

# Financial Report

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CS Energy Limited and controlled entities ACN078848745

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 21, Central Plaza Two, 66 Eagle Street, BRISBANE QLD 4000. A description of the nature of the consolidated group's operations and its principal activities is included in the review of operations and activities on pages 20 to 33 which is not part of this financial report. The financial report was authorised for issue by the Directors on 27 August 2009. The company has the power to amend and reissue the financial report

CS Energy Limited (and controlled entities) **Directors' Report**  
for the year ended 30 June 2009

The Directors present their report on the consolidated group, consisting of CS Energy Limited and the entities it controlled at the end of, or during, the year ended 30 June 2009.

## 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 SE Lonie (Chairman);  
Mr M Bucknall;  
Ms T Dare (appointed 1 October 2008);  
Mr RJ Henricks;  
Ms S Israel;  
Mr R Kempnich (appointed 1 October 2008);  
Ms JA Leaver;  
Mr TBI Crommelin (Deputy Chairman) (term expired 30 September 2008); and  
Mr T White (term expired 30 September 2008).

Details about Directors, and the Company Secretary, are included in the annual report, as follows:

- Qualifications, experience and special responsibilities – pages 64 to 65 (Company Secretary page 58); and
- Meetings held and Director attendance – page 59.

These sections of the annual report form part of this report.

## Principal activities

During the year, the principal activity of CS Energy Limited was the generation of electricity from ownership, operation and development of power stations.

	Consolidated results	
	2009 \$'000	2008 \$'000
Profit from continuing operations after income tax	93,816	59,007

## 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 2008 and paid on 31 December 2008	47,206
Dividend declared during the year ended 30 June 2009 and due for payment on 31 December 2009	75,053

## Results of operations

The consolidated group's profit for the year was \$93.8 million (2008: \$59.0 million). This result was achieved after deducting:

- Finance costs of \$87.8 million (2008: \$58.9 million); and
- Income tax expense of \$33.2 million (2008: \$17.7million).

Earnings before finance costs and income tax expense was \$214.8 million, representing an increase of \$79.3 million or 58.5% on the prior year result of \$135.6 million.

This increase was due to growth in revenue from the sale of electricity as well as an increase in other revenue and other income, offset by higher costs from operations and a number of significant one-off adjustments, details of which are set out in the following section.

## Review of operations

The consolidated group's total revenue and income increased by \$135.0 million or 16.2%, reflecting a rise in total revenue of \$55.8 million, or 7.2%, and a rise in other income of \$79.2 million, or 123.8%.

The key components of the change in total revenue were mainly attributable to revenue from the sale of electricity arising from:

- An increase in the level of generation from the consolidated group's power station assets, following the first full year of operation of the Kogan Creek A power station; and
- A decrease in average revenue per megawatt due to a 35% decrease in the wholesale price of electricity in Queensland in the current year. The group was able to insulate itself, to a large extent, from the full impact of the pool price decrease, as it took advantage of the stronger forward prices on offer in prior periods in respect of the current financial year.

The increase in other income was due to a reduction in derivative liabilities that do not qualify for hedge accounting, the receipt of Commonwealth government grants pertaining to the Callide Oxyfuel clean coal demonstration plant and a reduction in the value of certain onerous contract obligations following remeasurement at balance date.

The reduction in derivative liabilities that do not qualify for hedge accounting resulted from a decrease in the forward prices for electricity during the financial year, as compared to prices evident during the prior financial year.

The reduction in the value of certain onerous contract obligations was principally attributable to an increase in the expected benefits that will be derived in the future by the consolidated group under the relevant contracts.

## CS Energy Limited (and controlled entities) Directors' Report for the year ended 30 June 2009

The consolidated group's total expenses, before finance costs and income tax expense, increased by \$55.7 million or 8.0% for the year. This growth was attributable to:

- Cost of sales – \$565.2 million, up by \$25.1 million, or 4.7%; and
- Other expenses – \$190.3 million, up \$30.6 million, or 19.2%.

The increase in cost of sales was principally attributable to the addition of costs associated with the first full year of operation of the Kogan Creek A power station.

The increase in other expenses was attributable to the following:

- A net increase in administration and distribution costs, due largely to additional costs also associated with the first full year of operation of the Kogan Creek A power station, higher market based ancillary services charges, and general overhead increases (\$33.5 million);
- Impairment write-down on Mica Creek power station (\$29.3 million);
- Further impairment write-down on Swanbank B power station (\$9.0 million);
- Research and development expenditure on the Callide Oxyfuel clean coal demonstration plant (\$20.9 million);
- Write-off of exploration and evaluation expenditure previously capitalised (\$12.1 million);
- Offset by a reduction on one-off expenses from the prior year associated with initial recognition and remeasurement of onerous contracts, initial impairment of Swanbank B and loss on disposal of assets (\$74.2 million).

The increase in finance costs of \$29.0 million was attributable to a full year of interest expense following the cessation of interest capitalisation mid way through the prior financial year.

Net cash inflow provided by operating activities decreased by \$102.0 million or 29.4%, which is principally the result of a significant cash inflow in the prior financial year associated with the receivables balance recognised in the 2006/07 financial statements. Excluding the impact of this item, cash from operations was in line with the growth in electricity revenue. This inflow was used in part, to fund completion of the consolidated group's capital overhaul program.

### Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the consolidated group during the financial year.

### Matters subsequent to reporting date

At the date of this report, the Directors are not aware of any matter or circumstance, which has arisen since 30 June 2009, that has significantly affected, or may significantly affect:

- (a) The consolidated group's operations in future financial years; or
- (b) The results of those operations in future financial years; or
- (c) The consolidated group's state of affairs in future financial years.

### Likely developments and expected results of operations

Regulation in response to climate change is one of the major forces shaping the business environment for power generators in Australia, highlighted by the release of the Commonwealth Government's white paper and draft legislation detailing the proposed Carbon Pollution Reduction Scheme and the National Renewable Energy Target legislation, passed on 20 August 2009. Public policy to constrain carbon emissions, and to encourage investment in renewable energy projects, is now evolving rapidly, so that the power generation sector over the next two decades will produce increasing amounts of energy using low emissions technologies. The consolidated group is currently working within the energy market to manage the transition to a low emissions power generation sector.

To enhance its competitive position, the consolidated group is working on a number of strategies for a transition to a low emissions operation. These initiatives include the Callide Oxyfuel project (demonstrating the viability of oxyfuel coal combustion, carbon dioxide capture and geosequestration to achieve near-zero emissions from coal-fired power generation), assessing other abatement opportunities such as biosequestration, and examining renewable power generation opportunities in Queensland. The consolidated group is also evaluating the expansion of its current portfolio of low emissions intensity plant as well as preparing for trading under the Commonwealth Government's Carbon Pollution Reduction Scheme. It is currently expected that the Carbon Pollution Reduction Scheme will commence in mid 2011.

