



EVOLUTIONARY THINKING

FOR

GENERATIONS AHEAD

Q: Where will the energy come from?

A: Evolutionary thinking.

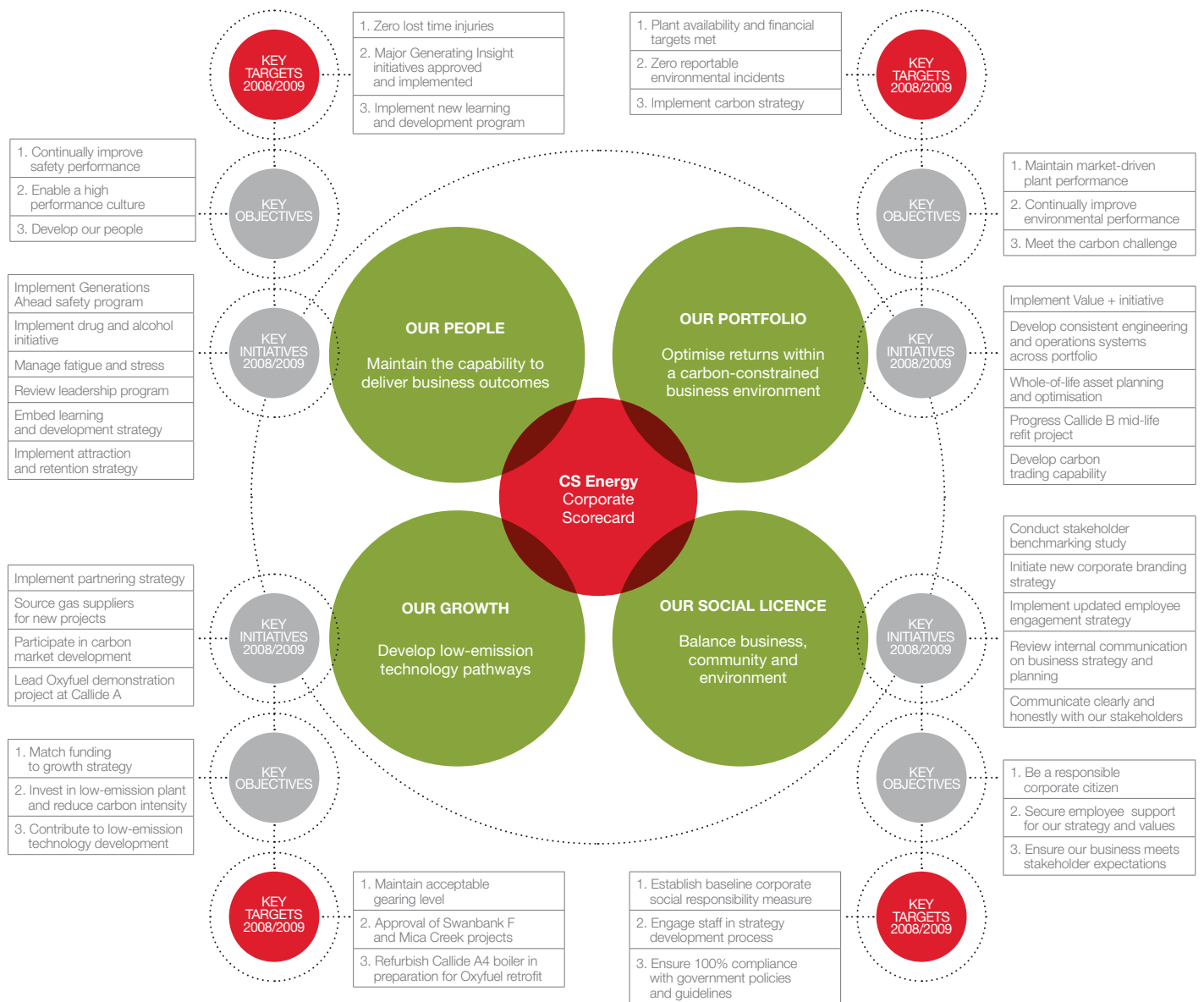
Addressing climate change is a huge challenge. Together, we need to find answers.

CS Energy, as a major provider of electricity, is contributing by investing in innovative technology, developing diverse fuel sources and increasing efficiency to provide reliable power for our customers.

**We are part of the evolution of our industry,
exploring new ways to meet the energy
needs of generations ahead.**

**Our corporate scorecard guides us,
providing the framework for achieving our
goals and measuring our progress.**

CS Energy Corporate Scorecard



Our Carbon Strategy

CS Energy is operating in a complex environment. Demand for electricity is increasing yet we know that the continued consumption of fossil fuel-fired electricity is having a detrimental effect on our environment. Alternative technologies are in development but, at the moment, none is sufficiently advanced to make a major contribution to base load generation.

