with employee benefits and leave options, including providing maternity and parental leave, study assistance, electricity salary sacrificing, remote area allowances and relocation assistance.

Directors are remunerated at a level determined by the Governor in Council and reimbursed for reasonable expenses incurred while conducting business on behalf of CS Energy.

The Board, in consultation with shareholding Ministers, approves the remuneration levels for the Chief Executive and other members of the Executive Management Team.

Details of remuneration paid to Directors and Executive Management Team members during the year appear in Note 29 of the Financial Statements.

Assessing performance

CS Energy's Performance Management Framework ensures employees are supported to achieve optimal performance and career outcomes. Performance of individual employees, including the Executive Management Team, is managed in an annual cycle:

1. Set performance expectations and job context through Role Purpose Statements and Individual Scorecards,
2. Determine individual development plans, and
3. Provide feedback through six-monthly performance reviews.

Board and Committee attendance

Name	Board[1]	Risk	Audit	People & Safety
Ross Rolfe [2]	1	n/a	n/a	n/a
Denis Byrne [3]	14	3	6	3
Keith Barker	16	4	n/a	4
Tracy Dare	13	3	8	n/a
Jon Hubbard	14	n/a	7	2 [4]
Sarah Israel	13	2	n/a	n/a
Greg Simcoe	8	n/a	3	2
Karen Smith-Pomeroy	10	4	n/a	2
Mark Williamson	16	3	n/a	4
Bob Henricks [5]	0	n/a	n/a	n/a

1. Includes five special meetings called throughout the year
2. Appointed 31 May 2012
3. Resigned 21 May 2012
4. Appointed to Committee 7 November 2011
5. Leave of absence from 1 July 2011

Board of Directors profiles

Ross Rolfe

Non-Executive Chairman

Chairman since 31 May 2012

Ross Rolfe has previously held senior positions in the Queensland public service, including Coordinator-General, Director-General of the Department of State Development and Trade and Director-General of the Department of the Premier and Cabinet. He was also Chief Executive of Stanwell Corporation and Chief Executive of Alinta Energy, a national generation and retail energy business.

Mr Rolfe is currently the Chair of WDS Limited and the Underground Coal Mining and Coal Seam Gas Development Company, and a Non-Executive Director of Thiess Pty Ltd and Infigen Energy, a renewable energy business with assets in the United States of America, New South Wales, South Australia and Western Australia. He holds an executive role as the Managing Director of Resources Infrastructure for Lend Lease.

Mr Rolfe has held a wide range of Directorships including: Chair of the Queensland Manufacturing Institute; Director of the Queensland Low Emissions Technology Centre; Director of Emu Downs Wind Farm; Member of the Great Barrier Reef Marine Park Authority; Member of the University of Queensland Senate; Member of the Council for the Queensland University of Technology; Director of Queensland Resources Council; Director of Queensland Institute of Molecular Bioscience; Chair of i.lab Technology Incubator; Director of Australia Institute for Commercialisation; and Director of South Bank Corporation.

Mr Rolfe was admitted as an Officer in the Order of Australia in 2008.

Keith Barker

Non-Executive Director
BSc (Hons) MBA

Director from 1 July 2011 to 4 July 2012

Keith Barker has over 30 years experience in the resources sector in engineering, corporate, finance and advisory roles, where his main areas of expertise lie in mine planning, investment evaluation and infrastructure.

Mr Barker was a Director of the Queensland Resources Council from 2006 to June 2011. He was Managing Director and Chief Executive Officer of coal exploration and development company Northern Energy Corporation from its conception in 2004 until June 2011.

Prior to his appointment to Northern Energy Corporation, Mr Barker was a consultant providing coal market and infrastructure advice to a number of mining companies, infrastructure providers and financial entities. Between 1989 and 2000, Mr Barker was employed as Manager Corporate Development with QCT Resources, then Australia's largest publicly listed coal mining company.

Tracy Dare

Non-Executive Director
B.Bus (Acct); Grad.Dip.Adv.Acc; AICAA; FAIM, GAICD

Director since 2008

Tracy Dare is an experienced Director, with a focus on strategy, governance, risk and financial management. She has served on various government and not-for-profit Boards for more than 15 years.

Ms Dare has extensive senior leadership experience in business improvement and restructuring in a wide variety of industries. She is a former Financial Services Partner of KPMG Brisbane, following which she led Suncorp's Corporate Banking team for a number of years.

Ms Dare is currently the Executive Manager, Accommodation and Retirement Living with RSL Care Limited. In this role she leads the strategic asset management and major capital works and facilities maintenance functions, as well as RSL Care's retirement village business. Ms Dare is also currently an Academic Board member of the Australian Institute of Management Graduate Studies Institute.

Jon Hubbard

Non-Executive Director
B.Com, CA, GAICD

Director since 1 July 2011

Jon Hubbard has over 17 years experience in the energy, utilities and resources sectors and specialises in strategy, business and corporate development, corporate finance, financial and commercial evaluation, financial performance assessment, regulation and industry reform and restructuring.

Mr Hubbard retired from the advisory practice of PricewaterhouseCoopers (PwC) in 2009, after 24 years with the firm, the last 12 years as a partner. During his time with the firm, Mr Hubbard held a number of leadership roles across the firm's Energy and Resources practice, and advised a wide range of government and corporate clients across Australasia and South East Asia.

Mr Hubbard moved from Melbourne to the Brisbane office of PwC in 2005 having recognised the sustainable business opportunity to build both a coordinated energy industry focus across the firm in Queensland, and a dedicated specialist energy strategy and reform team, which he led.

Sarah Israel

Non-Executive Director
B Bus, FCPA, FAICD

Director from 1 July 2011 to 13 July 2012

Sarah Israel has 15 years experience at Board level in both the private and public sectors, with particular experience as a chair and member of audit, compliance and risk committees.

Ms Israel has industry experience in electricity, toll roads, export credit, regional aviation, investment banking, investment management and consultancies to developing nation governments. She also has executive management experience in project finance, management and development, financial control, budgeting and governance frameworks.

Ms Israel was previously a director of the Queensland Electricity Transmission Corporation (Powerlink Queensland), Energy Super and the Queensland Rural Adjustment Authority.

Greg Simcoe

Non-Executive Director

Director from 1 July 2011 to 4 July 2012

Mr Simcoe held the position of State Secretary of the Builders Labourers Federation (BLF) in Queensland for 18 years, prior to his retirement in late 2010. He was one of the longest serving State Secretaries of BLF Queensland.

His current positions include Chairman of the Building Employees Redundancy Trust, Chair of the Construction Income Protection Fund, Chair of the Construction Skills Training Centre, Director of BUSSQ (Super Fund), Director of the Queensland Construction Training Fund, Director of the Building and Construction Industry Training Fund and Director of the Building and Construction Industry Training Fund.

He has also been a Trustee Member of the Australian Institute of Superannuation Trustees, Branch Secretary of the Construction, Forestry, Mining and Energy Union (CFMEU) Construction and General Division.

Karen Smith-Pomeroy

Non-Executive Director
FIPA, MAICD, SA Fin

Director since 1 July 2011

Karen Smith-Pomeroy has over 30 years experience in the financial services sector, working predominantly in credit, finance and risk areas. She is currently Chief Risk Officer at Suncorp Bank and served on the Board of Tarong Energy Corporation from 2007–2011.

Ms Smith-Pomeroy is also a non executive director of Queensland Affordable Housing Consortium Ltd and a committee member of the Australian Chapter of the Risk Management Association Inc.

Mark Williamson

Non-Executive Director
MAICD

Director since 1 July 2011

Mark Williamson is an experienced director who has served on a number of boards, including Stanwell Corporation, North Queensland Cowboys Rugby League Club, Brisbane Marketing Ltd, Hamilton Island Airport Ltd, Brisbane Visitors' and Convention Bureau, AFTA (Qld), Starlight Children's Foundation (Qld) and the Mackay Port Authority.

Mr Williamson is currently the Chairman of Allconnex Water and a Director of Energy Super and Transmax Pty Ltd, and holds a membership with the Australian Institute of Company Directors.

Mr Williamson has held the position of Director, Northern Region for SingTel Optus. Prior to this appointment, he held senior executive roles in the electricity, IT, telecommunications and airline industries. His professional career has been primarily in sales and marketing and in general management at state, national and international levels. Mr Williamson carried out the position of Acting Chairman from 22 May to 31 May 2012.

Bob Henricks

Non-Executive Director
Queensland Certificate of Competency as Electrical Mechanic (Electrician)

Director since 1999 (leave of absence taken from 30 June 2011)

Bob Henricks brings more than 40 years experience in the electricity industry to the CS Energy Board. Mr Henricks has served on the board of AUSTA Electric and chairs the Energy Super Superannuation Fund, and one other superannuation fund. He is also a director of CS Energy Oxyfuel Pty Ltd. Mr Henricks is a director of Queensland Private Capital Group Pty Ltd. He is a past State Secretary and National President of the Electrical Trades Union and is also currently a member of the (Australian Government) Central Trades Committee. Mr Henricks, who took his apprenticeship at 15, is still a licensed electrician.

Denis Byrne

Non-Executive Chairman
LLB

From 1 July 2011 to 21 May 2012

Denis Byrne was appointed as Chairman of the CS Energy Board on 1 July 2011 until 22 May 2012. He has practised commercial law for 28 years, with wide experience in the corporate, infrastructure and resources areas. Prior to joining the CS Energy Board, Mr Byrne served as Chairman of the Stanwell Corporation Board for five years. He is currently a Director of Asia Pacific Nickel Pty Ltd.

Mr Byrne served for 10 years on the Australian Takeovers Panel and seven years on the New Zealand Takeovers Panel. He was President of the Queensland Law Society from 1985–1986, President of the Law Council of Australia in 1988/1989, former Managing Partner of Freehill Hollingdale & Page, and inaugural Chairman of the Queensland Gas Appeals Tribunal. He also served as a member of the Prime Minister's Rail Taskforce. Mr Byrne was involved in the restructure of several industries, at a national level, including the horticulture industry, and later served as a Director of Horticulture Australia from 2001–2004.

Executive Management Team profiles

David Brown

Chief Executive

C.Eng BSc (Hons)

David Brown is a chartered engineer with more than 30 years experience in the energy industry in the United Kingdom and Australia. Mr Brown graduated with first class honours in a Bachelor of Science degree in natural gas engineering from the University of Salford in the United Kingdom (UK). He started his career with British Gas plc before joining Southern Electric plc at a time of significant change in the UK power industry.

In Australia, Mr Brown has worked as a consultant to the power industry and later as General Manager of Bell Bay Power Pty Ltd, a Hydro Tasmania subsidiary company. He joined CS Energy as General Manager Operations in 2007 and was appointed as Chief Executive in December of that year.

During the Queensland Government's restructure of its generating companies, Mr Brown was appointed as Interim Chief Executive Officer for the period April to June 2011. On 1 July 2011, he was formally appointed as Chief Executive of the restructured CS Energy portfolio.

Garry Button

Executive General Manager Commercial

BCom (UNSW), FCPA, FFTP, MAICD

Garry Button has over 30 years financial and corporate management experience across a range of industries including energy, transport and infrastructure, media, consumer products, telecommunication and retail.

Mr Button joined CS Energy in July 2011 as Chief Financial Officer. In February 2012 he became Executive General Manager Commercial with responsibility for the revenue, customer and market functions of the business while retaining the finance, corporate strategy, planning, reporting, procurement and shareholder relations functions as Chief Financial Officer.

He is a fellow of CPA Australia and the Finance and Treasury Association (of which he is also a past national President and NSW Chapter Chairman), as well as a Member of the Australian Institute of Company Directors.

Gary Campbell

Executive General Manager Production

BE (Elect)

Gary Campbell has more than 30 years experience in the energy sector in Australia and New Zealand.

He joined CS Energy in 2004 as Site Manager at the Callide Power Station and was appointed to the General Manager Operations role in April 2008.

During the Queensland Government's restructure of its generating companies, Mr Campbell served as Acting Chief Executive for the period April to June 2011. On 1 July 2011, he was formally appointed as Executive General Manager Production of the restructured CS Energy portfolio. In this role he is accountable for the overall performance of CS Energy's generation assets at the Callide, Kogan Creek, and Wivenhoe power stations, as well as overhaul delivery, resource management, and stores and inventory.

In New Zealand, Mr Campbell held the position of Station Manager with New Plymouth and Huntly Power Stations and was Chief Executive of Waitaki Power in New Zealand. He was General Manager Operations of Tarong Energy from 1999 until 2002.

Andrew Krotewicz

Executive General Manager Assets, Safety and Environment

BEng (Electrical), Dip Mgt

Andrew Krotewicz was appointed as an Executive General Manager for CS Energy on 1 July 2011. In his current role he is responsible for asset strategy, technical services, strategic projects and health and safety, environment and quality.

Mr Krotewicz has 30 years experience in the power industry in Queensland and Western Australia. Prior to joining CS Energy, he was General Manager Generation Operations at Tarong Energy. He is an electrical engineer and has a suite of skills and knowledge in best practice operations, maintenance, overhaul planning, engineering, project delivery and asset management and enhancements.

In Western Australia, Mr Krotewicz worked on large-scale, gas-fired cogeneration plants for Alcoa's alumina smelters. The joint venture was one of the first privately owned generators operating in the then recently deregulated state electricity market.

Michael Turner

Executive General Manager People, Systems and Risk

HNC Engineering (Mechanical & Production), HNC Electrical Engineering (Power bias), PGrad Dip Mgt (Manchester University)

Michael Turner has more than 30 years experience in the energy industry in both Australia and the United Kingdom as a qualified electrical and mechanical engineer. Mr Turner has held various senior management roles over the past 15 years, including six years with PricewaterhouseCoopers' Energy Utilities division, and most recently five years with ENERGEX in senior strategic and network asset management roles.

As Executive General Manager Corporate, Mr Turner is responsible for business integration and improvement, IT, industrial relations, human resources, learning and development, risk and assurance. He was appointed to the role on 1 July 2011 and prior to this served as General Manager Organisation Development at CS Energy.

Terry Killen

Executive General Manager Trading
(until 17 February 2012)

B.Ed, MBA, Grad Dip. Mgt, Dip Fin, Dip Prod. Mgt, Dip Tech Analysis, GAICD

Terry Killen has worked in the energy industry since 1986. During this time he has held a number of management roles in information technology, strategic and business planning, HR, procurement and market operations. Prior to joining CS Energy, he held trading management roles for Loy Yang Power and Edison Mission Energy in Victoria.

As Executive General Manager Trading, Mr Killen was responsible for CS Energy's trading operations, forecasting, market analysis and carbon management. He was appointed to the role on 1 July 2011 after serving as CS Energy's General Manager Corporate Services and Head of Market Operations.

An AFMA accredited trader, Mr Killen was also CS Energy Director on the Board of Callide Power Trading.

Financial Report

This financial report covers both CS Energy Limited as an individual entity and the consolidated group consisting of CS Energy Limited and its subsidiaries. The financial report is presented in the Australian currency.

CS Energy Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

CS Energy Limited
Level 2 HQ North Tower
540 Wickham Street
FORTITUDE VALLEY QLD 4006

A description of the nature of the consolidated group's operations and its principal activities is included on page 2 of the Annual Report which is not part of this financial report.

The financial statements were authorised for issue by the Directors on 27 August 2012. The Directors have the power to amend and reissue the financial statements.

Directors' Report

The Directors present their report on the consolidated entity (referred to hereafter as the consolidated group) consisting of CS Energy Limited and the entities it controlled at the end of, or during, the year ended 30 June 2012.

Directors

The following persons were Directors of CS Energy Limited during the whole of the financial year and up to the date of this report, unless otherwise noted:

- Mr R Rolfe (appointed 31 May 2012)
- Mr D Byrne (appointed 1 July 2011; resigned 21 May 2012)
- Ms T Dare
- Ms S Israel (resigned 13 July 2012)
- Mr J Hubbard (appointed 1 July 2011)
- Mr K Barker (appointed 1 July 2011; resigned 4 July 2012)
- Mr G Simcoe (appointed 1 July 2011; resigned 5 July 2012)
- Ms K Smith-Pomeroy (appointed 1 July 2011)
- Mr M Williamson (appointed 1 July 2011)
- Mr R Henricks (unpaid leave of absence from 30 June 2011)

Details about Directors are included in the Annual Report, as follows:

- Qualifications, experience and special responsibilities and
- Meetings held and Director attendance.

These sections of the Annual Report form part of this report.

Principal activities

During the year the principal activity of the consolidated group was the generation and trading of electricity from coal and pumped storage hydro power stations.

Consolidated Results

	2012 $'000	2011 $'000
Profit/(Loss) after income tax	(51,458)	(614,566)

Dividends - CS Energy Limited

Details of dividends paid or declared in respect of the current and prior year:

	$'000
Dividend declared during the year ended 30 June 2011 and paid prior to 30 June 2012	-
Dividend declared during the year ended 30 June 2012	-

Results of operations

On 1 July 2011, under the *Government Owned Corporation Generator Restructure Regulation 2011* ('Restructure'), the transfer of assets to Stanwell Corporation Limited and receipt of assets and liabilities from Stanwell Corporation Limited and Tarong Energy Limited resulted in a significant change in the assets, liabilities and underlying operations of the consolidated group (refer Note 13). The 30 June 2011 financial position, financial performance and cash flows for the year ended on that date disclosed as comparatives in the financial statements and notes reflect the consolidated group prior to the Restructure. Analysis and comparison to the prior year ended 30 June 2011 is therefore considered not meaningful and has not been undertaken.

The consolidated group's result for the year was a loss after tax of $51.5 million. This result included:

- Finance costs of $68.8 million; and
- Income tax benefit of $23.4 million.

CS Energy's financial performance was significantly impacted by the reliability and efficiency of the Company's generation portfolio.