## Environmental regulation

The consolidated group's activities are subject to environmental regulation under both Commonwealth and State legislation in relation to the operation and expansion of its power station portfolio. The primary environmental laws governing these activities are the *Environmental Protection Act 1994 (Qld)* and the *Integrated Planning Act 1997 (Qld)*. The consolidated group operates its power stations in accordance with the approvals it holds under these Acts, and its various generating licences.

During the year, eight environmental matters were reported to or came to the attention of the Department of Environment and Resource Management (DERM). In addition, six complaints were received and investigated in consultation with DERM. Swanbank power station reported a number of minor exceptions to the water discharge pH range specified in its approval.

The group took actions in response to all these issues, all of which have been considered by DERM to be adequate, with the exception of the unauthorised release of water from the Berry's Lagoon Pumping Station which supplies Swanbank power station where DERM took action against the consolidated group by issuing a Penalty Infringement Notice and a \$2,000 fine.

To the group's knowledge, there are no further environmental enforcement actions pending against it.

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 registered under the NGER Act and has established systems and procedures to allow it to submit its first report by the due date of 31 October 2009.

Further information on the consolidated group's environmental performance can be found on pages 46 to 52 of the annual report.

## Indemnification and insurance of officers

CS Energy Limited indemnifies each officer of the company and its controlled entities against any costs incurred by the officer in investigating or defending legal proceedings commenced against the officer or which the officer has reason to believe will be commenced against the officer or in responding to or appearing before enquiries or investigations in connection with or as a consequence of the officer acting in any capacity except where the liability arises out of:

- (i) The improper use of position or information to gain any profit or advantage or cause detriment to any company;
- (ii) Conduct involving a wilful breach of duty in relation to any company; and
- (iii) Any criminal, dishonest or fraudulent acts or omissions.

During the financial year, CS Energy Limited maintained a policy to insure all officers of the company and its controlled entities, including Directors and Secretaries and the General Managers of each of the divisions of the consolidated group.

## 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 118.

## Rounding of amounts to the nearest thousand dollars

The parent entity is a company of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investment 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 with a resolution of the Directors.



Mr SE Lonie

Chairman



Mrs JA Leaver

Director

Brisbane

27 August 2009

CS Energy Limited (and controlled entities) **Income Statement**  
for the year ended 30 June 2009

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Revenue from continuing operations</b>					
Revenue from the sale of electricity	5	781,349	739,924	446,447	382,088
Other revenue	5	45,860	31,462	122,162	186,516
		827,209	771,386	568,609	568,604
Other income	6	143,127	63,953	130,232	63,953
Cost of sales		(565,230)	(540,119)	(331,580)	(358,032)
Other expenses	7	(190,295)	(159,662)	(138,593)	(162,350)
Finance costs	7	(87,809)	(58,857)	(86,078)	(85,587)
<b>Profit before income tax</b>		<b>127,002</b>	<b>76,701</b>	<b>142,590</b>	<b>26,588</b>
Income tax (expense)/benefit	8	(33,186)	(17,694)	(24,799)	27,164
<b>Profit for the year attributable to members of the parent</b>		<b>93,816</b>	<b>59,007</b>	<b>117,791</b>	<b>53,752</b>

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

CS Energy Limited(and controlled entities) Balance Sheet  
for the year ended 30 June 2009

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	9	86,908	276,850	77,978	256,382
Trade and other receivables	10	123,767	182,497	93,008	154,934
Inventories	11	112,098	64,498	67,512	31,662
Derivative financial assets	12	48,991	51,726	48,991	51,726
<b>Total current assets</b>		<b>371,764</b>	<b>575,571</b>	<b>287,489</b>	<b>494,704</b>
<b>Non-current assets</b>					
Other receivables	13	12,088	35,643	1,371,908	1,426,936
Investments accounted for using the equity method	14	1	1	-	-
Other non-current assets	15	19,945	30,724	71,760	82,539
Property, plant and equipment	16	2,058,407	2,087,450	608,531	556,989
Deferred tax assets	17	45,091	148,187	31,041	140,941
Derivative financial assets	12	20,482	10,014	20,482	10,014
Retirement benefit assets	23	6,280	8,076	6,280	8,076
<b>Total non-current assets</b>		<b>2,162,294</b>	<b>2,320,095</b>	<b>2,110,002</b>	<b>2,225,495</b>
<b>Total assets</b>		<b>2,534,058</b>	<b>2,895,666</b>	<b>2,397,491</b>	<b>2,720,199</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	18	112,050	83,234	88,317	39,009
Current tax liabilities		7,552	-	7,552	-
Derivative financial liabilities	12	33,169	218,181	33,169	218,181
Provisions	19	110,355	87,450	108,231	85,511
<b>Total current liabilities</b>		<b>263,126</b>	<b>388,865</b>	<b>237,269</b>	<b>342,701</b>
<b>Non-current liabilities</b>					
Borrowings	20	824,789	1,085,268	824,789	1,085,268
Derivative financial liabilities	12	21,044	162,950	21,044	162,950
Deferred tax liabilities	21	307,577	306,471	124,749	126,620
Provisions	22	183,227	219,907	162,789	201,874
<b>Total non-current liabilities</b>		<b>1,336,637</b>	<b>1,774,596</b>	<b>1,133,371</b>	<b>1,576,712</b>
<b>Total liabilities</b>		<b>1,599,763</b>	<b>2,163,461</b>	<b>1,370,640</b>	<b>1,919,413</b>
<b>Net assets</b>		<b>934,295</b>	<b>732,205</b>	<b>1,026,851</b>	<b>800,786</b>
<b>Equity</b>					
Contributed equity	25	953,115	953,115	953,115	953,115
Reserves	24	19,703	(174,565)	19,703	(174,565)
Retained earnings/(accumulated losses)	26	(38,523)	(46,345)	54,033	22,236
<b>Total equity</b>		<b>934,295</b>	<b>732,205</b>	<b>1,026,851</b>	<b>800,786</b>

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

CS Energy Limited (and controlled entities) Statement of Recognised Income and Expense  
for the year ended 30 June 2009

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Changes in fair value of cash flow hedges, net of tax	24	194,268	363,377	194,268	363,377
Actuarial gain/(loss) on the defined benefit plan, net of tax		(10,941)	(11,888)	(10,941)	(11,888)
<b>Income and expense recognised directly in equity</b>		183,327	351,489	183,327	351,489
<b>Profit for the year</b>		93,816	59,007	117,791	53,752
<b>Total recognised income and expense for the year attributable to members of the parent</b>		<b>277,143</b>	<b>410,496</b>	<b>301,118</b>	<b>405,241</b>

The above statement of recognised income and expense should be read in conjunction with the accompanying notes.