As industry and governments across the world work to find solutions that address both economic and environmental needs, CS Energy is engaged in a parallel quest to provide reliable power, add value for our shareholders and minimise the impact of our operations.

During 2008/2009, the economic framework for this will become clearer as the structure of the federal government's emissions trading scheme is revealed. In anticipation of this new regime, CS Energy has appointed a Carbon Strategy Manager to co-ordinate the Company's readiness program for carbon trading.

This, however, is only one aspect of our strategy. We are investing in the development of Oxyfuel technology, a low-emission coal technology that may reduce the carbon emissions of coal-fired electricity to near zero. This project is focused on examining the potential to retrofit this technology to existing plant, helping to minimise the lead time and financial burden associated with reducing the carbon impact of Australia's electricity generation. Our progress to date on the Callide Oxyfuel Project is reported on page 44.

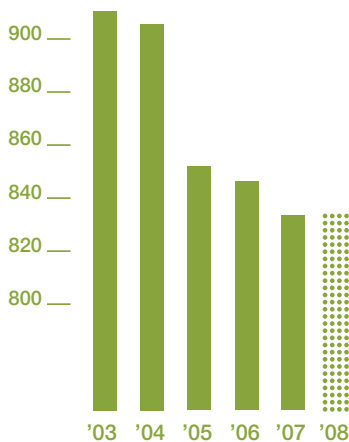
We are also participating in the deployment of solar thermal technology. This is a logical extension of our expertise in thermal generation and another technology that could be retrofitted to existing plants to supplement coal-fired boilers.

These investments are complemented by work to develop a comprehensive carbon offset program, one that not only offsets the impact of our operations, but also supports meaningful projects that will make a long-term difference. The first stage is underway, with \$2 million set aside in the Kogan Creek Power Project for tree planting.

Fuel switching remains central to our business strategy. We continue to stimulate new developments in the coal seam methane industry and develop new, large-scale gas generation plant. Investment in Metgasco's coal seam methane development at Casino, in northern New South Wales, is intended to fuel CS Energy's next major gas plant, the Swanbank F development. There is more information about our gas developments on pages 46 and 47 of this report.

These developments build on a history of applying the latest technology and investing to change our portfolio profile from 100 per cent coal-firing, to a mix of coal, gas and landfill gas-firing. Since 1997, we have added more than 1,000 megawatts of new plant to our portfolio and increased our generation by 73 per cent, whilst reducing our carbon intensity by 17 per cent.

GREENHOUSE INTENSITY
PER ENERGY SENT OUT (tCO₂-e/GWh)





About CS Energy

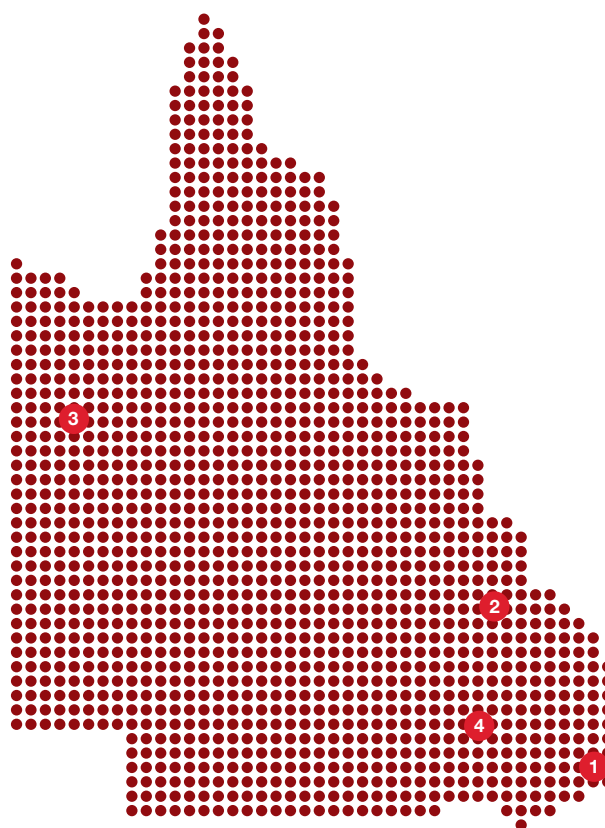
CS Energy's mission is to develop the Company into a large, low-cost, multi-fuel generator.