The market for electricity has been characterised by low average pool prices and falling contract prices. This is driven by a range of factors, including:

- A downward trend in electricity demand growth;
- The over supply of generation in the Queensland electricity market;
- The dominance of vertically integrated retailers; and
- Uncertainty relating to the introduction of the carbon price.

The consolidated group's revenue from the sale of electricity was $380.4 million, which was lower than expected compared to budget due to:

- A decrease in generation dispatched due to a surplus of generation capacity in the market;
- A decrease in operating reliability (caused in part by poor fuel quality and lower generation portfolio availability);
- An increase in the use of Gladstone Power Station due to lower portfolio availability; and
- A decrease in the realised load weighted average pool price for the financial year.

The consolidated group's total expenses before finance costs and income tax expense was $450.1 million for the year. This was attributable to:

- Cost of sales - $293.9 million; and
- Other expenses - $156.1 million.

Cost of sales was lower compared to budget due reduced fuel and water costs resulting from the lower levels of generation.

Finance costs of $68.8 million were lower compared to budget during 2012 due to an interest rate decrease with overall debt remaining relatively unchanged.

Significant changes in the state of affairs

On 25 November 2010 the Queensland Government announced the Restructure of the three Queensland Government Owned Corporation generators, CS Energy Limited, Stanwell Corporation Limited and Tarong Energy Limited. The proposed final asset allocation was announced on 10 March 2011 and the regulation gazetted on 24 June 2011. The effective date of the transfer was 1 July 2011 resulting in the following changes to the assets of the consolidated group.

Transfer of the following assets or business units of the consolidated group to Stanwell Corporation Limited:

- Mica Creek business unit;
- Swanbank business unit; and
- Collinsville Power Purchase Agreement

Receipt of the following assets or business units by the consolidated group:

- Gladstone Interconnection and Power Pooling Agreement (IPPA) from Stanwell Corporation Limited;
- Wivenhoe business unit from Tarong Energy Corporation Limited; and
- Glen Wilga and Haystack Road coal resources from Tarong Energy Corporation Limited.

The results of the Restructure have been incorporated into the consolidated group's financial statements and included in Note 13.

Contributed equity increased by $300 million as a result of equity injections received from the Queensland Government on 6 September 2011 and 24 January 2012 on behalf of the shareholding Ministers. Details of the changes in contributed equity are disclosed in Note 27 to the financial statements.

Matters subsequent to the end of the financial year

Other than matters disclosed in Likely developments and expected results below, there are no matters between the financial year end and the date of this report that require further disclosure.

Likely developments and expected results of operations

On 18 November 2011 the *Clean Energy Act 2011* (Act) received Royal Assent and was substantively enacted. The Act effectively implements, from 1 July 2012, a mechanism for the identification of carbon dioxide (and equivalent) emissions, pricing of these emissions and the remittance of permits or cash for the liability within a prescribed period. The Act contemplates a fixed price term to 30 June 2015 with a floating price cap and floor period subsequent to that date. The implementation of the carbon price from 1 July 2012 is expected to have a significant impact on CS Energy's operations, especially with its portfolio of predominantly coal-fired generation. The carbon price will also create significant additional cash requirements within the consolidated group to support future carbon liabilities and carbon permit purchases. The impacts of carbon, where applicable, are reflected in the respective assets and liabilities recorded in the balance sheet. The estimated cost of carbon for the consolidated group in the 2012/2013 financial year will be in excess of $260 million.

Environmental regulation

The consolidated group's activities are subject to environmental regulation under both Commonwealth and State legislation in relation to the operation of its power station and coal mine assets. The primary State environmental laws governing these activities are the *Environmental Protection Act 1994 (Qld)* and the *Sustainable Planning Act 2009 (Qld).* The consolidated group operates its power stations and coal mine in accordance with the approvals it holds under these Acts, and its various generating licences.

During the year, two environmental matters were reported to the Department of Environment and Heritage Protection (DEHP) and DEHP was satisfied with the actions taken by CS Energy. Three complaints were received: two about regional air quality around Callide Power Station which have been resolved, and one about noise from Kogan Creek Power Station where the site is continuing to liaise with the landholder to resolve the issue. Further details are provided on page 9 in the Annual Report.

Following notification to DEHP and investigation of off site seepage from the Callide Power Station Ash Dam B, on 12 August 2011, DEHP approved a Transitional Environmental Program (TEP) with a scope requiring further investigation and management of the seepage to be carried out over three years. Discussions are continuing with DEHP on proposed amendments to the site Development Approval.

A TEP was approved on 11 January 2011 authorising releases from the ash dam to Callide Creek provided concurrent releases were occurring from the SunWater-controlled Callide Dam, and this expired on 30 April 2012. There were no releases of water from the ash dam during the financial year under this TEP.

During the year, CS Energy implemented additional water treatment and evaporation capacity to progressively reduce the water level of the dam.

Other than those matters disclosed above, to the consolidated group's knowledge, there are no further environmental enforcement actions pending against the consolidated group.

The consolidated group is required to comply with the requirements of the *National Greenhouse and Energy Reporting Act 2007* (the NGER Act). As the controlling corporation, CS Energy Limited has established systems and procedures to support reporting under the Act by the due date of 31 October each year.

Further information on the consolidated group's environmental performance can be found in the Annual Report on page 9.

Indemnification and insurance of officers

During the financial year, CS Energy Limited maintained policies to insure all officers of the Company and its controlled entities, including Directors and officers of each of the divisions of the consolidated group.

The Company has agreed to indemnify all Directors against certain liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current Directors of its controlled entities for certain liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Under the terms of the policies entered into on 1 July 2011, the Company has agreed to indemnify all Senior Executives for certain liabilities to another person (other than the Company or a related body corporate) that may arise from their position in the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Senior Executives in question are the Chief Executive, Executive General Managers and Group Managers of each of the consolidated group's operating divisions. The agreement stipulates that the Company will meet the full amount of any such liabilities, including legal fees.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Preparation of Parent Entity Accounts

The parent entity is a company of a kind referred to in Class Order 10/654 issued by the Australian Securities and Investments Commission, relating to the inclusion of parent entity financial statements in financial reports. Parent entity financial statements for CS Energy Limited have been included in the financial report for the group.

Rounding of amounts to the nearest thousand dollars

The parent entity is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report and financial report. Amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars, in accordance with that Class Order.

This report is made in accordance with a resolution of Directors.

Mr R Rolfe
Chairman

Ms T Dare
Director

Brisbane

27 August 2012

Auditor's Independence Declaration

To the Directors of CS Energy Ltd

This audit independence declaration has been provided pursuant to s.307C of the *Corporations Act 2001.*

Independence Declaration

As lead auditor for the audit of CS Energy Ltd for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been -

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

JWelsh

J F WELSH FCPA
(as Delegate of the Auditor-General of Queensland)

QUEENSLAND
27 AUG 2012
AUDIT OFFICE

Queensland Audit Office
Brisbane

Statement of Comprehensive Income

CS Energy Limited (and controlled entities) for the year ended 30 June 2012

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Revenue from continuing operations					
Revenue from the sale of electricity	5	380,417	615,384	198,489	297,799
Other revenue	5	20,660	31,653	15,383	46,820
		401,077	647,037	213,872	344,619
Other income	6	42,956	69,669	36,213	55,569
Cost of sales		(293,992)	(516,441)	(199,562)	(285,694)
Other expenses	7	(156,113)	(224,465)	(59,294)	(185,406)
Impairment	7	-	(773,163)	(168,385)	(364,864)
Finance costs	7	(68,771)	(87,630)	(66,828)	(85,213)
Loss before income tax		(74,843)	(884,993)	(243,984)	(520,989)
Income tax benefit	8	23,385	270,427	22,643	158,521
Loss for the year		**(51,458)**	**(614,566)**	**(221,341)**	**(362,468)**
Other comprehensive income					
Net assets/(liabilities) transferred under Restructure	26	28,503	-	(24,292)	-
Changes in fair value of cash flow hedges, net of tax		(24,569)	(81,622)	(24,569)	(81,622)
Actuarial gain/(loss) defined benefit plan, net of tax		(8,871)	659	(8,871)	659
Other comprehensive loss for the year, net of tax		(4,937)	(80,963)	(57,732)	(80,963)
Total comprehensive loss for the year		(56,395)	(695,529)	(279,073)	(443,431)
Loss is attributable to:					
Owners of CS Energy Limited		(51,458)	(614,566)	(221,341)	(362,468)
Total comprehensive loss is attributable to:					
Owners of CS Energy Limited		(56,395)	(695,529)	(279,073)	(443,431)

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

Balance Sheet

CS Energy Limited (and controlled entities) for the year ended 30 June 2012

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Assets					
Current assets					
Cash and cash equivalents	9	245,613	31,891	227,979	9,920
Trade and other receivables	10	117,430	137,426	91,646	104,737
Inventories	11	54,594	63,244	24,024	32,023
Derivative financial assets	12	42,004	73,423	42,004	73,423
Assets held for distribution		-	273,956	-	184,649
Total current assets		**459,641**	**579,940**	**385,653**	**404,752**
Non-current assets					
Derivative financial assets	12	15,595	28,913	15,595	28,913
Other receivables	14	-	-	967,128	1,253,308
Equity accounted investments	15	1	1	-	-
Other non-current assets	16	-	-	93,612	51,815
Property, plant and equipment	17	1,204,012	1,060,414	175,962	103,289
Deferred tax assets	18	195,530	93,450	172,165	71,281
Retirement benefit assets	25	-	8,041	-	8,041
Total non-current assets		**1,415,138**	**1,190,819**	**1,424,462**	**1,516,647**
Total assets		**1,874,779**	**1,770,759**	**1,810,115**	**1,921,399**
Liabilities					
Current liabilities					
Derivative financial liabilities	12	55,669	78,747	55,669	78,747
Trade and other payables	19	153,331	76,311	113,934	50,626
Provisions	20	56,225	8,722	55,106	7,773
Liabilities held for distribution		-	278,828	-	245,119
Total current liabilities		**265,225**	**442,608**	**224,709**	**382,265**
Non-current liabilities					
Derivative financial liabilities	12	12,179	47,482	12,179	47,482
Trade and other payables	21	49,482	42,380	-	-
Borrowings	22	824,972	825,876	824,972	825,876
Deferred tax liabilities	23	87,186	88,714	12,447	17,567
Provisions	24	252,200	59,957	230,605	40,121
Retirement benefit obligations	25	7,518	-	7,518	-
Total non-current liabilities		**1,233,537**	**1,064,409**	**1,087,721**	**931,046**
Total liabilities		**1,498,762**	**1,507,017**	**1,312,430**	**1,313,311**
Net assets		**376,017**	**263,742**	**497,685**	**608,088**
Equity					
Contributed equity	27	1,114,415	953,115	1,114,415	953,115
Reserves	26	(7,366)	9,833	(7,366)	9,833
Accumulated losses	26	(731,032)	(699,206)	(609,364)	(354,860)
Total equity		**376,017**	**263,742**	**497,685**	**608,088**

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

Statement of Changes in Equity

CS Energy Limited (and controlled entities) for the year ended 30 June 2012

Consolidated	Note	Contributed equity $'000	Hedging reserve $'000	Retained earnings/ (accumulated losses) $'000	Total equity $'000
		Attributable to members of the parent			
Balance at 1 July 2010		953,115	91,455	(85,299)	959,271
Total comprehensive income for the year					
Net loss for the year		-	-	(614,566)	(614,566)
Other comprehensive income					
Changes in fair value of cash flow hedges, net of tax		-	(81,622)	-	(81,622)
Actuarial gain on the defined benefit plan, net of tax		-	-	659	659
Total other comprehensive income		-	(81,622)	659	(80,963)
Total comprehensive income for the year		**-**	**(81,622)**	**(613,907)**	**(695,529)**
Balance at 30 June 2011		**953,115**	**9,833**	**(699,206)**	**263,742**
Balance at 1 July 2011		953,115	9,833	(699,206)	263,742
Total comprehensive income for the year					
Net loss for the year		-	-	(51,458)	(51,458)
Other comprehensive income					
Net assets/(liabilities) transferred under Restructure	26	-	-	28,503	28,503
Changes in fair value of cash flow hedges, net of tax	26	-	(17,199)	-	(17,199)
Actuarial loss on the defined benefit plan, net of tax	25	-	-	(8,871)	(8,871)
Total other comprehensive income		-	(17,199)	19,632	2,433
Total comprehensive income for the year		**-**	**(17,199)**	**(31,826)**	**(49,025)**
Transactions with owners, recorded directly in equity					
Net assets/(liabilities) transferred under Restructure	27	(138,700)	-	-	(138,700)
Capital injection	27	300,000	-	-	300,000
		161,300	-	-	161,300
Balance at 30 June 2012		**1,114,415**	**(7,366)**	**(731,032)**	**376,017**

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

Statement of Changes in Equity

CS Energy Limited (and controlled entities) for the year ended 30 June 2012 (continued)

		Attributable to members of the parent			
Parent	**Note**	**Contributed equity $'000**	**Hedging reserve $'000**	**Retained earnings/ (accumulated losses) $'000**	**Total equity $'000**
Balance at 1 July 2010		953,115	91,455	6,949	1,051,519
Total comprehensive income for the year		-	-	(362,468)	(362,468)
Net loss for the year					
Other comprehensive income					
Changes in fair value of cash flow hedges, net of tax		-	(81,622)	-	(81,622)
Actuarial gain on the defined benefit plan, net of tax		-	-	659	659
Total other comprehensive income		-	(81,622)	659	(80,963)
Total comprehensive income for the year		**-**	**(81,622)**	**(361,809)**	**(443,431)**
Balance at 30 June 2011		**953,115**	**9,833**	**(354,860)**	**608,088**
Balance at 1 July 2011		953,115	9,833	(354,860)	608,088
Total comprehensive income for the year					
Net loss for the year		-	-	(221,341)	(221,341)
Other comprehensive income					
Net assets/(liabilities) transferred under Restructure		-	-	(24,292)	(24,292)
Changes in fair value of cash flow hedges, net of tax		-	(17,199)	-	(17,199)
Actuarial loss on the defined benefit plan, net of tax		-	-	(8,871)	(8,871)
Total other comprehensive income		-	(17,199)	(33,163)	(50,362)
Total comprehensive income for the year		**-**	**(17,199)**	**(254,504)**	**(271,703)**
Transactions with owners, recorded directly in equity					
Net assets/(liabilities) transferred under Restructure		(138,700)	-	-	(138,700)
Capital injection		300,000	-	-	300,000
		161,300	-	-	161,300
Balance at 30 June 2012		**1,114,415**	**(7,366)**	**(609,364)**	**497,685**

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

Statement of Cash Flows

CS Energy Limited (and controlled entities) for the year ended 30 June 2012

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Cash flows from operating activities					
Cash receipts from customers		484,792	674,960	269,082	333,328
Cash payments to suppliers and employees		(402,815)	(478,586)	(275,802)	(289,341)
Cash generated from operations		81,977	196,374	(6,720)	43,987
Interest received		1,084	637	829	98
Operating borrowing costs paid		(65,684)	(64,718)	(64,541)	(64,719)
Net cash inflow / (outflow) from operating activities	37	17,377	132,293	(70,432)	(20,634)
Cash flows from investing activities					
Payments for property, plant and equipment		(128,274)	(160,070)	(44,991)	(63,161)
Repayments of loans to related parties		(993)	-	-	(74,859)
Repayments of loans from related parties		-	-	7,868	108,061
Payments for gas exploration and evaluation assets		-	(2,169)	-	(2,169)
Payments for research and development		-	(27,775)	-	-
Receipts/(payments) from open futures positions		25,613	(23,000)	25,613	(23,000)
Net cash (outflow) / from investing activities		(103,654)	(213,014)	(11,510)	(55,128)
Cash flows from financing activities					
Repayment of borrowings		-	-	-	-
Dividends paid		-	-	-	-
Capital injection		300,000	-	300,000	-
Net cash inflow / (outflow) from financing activities		300,000	-	300,000	-
Net increase (decrease) in cash and cash equivalents		213,723	(80,721)	218,058	(75,762)
Cash and cash equivalents at the beginning of the financial year		31,891	113,242	9,920	85,965
Less: Cash balances held for distribution		-	(630)	-	(283)
Cash and cash equivalents at the end of the year	**9**	**245,614**	**31,891**	**227,978**	**9,920**

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 2012

1. Summary of significant accounting policies

CS Energy Limited is a company domiciled in Australia. Its registered office and principal place of business is Level 2, HQ North Tower, 540 Wickham Street, Fortitude Valley, Qld 4006.

The consolidated group is primarily involved in the generation of electricity from coal and pumped storage hydro power stations.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes the parent financial statements for CS Energy Limited as an individual entity and the consolidated group consisting of CS Energy Limited and its subsidiaries. Comparative information is reclassified where appropriate to enhance comparability.

(a) Basis of preparation

Statement of compliance

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, the *Government Owned Corporations Act 1993* and related regulations and the *Corporations Act 2001*. CS Energy Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements of the consolidated group and the parent also comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board (IASB) with the exception of the initial recognition of the liabilities and assets transferred through transactions with owners, which was accounted for under AASB Interpretation 1038 *Contributions by Owners made to Wholly-Owned Public Sector Entities*, issued by the Australian Accounting Standards Board, for which there is no international equivalent accounting standard.

New and amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning

1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Early adoption of standards

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

Going concern

The financial report has been prepared on a going concern basis which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The financial statements at 30 June 2012 reflect a net asset position of $376.0 million (2011: $263.7 million) and a net current asset position of $194.4 million (2011: $137.3 million).

The Directors in their consideration of the appropriateness of the preparation of the financial statements on a going concern basis have prepared cash flow forecasts and revenue projections for a period of not less than thirteen months from the date of this report. These cash flow projections show that the ability to meet debts as and when they are payable is dependent on the ongoing availability of undrawn debt facilities provided by Queensland Treasury Corporation. Currently available undrawn debt and working capital facilities with Queensland Treasury Corporation at 30 June 2012 are in excess of $575.0 million (refer Note 22). In the longer term, the ability of CS Energy Limited and the consolidated group to continue as a going concern is critically dependent upon:

- Access to undrawn debt facilities with Queensland Treasury Corporation; and
- The continued support of the Queensland Government.