CS Energy Limited (and controlled entities) Cash Flow Statement  
for the year ended 30 June 2009

	Notes	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Cash flows from operating activities</b>					
Cash receipts from customers		815,617	908,214	469,690	463,930
Cash payments to suppliers and employees		(523,513)	(506,014)	(336,128)	(400,728)
Cash generated from operations		292,104	402,200	133,562	63,202
Interest received		10,776	4,648	10,776	4,402
Operating borrowing costs paid		(58,207)	(60,205)	(58,207)	(60,205)
Dividends received		-	-	46,609	99,462
<b>Net cash inflow provided by operating activities</b>	37	244,673	346,643	132,740	106,861
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(188,773)	(132,639)	(121,800)	(58,083)
Repayment of loans to related parties		-	-	(47,473)	(22,180)
Repayments of loans from related parties		-	-	91,117	170,113
Payments for gas exploration and evaluation assets		(16,629)	(17,143)	(16,629)	(17,143)
Payments for research and development		(12,854)	-	-	-
Payment for open futures positions		88,000	126,000	88,000	126,000
<b>Net cash provided by (used in) investing activities</b>		(130,256)	(23,782)	(6,785)	198,707
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		-	953,787	-	953,787
Repayment of borrowings		(257,153)	(968,444)	(257,153)	(968,444)
Dividends paid	27	(47,206)	(34,640)	(47,206)	(34,640)
<b>Net cash provided by (used in) financing activities</b>		(304,359)	(49,297)	(304,359)	(49,297)
<b>Net increase (decrease) in cash and cash equivalents</b>		(189,942)	273,564	(178,404)	256,271
Cash and cash equivalents at the beginning of the financial year		276,850	3,286	256,382	111
<b>Cash and cash equivalents at the end of the year</b>	9	<b>86,908</b>	<b>276,850</b>	<b>77,978</b>	<b>256,382</b>

The above cash flow statement should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

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## 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 21, Central Plaza Two, 66 Eagle Street, Brisbane, Qld 4000.

The consolidated group is primarily involved in the generation of electricity from coal and gas.

The significant 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 (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, the *Government Owned Corporations Act 1993* and related regulations and the *Corporations Act 2001*.

The financial report of the consolidated group and the financial report of the parent comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board (IASB) with the exception of the initial recognition of the liabilities and assets transferred from Enertrade to CS Energy Limited during the year ended 30 June 2008, 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.

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments measured at fair value.

#### 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 judgment in the process of applying the consolidated group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the financial statements of all subsidiaries of CS Energy Limited. CS Energy Limited ('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 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 group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of a subsidiary or business.

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

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

#### (ii) 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 income statement, 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 35.

The consolidated group's share of its jointly controlled entities' post acquisition profits or losses is recognised in the income statement, 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

income statement 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.

**(iii) Transactions eliminated on consolidation**

Inter-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.

**(iv) 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. Such assets and liabilities are recognised at the book values of the transferring entity immediately prior to the transfer, based on an election made by the Queensland Government.

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

**(c) Segment reporting**

The consolidated group's primary format for segment reporting is based on business segments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. The consolidated group operates in one business segment (refer note 4).

**(d) 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 at 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 on 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 directly in equity.

**(e) 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 contract, is transferred to the counterparty. The net result of electricity derivatives, relating to electricity traded in the pool market is recognised 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 prices calculated by the National Electricity Market Management Company (NEMMCO) trading systems. NEMMCO is the operator of the NEM. On 1 July 2009 the operations of NEMMCO were transitioned to the Australian Energy Market Operator (AEMO).

**Gas electricity certificate sales**

Revenue from the sale of 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 transaction at the reporting date.

#### **Interest income**

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

#### **(f) Finance costs**

Finance costs comprise interest on borrowings and the unwinding of the discount on provisions and are recognised in the income statement using the effective interest method.

#### **(g) 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 are also recognised directly in equity.

#### **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 is recognised by CS Energy Limited only.

#### **(h) 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 the income statement 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.

#### (i) 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 when the impairment is considered permanent in nature. 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). 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.

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.

#### (j) 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 plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments, other than borrowings are measured as described in note 1(m). Borrowings are measured at amortised cost, using the effective interest method.

A financial instrument is recognised if 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 cash flow statement presentation purposes, cash and cash equivalents includes cash on hand. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

##### Trade and other receivables

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 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 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.

**(k) 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.

**(l) Derivatives**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and associated transaction costs are recognised in the income statement when incurred. Derivatives are subsequently re-measured to their fair value at each reporting date. 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. Fair value and changes therein are accounted for as described below.

**Cash flow hedges**

The group designates certain derivatives as hedges of the cash flows of highly probable forecast transactions (cash flow hedges). The 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 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 shareholders' equity are shown in note 24.

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

Amounts accumulated in equity are recycled in the income statement 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 the income statement 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 the income statement 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 deferred in equity are transferred from equity

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 equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

**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 the income statement. Changes in the fair value of the embedded derivatives are recognised immediately in the income statement.

**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 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 does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

**(m) Fair value estimation**

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 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 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 group. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

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 group for similar financial instruments.

**(n) Property, plant and equipment**

All property, plant and equipment 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 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 the income statement as incurred.

Land is not depreciated. Depreciation on other assets is recognised in the income statement 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 the income statement.

**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 the income statement 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 (refer note 34).

**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 16).

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

**(o) Provisions**

Provisions are recognised when the 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 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 the income statement 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 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 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 the income statement 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) Gas exploration and evaluation assets

Costs arising from the exploration and evaluation of an area of interest are carried forward as an asset when rights to tenure of the area of interest are current and provided one of the following tests are met:

- (i) Costs are expected to be recouped through successful development and exploitation of the area of interest or by its sale; or
- (ii) Exploration and evaluation activities in the area of interest have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations are continuing.

#### (q) Employee benefits

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

Liabilities for wages and salaries, including non-monetary benefits, annual leave and that 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 is 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 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 group are entitled to benefits on retirement, disability or death from the 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 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 as they become payable. 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 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 retained earnings.

Past service costs are recognised immediately in the income statement, 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.

**(r) Goods and services tax**

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 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 flow.

**(s) Rounding of amounts**

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**(t) 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 income statement 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 income statement as other income on a systematic basis over the useful life of the asset.

Project costs associated with the grants are recognised as 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.

**(u) 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 not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption as at June 2009, but have not been applied in preparing the consolidated financial statements.