Our long-term vision is to be the leading generator in the Australian energy market. To achieve this, we are developing the skills of our people, providing the technology and systems to support their work and fostering a corporate environment founded on six key values: safety, commercial approach, environmental responsibility, teamwork and mutual trust, innovation and creativity, and integrity.



Location Key

- 1 Swanbank Power Station, Ipswich
- 2 Callide Power Station, Biloela
- 3 Mica Creek Power Station, Mount Isa
- 4 Kogan Creek Power Station, Chinchilla

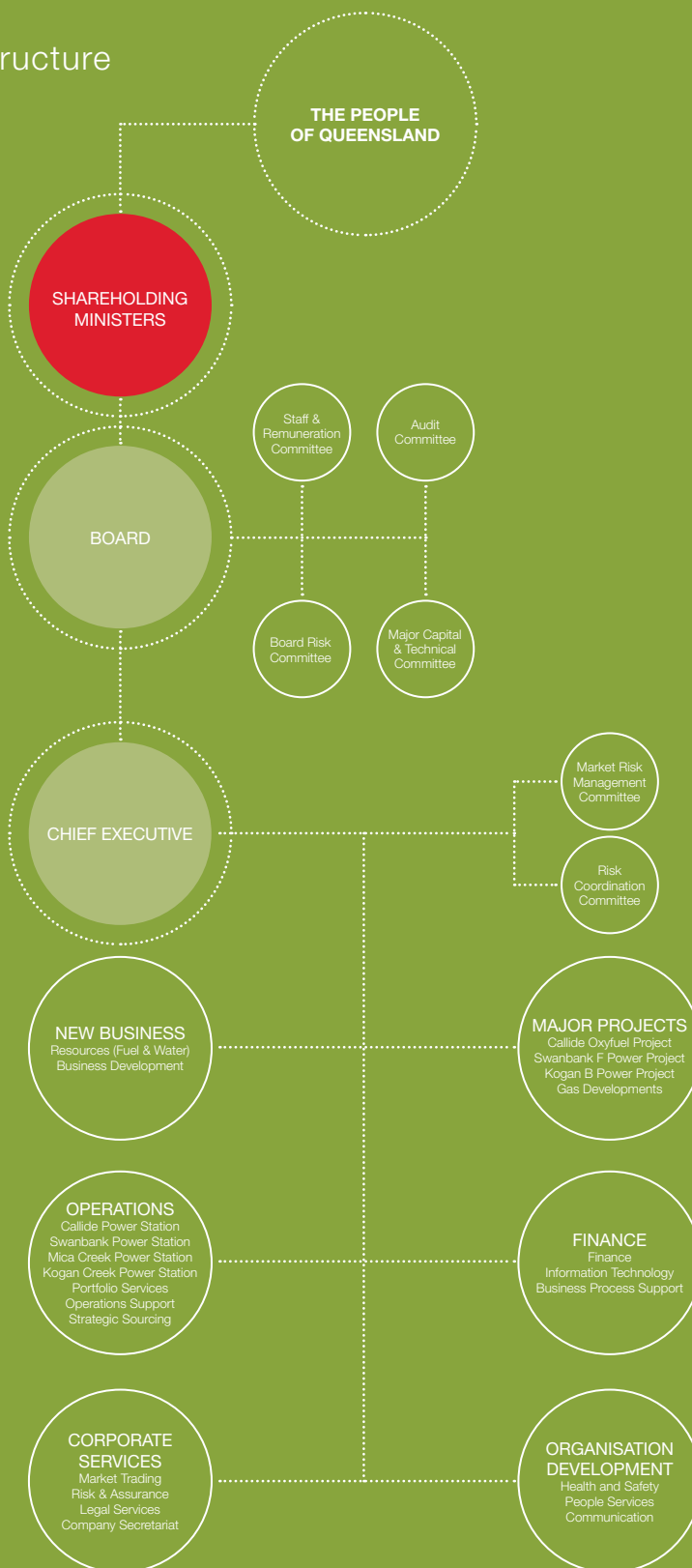


PLANT		FUEL	TOTAL CAPACITY (MW)	CS ENERGY OWNED CAPACITY (MW)
IN OPERATION				
Swanbank	Swanbank B	Coal-fired	480	480
	Swanbank E	Gas-fired ¹	385	385
Callide	Callide A ²	Coal-fired	120	120
	Callide B	Coal-fired	700	700
	Callide C	Coal-fired	900	450
Mica Creek	Mica Creek A (Units 1,2,3,4)	Gas-fired	132	132
	Mica Creek A (Units 5,6,7)	Gas-fired ¹	103	103
	Mica Creek B	Gas-fired	35	35
	Mica Creek C	Gas-fired ¹	55	55
Kogan Creek	Kogan Creek A	Coal-fired	750	750
TOTAL CAPACITY			3,660	3,210

¹ Combined cycle

² Callide A is in storage for future use in the Callide Oxyfuel Project

Our structure



Who we are

CS Energy is a Queensland Government-owned electricity generator with more than 580 employees, four power stations and a generating capacity of 3,210 megawatts.