The consolidated group has received notification of a guarantee of existing debt facilities by the Queensland Government. Queensland Treasury Corporation has provided confirmation that facilities reported in Note 22 are available and not subject to change in the next 12 months.

On the basis of the information available, the Directors consider that there are reasonable grounds to believe that CS Energy Limited and the consolidated group will be able to pay their debts as and when they become due and payable. The financial report does not include any adjustments relating to the recoverability and/or classification of assets or the amounts and/or classification of liabilities should CS Energy Limited or the consolidated group not continue as a going concern.

Historical cost convention

These financial statements have been prepared under the historical cost convention, except for:

- Derivative financial instruments measured at fair value;
- The superannuation defined benefit plan asset which is measured as the net total of the plan assets, plus unrecognised past service costs and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation; and
- Assets subject to fair value adjustments under *AASB 136 Impairment*.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Cost of sales included in Statement of Comprehensive Income

The line item **Cost of sales** disclosed on the face of the Statement of Comprehensive Income includes fuel, water, operations, maintenance and depreciation costs directly attributable to the generation of electricity.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of all subsidiaries of CS Energy Limited. CS Energy Limited ('the company' or 'parent') and its subsidiaries together are referred to in this financial report as the group or the consolidated group.

Subsidiaries are all those entities (including special purpose entities) over which the consolidated group has the power to govern the financial and operating policies, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the consolidated group. They are de-consolidated from the date that control ceases. All investments in controlled entities are disclosed in Note 35.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the consolidated group.

Investments in subsidiaries are accounted for at cost in the parent financial statements of CS Energy Limited.

(ii) Business combinations

All business combinations post 1 July 2009 are accounted for by applying the acquisition method.

For every business combination, the consolidated group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the consolidated group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill

For acquisitions on or after 1 July 2009, the consolidated group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the consolidated group to the previous owners of the acquiree, and equity interests issued by the consolidated group. Consideration transferred also includes the fair value of any contingent consideration of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the consolidated group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

For acquisitions between 1 July 2004 and 1 July 2009, goodwill represents the excess of the cost of the acquisition over the consolidated group's interests in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised directly in profit or loss.

Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value cannot be measured reliably.

Non-controlling interest

The consolidated group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the consolidated group incurs in connection with a business combination on or after 1 July 2009, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

Transaction costs that were incurred for acquisitions between 1 July 2004 and 1 July 2009 were capitalised as part of the cost of the acquisition.

(iii) Accounting for non-controlling interests

Acquisitions of non-controlling interests occurring on or after 1 July 2009, are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

(iv) Loss of control

Upon the loss of control, the consolidated group derecognises the assets and liabilities of the subsidiary and any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the consolidated group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available for sale financial asset depending on the level of influence retained.

(v) Joint ventures

Jointly controlled assets

The proportionate interests in the assets, liabilities, expenses and income from sale of goods or services of jointly controlled assets have been incorporated in the financial statements of the parent entity and consolidated group under the appropriate headings.

Joint controlled entities

The interest in each jointly controlled entity is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of each entity is recognised in the statement of comprehensive income, and the share of movements in reserves is recognised in reserves in the balance sheet. Details relating to each entity are set out in Note 36.

The consolidated group's share of its jointly controlled entities' post acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post acquisition movements in equity is recognised in equity. The cumulative post acquisition movements are adjusted against the carrying amount of the investment.

Dividends receivable from equity accounted jointly controlled entities are recognised in the parent entity's statement of comprehensive income as revenue, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the consolidated group's share of losses in an associate equals or exceeds its interest in the jointly controlled entity, including any other unsecured long term receivables, the consolidated group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the entity.

Unrealised gains on transactions between the consolidated group and its equity accounted jointly controlled entities are eliminated to the extent of the consolidated group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the consolidated group.

(vi) Transactions eliminated on consolidation

Intra-group transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

(vii) Assets and liabilities received from owners

Where assets and liabilities are transferred from another wholly-owned government entity to the consolidated group, these transfers are recognised in equity as contributions by/distributions to owners as designated by the shareholding Ministers on 21 June 2011. Such assets and liabilities are recognised at the book values of the transferring entity immediately prior to the transfer.

Subsequent to initial recognition assets and liabilities are measured in accordance with the requirements of applicable Australian Accounting Standards.

(c) Foreign currency translation

Items included in the financial statements of each of the consolidated group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated group's financial statements are presented in Australian dollars, which is CS Energy Limited's functional and presentation currency.

Transactions in foreign currencies are translated to the respective functional currencies of the consolidated group's entities using exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on qualifying cash flow hedges, which are recognised in other comprehensive income.

(d) Revenue recognition

All revenue is measured at the fair value of the consideration received or receivable.

Electricity sales

Revenue from the sale of electricity is recognised as the electricity generated is dispatched into the National Electricity Market (NEM) or in the period that the electricity generated, which is pursuant to a power purchase agreement (PPA), is transferred to the counterparty. The effective portion of electricity derivatives designated as cash flow hedges, relating to electricity traded in the pool market, is recognised in electricity revenue in the period to which the contract settlement relates. Proceeds from sale of electricity from testing plant under construction are deducted from the construction cost of that plant.

Pool market revenue is based on spot electricity prices calculated by the Australian Energy Market Operator (AEMO) trading systems.

Gas electricity certificate sales

Revenue from the sale of certificates under the Queensland Government's Gas Electricity Certificate (GEC) scheme is recognised when the electricity giving rise to the GEC is dispatched into the NEM. Fair value is determined as the contracted sale price to the extent the GECs have been forward sold, or otherwise if not sold under contract, is determined based on observable market prices.

Operation and maintenance service fees

Revenue is earned for the provision of operation and maintenance services performed for other entities. This revenue is recognised on an accrual basis in proportion to the stage of completion of the services performed at the reporting date.

Interest income

Interest income comprises interest income on funds invested and is recognised in profit or loss as it accrues using the effective interest method.

(e) Finance Costs

Finance costs comprise interest on borrowings and the unwinding of the discount on provisions. Finance costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(f) Income tax

CS Energy Limited and its wholly-owned subsidiaries are exempt from Commonwealth Government Income Tax but are subject to the National Tax Equivalents Regime. Under this regime, CS Energy Limited and its 100% owned Australian subsidiaries must ascertain their income tax liability each year in a manner substantially similar to Commonwealth income tax laws, and any tax resulting is to be paid to Queensland Treasury.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income, based on the Australian corporate income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted, at the reporting date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity or other comprehensive income are also recognised directly in equity or other comprehensive income.

Tax consolidation legislation

CS Energy Limited and its wholly-owned subsidiaries have implemented the tax consolidation legislation as at 1 July 2002, forming a single tax consolidated group.

The head entity, CS Energy Limited, and all other tax consolidated group members, continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each tax consolidated group member continued to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, CS Energy Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the members of the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated group are recognised as amounts receivable from or payable to other members of the group. Details about the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) group members.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by CS Energy Limited only.

(g) Operating lease payments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease. Any lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Any contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(h) Impairment of assets

Non-financial assets

Assets are reviewed and tested at each reporting date for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units (CGU)). Impairment losses are recognised in profit or loss. Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

In assessing collective impairment the consolidated group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 original effective interest rate.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value and include directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments, other than borrowings are measured as described in Note 1(l). Borrowings are measured at amortised cost, using the effective interest method.

Trade and other receivables, loans and borrowings and trade and other payables are recognised on the date that they are originated. All other financial instruments are recognised initially on the trade date at which the consolidated group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated group's contractual rights to the cash flows from the financial assets expire or if the consolidated group transfers the financial assets to another party without retaining control of substantially all risks and rewards of the assets. Financial liabilities are derecognised if the consolidated group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents includes cash on hand and deposits held at call with Queensland Treasury Corporation. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade and other receivables

Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated group prior to the end of the financial year and which are unpaid.

The amounts are unsecured and are usually paid, on average, within 45 days of recognition.

Borrowings

Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw down of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

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

As part of the consolidated group's interest rate management strategy, forward start loans are entered into from time to time to fund large future capital commitments. Forward start loans provide access to funds on a specific date at a predetermined interest rate. The obligations under forward start loans are recognised at fair value at the time each loan is drawn down.

(j) Inventories

Inventories comprise fuel, stores and water, which are stated at the lower of cost and net realisable value. Cost comprises the cost of purchase, which is assigned to individual items of inventory on the basis of weighted average cost. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and associated transaction costs are recognised in profit or loss when incurred. Derivatives are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The consolidated group designates certain derivatives as either:

Cash flow hedges

The consolidated group designates certain derivatives as hedges of the cash flows of highly probable forecast transactions (cash flow hedges). The consolidated group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The consolidated group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 12. Movements in the hedging reserve in equity are shown in Note 26.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and presented in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and presented in equity are recycled in profit or loss in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of electricity swaps hedging variable revenue is recognised in profit or loss within 'revenue from the sale of electricity'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging imported goods is recognised in profit or loss within 'cost of goods sold'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and presented in the hedging reserve in equity are transferred from other comprehensive income and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income and presented in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income and presented in equity is immediately transferred to profit or loss.

Embedded derivatives

Any derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss. Changes in the fair value of the embedded derivatives are recognised immediately in profit or loss.

Derivatives which do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. The main categories of non-qualifying instruments for the consolidated group are sold options, instruments held for trading, and instruments which were not designated as hedges. Changes in the fair value of any derivative instrument that do not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

(l) Fair value estimation - financial assets and liabilities

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the consolidated group is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The consolidated group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for non-standard financial instruments held by the consolidated group. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the consolidated group and counterparty when appropriate. An analysis of financial instruments carried at fair value by valuation method is disclosed in Note 12.

The carrying value less impairment provision for trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate at reporting date that is available to the consolidated group for similar financial instruments.

(m) Property, plant and equipment

All property, plant and equipment, except for non-current assets held for distribution, is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials and direct labour, and other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated group and the cost of the item can be measured reliably. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the consolidated group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Land is not depreciated. Depreciation on other assets is recognised in profit or loss on a straight line method to allocate their net book amount, net of their residual values, over their estimated effective useful lives, as follows:

Power stations	2 - 29 years
Capitalised overhauls	2 - 4 years
Development costs	9 - 29 years
Buildings	10 - 40 years
Other property plant and equipment	1 - 5 years

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Major spares purchased specifically for particular plant are capitalised and depreciated on the same basis as the plant to which they relate.

The assets' residual values and useful lives and depreciation methods are reviewed at each reporting date, and adjusted if appropriate. When changes are made, adjustments are reflected prospectively in current and future periods only.

Gains or losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in profit or loss.

Property, plant and equipment constructed by the consolidated group

The cost of property, plant and equipment constructed by the consolidated group includes acquisition and development costs, the cost of all materials and services used in construction, direct overheads (including labour) on the project, commissioning costs and borrowing costs during construction.

Capitalised overhauls

Costs incurred on the overhaul of power station generation plant are capitalised to the extent that the economic benefits attributable to the capitalised costs are derived in future periods. Other maintenance and repair costs are charged as expenses to profit or loss when incurred.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the consolidated group's outstanding borrowings during the year.

Development costs

Costs incurred in acquiring an interest in and furthering the development of coal and fuel assets, which will ultimately form part of the cost of the asset, are carried in property, plant and equipment under the category of development costs (Note 17).

These amounts are transferred to work in progress once construction commences.

(n) Non-current assets and liabilities (or disposal groups) held for sale and discontinued operations

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through a distribution transaction rather than through continuing use, are classified as held for distribution. This condition is regarded as met only when the distribution is highly probable and the non-current asset or disposal group is available for immediate distribution in its present condition. Management must be committed to the distribution, which should be expected to qualify for recognition as a completed distribution within one year from the date of classification.

Non-current assets and disposal groups as held for distribution are measured at the lower of their carrying value and fair value less cost to distribute, except for the following assets and liabilities:

- Deferred tax balances;
- Assets and liabilities associated with employee benefits; and
- Financial assets and liabilities.

An impairment loss is recognised for any initial or subsequent write-down of the asset or disposal group to fair value less cost to distribute. A gain is recognised for any subsequent increases in fair value less cost to distribute of an asset or disposal group, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised at the date of transfer of the non-current asset or disposal group is recognised at the date of derecognition.

Fair value is determined on a discounted cash flow basis, based on assumptions disclosed in Note 4 and agreed to by the respective entities.

Non-current assets or disposal groups classified for distribution are not depreciated or amortised while they are classified as held for distribution. Interest and other expenses attributable to the liabilities of a non-current asset or disposal group classified as held for distribution continue to be recognised. Non-current assets and liabilities and disposal groups classified as held for distribution are presented separately from other assets in the balance sheet.

(o) Provisions

Provisions are recognised when the consolidated group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects the consolidated group's assessment of the current market relating to time value of money and the risks specific to the liability. The unwinding at the discount rate of provisions is recognised in profit or loss as finance costs over the period of the obligation.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the consolidated group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the consolidated group recognises any impairment loss on any assets associated with that contract.

Site rehabilitation and closure costs

Provision is made for the estimated site rehabilitation and closure costs at the end of the producing life of each power station on a present value basis. Provision is also made, when an area is disturbed, for the estimated cost of site rehabilitation and closure costs relating to areas disturbed during mining operations up to reporting date but not yet rehabilitated. The present value of these obligations is recognised as a non-current liability with a corresponding asset, which is depreciated over the relevant useful life. The discount is also unwound over the relevant useful life, with the cost recognised in profit or loss as 'finance costs'.

Dividends

Provision is made for the amount of any dividend declared or recommended, being appropriately authorised and no longer at the discretion of the company, on or before the end of the financial year but not distributed at reporting date.

(p) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and the portion of accumulated sick leave that is payable on termination, are recognised in respect of employees' services up to the reporting date and are measured at undiscounted amounts based on remuneration rates at reporting date, including related on-costs, such as workers' compensation insurance and payroll tax.

(ii) Long service leave

The liabilities expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits and measured in accordance with (i) above. Liabilities expected to be settled more than 12 months from the reporting date are recognised, and are measured at the present value of expected future payments to be made in respect of services provided by employees at reporting date. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows. For long service leave, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

(iii) Bonus plans

The consolidated group recognises a liability and an expense for bonuses based on a range of performance indicators for the period to which the performance bonus relates. The liability is recognised when the consolidated group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Superannuation funds

All employees of the consolidated group are entitled to benefits on retirement, disability or death from the consolidated group's defined benefit superannuation plan or defined contribution plan or the superannuation plan that the employee has elected as their preferred superannuation plan.

Defined contribution plan

The consolidated group's defined contribution plan and other superannuation plans chosen by the employee, receive fixed contributions from consolidated group companies and the group's legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution plans are recognised as an expense in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefits plan

The consolidated group's defined benefit plan provides lump sum benefits based on years of service and final average salary. A liability or asset in respect of the consolidated group's defined benefit superannuation plan is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the plan's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments that arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. When the calculation results in a benefit to the consolidated group, the recognised asset is limited to the total of any unrecognised post service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the consolidated group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in other comprehensive income.

Past service costs are recognised immediately in profit or loss, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes, such as taxes on investment income and employer contributions, are taken into account in the actuarial assumptions used to determine the relevant components of the employer's defined benefit liability or asset.

(v) Termination benefits

Termination benefits are recognised as an expense when the consolidated group is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet.

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

(r) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(s) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the consolidated group will comply with the conditions associated with the grant. Grants that compensate the consolidated group for expenses incurred are recognised in the statement of comprehensive income on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the consolidated group for the cost of an asset are recognised in the statement of comprehensive income as other income on a systematic basis over the useful life of the asset.

Project costs associated with the grants are recognised as an intangible asset or property, plant and equipment only when the recognition criteria of such assets are met.

Government grant income received on behalf of other recipients is not accounted for as income by the consolidated group.

(t) Research and development activities

Expenditure on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, or planning and designing for the production of new or substantially improved products and processes is recognised in profit or loss when incurred.

2. New accounting standards and interpretations

The following new standards, amendments to standards and interpretations have been identified as those standards which may impact the entity in the period of initial application, but are not mandatory for 30 June 2012 reporting periods and therefore have not been applied in preparing the consolidated financial statements. The consolidated group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 10 *Consolidated Financial Statements* replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. AASB 10 will become mandatory for the consolidated group's 30 June 2014 financial statements with retrospective application required. The consolidated group has not yet determined the potential effect of the standard.

(ii) AASB 11 *Joint Arrangements* introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. The standard is mandatory for the consolidated group's 30 June 2014 financial statements with retrospective application required. The consolidated group's investments in joint venture partnerships will be classified as joint ventures under the new rules. The consolidated group has not yet determined the potential effect of the standard.

(iii) AASB 12 *Disclosure of Interests in Other Entities* sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the consolidated group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the consolidated group's investments. The new standard is mandatory for the consolidated group's 30 June 2014 financial statements. The consolidated group has not yet determined the potential effect of the standard.

(iv) AASB 128 *Investments in Associates and Joint Ventures* amendments provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The consolidated group is still assessing the impact of these amendments. The new standard is mandatory for the consolidated group's 30 June 2014 financial statements. The consolidated group has not yet determined the potential effect of the standard.

(v) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards* arising from AASB 13 (effective 1 January 2013) explain how to measure fair value when required to by other accounting standards and aims to enhance fair value disclosures. The consolidated group does not intend to adopt the new standard before its operative date, which means that it will become applicable for the consolidated group's 30 June 2014 financial statements. The consolidated group has not yet determined the potential effect of the standard.

(vi) Revised AASB 119 *Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards* arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. The new standard is mandatory for the consolidated group's 30 June 2014 financial statements. The consolidated group has not yet determined the potential effect of the standard.