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations, the immediate expensing of all transaction costs, measurement of contingent consideration at fair

value at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendors indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard, which becomes mandatory for the consolidated group's 30 June 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the consolidated group's 2010 financial statements.

- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the consolidated group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the consolidated group's Chief Operation Decision Maker in order to assess each segment's performance and to allocate resources to them. The consolidated group has not yet determined the potential effect of the standard.
- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the consolidated group's 30 June 2010 financial statements. The consolidated group has not yet determined the potential effect of the revised standard on the consolidated group's disclosures.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the consolidated group's 30 June 2010 financial statements and will not result in a change in accounting policy for the consolidated group.
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the consolidated group's 30 June 2010 financial statements. The consolidated group has not yet determined the potential effect of the revised standard on the consolidated group's financial report.

- AASB 2008-5 *Amendments to Australian Accounting Standards* arising from the *Annual Improvements Process* and 2008-6 *Further Amendments to Australian Accounting Standards* arising from the *Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments will become mandatory for the consolidated group's 30 June 2010 financial statements. The consolidated group has not yet determined the potential effect of the amendments on the consolidated group's financial report.
- AASB 2008-7 *Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the consolidated group's 30 June 2010 financial statements. The consolidated group has not yet determined the potential effect on the amendments on the consolidated group's financial report.

### 3. 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 consolidated group and that are considered 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(i) where necessary. The recoverable amount of the asset or cash generating unit (CGU) of assets has been determined on a value in use basis. Value in use calculations require assumptions to be made in the following key areas:

- (a) Discount rate;
- (b) Forecast electricity prices;
- (c) Forecast prices for fuel (coal and gas);
- (d) Plant reliability;
- (e) Forecast operating expenditure requirements;
- (f) Future regulatory environment; and
- (g) Accessibility and pricing of water.

In respect of the future regulatory environment, the Australian Federal Government has proposed introducing a Carbon Pollution Reduction Scheme (CPRS) by 2011. The introduction of the proposed CPRS has the potential to significantly impact the assumptions used to determine the future cash flows generated from the continuing use of the consolidated group's assets for the purpose of value in use calculations used in impairment testing.

As at 30 June 2009, the consolidated group has incorporated in its value in use calculations management's best estimate of the potential impact of the proposed CPRS on the consolidated group's future cash flows, based on what management considers is a reasonable set of assumptions formulated using currently available information. The assumptions are principally in relation to the following areas:

- (a) Level of emissions the group is expected to emit;
- (b) Abatement opportunities;
- (c) Structure of the scheme;
- (d) Prices and number of permits required to be purchased;
- (e) Impact on costs charged by suppliers;
- (f) Ability to pass on the cost of permits via the wholesale electricity price; and
- (g) Government assistance.

The consolidated group has not undertaken a sensitivity analysis in relation to the various key assumptions made in relation to the proposed CPRS, given the uncertainty associated with identifying a reasonable possible change. A sensitivity analysis is not required under the relevant accounting standard.

**(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 that are not actively traded or instruments with unusual conditions. Estimation is also involved in discounting for the time value of money.

**(iii) Onerous contracts (refer to notes 19 and 22)**

**Power purchase agreement**

An onerous provision is recognised for unavoidable costs related to the consolidated group's obligations under a power purchase agreement (refer note 22). Significant estimates made are:

- (a) Estimation of the unavoidable costs and related economic benefits to be derived by the consolidated group from the sale of electricity purchased under the contract;
- (b) Changes in the wholesale electricity price as a result of the proposed CPRS;
- (c) Pass through provisions contained in the agreement; and
- (d) Determination of an appropriate discount rate.

**Water purchase agreement**

An onerous provision is recognised for unavoidable costs related to the consolidated group's obligations under a water purchase agreement (refer note 22). Significant estimates made are:

- (a) Estimation of the portion of the allocation that is excess to operating requirements; and
- (b) Determination of an appropriate discount rate.

**(iv) Rehabilitation and site closure costs provision (refer note 22)**

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:

- (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 23)**

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 23.

## 4. Segment information

The consolidated group operates predominantly in one geographical and business segment being the generation of electricity in Australia.

Segment information is prepared in conformity with the accounting policies of the consolidated group as disclosed in note 1 and the segment reporting accounting standard, AASB 114 *Segment Reporting*.

CS Energy Limited (and controlled entities) Notes to the Financial Statements  
for the year ended 30 June 2009

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>5. Revenue</b>				
<b>Sales revenue</b>				
Revenue from the sale of electricity	781,349	739,924	446,447	382,088
<b>Other revenue</b>				
Interest income	11,161	4,648	10,776	32,586
Dividends income	-	-	46,609	99,462
Operation and maintenance services fees	27,876	24,350	58,712	52,207
Sale of by-products	1,195	405	1,195	405
Leasing revenue	1,479	36	1,479	36
Other	4,149	2,023	3,391	1,820
	45,860	31,462	122,162	186,516
<b>Total revenue</b>	<b>827,209</b>	<b>771,386</b>	<b>568,609</b>	<b>568,604</b>
<b>6. Other income</b>				
Net gain on disposal of property, plant and equipment	1,377	175	1,377	175
Net gain on fair value of derivatives not qualifying as cash flow hedges	58,937	63,238	58,937	63,238
Other	-	540	-	540
Government grants received	12,895	-	-	-
Onerous contract – remeasurement (1)	69,918	-	69,918	-
	143,127	63,953	130,232	63,953
(1) In the prior financial year, remeasurement of the onerous contract at balance date resulted in an expense (refer note 7).				
<b>7. Expenses</b>				
Profit before income tax includes the following specific expenses:				
<b>Other expenses</b>				
Distribution costs	33,460	20,786	15,759	6,676
Administration costs	85,504	64,728	101,725	82,723
Impairment write-down – generation assets (1)	38,342	31,649	9,042	31,649
Onerous contracts – initial recognition	-	20,631	-	20,631
Onerous contracts – remeasurement	-	19,974	-	19,974
Research and development	20,896	-	-	-
Loss on disposal of assets	26	1,894	-	697
Exploration & evaluation expenditure written off (2)	12,067	-	12,067	-
	190,295	159,662	138,593	162,350
<b>Depreciation &amp; amortisation</b>				
Depreciation included in cost of sales	114,458	98,222	41,712	50,581
Depreciation included in administration costs	4,169	4,694	4,169	4,694
Capitalised overhauls included in cost of sales	25,650	32,861	15,285	21,002
	144,277	135,777	61,166	76,277
<b>Finance costs</b>				
Interest and finance charges	64,225	62,287	64,225	62,287
Less: amount capitalised	-	(28,184)	-	-
Finance costs – rehabilitation provision	5,869	5,768	4,138	4,314
Finance costs – onerous contracts provision	17,715	18,986	17,715	18,986
	87,809	58,857	86,078	85,587

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	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Rental expense relating to operating leases</b>				
Minimum lease payments	1,300	1,156	1,281	1,065
<b>Employee benefit expenses (refer note 23)</b>				
Defined contribution superannuation expense	4,192	3,130	2,744	1,845

(1) In assessing the recoverable amount of the consolidated group's assets at 30 June 2009, it was determined that the carrying value of the Swanbank B power station exceeded its recoverable amount by \$9.042M (2008 – \$31.649M). At 30 June 2009 it was also determined that the carrying value of the Mica Creek power station exceeded its recoverable amount by \$29.3M (2008: nil). The Directors' resolved to record asset impairment write-downs for these amounts.