What we do

We meet approximately 30 per cent of Queensland's electricity demand, using a mix of coal, natural gas, coal seam methane and landfill gas.

Our stakeholders

CS Energy has many stakeholders. These include all individuals and groups who are affected by, or who have an interest in, our operations, including:

- current and future employees
- contractors
- customers
- the local communities in which we operate
- unions
- suppliers
- special interest groups
- relevant authorities
- current and prospective business partners.

Through our shareholding Ministers we are ultimately responsible to the people of Queensland.

Highlights 2007/2008

2007/2008 was a busy year for us, with the following milestones achieved in our key focus areas of people, portfolio, growth and social licence.

PEOPLE

Appointed David Brown as CS Energy Chief Executive, John James as General Manager Portfolio Services, Gary Campbell as General Manager Operations and Don Woodrow as Carbon Strategy Manager.

Opened a Learning and Development Centre to co-ordinate training and development of staff across the Company.

Commenced applying the findings of an employee survey to target improvement through leadership, role clarity and teamwork initiatives at both individual and group levels.

PORTFOLIO

Opened the \$1.2 billion Kogan Creek A Power Station and mine, adding 750 megawatts to the National Electricity Market.

Started using recycled water from the Western Corridor Recycled Water Project at Swanbank Power Station, allowing the station to continue operation despite drought conditions.

Generated 17,237 gigawatt hours of electricity and achieved electricity sales of \$740 million.

Commenced mid-life refit of Callide B, and spent \$47 million on overhauls across Swanbank, Callide and Mica Creek power stations.

Returned a \$59 million net profit after tax for 2007/2008, up \$15.7 million from the previous year.

GROWTH

Secured \$50 million in funding for the Callide Oxyfuel Project from the Australian Federal Government's Low Emissions Technology Demonstration Fund, and a further \$140 million from public and private sector interests.

Officially signed the Callide Oxyfuel Project's six-member Joint Venture Management Agreement.

Started planning Swanbank F, a highly efficient, combined cycle gas-fired power station to be built on the old Swanbank A site.

Established gas reserves in the Metgasco Joint Venture development of 227 PJ in 2P reserves.

SOCIAL LICENCE

Developed Generosity, a company-wide Workplace Giving program.

Furthered our partnership with Opera Queensland, sponsoring *Moving Opera!* workshops for high schools in Ipswich and Mount Isa.

Celebrated World Environment Day through an internal awareness campaign including a photography competition that will provide material for CS Energy's 2009 corporate calendar.

Lost time injury frequency rate		
5.1	3.36	3.3
05/06	06/07	07/08
Employee numbers		
530	559	588
05/06	06/07	07/08
Leadership principles training		
460	66	77
05/06	06/07	07/08
Apprentices, trainees & graduates		
41	47	52
05/06	06/07	07/08

Total energy sent out (GWh)		
13,110	13,996	15,426
05/06	06/07	07/08
Reliability (%)		
93.4	95.5	91.8
05/06	06/07	07/08
Greenhouse intensity (tCO ₂ e/GWh)		
851	829	834.4
05/06	06/07	07/08
Significant environmental incidents		
0	0	0
05/06	06/07	07/08

Profit after tax (\$000)		
56,468	43,300	59,007
05/06	06/07	07/08
Return on productive assets (%)		
7.3	3.7	5.3
05/06	06/07	07/08
Qld average pool price (\$/MWh)		
28.12	52.14	52.34
05/06	06/07	07/08
Gearing (%)		
39.3	51.8 ¹	47.8¹
05/06	06/07	07/08

¹Gearing for 2006/2007 and 2007/2008 has been adjusted to reflect the impact of mark to market on financial instruments.

Performance Against Measures 2007/2008

CS Energy has a 10-year strategic plan and every year we set targets that support this plan. We use these targets to measure our progress.