There are no other standards that are not yet effective and that are expected to have a material impact on the consolidated group in the current or future reporting periods and on foreseeable future transactions.

3. Events occurring after the reporting period

On 18 November 2011 the *Clean Energy Act 2011* (Act) received Royal Assent and was substantively enacted. The Act effectively implements a mechanism from 1 July 2012 for the identification of carbon dioxide (and equivalent) emissions, pricing of these emissions and the remittance of permits or cash for the liability within a prescribed period. The Act comprises a fixed price term to 30 June 2015 with a floating price cap and floor period subsequent to that date. The implementation of the carbon price from 1 July 2012 is expected to have a significant impact on CS Energy's operations, especially with its portfolio of predominantly coal-fired generation. The carbon price will also create significant additional cash requirements within the consolidated group to support future carbon liabilities and carbon permit purchases. The impacts of carbon, where applicable are reflected in the respective assets and liabilities recorded in the balance sheet. The estimated cost of carbon for the 2012/2013 financial year is forecast to be $260 million.

Industry Reviews

In May 2012, the Queensland Government established an Interdepartmental Committee (IDC) on Electricity Sector Reform to review all aspects of the sector that impact on electricity costs specifically, energy supply, network costs and retail competition. The IDC will deliver a final report to the Queensland Government in January 2013.

It is acknowledged that there is no likely impact on the 2012 financial statements.

No further matters or circumstances have occurred subsequent to year end that have significantly affected, or may significantly affect, the operations of the consolidated group, the results of those operations or the state of affairs of the consolidated group or economic entity in subsequent financial years.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. Resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Asset impairment testing

Annually, the consolidated group considers the existence of any impairment indicators, in accordance with the accounting policy stated in Note 1(h) where necessary. The recoverable amount of the asset or Cash Generating Unit (CGU) of assets has been determined on a value in use basis, with the exception of assets held for distribution where recoverable amount was measured at fair value less costs to sell.

Value in use and fair value less cost to sell calculations require assumptions to be made in the following key areas:

(a) Discount rate

The discount rate is used to calculate the present value of projected future cash flows. The rate represents a weighted average cost of capital (WACC) being the estimate of the overall required rate of return on an investment for both debt and equity owners. Determination of the WACC is based on the separate analysis of debt and equity costs utilising publically available information including the risk free interest rate, a risk premium based on comparable companies within the industry and the underlying cost of debt.

(b) Forecast electricity prices

The projected cash flows include the forecast of estimated electricity pool price and contract premiums to the end of the asset life. These forecasts are based on publically available information including the Australian Energy Market Operator (AEMO) 2011 Electricity Statement of Opportunities and the Powerlink 2011 Annual Planning Report, past experience, the anticipated impact of carbon pricing and pass through, gas price forecasts, industry and market trends and an appropriate escalation rate. Gas price forecasts are essential for understanding the long term impact of new gas fired entrants into the electricity market and corresponding pricing.

(c) Forecast fuel and water pricing and supply

The fuel price forecasts are based on current contractual arrangements for either the supply of coal or cost of extraction and processing from owned coal resources. Where asset lives exceed current contractual arrangements reasonable estimates are made on pricing changes based on known cost structures, market based information or escalation rates. The supply of coal and water is forecast based on current contractual arrangements. The supply may be negatively impacted by the performance of suppliers/contractors or the impacts of extreme weather events including floods (mine impacts) and drought (water supply). These result in generation constraints and accelerated wear of equipment which may impair performance over the life of the asset.

(d) Carbon cost and pass through

On 18 November 2011 the *Clean Energy Act 2011* (Act) received Royal Assent and was substantively enacted. The Act implements a carbon pricing mechanism from 1 July 2012. Key assumptions used in the value in use calculations relating to carbon price and its impacts include:

- The carbon price trajectory adopted is the July 2011 Commonwealth Treasury modelling 'Strong growth, low pollution' with the initial carbon price at commencement on 1 July 2012 of $23/tCO2 and then the transition to a cap and trade pricing mechanism from 1 July 2015;
- Future generation mix within a carbon price environment indicates a low probability of new coal fired generation. New entrants are assumed to be

predominantly gas fired with a component of renewable energy sources resulting in an expected loss of market share and reduced generation for coal fired operators;

- Demand forecasts are based on historical generation outcomes, with forward year growth rates determined using current market conditions and base modelling provided by the AEMO 2011 Electricity Statement of Opportunities and the Powerlink 2011 Annual Planning Report; and
- The forecast gas price is based on the former Queensland Department of Employment, Economic Development and Innovation 2010 Annual Gas Market Review which indicates an increase in gas prices impacting both new entrants and the operating capacity of current gas generators.

(e) Plant reliability and forecast operating capital expenditure requirements

The projected reliability is based on current known plant performance and estimated future operating and capital cash flows to maintain the plant within a determined operational capacity and performance range. These estimations are reliant upon plant specification provided by the original manufacturer adjusted for known or expected wear rates or operational constraints which have a reasonable probability of occurring.

(f) Future regulatory environment

The future cash flows are based on current enacted regulatory and legislative frameworks and do not consider or probability weight any anticipated change. This results in a stable trajectory on specific matters including carbon pricing and pass through which may change under current or future government policy. These changes may have significant and material impacts on the fair value of assets.

The impairment recognised in the financial statements at 30 June 2011, other than the impact of carbon, relates to the decline in wholesale electricity market prices, variations in coal quality and supply, and the consequential operational and maintenance impacts.

The sensitivities on the valuation of assets of the consolidated group are as follows:

Assets	Change in Carrying Value $'M		Change in Carrying Value $'M
Carbon price increase 5%	(113.0)	Carbon price decrease 5%	113.2
Market price increase 5%	282.3	Market price decrease 5%	(282.3)
Discount rate increase 1%	(100.0)	Discount rate decrease 1%	113.4
		Fuel supply decrease 10%	(263.4)

(ii) Electricity derivative contracts measured at fair value (refer Note 12)

The consolidated group uses internal valuation models to value electricity financial instruments that are not traded in an active market. These models use inputs that are sourced, wherever possible, from observable market data. However, there are elements of estimation involved where the market data is not available for certain time periods, certain instruments are not actively traded or instruments embody unusual conditions. Estimation is also involved in discounting for the time value of money.

(iii) Onerous contracts (refer Notes 20 and 24)

Interconnection and Power Pooling Agreement

An onerous provision is recognised for unavoidable costs related to the consolidated group's obligations under the Gladstone Interconnection and Power Pooling Agreement (refer Notes 20 and 24). Significant estimates are made in the:

(a) Estimation of future wholesale prices, generation, supply of electricity and unavoidable costs related to the contract; and
(b) Determination of an appropriate discount rate.

(iv) Rehabilitation and site closure costs provision (refer Note 24)

A provision is recognised for the consolidated group's obligation in relation to the rehabilitation and site closure of each power station and mine.

Significant estimates made with respect to this provision are the:

(a) Estimation of costs to fulfil the consolidated group's obligations. Such estimated costs may change depending on changing technology and techniques;
(b) Determination of an appropriate discount rate; and
(c) Estimation of the timing of when the rehabilitation will occur.

(v) Defined benefit plan assets (refer Note 25)

An asset is recognised for the surplus of defined benefit plan assets over plan obligations. Various actuarial assumptions are used by actuaries, which are discussed in Note 25.

(vi) Non-current assets held for distribution (refer Note 13)

Non-current assets and disposal groups classified as held for distribution are measured at the lower of their carrying amount and fair value less cost to distribute, except for the following assets and liabilities:

(a) Deferred tax balances;

(b) Assets and liabilities associated with employee benefits; and

(c) Financial assets and liabilities.

The fair value less costs to distribute has been determined based on discounted cash flows, with the assumptions used in the valuation consistent with the assumptions used in impairment testing contained in Note 4 (i).

5. Revenue

	Consolidated		Parent	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Sales revenue				
Revenue from the sale of electricity	380,417	615,384	198,489	297,799
Other revenue				
Interest income	1,084	1,755	829	1,216
Operation and maintenance services fee	17,624	23,224	12,602	41,818
Sale of by-products	238	1,130	238	1,130
Leasing revenue	1,714	1,714	1,714	1,714
Insurance claim proceeds (1)	-	2,546	-	-
Other	-	1,284	-	942
	20,660	31,653	15,383	46,820
Total revenue	**401,077**	**647,037**	**213,872**	**344,619**

(1) Proceeds from insurance claim in respect of damage to a transformer at Kogan Creek Power Station.

6. Other income

	Consolidated		Parent	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Net gain on disposal of property, plant and equipment	-	28	-	28
Net gain on fair value of derivatives not qualifying as cash flow hedges	36,213	10,010	36,213	10,010
Government grants (1)	6,743	14,100	-	-
Onerous contract - re-measurement	-	45,531	-	45,531
	42,956	**69,669**	**36,213**	**55,569**

(1) Amortisation of Commonwealth Government grant income received in support of the Callide Oxyfuel Project.

7. Expenses

	Consolidated		Parent	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Profit before income tax includes the following specific expenses:				
Other Expenses				
Network and market costs	19,312	19,894	13,236	5,449
Administration costs	122,582	112,049	43,419	115,215
Onerous contract - re-measurement	-	4,948	-	4,948
Net loss on derivatives not qualifying as hedges	-	47,512	-	47,512
Research and development (1)	11,578	28,412	-	636
Loss on disposal of property, plant and equipment	5	214	3	210
Exploration and evaluation expenditure written off	-	8,800	-	8,800
Restructure costs (2)	2,636	2,636	2,636	2,636
	156,113	**224,465**	**59,294**	**185,406**
Impairment				
Impairment write-down generation assets	-	679,956	-	364,864
Impairment write-down on re-measurement of a disposal group held for distribution	-	93,207	-	-
Impairment write-down loans to related parties	-	-	168,385	-
	-	**773,163**	**168,385**	**364,864**
Finance costs				
Interest and finance charges	62,518	65,330	62,518	65,330
Finance costs - Rehabilitation provision	3,819	7,343	1,876	4,926
Finance costs - Onerous contract provision	2,434	14,957	2,434	14,957
	68,771	**87,630**	**66,828**	**85,213**
Depreciation & amortisation				
Depreciation included in cost of sales	75,690	142,630	22,395	56,339
Depreciation included in other expenses	10,484	6,174	5,781	6,174
	86,174	**148,804**	**28,176**	**62,513**
Employee benefits expenses				
Wages and salaries expense included in other expenses	78,319	82,983	66,863	64,916
Defined contribution superannuation expense	6,349	7,860	5,423	6,210
	84,668	**90,843**	**72,286**	**71,126**
Rental expense relating to operating leases				
Minimum lease payments included in other expenses	1,936	1,380	1,824	1,190

(1) Relates to the share of CS Energy Oxyfuel Pty Ltd's participant investment in the Callide Oxyfuel Project.
(2) Relates to redundancy costs.

8. Income tax expense

	Consolidated		Parent	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
(a) Income tax expense/(benefit)				
Current tax	(48,349)	(12,204)	(47,058)	(26,404)
Deferred tax	25,023	(257,561)	24,414	(132,064)
Adjustments for current tax of prior periods	(59)	(662)	1	(53)
	(23,385)	**(270,427)**	**(22,643)**	**(158,521)**
Deferred income tax (revenue) expense included in income tax expense comprises:				
(Increase) decrease in deferred tax assets (Note 18)	38,575	(55,180)	39,859	(37,070)
(Decrease) increase in deferred tax liabilities (Note 23)	(13,552)	(202,381)	(15,445)	(94,994)
Previously unrecognised tax losses now recouped	-	-	-	-
	25,023	**(257,561)**	**24,414**	**(132,064)**

(b) Reconciliation of income tax expense to prima facie tax calculated at Australian statutory rate:

	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Profit/(loss) from operations before income tax expense	(74,843)	(884,993)	(243,984)	(520,989)
Tax at the Australian tax rate of 30% (2011 - 30%)	(22,453)	(265,497)	(73,195)	(156,297)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Entertainment	14	17	13	14
Non-taxable dividends	-	-	-	-
Non-taxable financial instruments	-	(2,228)	-	(2,228)
Sundry items	(857)	(2,057)	52	43
Non-deductible provided expenditure (1)	-	-	50,516	-
	(23,296)	(269,765)	(22,614)	(158,468)
Adjustments for current tax of prior periods	(59)	(662)	1	(53)
Previously unrecognised tax losses now recouped	(30)	-	(30)	-
Income tax expense	**(23,385)**	**(270,427)**	**(22,643)**	**(158,521)**

(1) This amount relates to the non deductible provision for non recovery on for related party loans.

(c) Amounts recognised in other comprehensive income

	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Aggregate current and deferred tax expense/(benefit) arising in the reporting period and not recognised in net profit or loss but directly recognised in other comprehensive income				
Changes in fair value of cash flow hedges	(7,370)	(34,981)	(7,370)	(34,981)
Actuarial gain / (loss) on defined benefit plan	(3,802)	283	(3,802)	283
Restructure of generation business (1)	(42,321)	-	(54,550)	-
	(53,493)	**(34,698)**	**(65,722)**	**(34,698)**

(1) This amount is included in the net assets/(liabilities) transferred under Restructure in Note 13.

(d) Tax losses

	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Unused Australian capital tax losses for which no deferred tax asset has been recognised	86,801	86,902	86,801	86,902
Potential tax benefit @ 30%	26,040	26,070	26,040	26,070

Tax consolidation legislation

CS Energy Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of

1 July 2002. The accounting policy in relation to this legislation is set out in Note 1(f). On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, CS Energy Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate CS Energy Limited for any current tax payable assumed and the wholly owned entities are compensated by CS Energy Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to CS Energy Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as intercompany receivables or payables.

9. Current assets - Cash and cash equivalents

	Consolidated		Parent	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Cash at bank and in hand	33,652	30,060	16,018	8,089
Deposits at call - Queensland Treasury Corporation (QTC)	211,961	1,831	211,961	1,831
	245,613	**31,891**	**227,979**	**9,920**

Cash at bank and on hand

Cash at bank is bearing an interest rate of between 3.25% and 4.25%. (2011: 3.15% and 3.25%).

The total balance reconciles to cash at the end of the financial year, as shown in the statement of cash flows.

10. Current assets - Trade and other receivables

	Consolidated		Parent	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Trade receivables	74,487	69,443	49,738	50,849
Other receivables	42,943	67,983	41,908	53,888
	117,430	**137,426**	**91,646**	**104,737**

(a) Trade receivables

The consolidated group has recognised no losses in respect of bad and doubtful trade receivables during the year ended 30 June 2012 (2011: nil). There were also no trade receivables past their due date.

(b) Other receivables

These amounts generally arise from non-electricity related transactions of the consolidated group such as initial margin balances and option premiums relating to the consolidated groups derivative instruments. Interest is not charged on outstanding balances. Collateral is not normally obtained.

(c) Credit risk

There is concentration of credit risk in relation to trade and other receivables. Refer to Note 12(e) for more details on specific concentrations of credit risk and general discussion of credit quality.

11. Current assets - Inventories

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Inventories	57,833	63,994	27,264	32,773
Provision for write-down	(3,239)	(750)	(3,240)	(750)
	54,594	**63,244**	**24,024**	**32,023**

12. Financial instruments

The consolidated group's activities expose it to a variety of financial risks - commodity price risk, foreign exchange risk, interest rate risk, credit risk, and liquidity risk. The consolidated group's overall risk management program includes the management of commodity and financial markets exposures which seeks to minimise potential adverse effects on the financial performance of the consolidated group. Risk management is implemented pursuant to policies approved by the Board of Directors.

(a) Derivative financial instruments

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current assets				
Forward foreign exchange contracts - do not qualify for hedge accounting	-	15	-	15
Electricity derivative contracts - cash flow hedges	22,457	43,728	22,457	43,728
Electricity derivative contracts - do not qualify for hedge accounting	19,547	29,680	19,547	29,680
Total current derivative financial instrument assets	**42,004**	**73,423**	**42,004**	**73,423**
Non-current assets				
Electricity derivative contracts - cash flow hedges	6,722	16,190	6,722	16,190
Electricity derivative contracts - do not qualify for hedge accounting	8,873	12,723	8,873	12,723
Total non-current derivative financial instrument assets	**15,595**	**28,913**	**15,595**	**28,913**
Current liabilities				
Forward foreign exchange contracts - cash flow hedges	-	234	-	234
Forward foreign exchange contracts - do not qualify for hedge accounting	-	1,389	-	1,389
Electricity derivative contracts - cash flow hedges	33,707	33,290	33,707	33,290
Electricity derivative contracts - do not qualify for hedge accounting	21,962	43,834	21,962	43,834
Total current derivative financial instrument liabilities	**55,669**	**78,747**	**55,669**	**78,747**
Non-current liabilities				
Electricity derivative contracts - cash flow hedges	5,992	14,837	5,992	14,837
Electricity derivative contracts - do not qualify for hedge accounting	6,187	32,645	6,187	32,645
Total non-current derivative financial instrument liabilities	**12,179**	**47,482**	**12,179**	**47,482**

CS Energy Limited is a party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in wholesale electricity prices and foreign currency exchange rates. The majority of the electricity derivative contracts are electricity swaps. The categories of derivative financial instruments used by the consolidated group are as follows:

- Over-the-counter (OTC) electricity swap contracts;
- Exchange traded electricity futures contracts; and
- Forward foreign exchange contracts.

(b) Commodity price risk

The consolidated group is exposed to commodity price risk on electricity, coal and gas arising from the purchase and/or sale of these commodities. The consolidated group does not use derivative financial instruments for risk management in relation to purchases of coal and gas, but rather enters into long term fixed price supply agreements.

The consolidated group is exposed to commodity price risk on electricity sales via the National

Electricity Market. This risk arises from fluctuations in the wholesale price of electricity. Electricity swaps and futures contracts are used to manage this electricity price risk. The majority of these types of financial instruments have a time to maturity of between three months and three years.
The consolidated group's risk management policy is to hedge a substantial proportion of the production that is highly likely to occur. The policy prescribes a target range of allowable hedging levels for discrete time periods based on a number of operational, technical and market parameters.