(2) Due to uncertainty surrounding the economic extraction of gas from one of CS Energy's gas developments, for potential use in its power stations, the Directors' resolved to not proceed with the next stage of the project and to write-off all exploration and evaluation expenditure previously capitalised for this project.

## 8. Income tax expense

<b>(a) Income tax expense/(benefit)</b>				
Current tax	12,829	58,014	241	11,696
Adjustments for current tax of prior periods	(23)	(16)	(24)	(16)
Origination and reversal of temporary differences	20,380	(40,304)	24,582	(38,844)
	33,186	17,694	24,799	(27,164)
Deferred income tax (benefit) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 17)	(15,927)	(497)	(22,914)	(1,202)
(Decrease) increase in deferred tax liabilities (note 21)	(4,453)	40,801	(1,522)	40,046
Previously unrecognised tax losses now recouped	-	-	(146)	-
	(20,380)	40,304	(24,582)	38,844
<b>(b) Reconciliation of income tax expense to prima facie tax calculated at Australia statutory rate:</b>				
Profit from continuing operations before income tax expense	127,002	76,701	142,590	26,588
Tax at the Australian tax rate of 30% (2008: 30%)	38,100	23,010	42,777	7,976
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Entertainment	25	27	21	24
Non-taxable dividends	-	-	(13,983)	(29,839)
Non-taxable financial instruments	(4,269)	(5,354)	(4,269)	(5,354)
Sundry items	(647)	27	131	45
	33,209	17,710	24,677	(27,148)
Adjustments for current tax of prior years	(23)	(16)	(24)	(16)
Previously unrecognised tax losses now recouped	-	-	146	-
Income tax expense	33,186	17,694	24,799	(27,164)
<b>(c) Amounts recognised directly in equity</b>				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax debited (credited) directly to equity (notes 17 and 21)	78,869	150,637	78,569	150,637
<b>(d) Tax losses</b>				
Unused Australian capital tax losses for which no deferred tax asset has been recognised	86,841	86,841	86,841	86,841
Potential tax benefit @ 30%	26,052	26,052	26,052	26,052

CS Energy Limited (and controlled entities) **Notes to the Financial Statements**  
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**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. On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, 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 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.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

**9. Current assets – cash and cash equivalents**

Cash at bank and on hand	9,711	21,854	781	1,386
Deposits at call – Queensland Treasury Corporation (QTC)	77,197	254,996	77,197	254,996
	86,908	276,850	77,978	256,382

**Cash at bank and on hand**

Cash held with banks is bearing an interest rate of between 2% and 7.25%. (2008: 5.25% and 7.25%).

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

**10. Current assets – trade and other receivables**

Trade receivables	54,475	70,607	26,677	42,079
Other receivables	54,706	63,506	52,081	65,096
Prepayments	14,586	27,145	14,250	26,520
Futures margin deposits	-	21,239	-	21,239
	123,767	182,497	93,008	154,934

**(a) Trade receivables**

The consolidated group has recognised no losses in respect of bad and doubtful trade receivables during the year ended 30 June 2009 (2008: nil). There were also no receivables past their due date.

**(b) Other receivables**

These amounts generally arise from non-electricity related transactions of the consolidated group. 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 the credit quality.

**11. Current assets - inventories**

Fuel and stores	112,098	64,498	67,512	31,662
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## 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 and 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.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Derivative financial instruments</b>				
<b>Current assets</b>				
Forward foreign exchange contracts – cash flow hedges	715	-	715	-
Electricity derivative contracts – cash flow hedges	41,266	38,438	41,266	38,438
Electricity derivative contracts – do not qualify for hedge accounting	7,010	13,288	7,010	13,288
<b>Total current derivative financial instrument assets</b>	<b>48,991</b>	<b>51,726</b>	<b>48,991</b>	<b>51,726</b>
<b>Non-current assets</b>				
Electricity derivative contracts – cash flow hedges	20,229	8,082	20,229	8,082
Electricity derivative contracts – do not qualify for hedge accounting	253	1,932	253	1,932
<b>Total non-current derivative financial instrument assets</b>	<b>20,482</b>	<b>10,014</b>	<b>20,482</b>	<b>10,014</b>
<b>Current liabilities</b>				
Forward foreign exchange contracts – cash flow hedges	1,149	658	1,149	658
Electricity derivative contracts – cash flow hedges	21,477	192,476	21,477	192,476
Electricity derivative contracts – do not qualify for hedge accounting	10,543	25,047	10,543	25,047
<b>Total current derivative financial instrument liabilities</b>	<b>33,169</b>	<b>218,181</b>	<b>33,169</b>	<b>218,181</b>
<b>Non-current liabilities</b>				
Electricity derivative contracts – cash flow hedges	12,810	107,204	12,810	107,204
Electricity derivative contracts – do not qualify for hedge accounting	8,234	55,746	8,234	55,746
<b>Total non-current derivative financial instrument liabilities</b>	<b>21,044</b>	<b>162,950</b>	<b>21,044</b>	<b>162,950</b>

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 financial instrument hedges are electricity swaps. The categories of derivative financial instruments are used by the group and discussed below are as follows:

- Over-the-counter (OTC) electricity contracts;
- Exchange traded 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 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 via the National Electricity Market. This risk arises from fluctuations in the wholesale price of electricity. Electricity swaps, futures and option contracts are used to manage this electricity price risk. The majority of these types of financial instruments have a time horizon of between 3 months and 3 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. The consolidated group also operates an electricity trading book to assist with market liquidity, accessing market information and for trading at a profit. The following derivatives are used in relation to electricity price risk.

**Over-the-counter electricity contracts**

CS Energy Limited has entered into a number of over-the-counter (OTC) electricity contracts, 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 current pool price. 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.