OUR BUSINESS IS PEOPLE		
SAFETY	Finish rollout of high-visibility and flame-retardant clothing	✓
	Complete drug and alcohol program development	→
	Introduce fatigue management plan	✓
	Rollout consistent confined space procedure at all sites	✓
	Implement safety awards	→
STRUCTURE	Establish Portfolio Services as a separate division	✓
	Implement outcomes of support services review	✓
LEADERSHIP	Evaluate the leadership program implementation	✓
	Respond to evaluation findings and develop next phase	→
TRAINING	Conduct second intake of frontline management training for supervisors	✓
	Review technical training across the company to ensure greater consistency and identify areas for improvement	✓
SECURING FOUNDATIONS		
MAINTENANCE	Conduct overhauls at Callide B, Swanbank E and Mica Creek	✓
	Implement Kogan Creek Asset Management Strategy	✓
AVAILABILITY	Continue high availability of Callide C	✗
	Receive recycled water at Swanbank	✓
	Achieve planned availability from Kogan Creek in first year of operation	✓
FUEL MANAGEMENT	Fund further gas appraisal work at Metgasco's field to secure 2P reserves	✓
	Investigate other potential coal and gas supplies	→
WATER	Incorporate air cooling in new and existing projects where feasible	→
	Use recycled water at Swanbank	✓
FOR GENERATIONS AHEAD		
FINANCIAL STRENGTH	Continue to examine finance options to support future projects	→
ENVIRONMENT	Execute joint venture agreement between Callide Oxyfuel Project Partners	✓
	Commence construction on Callide Oxyfuel Project site	✓
	Finalise geosequestration site	→
	Maintain ISO14001 certification at all certified sites	✓
COMMUNITY	Manage Kogan Creek's transition from construction to operations	✓
	Communicate and consult on new and existing projects	→
	Develop a staff Workplace Giving program, Generosity	✓
GROWTH	Secure sufficient power purchase agreements and competitively priced gas to progress Mica Creek expansion	→
	Review market conditions on other projects	→

Chairman's Review

Stephen Lonie B Com, MBA, CA, F Fin, FIMCA, FAICD

The 2007/2008 financial year was another challenging period for CS Energy, both in achieving a safe, reliable and efficient operating environment as well as addressing the many strategic challenges that the industry faces in securing and maintaining access to key inputs such as fuel, water and skilled people. In addition, the Company was assessing the emerging implications of the Federal Government's greenhouse gas policies, which will have a direct impact on the Company's business in 2010.

The Company's strategic direction is captured in the following four key goals:

- To become a large scale merchant generator in the National Electricity Market;
- To build, own and operate a portfolio of low-emission, multi-fuel, cost competitive, reliable plant;
- To focus on leading technology to reduce carbon emissions; and
- To achieve a carbon footprint with an emissions intensity of less than 400kg CO₂/MWh by 2030.

These goals set the agenda for both the performance of our existing assets and business and for growing the business in a carbon constrained world, whilst meeting the challenging emission target set for the business.

The growth plans for the portfolio focus on three main technologies and energy sources:

- Low-emission coal technologies;
- Gas generation; and
- Selected renewable technologies.

Low-emission coal – build on the Callide Oxyfuel low-emission coal demonstration project. During the year, the Company successfully managed the financial close for its Oxyfuel Project, which is a key initiative to underwrite the Company's response

to the emerging world of carbon taxes and related greenhouse gas policies. This project is now in progress and represents a significant component of the Company's carbon strategy.

The experience of the Callide Oxyfuel project can be applied to achieve commercial scale deployment of low-emission coal technologies by retrofitting to existing coal stations, as well as being applied to new build as and when the technology becomes economic.

Gas generation – building on the success of Swanbank E, a further high-efficiency gas-fired combined-cycle plant is planned at the Swanbank site. In addition, the Mica Creek expansion is under discussion but requires commitment from the Mount Isa customers in order to proceed.

Renewable technologies – building on the existing capabilities of building, owning and operating thermal based plant by assessing renewable technologies which also utilise thermal generation techniques. Evaluation of both geothermal and solar thermal opportunities is planned for 2008/2009.

As well as focussing on growth opportunities, the Company will continue to improve the performance of its current portfolio of plant – safe, reliable and efficient are the Company's key operational drivers - to ensure that the Company can justify its appetite for further development through operating its current portfolio of assets well. The Company is aware of its challenges in improving the performance of its current portfolio and has initiated plans to address these challenges.

Planning for new plant at Swanbank (gas) and Kogan Creek (coal) is continuing, with the understanding that any new plant must address the Australian Government's emerging greenhouse gas policies.