(i) Over-the-counter electricity contracts

CS Energy Limited has entered into a number of (OTC) electricity contracts, which are mostly swap contracts. The majority of these swap contracts are such that CS Energy Limited receives a fixed rate per megawatt hour from counterparties (predominantly retailers) in exchange for payment of the pool price per megawatt hour for the contract period. The contracts are settled on a net basis and the net amount receivable or payable at the reporting date is included in trade receivables or payables.

(ii) Exchange traded electricity futures contracts

CS Energy Limited has entered into a number of exchange traded electricity futures contracts. The majority of these contracts are such that CS Energy Limited receives a fixed rate per megawatt hour in exchange for payment of the average pool price for the contract period. The contracts are settled on a daily basis by margin payments and receipts prior to and throughout the course of the contract period, based on the market price of the contract at the time.

(iii) Sensitivity analysis on the electricity derivative portfolio

The following table summarises the increase/(decrease) on both the parent and consolidated group's profit or (loss) for the year and on equity, that would result from a 10% increase/decrease in electricity forward prices on the electricity derivatives portfolio. The sensitivity analysis is based on reasonably possible changes, over a financial year, in the electricity price applicable to each financial instrument. All variables other than electricity prices are held constant in the analysis.

	Consolidated		Parent	
	Equity $'000	Profit or (loss) $'000	Equity $'000	Profit or (loss) $'000
30 June 2012				
Electricity price - increase 10%	(39,528)	8,950	(39,528)	8,950
Electricity price - decrease 10%	39,528	(8,937)	39,528	(8,937)
30 June 2011				
Electricity price - increase 10%	(46,181)	(6,380)	(46,181)	(6,380)
Electricity price - decrease 10%	46,214	6,390	46,214	6,390

(c) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions are denominated in, or calculated against, non-Australian currency. The consolidated group procures new generation plant, spare parts and maintenance services for existing plant, and has been or is exposed to foreign exchange risk arising from currency exposures to the Euro (EUR), Japanese Yen (JPY), and United States Dollar (USD).

The consolidated group enters into forward exchange contracts to purchase EUR JPY, and USD, as a hedge against the anticipated purchase of generation plant and spare parts sourced mainly from Europe, Japan and the United States of America. These contract maturities are normally timed to match payments under the supply contracts. The risk management policy is to hedge between 95% and 100% of committed transactions that are denominated in, or calculated against foreign currency where settlement is to be within 12-18 months.

The consolidated group had no material hedged exposure to foreign currency risk at balance date.

Sensitivity analysis

A 10% strengthening of the Australian Dollar against the following currencies would have increased/(decreased) equity and the profit or loss by the amounts shown in the following table. This analysis assumes that all other variables remain constant.

	Consolidated		Parent	
	Equity $'000	Profit or (loss) $'000	Equity $'000	Profit or (loss) $'000
30 June 2012				
JPY	-	-	-	-
EUR	-	-	-	-
30 June 2011				
JPY	(174)	-	(174)	-
EUR	-	(1,266)	-	(1,266)

A 10% weakening of the Australian dollar against the following currencies would have increased/(decreased) equity and the profit or loss by the amounts shown in the following table. This analysis assumes that all other variables remain constant.

	Consolidated		Parent	
	Equity $'000	Profit or (loss) $'000	Equity $'000	Profit or (loss) $'000
30 June 2012				
JPY	-	-	-	-
EUR	-	-	-	-
30 June 2011				
JPY	212	-	212	-
EUR	-	1,547	-	1,547

(d) Liquidity risk

The consolidated group is exposed to liquidity risk through the volatility of its operating cash flows. The consolidated group manages its exposure to liquidity risk by maintaining sufficient undrawn facilities, both short and long term, to cater for unexpected volatility in cash flows. These facilities are disclosed in Note 22. Funding approval is sought in advance for expenditure commitments that extend beyond the current financial year, pursuant to the Queensland Government's State Borrowing Program.

The following table summarises the contractual maturities of financial liabilities, including estimated interest payments, excluding the impact of netting agreements.

The anticipated time at which cash flows from hedges are expected to impact profit or loss is consistent with the maturity profiles for derivative financial assets and liabilities in the following tables.

Consolidated	Carrying amount $'000	Total contractual cash flows $'000	Less than one year $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
30 June 2012						
Non-derivative financial liabilities						
Loans from QTC	824,972	1,166,991	67,096	67,096	201,475	831,324
Trade and other payables	202,813	202,813	153,331	49,482	-	-
Derivative financial liabilities						
Electricity contracts	67,848	67,847	55,669	9,520	2,658	-
Total	**1,095,633**	**1,437,651**	**276,096**	**126,098**	**204,133**	**831,324**
Derivative financial assets						
Electricity contracts	57,599	57,599	42,005	10,623	4,971	-
	57,599	**57,599**	**42,005**	**10,623**	**4,971**	**-**
30 June 2011						
Non-derivative financial liabilities						
Loans from QTC	825,876	1,170,896	69,064	68,921	206,763	826,148
Trade and other payables	118,691	118,691	76,311	42,380	-	-
Derivative financial liabilities						
Electricity contracts	124,606	130,060	80,982	46,415	2,663	-
Forward foreign exchange contracts	1,623	1,623	1,623	-	-	-
Total	**1,070,796**	**1,421,270**	**227,980**	**157,716**	**209,426**	**826,148**
Derivative financial assets						
Electricity contracts	102,321	106,072	75,583	28,201	2,288	-
Forward foreign exchange contracts	15	15	15	-	-	-
	102,336	**106,087**	**75,598**	**28,201**	**2,288**	**-**

Parent	Carrying amount $'000	Total contractual cash flows $'000	Less than one year $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
30 June 2012						
Non-derivative financial liabilities						
Loans from QTC	824,972	1,166,991	67,096	67,096	201,475	831,324
Trade and other payables	113,934	113,934	113,934	-	-	-
Derivative financial liabilities						
Electricity contracts	67,848	67,847	55,669	9,520	2,658	-
Total	**1,006,754**	**1,348,772**	**236,699**	**76,616**	**204,133**	**831,324**
Derivative financial assets						
Electricity contracts	57,599	57,599	42,005	10,623	4,971	-
	57,599	**57,599**	**42,005**	**10,623**	**4,971**	**-**
30 June 2011						
Non-derivative financial liabilities						
Loans from QTC	825,876	1,170,896	69,064	68,921	206,763	826,148
Trade and other payables	50,626	50,626	50,626	-	-	-
Derivative financial liabilities						
Electricity contracts	124,606	130,060	80,982	46,415	2,663	-
Forward foreign exchange contracts	1,623	1,623	1,623	-	-	-
Total	**1,002,731**	**1,353,205**	**202,295**	**115,336**	**209,426**	**826,148**
Derivative financial assets						
Electricity contracts	102,321	106,072	75,583	28,201	2,288	-
Forward foreign exchange contracts	15	15	15	-	-	-
	102,336	**106,087**	**75,598**	**28,201**	**2,288**	**-**

(e) Credit risk exposures

For financial instruments, credit risk arises from the potential failure of counterparties to meet their financial obligations under their respective contracts. A material exposure arises from OTC swap contracts and the consolidated group is exposed to loss in the event that counterparties fail to settle the contracted amounts. A significant portion of the consolidated group's hedge contracts, and consequent credit risk, are with the two major electricity retailers in the Queensland market. The consolidated group also has a concentration of credit exposure to the National Electricity Market, operated by the Australian Energy Market Operator (AEMO).

To manage credit risk appropriately, the consolidated group has policies in place to ensure transactions, which may result in credit risk, either involve counterparties of appropriate credit quality, or that sufficient security is obtained. Overall credit risk is maintained within parameters specified by the Board so that a material loss on account of credit risk is relatively low. Financial derivative counterparties are limited to those that are at least investment grade (as determined by recognised providers of credit rating information), or alternatively provide credit enhancement. The consolidated group also uses International Swap and Derivative Association (ISDA) agreements with all derivative counterparties in order to limit exposure to credit risk through the netting of amounts payable to and receivable from individual counterparties. Cash investments are limited to high quality counterparties.

The carrying amount of the consolidated group's financial assets (as disclosed in Notes 9, 10, 12 and 13) represents the maximum exposure to credit risk at reporting date. None of the consolidated group's financial assets were past due or impaired as at 30 June 2012. A summary of the credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings as reflected in the following table:

	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Cash and cash equivalents				
AA+ to AA-	245,613	31,891	227,978	9,920
Total	**245,613**	**31,891**	**227,978**	**9,920**
Trade and other receivables				
AA+ to AA-	1,360	8,295	1,360	8,295
A+ to A-	14,991	51,424	14,991	51,424
BBB+ to BBB-	6,944	4,073	6,944	4,073
AEMO	26,407	27,608	2,494	9,152
Other non-rated (1)	57,497	46,026	56,925	1,285,101
Total	**107,199**	**137,426**	**82,714**	**1,358,045**
Derivative financial assets				
AA+ to AA-	17,480	13,019	17,480	13,019
A+ to A-	14,958	48,904	14,958	48,904
BBB+ to BBB-	25,161	40,413	25,161	40,413
Total	**57,599**	**102,336**	**57,599**	**102,336**

(1) The other non-rated receivables relate to amounts provided for but not invoiced as at 30 June 2012. Balances primarily represent receivables due from Gladstone Power Station participants in relation to future settlement of liabilities under the Renewable Energy Target (RET) scheme and unpaid option premiums on forward derivative contracts.

(f) Interest rate risk

The consolidated group is exposed to changes in interest rates via its borrowings.

The consolidated group's financier, Queensland Treasury Corporation (QTC), provides loan facility arrangements to assist in managing this risk. The consolidated group specifies to QTC the overall target term structure of its debt portfolio and the weighting of various component maturities of debt. The term structure of the debt is set to reduce exposure to adverse interest rate movements, match underlying business cash flows and reduce the overall cost of funding. The consolidated group's pricing for the debt is set based on QTC's financing cost to issue its own debt instruments of equivalent terms.

Sensitivity analysis

(a) Fair value sensitivity for fixed rate instruments

The consolidated group does not account for any fixed rate borrowings at fair value through profit or loss, nor are derivatives used to hedge these borrowings under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date does not affect profit or loss, or equity.

(b) Fair value sensitivity for variable rate instruments

A change of 1% in interest rates at the reporting date would have increased (decreased) equity at 30 June 2012 and profit or loss for the year by the amounts shown in the following table. This analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis was performed on the same basis for 2011.

	Profit or loss 1% increase $'000	Profit or loss 1% decrease $'000	Equity 1% increase $'000	Equity 1% decrease $'000
Variable rate borrowings				
30 June 2012	(590)	560	(590)	560
30 June 2011	(777)	777	(777)	777

(g) Fair values

The carrying amounts shown in the balance sheet of the consolidated group and the parent, except for loans from QTC (refer Note 22), approximate their fair value. The fair value of Loans from QTC together with the carrying amount shown in the balance sheet of the consolidated group and parent, is as follows:

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Carrying amount	824,972	825,876	824,972	825,876
Fair value	907,317	857,432	907,317	857,432

The fair value of Loans from QTC is inclusive of costs which would be incurred on settlement of the liability.

The fair value is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles. Where borrowings are carried at an amount above or below net fair value, those borrowings have not been decreased or decreased to fair value, as they will be retained to maturity.

Fair value hierarchy

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2012				
Consolidated				
Derivative financial assets				
Electricity contracts	49,458	8,141	-	57,599
	49,458	**8,141**	**-**	**57,599**
Derivative financial liabilities				
Electricity contracts	51,011	16,837	-	67,848
	51,011	**16,837**	**-**	**67,848**
30 June 2011				
Consolidated				
Derivative financial assets				
Forward foreign exchange contracts	-	15	-	15
Electricity contracts	48,904	53,417	-	102,321
	48,904	**53,432**	**-**	**102,336**
Derivative financial liabilities				
Forward foreign exchange contracts	-	1,624	-	1,624
Electricity contracts	84,555	40,050	-	124,605
	84,555	**41,674**	**-**	**126,229**
30 June 2012				
Parent				
Derivative financial assets				
Electricity contracts	49,458	8,141	-	57,599
	49,458	**8,141**	**-**	**57,599**
Derivative financial liabilities				
Electricity contracts	51,011	16,837	-	67,848
	51,011	**16,837**	**-**	**67,848**
30 June 2011				
Parent				
Derivative financial assets				
Forward foreign exchange contracts	-	15	-	15
Electricity contracts	48,904	53,417	-	102,321
	48,904	**53,432**	**-**	**102,336**
Derivative financial liabilities				
Forward foreign exchange contracts	-	1,624	-	1,624
Electricity contracts	84,555	40,050	-	124,605
	84,555	**41,674**	**-**	**126,229**

(h) Capital management

The consolidated group's objectives when managing capital are to safeguard the consolidated group's ability to continue as a going concern, so it can provide returns for the shareholder and benefits for other stakeholders, as well maintain a capital structure aimed at achieving an investment grade credit rating, thereby optimising the consolidated group's cost of capital.

In order to maintain or adjust the capital structure, the consolidated group may apply to the shareholding Ministers for additional equity, or divest itself of some or all of its assets in order to reduce debt or pursue new investment opportunities.

Consistent with other industry participants, the consolidated group monitors capital on the basis of its gearing ratio. This ratio is calculated by dividing net debt by net debt plus equity. Net debt is calculated as total borrowings less cash and cash equivalents. Equity is calculated as 'equity' shown in the balance sheet excluding reserves associated with cash flow hedging activities.

The gearing ratios for the consolidated group at 30 June 2012 and 30 June 2011 were as follows:

	Consolidated	
	2012	2011
Net debt ($'000)	579,359	793,922
Adjusted equity ($'000)	383,383	253,909
Gearing ratio (%)	60.2	75.8

13. Non-current assets and liabilities classified as held for distribution

On 25 November 2010 the Queensland Government announced the Restructure of the three Queensland Government Owned Corporation generators, CS Energy Limited, Stanwell Corporation Limited and Tarong Energy Limited. The proposed final asset allocation was announced on 10 March 2011 and the regulation gazetted on 24 June 2011. The effective date of the transfer was 1 July 2011 resulting in the following changes to the financial position:

Transfer of the following assets or business units of the consolidated group to Stanwell Corporation Limited:

- Mica Creek business unit;
- Swanbank business unit; and
- Collinsville Power Purchase Agreement.

Receipt of the following assets or business units by the consolidated group:

- Gladstone Interconnection and Power Pooling Agreement (IPPA) from Stanwell Corporation Limited;
- Wivenhoe business unit from Tarong Energy Corporation Limited; and
- Glen Wilga coal resource from Tarong Energy Corporation Limited.

The results of the Restructure have been incorporated into the consolidated group's financial statements.

Carrying amounts of assets and liabilities transferred or received

The assets and liabilities transferred on 1 July 2011 were at the value included in the balance sheet for the business unit for the day immediately before the transfer day, being 30 June 2011, as required by the Government Owned Corporation (Generator Restructure) Regulation 2011. Adjustments were recognised through the valuation of assets and liabilities by the receiving entities. The transfers and receipts were recognised through adjustments to share capital, except for the derecognition of retained earnings for companies transferred out of the consolidated group and valuation adjustments requested by Stanwell Corporation Limited.

Consolidated Balance Sheet	At 30 June 2011 $'000	Net Assets/(liabilities) transferred under Restructure $'000	Pro Forma At 1 July 2011 $'000
Total current assets	579,940	(24,490)	555,450
Total non-current assets	1,190,819	(161,660)	1,029,159
Total Assets	**1,770,759**	**(186,150)**	**1,584,609**
Total current liabilities	442,608	41,981	484,589
Total non-current liabilities	1,064,409	(117,934)	946,475
Total Liabilities	**1,507,017**	**(75,953)**	**1,431,064**
Net Assets	**263,742**	**(110,197)**	**153,545**
Share capital (1)	953,115	(138,700)	814,415
Reserves	9,833	-	9,833
Retained Earnings (2)	(699,206)	28,503	(670,703)
Equity	**263,742**	**(110,197)**	**153,545**

(1) Net liabilities of $138.7 million were transferred to CS Energy Limited as part of the Restructure. This transfer was designated by the shareholding Ministers to be adjusted against shareholders' contributed equity (refer Note 27).
(2) Net asset adjustments of $28.5 million recognised against retained earnings to reflect adjustments resulting from the derecognition of retained earnings for companies transferred out of the consolidated group and the revaluation of assets, including Swanbank and Mica Creek rehabilitation provisions, Swanbank gas assets and Mica Creek inventory provision, which were transferred to Stanwell Corporation Limited under the Restructure.

Derecognition of liabilities not transferred to Stanwell Corporation Limited

The recognition of the transfer of assets and liabilities under the *Government Owned Corporation (Generator Restructure) Regulation 2011* resulted in specific provisions for rehabilitation and onerous contracts being derecognised in the transferring entity. These balances were not transferred and the receiving entity, subsequently recognised the fair value of the net assets as a transaction with owners through equity. The impact is as follows:

- Derecognition of the Collinsville onerous contract and Swanbank onerous water contract for $126.4 million;
- Derecognition of rehabilitation provisions for Swanbank Power Station and Mica Creek Power Station for $94.7 million; and
- Recognition of the Gladstone onerous contract of $273.9 million.

These balances have been included in the net adjustments through share capital and retained earnings in the above table.

14. Non-current assets - Other receivables

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Loans to related parties	-	-	1,135,513	1,253,308
Provision for non recovery	-	-	(168,385)	-
	-	**-**	**967,128**	**1,253,308**

Further information relating to loans to related parties is set out in Note 34.

15. Non-current assets - Equity accounted investments

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Interest in jointly controlled entities	1	1	-	-

The interests in the jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by a subsidiary of the consolidated group (Note 36).