**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.

**Sensitivity analysis**

The following table summarises the increase/(decrease) on both the parent and consolidated group's income statement for the year and on equity, that would result from a 10% increase/decrease in electricity prices. 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	Income Statement \$'000	Equity \$'000	Income Statement \$'000
<b>30 June 2009</b>				
Electricity price – increase 10%	(64,379)	(17,210)	(64,379)	(17,210)
Electricity price – decrease 10%	64,879	7,437	64,879	7,437
<b>30 June 2008</b>				
Electricity price – increase 10%	(115,429)	(23,092)	(115,429)	(23,092)
Electricity price – decrease 10%	115,401	24,895	115,401	24,895

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**(c) Foreign exchange risk**

Foreign exchange risk arises when future commercial transactions are denominated in non-Australian currency. The consolidated group contracts to acquire 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 Swiss Franc (CHF), Japanese Yen (JPY), Canadian Dollar (CAD) and US Dollar (USD).

The consolidated group has entered into forward exchange contracts to purchase Swiss Francs, Japanese Yen, Canadian Dollars and US Dollars, as a hedge against the anticipated purchase of generation plant and spare parts sourced mainly from Europe and the United States of America. These contract maturities are 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 foreign currency where settlement is to be within 12-18 months.

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

**Sensitivity analysis**

A 10% strengthening of the Australian dollar against the following currencies at 30 June would have increased/(decreased) equity and the income statement by the amounts shown below. This 2009 analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2008.

AUD	Consolidated		Parent	
	Equity \$'000	Income Statement \$'000	Equity \$'000	Income Statement \$'000
<b>30 June 2009</b>				
JPY	(193)	-	(193)	-
CHF	(1,714)	-	(1,714)	-
CAD	(45)	-	(45)	-
USD	(56)	-	(56)	-
<b>30 June 2008</b>				
JPY	(404)	-	(404)	-
CHF	(2,407)	-	(2,407)	-

A 10% weakening of the Australian dollar against the following currencies would have increased/(decreased) equity and the income statement by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for 2008.

<b>30 June 2009</b>				
JPY	236	-	236	-
CHF	2,096	-	2,096	-
CAD	54	-	54	-
USD	68	-	68	-
<b>30 June 2008</b>				
JPY	492	-	492	-
CHF	2,925	-	2,925	-

CS Energy Limited (and controlled entities) **Notes to the Financial Statements**  
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**(d) Liquidity risk**

The consolidated group is exposed to liquidity risk through the volatility of its cash flows and large capital investment program. 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 20. Funding approval is sought in advance for expenditure commitments that extend beyond the current financial year, pursuant to the Queensland Government's State Borrowing Programme.

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

<b>Consolidated</b>						
	<b>Carrying amount \$'000</b>	<b>Total contractual cash flows \$'000</b>	<b>Less than one year \$'000</b>	<b>1-2 years \$'000</b>	<b>2-5 years \$'000</b>	<b>More than 5 years \$'000</b>
<b>30 June 2009</b>						
<b>Non-derivative financial liabilities</b>						
Loans from QTC	824,789	1,124,401	60,808	60,655	181,966	820,972
Trade and other payables	112,050	112,050	112,050	-	-	-
<b>Derivative financial liabilities</b>						
Electricity contracts	53,064	55,328	33,042	11,052	6,036	5,198
Forward exchange contracts used	1,149	1,149	1,149	-	-	-
<b>Total</b>	<b>991,052</b>	<b>1,292,928</b>	<b>207,049</b>	<b>71,707</b>	<b>188,002</b>	<b>826,170</b>
<b>Derivative financial assets</b>						
Electricity contracts	68,758	71,776	49,191	16,705	5,880	-
Forward exchange contracts used	715	715	715	-	-	-
	69,473	72,491	49,906	16,705	5,880	-
<b>30 June 2008</b>						
<b>Non-derivative financial liabilities</b>						
Loans from QTC	1,085,268	1,455,574	72,772	73,799	221,400	1,087,603
Trade and other payables	83,234	83,234	83,234	-	-	-
<b>Derivative financial liabilities</b>						
Electricity contracts	380,473	416,059	232,048	96,231	70,584	17,196
Forward exchange contracts used	658	658	658	-	-	-
<b>Total</b>	<b>1,549,633</b>	<b>1,955,525</b>	<b>388,712</b>	<b>170,030</b>	<b>291,984</b>	<b>1,104,799</b>
<b>Derivative financial assets</b>						
Electricity contracts	61,740	65,876	54,555	10,857	464	-

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<b>Parent</b>						
	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
<b>30 June 2009</b>						
<b>Non-derivative financial liabilities</b>						
Loans from QTC	824,789	1,124,401	60,808	60,655	181,966	820,972
Trade and other payables	88,317	88,317	88,317	-	-	-
<b>Derivative financial liabilities</b>						
Electricity contracts	53,064	55,328	33,042	11,052	6,036	5,198
Forward exchange contracts used	1,149	1,149	1,149	-	-	-
<b>Total</b>	<b>967,319</b>	<b>1,269,195</b>	<b>183,316</b>	<b>71,707</b>	<b>188,002</b>	<b>826,170</b>
<b>Derivative financial assets</b>						
Electricity contracts	68,758	71,776	49,191	16,705	5,880	-
Forward exchange contracts used	715	715	715	-	-	-
	<b>69,473</b>	<b>72,491</b>	<b>49,906</b>	<b>16,705</b>	<b>5,880</b>	<b>-</b>
<b>30 June 2008</b>						
<b>Non-derivative financial liabilities</b>						
Loans from QTC	1,085,268	1,455,574	72,772	73,799	221,400	1,087,603
Trade and other payables	39,009	39,009	39,009	-	-	-
<b>Derivative financial liabilities</b>						
Electricity contracts	380,473	416,059	232,048	96,231	70,584	17,196
Forward exchange contracts used	658	658	658	-	-	-
<b>Total</b>	<b>1,505,408</b>	<b>1,911,300</b>	<b>344,487</b>	<b>170,030</b>	<b>291,984</b>	<b>1,104,799</b>
<b>Derivative financial assets</b>						
Electricity contracts	61,740	65,876	54,555	10,857	464	-

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 above and on page 92.

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**(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 retailers in the Queensland market. The consolidated group also has a concentration of credit exposure in the National Electricity Market, operated by NEMMCO. On 1 July 2009 the operations of NEMMCO were transitioned to the Australian Energy Market Operator (AEMO). The National Electricity Market operates with strict prudential guidelines that minimise the potential for credit related losses.

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 unlikely. 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 transactions 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 credit exposure to credit risk at reporting date.