The agenda for CS Energy is large and complex. However, our people have the capability to successfully meet these challenges

...safe, reliable and efficient are the Company's key operational drivers...



and continue to deliver outstanding results for the Company, often under difficult circumstances. The Board is aware of and appreciates these efforts across the whole organisation.

It is also a time of significant demand for talented people, particularly in the regional areas in which CS Energy operates, and the Company will continue to look at feasible ways to make working for CS Energy a rewarding and enjoyable proposition.

CS Energy operates in a complex environment, with many stakeholders, the most important being our shareholding Ministers, the Honourable Geoff Wilson, MP, Minister for Mines and Energy and the Honourable Andrew Fraser, MP, Treasurer, and I would like to acknowledge their guidance and support for this Company's endeavours over the past year.

The 2007/2008 financial year was also a year of transition for the management team and, on behalf of the Board, I would like to acknowledge Tony Andersen's contribution as Acting Chief Executive during the first half of this financial year. After a long history in the industry, and over ten years as part of the CS Energy Executive Team, Tony Andersen retired from the Company in July 2008. We thank him for his dedication and support over many years, and wish him well for the future. David Brown was appointed Chief Executive on 24 December 2007 and has already contributed constructively to the Company's operations and future strategies.

On 30 September 2008, two long serving Directors, Tony White and Tim Crommelin, will retire and I would like to recognise their significant input to this Company's development over the past ten years and thank them for their efforts and commitment as two outstanding, industrious and strong team members.

Finally, I would also like to thank all my fellow Directors for their efforts and support this year. It continues to be a challenging time, both in growing the Company and responding to industry changes, but I am confident that, with sustained effort, CS Energy will meet its challenges, and take advantage of the opportunities ahead.

A new decade,
a new era for CS Energy

STEPHEN LONIE
Chairman

Chief Executive's Review

David Brown C.Eng BSc (Hons)

It is a very exciting time to be working in the energy sector. The pace of change in the energy industry is rapid. CS Energy continues to evolve and grow by being at the forefront of developments and tackling the many challenges in the industry.

The new corporate scorecard, introduced this year, outlines four priority areas for the business – people, portfolio performance, growth and social licence. It will provide the framework for continued growth and evolution within the context of a changing business environment. While CS Energy transitions to the new-look scorecard in the coming year, it will continue to report its performance against the measures set for 2007/2008.

I am pleased to report many significant achievements this year. After four years of construction, the Company officially opened the Kogan Creek Power Station and mine in November 2007. The state-of-the-art coal fired power station sets new benchmarks in operational and environmental performance. The single unit station's environmental profile is one of the best in the country and because the plant is dry-cooled, it will use one tenth of the water of a similar sized wet-cooled station.

Swanbank Power Station started using recycled water from the Western Corridor Recycled Water Pipeline, which allowed continued operations through the drought conditions in south east Queensland.

After 20 years of operation, Callide B Power Station embarked on a major mid-life overhaul program, to ensure it continues to

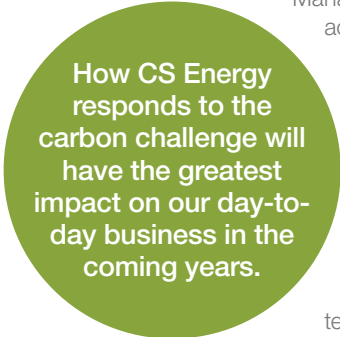
operate reliably and consistently for another 20 years. Callide C reliability continues to be challenged by boiler performance issues. The outstanding dispute with the boiler manufacturer has now been settled which allows a comprehensive plan to be implemented to progressively improve the reliability of the Callide C units.

How CS Energy responds to the carbon challenge will have the greatest impact on our day-to-day business in the coming years.

In May 2008, the Company appointed a Carbon Strategy Manager to co-ordinate the many carbon related activities across the business and to oversee our preparation for an emissions trading scheme. Continued commitment to better environmental management and involvement in researching and developing cleaner energy technologies, carbon abatement initiatives and clean coal demonstration are key priorities for the Company. In August 2008, the major contracts for the multi-million dollar Callide Oxyfuel Project will be finalised. This project demonstrates a clear commitment to developing this technology and our view that it can contribute to low impact electricity production for future generations.

The Company's safety record is improving. However I feel strongly that the Company must continue to raise the bar with regard to safety awareness and performance. CS Energy considers any injury unacceptable and remains committed to achieving a workplace free of injury.

Like many organisations, CS Energy faces tough competition to attract and retain the best people. This year, a number of programs that focus on driving stronger leadership and



How CS Energy responds to the carbon challenge will have the greatest impact on our day-to-day business in the coming years.



succession management across the organisation will be put in place. CS Energy will be successful in the future due to the capability and commitment of its staff and by having sufficient skilled resources to meet the challenges ahead.