16. Non-current assets - Other non-current assets

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Financial				
Shares in subsidiaries	-	-	93,612	51,815

These financial assets are carried at cost. Further information relating to shares in subsidiaries is set out in Note 35.

17. Non-current assets - Property, plant and equipment

Consolidated	Power stations $'000	Capitalised overhauls $'000	Other property, plant and equipment $'000	Work in progress $'000	Development costs $'000	Total $'000
At 30 June 2010						
Cost	2,669,894	188,906	148,455	25,147	23,565	3,055,967
Accumulated depreciation and impairment losses	(860,812)	(124,704)	(55,750)	-	(2,301)	(1,043,567)
Net book amount	1,809,082	64,202	92,705	25,147	21,264	2,012,400
Movements for the year ended 30 June 2011						
Opening net book amount	1,809,082	64,202	92,705	25,147	21,264	2,012,400
Additions	40,274	8,655	3,590	97,240	1,620	151,379
Transfers between asset classes	7,429	(857)	957	(7,529)	-	-
Disposals	(200)	(7)	(107)	-	-	(314)
Reclassification to assets held for distribution	(120,552)	(22,153)	(12,696)	(25,683)	-	(181,084)
Impairment	(773,163)	-	-	-	-	(773,163)
Depreciation	(102,004)	(34,035)	(11,348)	-	(1,417)	(148,804)
Closing net book amount	860,866	15,805	73,101	89,175	21,467	1,060,414
At 30 June 2011						
Cost	1,435,153	69,124	119,056	89,175	25,186	1,737,694
Accumulated depreciation and impairment losses	(574,287)	(53,319)	(45,955)	-	(3,719)	(677,280)
Net book amount	860,866	15,805	73,101	89,175	21,467	1,060,414
Movements for the year ended 30 June 2012						
Opening net book amount	860,866	15,805	73,101	89,175	21,467	1,060,414
Assets transferred from Tarong	46,160	4,072	19,557	2,096	24,420	96,304
Acquisition of subsidiary	-	-	-	-	-	-
Additions	18,219	28,098	8,252	78,840	116	133,524
Transfers between asset classes	39,658	25,648	4,708	(70,010)	(4)	-
Disposals	(1)	-	(55)	-	-	(55)
Reclassification to assets held for distribution	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Depreciation	(47,466)	(26,689)	(10,238)	-	(1,781)	(86,174)
Closing net book amount	917,437	46,933	95,326	100,101	44,217	1,204,013
At 30 June 2012						
Cost	1,539,189	126,941	151,518	100,101	49,717	1,967,467
Accumulated depreciation and impairment losses	(621,753)	(80,008)	(56,193)	-	(5,500)	(763,454)
Net book amount	**917,437**	**46,933**	**95,326**	**100,101**	**44,217**	**1,204,013**

Parent	Power stations $'000	Capitalised overhauls $'000	Other property, plant and equipment $'000	Work in progress $'000	Development costs $'000	Total $'000
At 30 June 2010						
Cost	1,038,525	103,865	65,562	14,213	-	1,222,165
Accumulated depreciation and impairment losses	(500,532)	(79,103)	(40,010)	-	-	(619,645)
Net book amount	537,993	24,762	25,552	14,213	-	602,520
Movements for the year ended 30 June 2011						
Opening net book amount	537,993	24,762	25,552	14,213	-	602,520
Additions	6,630	145	2,150	45,435	-	54,360
Transfers between asset classes	3,526	76	755	(4,357)	-	-
Disposals	(200)	(7)	(59)	-	-	(266)
Reclassification to assets held for distribution	(112,786)	(5,023)	(7,050)	(1,089)	-	(125,948)
Impairment	(364,864)	-	-	-	-	(364,864)
Depreciation	(42,709)	(13,812)	(5,992)	-	-	(62,513)
Closing net book amount	27,590	6,141	15,356	54,202	-	103,289
At 30 June 2011						
Cost	344,025	37,405	46,780	54,202	-	482,412
Accumulated depreciation and impairment losses	(316,435)	(31,264)	(31,424)	-	-	(379,123)
Net book amount	27,590	6,141	15,356	54,202	-	103,289
Movements for the year ended 30 June 2012						
Opening net book amount	27,590	6,141	15,356	54,202	-	103,289
Assets transferred from Tarong	46,160	4,072	1,523	2,096	-	53,852
Acquisition of subsidiary	-	-	-	-	-	-
Additions	14,393	-	2,053	30,606	-	47,053
Transfers between asset classes	39,658	25,648	4,708	(70,010)	(4)	-
Disposals	(1)	-	(55)	-	-	(55)
Reclassification to assets held for distribution	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Depreciation	(7,621)	(14,812)	(5,744)	-	-	(28,176)
Closing net book amount	120,181	21,049	17,843	16,894	(4)	175,962
At 30 June 2012						
Cost	444,236	67,125	55,010	16,894	(4)	583,261
Accumulated depreciation and impairment losses	(324,056)	(46,076)	(37,168)	-	-	(407,299)
Net book amount	**120,181**	**21,049**	**17,843**	**16,894**	**(4)**	**175,962**

18. Non-current assets - Deferred tax assets

Consolidated	Derivative financial instruments $'000	Provisions $'000	Provision for rehabilitation and other closure costs $'000	Tax losses $'000	Other $'000	Total $'000
At 30 June 2010	-	21,924	24,175	-	12,572	58,671
Charged/(credited) to profit or loss	18,733	(5,214)	7,372	-	34,289	55,180
Under provision prior year	-	-	-	-	294	294
Reclassification to assets held for distribution	(14,734)	(10,738)	(16,635)	-	6,040	(36,067)
Charged directly to equity	3,168	-	-	-	-	3,168
Acquisition of tax losses	-	-	-	12,204	-	12,204
At 30 June 2011	7,167	5,972	14,912	12,204	53,195	93,450
Charged/(credited) to profit \or loss	(11,857)	1,514	1,103	-	(29,335)	(38,575)
Under provision prior year	-	-	-	-	571	571
Charged directly to equity	7,764	72,254	-	-	12,134	92,152
Acquisition of tax losses	-	-	-	47,932	-	47,932
Net deferred tax assets at 30 June 2012	**3,074**	**79,740**	**16,015**	**60,136**	**36,565**	**195,530**

Parent	Derivative financial instruments $'000	Provisions $'000	Provision for rehabilitation and other closure costs $'000	Tax losses $'000	Other $'000	Total $'000
At 30 June 2010	-	20,539	18,098	-	1,306	39,943
Charged/(credited) to profit or loss	18,733	(5,245)	2,373	-	21,209	37,070
Under provision prior year	-	-	-	-	12	12
Reclassification to assets held for distribution	(14,734)	(9,824)	(11,292)	-	14,734	(21,116)
Charged directly to equity	(3,168)	-	-	-	-	(3,168)
Acquisition of tax losses	-	-	-	12,204	-	12,204
At 30 June 2011	7,167	5,470	9,179	12,204	37,261	71,281
Charged/(credited) to profit \or loss	(11,857)	1,475	562	-	(30,039)	(39,859)
Under provision prior year	-	-	-	-	659	659
Charged directly to equity	7,764	72,254	-	-	12,134	92,152
Acquisition of tax losses	-	-	-	47,932	-	47,932
Net deferred tax assets at 30 June 2012	**3,074**	**79,199**	**9,741**	**60,136**	**20,015**	**172,165**

19. Current liabilities - Trade and other payables

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Trade payables	128,041	31,331	93,311	12,676
Other payables	20,038	39,700	16,794	37,950
Unearned revenue	5,252	5,280	3,829	-
	153,331	**76,311**	**113,934**	**50,626**

20. Current liabilities - Provisions

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Employee benefits	10,525	8,722	9,406	7,773
Onerous Contracts (1)	45,700	-	45,700	-
	56,225	**8,722**	**55,106**	**7,773**

(1) As part of the Generator Restructure, Stanwell Corporation Limited's interest in the Gladstone Interconnection and Power Pooling Agreement (IPPA) was transferred to CS Energy Limited on 1 July 2011. The onerous contracts provision has been calculated by projecting the revenue and unavoidable expenditure attributable to the contract up to the contract expiry date and discounting back to present values using the group's cost of capital. (Refer Note 24)

21. Non-current liabilities - Trade and other payables

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Unearned revenue	49,482	42,380	-	-

22. Non-current liabilities - Borrowings

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Loans from QTC	824,972	825,876	824,972	825,876

All loans from the Queensland Treasury Corporation at 30 June 2012 are unsecured (2011: unsecured). Queensland Treasury Corporation has provided confirmation that facilities reported as at 30 June 2012 are available and not subject to change in the next 12 months (refer Note 1).

Financing arrangements

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Facility used at balance date				
QTC facilities (1)	824,972	825,876	824,972	825,876
	824,972	825,876	824,972	825,876
Unused at balance date				
QTC facilities (1)	576,698	576,698	576,698	576,698
QTC facilities (2)	400,000	400,000	400,000	400,000
Bank loan facilities	1,000	1,000	1,000	1,000
Other facilities (3)	50,362	50,362	50,362	50,362
	1,028,060	1,028,060	1,028,060	1,028,060
Total facilities available				
QTC facilities	1,801,670	1,802,574	1,801,670	1,802,574
Bank loan facilities	1,000	1,000	1,000	1,000
Other facilities	50,362	50,362	50,362	50,362
	1,853,032	1,853,936	1,853,032	1,853,936

(1) Unrestricted facilities.
(2) Access restricted to transactions associated with hedging and trading activities and compliance with conditions contained in CS Energy Limited's Australian Financial Services Licence.
(3) CS Energy Limited also has access to approved facilities of $50.362 million via the State Borrowing Program which was approved on 15 July 2011.

23. Non-current liabilities - Deferred tax liabilities

Consolidated	Derivative financial instruments $'000	Trade receivables $'000	Defined benefit asset $'000	Property, plant and equipment $'000	Capital work in progress $'000	Other $'000	Total $'000
At 30 June 2010	33,363	9,216	2,121	233,687	28,235	27,777	334,399
Charged/(credited) to profit or loss	(1,550)	(1,990)	8	(210,565)	8,711	3,005	(202,381)
Under provision prior year	-	-	-	-	-	(2,436)	(2,436)
Reclassification to liabilities held for distribution	-	(2,678)	-	-	(1,960)	(4,700)	(9,338)
Charged directly to equity	(31,813)	-	283	-	-	-	(31,530)
At 30 June 2011	-	4,548	2,412	23,122	34,986	23,646	88,714
Charged/(credited) to profit or loss	-	3,648	-	33,178	(29,745)	(20,632)	(13,551)
Under provision prior year	-	-	-	-	-	94	94
Reclassification to liabilities held for distribution	-	-	-	-	-	-	-
Charged directly to equity	-	-	(2,412)	1,604	-	12,737	11,929
Net deferred tax liabilities at 30 June 2012	**-**	**8,196**	**-**	**57,904**	**5,241**	**15,845**	**87,186**

Parent	Derivative financial instruments $'000	Trade receivables $'000	Defined benefit asset $'000	Property, plant and equipment $'000	Capital work in progress $'000	Other $'000	Total $'000
At 30 June 2010	33,363	4,380	2,121	96,682	140	13,597	150,283
Charged/(credited) to profit or loss	(1,550)	(2,132)	8	(96,682)	6,520	(1,158)	(94,994)
Under provision prior year	-	-	-	-	-	(1,180)	(1,180)
Reclassification to liabilities held for distribution	-	(2,070)	-	-	(92)	(2,850)	(5,012)
Charged directly to equity	(31,813)	-	283	-	-	-	(31,530)
At 30 June 2011	-	178	2,412	-	6,568	8,409	17,567
Charged/(credited) to profit or loss	-	818	-	-	(1,589)	(14,673)	(15,444)
Under provision prior year	-	-	-	-	-	-	-
Reclassification to liabilities held for distribution	-	-	-	-	-	-	-
Charged directly to equity	-	-	(2,412)	-	-	12,736	10,324
Net deferred tax liabilities at 30 June 2012	**-**	**996**	**-**	**-**	**4,979**	**6,472**	**12,447**

24. Non-current liabilities - Provisions

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Employee entitlements	10,916	10,250	10,234	9,527
Rehabilitation and site closure costs	53,383	49,707	32,470	30,594
Onerous contracts	187,901	-	187,901	-
	252,200	**59,957**	**230,605**	**40,121**
Non-current provisions	252,200	59,957	230,605	40,121
Current provisions (refer Note 20)	56,225	8,722	55,106	7,773
Total provisions	**308,425**	**68,679**	**285,711**	**47,894**

Reconciliation of movements in provisions (Note 24):

Rehabilitation and site closure costs				
Carrying amount at start of year	49,707	81,069	30,594	60,809
Increase in provisions	-	600	-	600
Change from re-measurement	-	19,104	-	4,859
Provision used during the year	(143)	-	-	-
Reclassification to liabilities held for distribution	-	(58,408)	-	(40,600)
Liabilities recognised as part of the Genco Restructure	-	-	-	-
Finance costs	3,819	7,342	1,876	4,926
Carrying amount at end of year	**53,383**	**49,707**	**32,470**	**30,594**

Rehabilitation and site closure costs
Refer Note 1(o) for details relating to rehabilitation and site closure costs provisions.

Onerous Contracts				
Carrying amount at start of year	-	152,066	-	152,066
Transfers in from Stanwell Corporation Limited	273,946	-	273,946	-
Changes from re-measurement	-	(4,852)	-	(4,852)
Provision used during the year	(42,779)	(35,731)	(42,779)	(35,731)
Reclassification to liabilities held for distribution	-	(126,440)	-	(126,440)
Reclassification to current liabilities	(45,700)	-	(45,700)	-
Finance costs	2,434	14,957	2,434	14,957
Carrying amount at end of year	**187,901**	**-**	**187,901**	**-**

Onerous contract provision for power pooling agreement

As part of the Generator Restructure, Stanwell Corporation Limited's interest in the Gladstone Interconnection and Power Pooling Agreement (IPPA) was transferred to CS Energy Limited on 1 July 2011.

The onerous contracts provision has been calculated by projecting the revenue and unavoidable expenditure attributable to the contract up to the contract expiry date and discounting back to present values using the consolidated group's cost of capital.

25. Non-current liabilities - Retirement benefit obligations

(a) Superannuation plan

Some employees of the consolidated group are entitled to benefits from the Energy Super Fund (ESF) on retirement, disability or death. The consolidated group has a defined benefit plan and a defined contribution plan. The defined benefit plan provides lump sum benefits based on years of service and final average salary. The defined contribution plan receives fixed contributions from consolidated group companies, on behalf of employees and the consolidated group's legal or constructive obligation is limited to these contributions. Other employees have exercised their right to have their superannuation contributions paid to their nominated superannuation funds.

The consolidated entity has determined that, in accordance with the terms and conditions of defined benefit plans, the amount of any asset recognised in the balance sheet must not be greater than the present value of any economic benefits available in the form of refunds or reductions in future employer contributions to the plan. Due to the combination of a lower than expected return on the actual investment plan assets and a significant decrease in the discount rate (from 5.2% to 3.1%) used to calculate the present value of future cash flows for the defined benefit liability, the total fair value of the plan assets were lower than the present value of the future obligations in 2012 resulting in a defined benefit liability being recognised at 30 June 2012 (30 June 2011: Defined benefit asset recognised).

The following information in Notes 25(b) to 25(j) is in respect of the ESF defined benefit plan only.

(b) Balance Sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Present value of the defined benefit obligation	(82,574)	(97,760)	(82,574)	(97,760)
Fair value of defined benefit plan assets	75,056	105,801	75,056	105,801
Net asset/ (liability) in the balance sheet	**(7,518)**	**8,041**	**(7,518)**	**8,041**

For the period up to 30 June 2012, the consolidated group contributed 12% of defined benefit members salaries.

(c) Categories of plan assets

The major categories of plan assets are as follows:

Cash	7,506	5,290	7,506	5,290
Equity instruments	37,528	52,901	37,528	52,901
Debt instruments	7,506	15,870	7,506	15,870
Property	7,506	10,580	7,506	10,580
Other assets	15,010	21,160	15,010	21,160
	75,056	**105,801**	**75,056**	**105,801**

(d) Reconciliations

Reconciliation of the present value of the defined benefit obligation, which is partly funded:				
Opening balance	97,760	91,674	97,760	91,674
Current service cost	4,421	4,332	4,421	4,332
Interest cost	4,960	4,545	4,960	4,545
Actuarial (gains) and losses recognised in equity	8,168	1,791	8,168	1,791
Contributions by plan participants	1,041	1,265	1,041	1,265
Benefits paid by the plan	(33,776)	(5,847)	(33,776)	(5,847)
Balance at the end of the year	82,574	97,760	82,574	97,760
Reconciliation of the fair value of plan assets:				
Opening balance	105,801	98,745	105,801	98,745
Expected return on plan assets	6,232	5,816	6,232	5,816
Actuarial (gains) and losses recognised in equity	(6,783)	2,733	(6,783)	2,733
Contributions by group companies into the plan	3,582	4,354	3,582	4,354
Benefits paid by the plan	(33,776)	(5,847)	(33,776)	(5,847)
Balance at the end of the year	75,056	105,801	75,056	105,801

(e) Amounts recognised in Statement of Comprehensive Income

The amounts recognised in Statement of Comprehensive Income are as follows:

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current service cost	4,421	4,332	4,421	4,332
Interest cost	4,960	4,545	4,960	4,545
Expected return on plan assets	(6,232)	(5,816)	(6,232)	(5,816)
Total included in employee benefits expense	3,149	3,061	3,149	3,061
Actual return on plan assets	**(551)**	**8,549**	**(551)**	**8,549**

(f) Amounts recognised in other comprehensive income

Cumulative loss amount at the beginning of the year	(10,525)	(11,467)	(10,525)	(11,467)
Actuarial (loss)/gain recognised in the year	(12,674)	942	(12,674)	942
Cumulative loss amount at the end of year	(23,199)	(10,525)	(23,199)	(10,525)

A net defined benefit surplus of $2,277,000 million was transferred out on 1 July 2011 to Stanwell Corporation Limited as part of the Restructure. This transfer has been included in the net assets/(liabilities) transferred under Restructure in Note 13.