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 table below:

AUD	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Cash and cash equivalents</b>				
AAA	-	254,996	-	254,996
AA+ to AA-	86,908	21,854	77,978	1,386
<b>Total</b>	<b>86,908</b>	<b>276,850</b>	<b>77,978</b>	<b>256,382</b>
<b>Trade and other receivables</b>				
AA+ to AA-	34,709	84,206	31,463	82,717
BBB+ to BBB-	13,220	13,804	13,220	13,804
NEMMCO	34,766	53,097	16,575	32,156
Other non-rated	53,160	67,033	1,403,658	1,453,193
<b>Total</b>	<b>135,855</b>	<b>218,140</b>	<b>1,464,916</b>	<b>1,581,870</b>
<b>Derivative financial assets</b>				
AA+ to AA-	42,663	52,726	42,663	52,726
BBB+ to BBB-	26,810	9,014	26,810	9,014
<b>Total</b>	<b>69,473</b>	<b>61,740</b>	<b>69,473</b>	<b>61,740</b>

**(f) Interest rate risk**

The consolidated group is exposed to changes in interest rates via its borrowings. The consolidated group financial policies set the parameters for the management of interest rate risk, and detailed risk management plans are approved at least annually by the Board.

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 so as to reduce exposure to adverse interest rate movements, match underlying business cash flows and reduce the overall cost of funding. CS Energy Limited's pricing for the debt is set based on QTC's financing cost to issue its own debt instruments of equivalent terms, and QTC's active management of their debt portfolio.

**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 and loss and derivatives are also not used to hedge these borrowings under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect the income statement 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 and income statement by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	Income Statement		Equity	
	1% Increase \$'000	1% Decrease \$'000	1% Increase \$'000	1% Decrease \$'000
<b>Variable rate borrowings</b>				
30 June 2009	(1,042)	1,042	(1,042)	1,042
30 June 2008	(1,392)	1,392	(1,392)	1,392

**(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 20), 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	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Carrying amount	824,789	1,085,268	824,789	1,085,268
Fair value	851,365	1,055,633	851,365	1,055,633

The fair value of Loans from QTC is inclusive of costs which would be incurred on settlement of a 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 net fair value, those borrowings have not been decreased to fair value, as they will be retained to maturity.

#### (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 that it can continue to provide returns for shareholders 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 Minister 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 2009 and 30 June 2008 were as follows:

	Consolidated		Parent	
	2009	2008	2009	2008
Net debt (\$'000)	737,881	808,418		
Adjusted equity (\$'000)	914,592	906,770		
Gearing ratio (%)	44.7	47.1		

#### 13. Non current assets – other receivables

Prepayments	10,893	13,336	10,892	13,336
Loans to related parties	-	-	1,359,821	1,391,293
Futures margin deposits	1,195	22,307	1,195	22,307
	12,088	35,643	1,371,908	1,426,936

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

#### 14. Non current assets investments accounted for using equity method

Interest in jointly controlled entities	1	1	-	-
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The interest 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).

#### 15. Non current assets – other non-current assets

<b>Financial</b>				
Shares in subsidiaries (note 35)	-	-	51,815	51,815
<b>Other</b>				
Gas exploration, evaluation and development assets	19,945	30,724	19,945	30,724
	19,945	30,724	71,760	82,539

These financial assets are carried at cost.

CS Energy Limited has entered into gas development joint ventures to secure fuel supplies for its power station operations at Swanbank (refer note 36).

<b>Movements in gas exploration, evaluation and development costs</b>				
Opening balance at 1 July	30,724	23,558	30,724	23,558
Additions	3,700	9,288	3,700	9,288
Exploration & evaluation expenditure written off <sup>(1)</sup>	(12,067)	-	(12,067)	-
Amortisation	(2,412)	(2,122)	(2,412)	(2,122)
<b>Closing balance at 30 June</b>	<b>19,945</b>	<b>30,724</b>	<b>19,945</b>	<b>30,724</b>

(1) Refer note 7

## 16. 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
<b>At 1 July 2007</b>						
Cost	1,573,164	107,940	59,898	1,026,434	23,530	2,790,966
Accumulated depreciation and impairment losses	(547,380)	(67,356)	(34,044)	-	-	(648,780)
Net book amount	1,025,784	40,584	25,854	1,026,434	23,530	2,142,186
<b>Movements for the year ended 30 June 2008</b>						
Opening net book amount	1,025,784	40,584	25,854	1,026,434	23,530	2,142,186
Additions	140,661	59,448	68,148	11,053	938	280,248
Transfers	849,714	503	1,098	(851,315)	-	-
Disposals	(816)	(1,072)	(5)	(159,949)	(5,601)	(167,443)
Depreciation/impairment charge	(115,257)	(43,507)	(8,283)	-	(494)	(167,541)
Closing net book amount	1,900,086	55,956	86,812	26,223	18,373	2,087,450
<b>At 30 June 2008</b>						
Cost	2,652,880	129,619	126,185	26,223	18,867	2,953,774
Accumulated depreciation and impairment losses	(752,794)	(73,663)	(39,373)	-	(494)	(866,324)
Net book amount	1,900,086	55,956	86,812	26,223	18,373	2,087,450
<b>Movements for the year ended 30 June 2009</b>						
Opening net book amount	1,900,086	55,956	86,812	26,223	18,373	2,087,450
Additions	9,966	19,901	8,396	112,780	2,623	153,666
Transfers	9,797	(2,760)	1,092	(8,129)	-	-
Disposals	-	-	(90)	-	-	(90)
Depreciation/impairment charge	(134,716)	(37,509)	(9,515)	-	(879)	(182,619)
Closing net book amount	1,785,133	35,588	86,695	130,874	20,117	2,058,407
<b>At 30 June 2009</b>						
Cost	2,533,232	140,017	134,305	130,874	21,491	2,959,919
Accumulated depreciation and impairment losses	(748,099)	(104,429)	(47,610)	-	(1,374)	(901,512)
Net book amount	1,785,133	35,588	86,695	130,874	20,117	2,058,407