I feel privileged to be working with such a dynamic and enthusiastic team at CS Energy. I thank each and every one of them for their efforts in the last year.

In particular, I would like to thank Tony Andersen for guiding the organisation through the first half of the financial year. Tony's leadership ensured CS Energy stayed focused and provided a smooth transition for the executive during a potentially unsettling time.

I would also like to welcome John James as General Manager Portfolio Services and Gary Campbell as General Manager Operations to the Executive Team. I look forward to working with them, and the rest of the team and Board, as CS Energy moves ahead.

The future will see CS Energy continue to prosper by:

- investing in its existing plant and people to achieve safe, reliable and efficient operation;
- investing in low-emission technology; and
- further developing the high level of knowledge and skills of its people.

Evolving industry,
evolutionary thinking

DAVID BROWN
Chief Executive

Corporate Performance

Financial Performance

Progress 2007/2008

Produced record sent out generation of 15,426 gigawatt hours.

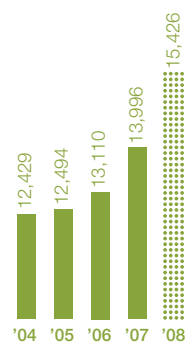
Achieved record electricity sales of \$739.9 million.

Returned a 35.3 per cent increase in net profit.

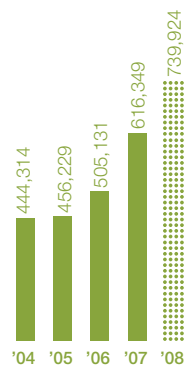
Financial Highlights						
		07/08	06/07	05/06	04/05	03/04
Profit after tax (PAT)	\$000	59,007	43,300	56,468	40,680	30,397
Return on productive assets (ROPA)	%	5.3	3.7	7.3	5.2	5.3
Gearing	%	47.8 ¹	51.8 ¹	39.3	40.9	30.6
Assets	\$M	2,896	3,262	2,121	1,734	1,620
Time-weighted average pool price	\$/MWh	52.34	52.14	28.12	28.99	28.19
Green energy products	\$000	26,034	34,266	23,024	11,133	1,799
Total electricity sales	\$000	739,924	616,349	505,131	456,229	444,314
Costs (excl interest)	\$000	699,781	562,648	434,011	398,529	394,860
Dividends payable	\$000	47,206	34,640	40,170	29,151	28,877
Capital investment in power stations	\$000	280,248	373,163	490,795	248,696	46,655

¹Gearing for 2006/2007 and 2007/2008 has been adjusted to reflect the impact of mark to market on financial instruments.

ENERGY SENT OUT (GWh)



SALES REVENUE (\$000)



CS Energy's profit for the year was \$59 million, up \$15.7 million on 2006/2007.

Profit was affected by an increase in finance costs of \$58.9 million, reflecting changes to the accounting treatment of both interest payments on the Kogan Creek Power Project following its commissioning, and finance costs associated with provisions for future obligations on other operations.

Earnings before interest and tax show an even stronger result, with the Company returning \$135.6 million compared to \$66.9 million for the 2006/2007 financial year.

CS Energy achieved record generation for the second consecutive year in 2007/2008. Over 15,000 gigawatt hours of electricity were sent out from its portfolio of plant, reflecting the introduction of the 750 megawatt Kogan Creek Power Station to its operations, which resulted in a 20 per cent increase in revenue from electricity sales.

This increased capacity was supplemented by improved results from hedging activities as the ongoing drought increased contract prices during the first half of the financial year.

Consistent with this increased revenue, net cash inflow provided by operating activities increased by \$93 million or 36.7 per cent. A portion of this amount was used to fund completion of the construction of Kogan Creek Power Station, as well as the Company's capital overhaul program.

CS Energy's operating expenses also rose during the year, up \$137.1 million or 24.4 per cent, reflecting the addition of Kogan Creek Power Station to the portfolio and a number of other significant events, particularly the ongoing costs of managing the boiler issues at Callide C.

Following a decision by the Queensland Government, the Collinsville Power Purchase Agreement, formerly held by the state-owned entity, Enertrade, was transferred to CS Energy in August 2007. Onerous obligations associated with this contract, in particular the fixed capacity charge payable under the agreement, significantly increased the Company's expenses during 2007/2008.

The Company's accounts also contain initial recognition of an onerous contract provision associated with the new water supply contract for Swanbank Power Station, established by the Queensland Government under the *Water Act 2000*.