(g) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Discount rate	3.1%	5.2%	3.1%	5.2%
Expected return on plan assets	6.0%	6.0%	6.0%	6.0%
Future salary increases - 1st year	3.5%	4.5%	3.5%	4.5%
Future salary increases - long term	4.0%	4.5%	4.0%	4.5%

The expected rate of return on assets has been based on historical and future expectations of returns for each of the major categories of asset classes, as well as the expected and actual allocation of plan assets to these major categories, which resulted in the selection of a 7.0% rate of return (gross of tax and net of expenses) and a 6.0% rate of return (net of tax and expenses).

(h) Employer contributions

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three yearly intervals. The previous assessment as at 30 June 2010 was undertaken in early 2011.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the aggregate funding method. This funding method seeks to have benefits funded by means of a total contribution, which is expected to be a constant percentage of members' salaries over their working lifetimes.

Using the funding method described above and particular actuarial assumptions as to the plan's future experience (as detailed below), the actuary recommended in the actuarial review as at 30 June 2010, the payment of employer contributions to the fund of 10% of salaries for employees who are members of the defined benefit section. For the period up to 30 June 2012, the consolidated group paid contributions to the fund of 12% of defined benefit members' salaries with a view of reducing this to 10% in 2013.

Total employer contributions expected to be paid by the consolidated group for the year ending 30 June 2013 will be a minimum of $1,820,514 (prior year $3,665,000) and a minimum of $1,820,514 for the parent (prior year $3,665,000). The total expected employer contributions for 2013 is lower than in prior years due to a number of defined benefit plan employees leaving CS Energy during the 2012 year.

The economic assumptions used by the actuary to make the funding recommendations were a long term investment earning rate of 6% p.a. (net of fees and taxes) and a salary increase rate of 4.0% p.a., together with an age related promotional scale.

(i) Net financial position of plan

In accordance with AAS 25 Financial Reporting by Superannuation Plans, the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. This amount has been determined as at the date of the most recent actuarial report of the superannuation fund, 30 June 2010, and a surplus of $5,548,000 was reported as at 30 June 2012.

(j) Historic summary

	Consolidated			Parent		
	2012 $'000	2011 $'000	2010 $'000	2012 $'000	2011 $'000	2010 $'000
Defined benefit plan obligation	(123,046)	(123,046)	(111,727)	(123,046)	(123,046)	(111,727)
Fair value of plan assets	128,594	128,594	112,688	128,594	128,594	112,688
Surplus	5,548	5,548	961	5,548	5,548	961

26. Reserves, other owners contributions and accumulated losses

(a) Hedging reserve - cash flow hedges

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Opening balance at 1 July	9,833	91,455	9,833	91,455
Revaluation of forward foreign exchange contracts - gross	-	(333)	-	(333)
Revaluation of electricity derivative contracts - gross	39,495	(56,165)	39,495	(56,165)
Forward foreign exchange contracts realised, capitalised to property, plant and equipment - gross	-	333	-	333
Electricity derivative contracts realised as revenue- gross	(64,064)	(60,438)	(64,064)	(60,438)
Deferred tax	7,370	34,981	7,370	34,981
Closing balance at 30 June	**(7,366)**	**9,833**	**(7,366)**	**9,833**

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in Note 1(k). Amounts are recognised in profit or loss when the associated hedged transaction affects income.

(b) Accumulated losses

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Balance at 1 July	(699,206)	(85,299)	(354,860)	6,949
Net loss for the year	(51,458)	(614,566)	(221,341)	(362,468)
Net assets/(liabilities) transferred under Restructure	28,503	-	(24,292)	-
Actuarial gain/(loss) on the defined benefit plan, net of tax	(8,871)	659	(8,871)	659
Closing balance at 30 June	**(731,032)**	**(699,206)**	**(609,364)**	**(354,860)**

27. Contributed equity

(a) Share capital

	2012 Shares	2011 Shares
Ordinary shares - fully paid		
A Class (voting)	260,000,004	260,000,004
B Class (non-voting)	822,503,917	822,503,917
	1,082,503,921	**1,082,503,921**

The shares are held by the Treasurer and Minister for Trade and the Minister for Energy and Water Supply.

(b) Movement in ordinary share capital

	2012 Shares	2011 Shares	2012 $'000	2011 $'000
Contributed equity	1,082,503,921	1,082,503,921	1,082,504	1,082,504
Prior year adjustments	-	-	(129,389)	(129,389)
Opening balance at 1 July 2011	-	-	953,115	953,115
Other owners contributions resulting from restructure 1 July 2011	-	-	(138,700)	-
Capital injection 6 September 2011	-	-	150,000	-
Capital injection 24 January 2012	-	-	150,000	-
Closing balance at 30 June 2012	**1,082,503,921**	**1,082,503,921**	**1,114,415**	**953,115**

(c) Ordinary shares

Ordinary shares A and B class entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. The consolidated group does not have authorised capital or par value in respect of its issued shares.

On a show of hands, every holder of A class ordinary shares, present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Owners contributions

On 1 July 2011, assets and liabilities relating to CS Energy Limited, Stanwell Corporation Limited, and Tarong Energy Limited were transferred under the Restructure of the Government Owned Corporation generators. This resulted in the transfer of net liabilities of $138,700,336 which was designated by the shareholding Ministers to be adjusted against shareholder's contributed equity.

(e) Other adjustments to contributed equity

During the 2008 year, certain liabilities and assets were transferred from Enertrade to CS Energy Limited, which constituted a net distribution to owners of $129,389,416 recognised in equity. The transfers were made to CS Energy Limited at the book values in Enertrade's most recent financial statements. The net liabilities at the date of transfer constituted mainly an onerous contract provision of $109,564,207 and derivative financial instruments of $20,888,178.

28. Dividends

Parent	2012 $'000	2011 $'000
Final dividend for the year ended 30 June	**-**	**-**

The dividend policy, as governed by the *Government Owned Corporations Act 1993*, is to pay a dividend equivalent to 80% (or a percentage approved by the shareholding Ministers, if different), of adjusted consolidated profit. Adjusted consolidated profit is profit after tax adjusted for specific non-cash or fair value adjustments.

29. Directors and executives disclosures

Whilst CS Energy Limited is not a disclosing entity and thus not required to comply with the disclosure requirements relating to executive remuneration included in accounting standard AASB 124 *Related Party Disclosures*, the note has been prepared on the basis of guidelines issued by the Queensland Treasurer, which are generally in accordance with the requirements of the standard.

(a) Directors

The following persons were Directors of CS Energy Limited during the whole financial year, unless otherwise noted:

Non-executive Chairman:

- R Rolfe (appointed 31 May 2012)
- D Byrne (resigned 21 May 2012)

Non-executive Directors:

- Ms T Dare
- Ms S Israel (resigned 13 July 2012)
- Mr J Hubbard (appointed 1 July 2011)
- Mr K Barker (appointed 1 July 2011, resigned 4 July 2012)
- Mr G Simcoe (appointed 1 July 2011, resigned 5 July 2012)
- Ms K Smith-Pomeroy (appointed 1 July 2011)
- Mr M Williamson (appointed 1 July 2011)
- Mr R Henricks (unpaid leave of absence from 30 June 2011)

Principles used to determine the nature and amount of remuneration

Director remuneration is determined periodically by the Governor in Council under Schedule 1 Part 3 of the *Government Owned Corporations Act 1993*.

Superannuation

Directors receiving personal payments are also entitled to superannuation contributions.

Relationship between remuneration and entity's performance

Directors receive Director fees and committee fees only. No performance payments are made to Directors.

Remuneration

Details of the remuneration of each Director of CS Energy Limited, including their Director-related entities, are set out in the following table:

Name	Short term employee benefits $'000	Post employment $'000	Total $'000
2012			
R Rolfe (Chairman) (1)	7	1	8
D Byrne (former Chairman) (2)(3)	81	7	88
Ms T Dare	40	4	44
Ms S Israel	35	4	39
Mr J Hubbard (3)	38	3	41
Mr K Barker (3)	39	5	44
Mr G Simcoe (3)	39	4	43
Ms K Smith-Pomeroy (3)	40	4	44
Mr M Williamson (3)	40	4	44
Mr R Henricks (4)	-	-	-
	359	**36**	**395**
2011			
Ms T Dare	25	2	27
Ms S Israel	36	4	40
Mr R Henricks	37	4	41
	98	**10**	**108**

(1) Remuneration details for 2012 are in respect of the period 31 May 2012 to 30 June 2012.
(2) Remuneration details for 2012 are in respect of the period 1 July 2011 to 21 May 2012.
(3) Directors since 1 July 2011, therefore no prior year comparatives available.
(4) No remuneration details as Director on unpaid leave of absence since 30 June 2011.

Other transactions with directors and director-related entities

A Director, Ms T Dare, is a Director of the Australian Institute of Management Graduate School. The Australian Institute of Management provided training services to the consolidated group on normal commercial terms and conditions.

A Director, Ms T Dare, is a former partner of KPMG. KPMG provided accounting and taxation services to the consolidated group on normal commercial terms and conditions. A Director, Mr J Hubbard, is a former partner of PWC. PWC provided accounting and taxation services to the consolidated group on normal commercial terms and conditions.

A Director, Mr G Simcoe, is a Director of the Building Employees Redundancy Trust (BERT), BERT Training Queensland (BTQ), Construction Skills Training Centre (CSTC), Construction Income Protection Queensland (CIPQ), and BUSS (Queensland). BUSS (Queensland) provided superannuation services to employees of the consolidated group on normal commercial terms and conditions. No other services were provided to the consolidated group from the other companies listed.

	Consolidated 2012 $	Consolidated 2011 $	Parent 2012 $	Parent 2011 $
Training: Australian Institute of Management	70,445	71,715	70,445	71,213
Accounting and taxation services: KPMG	514,876	192,282	514,876	192,282
Accounting and taxation services: PWC	362,385	166,615	362,385	166,615
BUSS (Queensland)	5,628	21	3,507	21
	953,334	**430,633**	**951,213**	**430,131**

(b) Executives

The following six executive management positions (which constitute "key management personnel") had the authority and responsibility for planning, directing and controlling the activities of the consolidated group during the financial year, all of whom, unless indicated, were employed by CS Energy Limited during the financial year:

- Chief Executive
- Executive General Manager Commercial (interim appointment as a result of an executive Restructure effective 6 February 2012 merging Executive General Manager Trading with Chief Financial Officer)
- Executive General Manager Asset Strategy
- Executive General Manager Trading (role made redundant 1 March 2012)
- Executive General Manager Production; and
- Executive General Manager Corporate

Principles used to determine the nature and amount of remuneration

Executives receive a base salary (incorporating cash, allowances and non-monetary benefits), superannuation, other benefits and a performance payment. Executive remuneration is established by using external independent quantitative benchmarks to compare the position requirements with similar positions across a broad cross section of the labour market. The performance payment is up to a maximum of 15% of total fixed remuneration. Executive remuneration (and any change to executive remuneration) requires approval of the Board of Directors, in accordance with the Government Owned Corporations Governance Arrangements for Chief and Senior Executives.

Relationship between remuneration and entity's performance

The remuneration for executives is designed to attract and retain executives with the calibre necessary to ensure the organisation's success. The performance payment is conditional upon attainment of specified and measurable performance outcomes compared to Key Performance Indicators (KPIs). The KPIs are directly related to measures the Board of Directors considers to be indicators of good corporate performance.

Service contracts

All executive appointments are approved by the CS Energy Limited Board of Directors in accordance with the Government Owned Corporations Governance Arrangements for Chief and Senior Executives.

The remuneration and other terms of employment for each executive is specified in individual employment agreements. Annual adjustments to the remuneration are made in accordance with CS Energy Remuneration Policy for Senior Executives as approved by the shareholding Ministers. The agreement provides a total remuneration package that enables each executive to receive a range of benefits including a motor vehicle and superannuation.

The contractual arrangements for the Chief Executive (initial contract commenced 24 December 2007) include the following terms:

- Employment term - initial contract was extended by a further 2 years until 23 December 2012. A new agreement for a term of 3 years will come into effect on 24 December 2012 and CS Energy Limited may offer a further extension of up to 2 years beyond the termination date under that agreement.
- Remuneration reviewed annually;
- Total remuneration as outlined in the following table;
- Termination notice of not less than 6 months written notice by either party;
- Payment of a severance payment of 12 weeks remuneration, if the employment contract is not renewed upon serving the full term of the contract; and
- Payment of a termination benefit on early termination, other than for disciplinary reasons, which is the greater of:
    - The remaining balance of the contract; or
    - A service payment, equal to the greater of 13 weeks salary or two weeks salary per year of continuous service with CS Energy Limited up to a maximum of 52 weeks salary; and a separation payment, equal to the greater of 13 weeks salary or a sum equal to 20% of the residual value of the contract (excluding future bonuses).

The contractual arrangements for the Executive General Manager Commercial (contract commenced 13 June 2008) include the following terms:

- Employment term - 3 years expiring 13 June 2011 with an opportunity to either extend beyond the termination date under the existing agreement or extend beyond the termination date under the terms of a new agreement. The CS Energy Board of Directors has extended the existing contract by a further 2 years, to 13 June 2013;

- Remuneration reviewed annually;
- Total remuneration, as outlined in the following table;
- Termination notice of not less than 3 months written notice by either party;
- Payment of a severance payment of 12 weeks remuneration, if the employment contract is not renewed upon serving the full term of the contract; and
- Payment of a termination benefit on early termination, other than for disciplinary reasons, equivalent to 2 weeks remuneration per completed year of service, to a maximum of 52 weeks, with a minimum 4 weeks, in addition to a separation payment of 20% of the residual value of the contract (excluding future bonuses).

The contractual arrangements for the Executive General Manager Asset Strategy (contract commenced 23 July 2008) include the following terms:

- Employment term - 3 years expiring 31 August 2011 with an opportunity to either extend beyond the termination date under the existing agreement or extend beyond the termination date under the terms of a new agreement. The CS Energy Board of Directors has extended the existing contract by a further 2 years, to 31 August 2013;
- Remuneration reviewed annually;
- Total remuneration, as outlined in the following table;
- Termination notice of not less than 3 months written notice by either party; and
- Payment of a severance payment of 12 weeks remuneration, if the employment contract is not renewed upon serving the full term of the contract; and
- Payment of a termination benefit on early termination, other than for disciplinary reasons, equivalent to 2 weeks remuneration per completed year of service, to a maximum of 52 weeks, with a minimum 4 weeks, in addition to a separation payment of 20% of the residual value of the contract (excluding future bonuses).

The contractual arrangements for the Executive General Manager Production (contract commenced 2 July 2008) include the following terms:

- Employment term - open tenure;
- Remuneration reviewed annually;
- Total remuneration, as outlined in the following table;
- Termination notice of not less than 3 months written notice by either party;
- Should the position become redundant, a payment of a severance amount equivalent to 3 weeks remuneration per completed year of service to a maximum of 75 weeks remuneration (in addition to a separation payment of 13 weeks); and
- If the executive is terminated for reasons other than voluntary separation or discipline they are entitled to 26 weeks salary reduced by notice period on termination.

The contractual arrangements for the Executive General Manager Corporate (contract commenced 9 June 2009) included the following terms:

- Employment term - 3 years expiring 13 July 2012 with an opportunity to either extend beyond the termination date under the existing agreement or extend beyond the termination date under the terms of a new agreement. The CS Energy Board of Directors has extended the existing contract by a further 2 years, to 13 July 2014;
- Remuneration reviewed annually;
- Total remuneration, as outlined in the following table;
- Termination notice of not less than 3 months written notice by either party;
- Payment of a severance payment of 12 weeks remuneration if the employment contract is not renewed upon serving the full term of the contract; and
- Payment of a termination benefit on early termination, other than for disciplinary reasons, equivalent to 2 weeks remuneration per completed year of service, to a maximum of 52 weeks, with a minimum 4 weeks, in addition to a separation payment of 20% of the residual value of the contract (excluding future bonuses).

Impact of remuneration contracts on future periods

No specific contract terms of any executive affect remuneration of future periods, other than as disclosed in this report and the right to receive annual adjustments based on labour market escalation in the Industry and Services market.

Performance related bonuses

The Board of Directors approves executive performance payments, each year, immediately after the financial year to which the performance payment relates. Scorecards for individual executives are set by the Board of Directors.

The “scorecards” have an organisational focus and align with short, medium and long term goals for CS Energy.

Performance indicators have a balance of financial and non-financial outcomes including a focus on operational issues such as productivity, service delivery, safety and compliance with relevant Government policies.

Remuneration

Details of the remuneration of each executive of CS Energy Limited, including their executive-related entities, are set out in the following table:

	Short term employee benefits $'000	Post employment benefits $'000	Performance payments $'000	Termination benefits $'000	Total $'000
2012					
Chief Executive	534	52	-	-	586
Executive General Manager Commercial (1)(11)	299	31	-	-	330
Executive General Manager Asset Strategy (2)(12)	302	38	-	-	340
Executive General Manager Production	311	31	-	-	342
Executive General Manager Corporate	292	27	-	-	319
Chief Financial Officer (3)	1	1	-	154	156
Executive General Manager Portfolio Services (4)	1	-	-	72	73
Executive General Manager Trading (5)	190	21	-	77	288
	1,930	**201**	**-**	**303**	**2,434**
2011					
Chief Executive	490	45	55	-	590
Chief Financial Officer (10)	270	34	18	-	322
Executive General Manager Business Development (9)	271	34	28	-	333
Executive General Manager Corporate Services (6)	266	24	26	-	316
Executive General Manager Portfolio Services (4)	257	32	17	-	306
Executive General Manager Operations (7)	310	29	29	-	368
Executive General Manager Organisational Development (8)	268	24	25	-	317
	2,132	**222**	**198**	**-**	**2,552**

(1) Holds Public Officer designation. Interim position created on 6 February 2012 incorporating the former Finance and Trading functions as a result of a proposed Executive restructure therefore no comparative data is available.
(2) New position created on 1 July 2011 so no comparative data is available.
(3) Position ceased 5 February 2012 and responsibilities were incorporated into interim position of Executive General Manager Commercial (see footnote 1).
(4) Position ceased 30 June 2011. The responsibilities were incorporated into the new position of Executive General Manager Asset Strategy (see footnote 2).
(5) Position ceased 5 February 2012 as a result of the proposed Executive restructure. Role incorporated into interim Executive General Manager Commercial (see footnote 1).
(6) Position became Executive General Manager Trading 1 July 2011.
(7) Position became Executive General Manager Production 1 July 2011.
(8) Position became Executive General Manager Corporate 1 July 2011.
(9) Position ceased 30 June 2011.
(10) Position was significantly altered effective 30 June 2011 as a consequence of the Restructure which took effect from 1 July 2011 and the responsibilities were incorporated into the new role of Chief Financial Officer and Executive General Manager Commercial respectively (see footnotes 1 & 3).
(11) A performance payment of $37,136 was received by the Executive General Manager Commercial in 2011 with respect to his position as Chief Financial Officer at Stanwell Corporation Limited. This amount has not been included in the table above.
(12) A performance payment of $39,872 was received by the Executive General Manager Asset Strategy in 2011 with respect to his position as General Manager Generation Operations at Tarong Energy Limited. This amount has not been included in the table above.

Except as otherwise disclosed, this disclosure relates to the total compensation provided by CS Energy Limited in respect of each position.

Other transactions with executive and executive-related entities

There were no other transactions with executives, including their executive-related entities.

30. Employee performance payments

Performance payments to employees of the consolidated group paid in the financial year:

Financial year	Aggregate performance payments (1) $'000	Total salary and wages earned by employees receiving a performance payment $'000	Number of employees receiving a performance payment
2012	3,268	76,392	541
2011	3,803	73,483	675

(1) Paid in the year indicated, but relate to the prior financial year. No performance payments have been paid for the 2011/2012 financial year.

The following categories of employees are eligible for at-risk performance incentive payments:

- Chief Executive;
- Senior executives;
- Contract employees; and
- Employees whose term and conditions are outlined in certified agreements.

31. Remuneration of auditors

Remuneration for audit or review of the financial reports of the parent or any entity in the consolidated group:	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Auditors of the parent				
Parent	297,000	250,000	297,000	250,000
Controlled entities	-	20,000	-	-
Under provision from prior year	-	62,951	-	62,951
	297,000	**332,951**	**297,000**	**312,951**

32. Commitments for expenditure

	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Capital commitments Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable as follows:				
Property, plant and equipment				
Within one year	61,814	114,313	-	15,772
Later than one year, but not later than five years	27,941	44,669	-	55
Later than five years	-	-	-	-
Subtotal	89,755	158,982	-	15,827
Less: Commitments transferred out				
Within one year	-	28,131	-	15,772
Later than one year, but not later than five years	-	3,349	-	55
Later than five years	-	-	-	-
Subtotal	-	31,480	-	15,827
Plus: Commitments transferred in				
Within one year	-	-	-	-
Later than one year, but not later than five years	-	-	-	-
Later than five years	-	-	-	-
Subtotal	-	-	-	-
Total capital commitments	**89,755**	**127,502**	**-**	**-**

	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Operating lease commitments - group as lessee Commitments for minimum lease payments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, payable as follows:				
Within one year	54,670	1,626	54,670	1,626
Later than one year, but not later than five years	156,762	7,151	156,762	7,151
Later than five years	537,643	4,016	537,643	4,016
Subtotal	749,075	12,793	749,075	12,793
Less: Commitments transferred out				
Within one year	-	10	-	10
Later than one year, but not later than five years	-	10	-	10
Subtotal	-	20	-	20
Plus: Commitments transferred in				
Within one year	-	66,384	-	66,384
Later than one year, but not later than five years	-	163,423	-	163,423
Later than five years	-	573,215	-	573,215
Subtotal	-	803,022	-	803,022
Total capital commitments	**749,075**	**815,795**	**749,075**	**815,795**

Operating leases

The consolidated group leases office space under non cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Other expenditure commitments Commitments for other operating expenditure contracted for at the reporting date but not recognised as liabilities, payable as follows:				
Within one year	70,261	53,293	2,144	40,605
Later than one year, but not later than five years	268,066	176,977	9,124	131,250
Later than five years	374,324	155,058	43,648	25,933
Subtotal	712,651	385,328	54,916	197,788
Less: Commitments transferred out				
Within one year	-	48,362	-	40,605
Later than one year, but not later than five years	-	156,243	-	131,250
Later than five years	-	25,933	-	25,933
Subtotal	-	230,538	-	197,788
Plus: Commitments transferred in				
Within one year	-	41	-	41
Later than one year, but not later than five years	-	-	-	-
Later than five years	-	-	-	-
Subtotal	-	41	-	41
Total other expenditure commitments	**712,651**	**154,831**	**54,916**	**41**

33. Contingent liabilities

As CS Energy Limited considers that the probability of an outflow of material economic benefits is remote, specific details about contingent liabilities have not been disclosed.

34. Related parties

(a) Directors and executives

Disclosures relating to Directors and Senior Executives are set out in Note 29.

(b) Parent entities

The parent entity within the consolidated group is CS Energy Limited. The ultimate controlling party is the State of Queensland.

(c) Investments in controlled entities

Details of investments in controlled entities are set out in Note 35.

(d) Transactions with related parties

Transactions between CS Energy Limited and other entities in the wholly-owned consolidated group during the year ended 30 June 2012 consisted of:

(a) Loans advanced by CS Energy Limited;
(b) The supply of labour by CS Energy Limited;
(c) Dividends paid to controlling entity; and
(d) Transactions between CS Energy Limited and its wholly-owned controlled entities under the tax sharing agreement described in Note 8.

Interest is charged on loans only to the extent that capitalisation is adopted in accordance with AASB 123 *Borrowing Costs*. There was no interest charged on these loans during 2012 (2011 - nil).

Related party transactions and balances	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
The following transactions occurred with related parties				
Sale of goods and services	-	-	35,289	31,812
Dividend revenue	-	-	-	-
	-	-	35,289	31,812
The following balances are outstanding at reporting date in relation to transactions with related parties				
Non-current receivable - loans to related parties	-	-	967,128	1,253,308
Loans to subsidiaries				
Balance at 1 July	-	-	1,253,308	1,296,806
Loans advanced	-	-	236,231	370,458
Loan repayments received	-	-	(245,633)	(413,956)
Loans transferred (1)	-	-	(108,393)	-
Provision for Non recovery	-	-	(168,385)	-
Balance at 30 June	-	-	967,128	1,253,308

(1) Loan to CS Energy Mica Creek Pty Limited transferred on 1 July 2011 to Stanwell Corporation Limited. This transfer has been included in the net assets/(liabilities) transferred under Restructure in Note 13.

The terms and conditions of the tax funding agreement are set out in Note 8.

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. There was no interest charged on loans during the year (2011 - nil).

Outstanding balances are unsecured and are repayable in cash.

(e) State controlled entities

CS Energy Limited enters into transactions with parties who are ultimately controlled by the State of Queensland.

Transactions between the consolidated group and other state controlled entities during the financial year and balances at year-end are classified in the following categories:

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Statement of Comprehensive Income				
Amounts included in revenue from the sale of electricity and other revenue	15,730	50,924	15,629	23,038
Amounts included in cost of sales and other expenses	20,147	26,528	14,946	12,883
Amounts included in finance costs	62,519	65,330	62,519	65,330
	98,396	**142,782**	**93,094**	**101,251**
Balance Sheet				
Amounts included in trade and other receivables	809	3,047	697	3,047
Amounts included in trade and other payables	5,619	5,187	4,858	5,118
Amounts included in borrowings	824,972	825,876	824,972	825,876
	(831,400)	**(834,110)**	**(830,527)**	**(834,041)**

35. Investments in controlled entities

Name of Entity	Country of Incorporation	Class of Shares	2012 Equity Holding %	2011 Equity Holding %
Callide Energy Pty Ltd	Australia	Ordinary	100	100
Kogan Creek Power Station Pty Ltd	Australia	Ordinary	100	100
Aberdare Collieries Pty Ltd	Australia	Ordinary	100	100
CS Energy Kogan Creek Pty Ltd	Australia	Ordinary	100	100
Kogan Creek Power Pty Ltd	Australia	Ordinary	100	100
CS Kogan (Australia) Pty Ltd	Australia	Ordinary	100	100
CS Energy Group Holdings Pty Ltd (1)	Australia	Ordinary	100	100
CS Energy Group Operations Holdings Pty Ltd (2)	Australia	Ordinary	100	100
CS Energy Oxyfuel Pty Ltd	Australia	Ordinary	100	100
Manzillo Insurance (PCC) Ltd - Cell EnMach	Guernsey	Ordinary	100	100

(1) Previously Swanbank Energy Pty Ltd
(2) Previously SE CSE Pty Ltd

CS Energy Mica Creek Pty Ltd as the owner of Mica Creek power station and CS North West Pty Ltd as the labour provider to Mica Creek power station were transferred to Stanwell Corporation Limited under the Government Owned Corporation Generator Restructure on 1 July 2011.

36. Interests in joint ventures

(a) Jointly controlled assets

The consolidated group has a 50% participating interest in the Callide Power Project Joint Venture, which is represented by Callide Energy Pty Ltd's interest of 50% in the joint venture (Callide Energy Pty Ltd is a wholly-owned subsidiary of CS Energy Limited). IG Power (Callide) Ltd, an unrelated entity, holds the remaining 50% interest.

The consolidated group has a 75.22% participating interest in the Callide Oxyfuel Project Joint Venture, a project involved in clean coal technology research. Grants are receivable from both government and non-government entities to fund the project on the basis that certain project milestones are met.

The consolidated group's share of assets employed in the joint ventures is included in the balance sheet under the following classifications.

	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Current assets				
Cash	105	295	-	-
Receivables	514	804	-	-
Inventories	3,858	4,196	-	-
Total current assets	4,477	5,295	-	-
Non-current assets				
Gas exploration and evaluation costs	-	6,008	-	-
Property, plant and equipment	117,969	119,268	-	-
Total non-current assets	117,969	125,276	-	-
Share of assets employed in joint venture	**122,446**	**130,571**	**-**	**-**

(b) Jointly controlled entities

Name of entity	Principal activity	Ownership interest 2012 %	Ownership interest 2011 %	Carrying amount 2012 $	Carrying amount 2011 $
Callide Power Management Pty Ltd	Joint Venture Manager	50	50	500	500
Callide Power Trading Pty Ltd	Electricity Marketing Agent	50	50	500	500
				1,000	**1,000**

	Consolidated 2012 $'000	Consolidated 2011 $'000
Movements in carrying amount of interests in jointly controlled entities		
Carrying amount at the beginning of the financial year	1	1
Carrying amount at the end of the financial year	**1**	**1**
Share of joint venture entities' assets and liabilities		
Current assets	1	1
Total assets	1	1
Total liabilities	-	-
Net assets	**1**	**1**
Share of joint venture entities' revenues, expenses and results		
Revenues	-	-
Expenses	-	-
Profit/(loss) before income tax	**-**	**-**

37. Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Profit for the year	(51,458)	(614,566)	(221,341)	(362,468)
Depreciation and amortisation	86,174	148,805	28,176	62,514
Fair value adjustment to derivatives	(40,084)	37,502	(40,084)	37,502
Non-cash retirement benefits net income	-	(28)	-	(28)
Net (gain) loss on sale of non-current assets	(201)	191	(201)	182
Impairment write-down	-	773,163	-	364,864
Exploration & evaluation expenditure written off	-	8,800	-	8,800
Onerous contract - re-measurement	-	(25,626)	-	(25,626)
Onerous contract unwound	(40,345)	-	(40,345)	-
Provision for Non Recovery	-	-	168,385	-
Change in operating assets and liabilities:				
(Increase) decrease in receivables	3,028	(19,997)	(4,057)	(8,039)
(Increase) decrease in inventories	12,224	(696)	8,514	(370)
(Increase) decrease in deferred tax assets	(23,385)	(36,515)	(22,643)	(17,461)
(Increase) decrease in prepayments	-	18,966	-	12,660
(Decrease) increase in accounts payable, employee benefits, borrowings and other provisions	71,424	76,205	53,164	33,360
(Decrease) increase in deferred tax liabilities	-	(233,911)	-	(126,524)
Net cash inflow (outflow) from operating activities	17,377	132,293	(70,432)	(20,634)

38. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and directors' report.

It is a condition of the Class Order that CS Energy Limited and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- Callide Energy Pty Ltd;
- Kogan Creek Power Station Pty Ltd;
- Aberdare Collieries Pty Ltd;
- CS Energy Kogan Creek Pty Ltd;
- Kogan Creek Power Pty Ltd;
- CS Kogan (Australia) Pty Ltd;
- CS Energy Group Holdings Pty Ltd;
- CS Energy Group Operations Holdings Pty Ltd; and
- CS Energy Oxyfuel Pty Ltd.

Summarised financial information on the aforementioned wholly-owned subsidiaries is presented in the following tables:

Subsidiary Name	Purpose	Total Assets ($'000)	Total Liabilities ($'000)	Total Revenue from Ordinary Activities ($'000)	Profit/(Loss) Before Income Tax ($'000)
2012					
Callide Energy Pty Ltd	Owner of 50% of Callide C Power Station	153,956	285,642	64,610	(5,680)
Kogan Creek Power Station Pty Ltd	Owner of Kogan Creek Power Station	919,189	1,017,427	117,319	7,424
Kogan Creek Power Pty Ltd	Provides labour to Kogan Creek Power Station	6,860	4,408	-	-
CS Energy Kogan Creek Pty Ltd	40% owner of Kogan Creek Power Pty Ltd	72,710	36,389	-	-
CS Kogan (Australia) Pty Ltd	60% owner of Kogan Creek Power Pty Ltd	518	31	-	-
Aberdare Collieries Pty Ltd	Owner of coal mine that supplies Kogan Creek Power Station	235,514	193,981	-	573
CS Energy Oxyfuel Pty Ltd	Holds CS Energy's interest in the Callide Oxyfuel Project	15,859	35,526	-	(4,603)
CS Energy Group Holdings Pty Ltd (1)	Dormant entity	-	-	-	-
CS Energy Group Operations Holdings Pty Ltd (2)	Dormant entity	-	-	-	-
		1,404,607	**1,573,403**	**181,929**	**(2,287)**
2011					
Callide Energy Pty Ltd	Owner of 50% of Callide C Power Station	131,755	259,465	65,888	(185,308)
Kogan Creek Power Station Pty Ltd	Owner of Kogan Creek Power Station	875,581	979,020	152,638	(102,386)
Kogan Creek Power Pty Ltd	Provides labour to Kogan Creek Power Station	8,228	5,776	9,367	-
CS Energy Kogan Creek Pty Ltd	40% owner of Kogan Creek Power Pty Ltd	72,697	36,376	-	-
CS Kogan (Australia) Pty Ltd	60% owner of Kogan Creek Power Pty Ltd	488	-	-	-
Aberdare Collieries Pty Ltd	Owner of coal mine that supplies Kogan Creek Power Station	160,240	160,913	31,182	(8)
CS Energy Mica Creek Pty Ltd (3)	Owner of Mica Creek Power Station	88,393	142,673	102,038	(68,025)
CS North West Pty Ltd (3)	Provides labour to Mica Creek Power Station	4,661	3,176	10,265	-
CS Energy Oxyfuel Pty Ltd	Holds CS Energy's interest in the Callide Oxyfuel Project	20,594	37,080	448	(13,228)
Swanbank Energy Pty Ltd	Dormant entity	-	-	-	-
SE CSE Pty Ltd	Dormant entity	-	-	-	-
		1,362,637	**1,624,479**	**371,826**	**(368,955)**

(1) Previously Swanbank Energy Pty Ltd
(2) Previously SE CSE Pty Ltd
(3) Transferred to Stanwell Corporation Limited under the Government Owned Corporation Generator Restructure on 1 July 2011

Directors’ Declaration

CS Energy Ltd (and controlled entities)
for the year ended 30 June 2012

In the Directors' opinion:

(a) The financial statements and notes set out on pages 25 to 74 are in accordance with the *Corporations Act 2001*, including:

(i) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

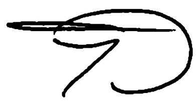
(ii) Giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date.

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) There are reasonable grounds to believe that the Company and the group entities identified in Note 38 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

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

Mr R Rolfe
Chairman



Ms T Dare
Director

Brisbane
27 August 2012

Independent Auditors Report

To the Members of CS Energy Limited

Report on the Financial Report

I have audited the accompanying financial report of CS Energy Limited, which comprises the balance sheets as at 30 June 2012, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001,* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or. error. In Note 1(a), the directors also 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 report based on the audit. The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards,* which incorporate the Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can be removed only by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

In conducting the audit, the independence requirements of the *Corporations Act 2001* have been complied with. I confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of CS Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In my opinion -

(a) the financial report of CS Energy Limited is in accordance with the *Corporations Act* 2001, including -
   - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and
   - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001;* and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note I.

Other Matters - Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of CS Energy Limited and the consolidated entity for the year ended 30 June 2012. Where the financial report is included on CS Energy Limited's website the company's directors are responsible for the integrity of CS Energy Limited's website and I have not been engaged to report on the integrity of CS Energy Limited's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

J Welsh

QUEENSLAND
3 0 AUG 2012
AUDIT OFFICE

J F WELSH FCPA
(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office
Brisbane