A one-off \$31.6 million impairment write down in the value of Swanbank B is also reflected in the 2007/2008 results.



Market Performance

CS Energy receives its revenue from selling electricity and its environmental products into the National Electricity Market (NEM) and to off-grid customers. Our NEM-connected power stations are Swanbank and Callide and the new Kogan Creek. Mica Creek Power Station near Mount Isa is the main source of electricity for the remote north west Queensland region, which is not connected to the national grid.

Performance in NEM

CS Energy sells electricity into the NEM through the spot market, where prices are calculated every five minutes and settled half hourly, and trades in the contract market where it enters into financial contracts that lock in a fixed price for electricity.

Time-weighted average pool price for the 2007/2008 financial year was \$52.34 per megawatt hour, almost unchanged from the previous year's average of \$52.14 per megawatt hour. Both years reflect the ongoing impact of the drought in NEM-connected states.

In September 2007, Swanbank was connected to the Western Corridor Recycled Water Pipeline, and started receiving up to 27 megalitres a day, which increased Swanbank's availability.

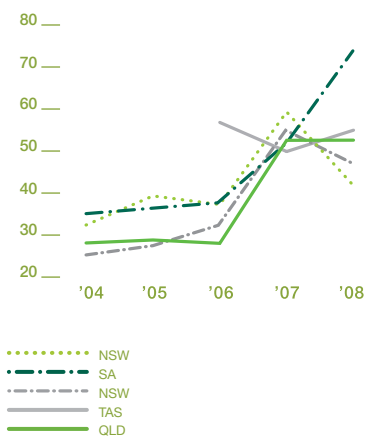
Ownership of the Collinsville Power Purchase Agreement (PPA) was transferred to CS Energy in August 2007, following the dissolution of Enertrade. The Collinsville Power Station is owned and operated by Transfield Services Infrastructure Fund and our Market Operations team has responsibility for the administration and operation of the PPA with Transfield Services.

Commissioning of Kogan Creek in 2007 saw an additional 750 megawatts of generation added to the NEM, which contributed revenue to CS Energy prior to the station's commissioning on 7 December 2007.

With almost a quarter of its portfolio gas-fired, CS Energy continued to support the Queensland Government's 13 per cent Gas Scheme, which requires retailers to source at least 13 per cent of their electricity from gas-fired generation and has resulted in a supplementary revenue source for CS Energy.

This year, our Swanbank B Power Station was accredited under the New South Wales Greenhouse Gas Abatement Certificate Scheme, allowing us to generate marketable carbon offset certificates from the co-firing of landfill gas with black coal at Swanbank's Unit B3.

TIME WEIGHTED AVERAGE POOL PRICE BY REGION



Off-grid activities

Mica Creek Power Station recorded system reliability of 99.67 per cent during the 2007/2008 financial year, down slightly on the previous year, reflecting the fact that some of the plant is almost 50 years old. For more information on our plans to replace this plant see page 46 of this Annual Report.

Overhaul work at Mica Creek C Station during the year resulted in a performance gain of seven megawatts additional capacity for the station.

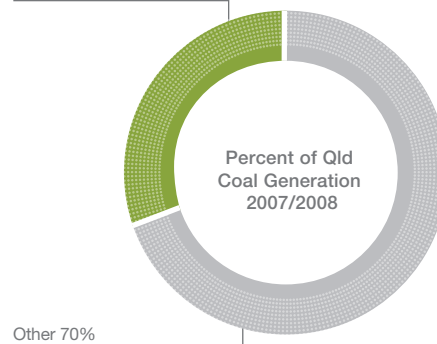
Looking forward 2008/2009

Manage the financial impact of the new SEQ Water Grid system on our operations.

Work with new retailers to encourage further competition and increase marketplace liquidity.

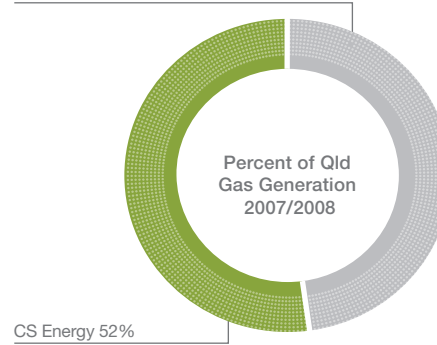
Participate in discussions regarding the formation of the Carbon Pollution Reduction Scheme, due to be implemented in 2010.

CS Energy 30%



Other 70%

Other 48%



CS Energy 52%