## 16. Non current assets – property, plant and equipment (continued)

Parent						
	Power Stations \$'000	Capitalised Overhauls \$'000	Other property, plant and equipment \$'000	Work in progress \$'000	Development costs \$'000	Total \$'000
<b>At 1 July 2007</b>						
Cost	911,044	53,964	48,570	17,460	-	1,031,038
Accumulated depreciation and impairment losses	(358,913)	(30,366)	(29,626)	-	-	(418,905)
Net book amount	552,131	23,598	18,944	17,460	-	612,133
<b>Movements for the year ended 30 June 2008</b>						
Opening net book amount	552,131	23,598	18,944	17,460	-	612,133
Additions	9,726	30,983	4,934	7,834	-	53,477
Transfers	(2,204)	962	1,046	196	-	-
Disposals	(691)	-	(5)	-	-	(696)
Depreciation/impairment charge	(70,411)	(31,648)	(5,866)	-	-	(107,925)
Closing net book amount	488,551	23,895	19,053	25,490	-	556,989
<b>At 30 June 2008</b>						
Cost	1,008,504	81,372	52,087	25,490	-	1,167,453
Accumulated depreciation and impairment losses	(519,953)	(57,477)	(33,034)	-	-	(610,464)
Net book amount	488,551	23,895	19,053	25,490	-	556,989
<b>Movements for the year ended 30 June 2009</b>						
Opening net book amount	488,551	23,895	19,053	25,490	-	556,989
Additions	7,134	8,308	4,568	101,789	-	121,799
Transfers	8,521	(27)	724	(9,218)	-	-
Disposals	-	-	(49)	-	-	(49)
Depreciation/impairment charge	(42,857)	(22,565)	(4,786)	-	-	(70,208)
Closing net book amount	461,349	9,611	19,510	118,061	-	608,531
<b>At 30 June 2009</b>						
Cost	914,826	84,342	56,296	118,061	-	1,173,525
Accumulated depreciation and impairment losses	(453,477)	(74,731)	(36,786)	-	-	(564,994)
Net book amount	461,349	9,611	19,510	118,061	-	608,531

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Consolidated						
	Derivative financial instruments \$'000	Provisions \$'000	Provision for rehabilitation and other closure costs \$'000	Tax losses \$'000	Other \$'000	Total \$'000
<b>At 1 July 2007</b>	264,255	8,218	17,698	62,270	6,796	359,237
Charged/(credited) to the income statement	(13,617)	17,469	2,182	-	(6,531)	(497)
Under provision prior year	-	-	-	183	3,009	3,192
Charged directly to equity	(155,733)	-	-	-	-	(155,733)
Acquisition of tax losses	-	-	-	(58,012)	-	(58,012)
<b>At 30 June 2008</b>	94,905	25,687	19,880	4,441	3,274	148,187
Charged/(credited) to the income statement	(12,709)	(11,386)	2,085	(130)	6,213	(15,927)
Under provision prior year	-	-	-	966	(662)	304
Charged directly to equity	(82,196)	-	-	-	-	(82,196)
Acquisition of tax losses	-	-	-	(5,277)	-	(5,277)
<b>Net deferred tax assets at 30 June 2009</b>	-	14,301	21,965	-	8,825	45,091

Parent						
	Derivative financial instruments \$'000	Provisions \$'000	Provision for rehabilitation and other closure costs \$'000	Tax losses \$'000	Other \$'000	Total \$'000
<b>At 1 July 2007</b>	264,255	6,271	14,225	62,270	6,601	353,622
Charged/(credited) to the income statement	(13,617)	18,191	888	-	(6,664)	(1,202)
Under provision prior year	-	-	-	183	2,083	2,266
Charged directly to equity	(155,733)	-	-	-	-	(155,733)
Acquisition of tax losses	-	-	-	(58,012)	-	(58,012)
<b>At 30 June 2008</b>	94,905	24,462	15,113	4,441	2,020	140,941
Charged/(credited) to the income statement	(12,709)	(11,499)	1,422	(130)	2	(22,914)
Under provision prior year	-	-	-	966	(479)	487
Charged directly to equity	(82,196)	-	-	-	-	(82,196)
Acquisition of tax losses	-	-	-	(5,277)	-	(5,277)
<b>Net deferred tax assets at 30 June 2009</b>	-	12,963	16,535	-	1,543	31,041

CS Energy Limited (and controlled entities) Notes to the Financial Statements  
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	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>18. Current liabilities – trade and other payables</b>				
Trade payables	73,095	36,570	49,463	7,745
Other payables	29,892	46,664	29,791	31,264
Futures margin receipts	9,063	-	9,063	-
	112,050	83,234	88,317	39,009

**19. Current liabilities – provisions**

Onerous contracts (note 22)	21,024	28,247	21,024	28,247
Dividends	75,053	47,206	75,053	47,206
Employee benefits	14,278	11,997	12,154	10,058
	110,355	87,450	108,231	85,511
<b>Dividends</b>				
Carrying amount at start of year	47,206	34,640	47,206	34,640
Dividends declared	75,053	47,206	75,053	47,206
Dividends paid	(47,206)	(34,640)	(47,206)	(34,640)
<b>Carrying amount at end of year</b>	<b>75,053</b>	<b>47,206</b>	<b>75,053</b>	<b>47,206</b>

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance sheet date. The dividend is expected to be paid on 31 December 2009.

**20. Non-current liabilities – borrowings**

Loans from QTC	824,789	1,085,268	824,789	1,085,268
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All loans from the Queensland Treasury Corporation at 30 June 2009 are unsecured (2008: unsecured).

**(a) Financing arrangements**

<b>Facility used at balance date</b>				
QTC facilities <sup>(1)</sup>	824,789	1,085,268	824,789	1,085,268
Bank loan facilities	-	-	-	-
	824,789	1,085,268	824,789	1,085,268
<b>Unused at balance date</b>				
QTC facilities <sup>(1)</sup>	319,545	319,545	319,545	319,545
QTC facilities <sup>(2)</sup>	400,000	400,000	400,000	400,000
Bank loan facilities	1,000	1,000	1,000	1,000
	720,545	720,545	720,545	720,545
<b>Total facilities available</b>				
QTC facilities <sup>(1)</sup>	1,544,334	1,804,813	1,544,334	1,804,813
Bank loan facilities	1,000	1,000	1,000	1,000
	1,545,334	1,805,813	1,545,334	1,805,813

(1) Unrestricted access available.

(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.

## 21. 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
<b>At 1 July 2007</b>	-	64,071	7,466	202,519	59,764	15,366	349,186
Charged/(credited) to the income statement	-	(47,472)	52	34,267	(35,396)	7,748	(40,801)
Under provision prior year	-	-	-	-	3,180	2	3,182
Charged directly to equity	-	-	(5,096)	-	-	-	(5,096)
<b>At 30 June 2008</b>	-	16,599	2,422	236,786	27,548	23,116	306,471
Charged/(credited) to the income statement	3,516	(5,422)	4,151	(16,044)	645	17,607	4,453
Under provision prior year	-	-	-	9	-	271	280
Charged directly to equity	1,062	-	(4,689)	-	-	-	(3,627)
<b>Net deferred tax liabilities at 30 June 2009</b>	4,578	11,177	1,884	220,751	28,193	40,994	307,577

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
<b>At 1 July 2007</b>	-	45,070	7,466	104,939	316	13,971	171,762
Charged/(credited) to the income statement	-	(35,421)	52	(6,528)	(227)	2,078	(40,046)
Charged directly to equity	-	-	(5,096)	-	-	-	(5,096)
<b>At 30 June 2008</b>	-	9,649	2,422	98,411	89	16,049	126,620
Charged/(credited) to the income statement	3,516	(4,570)	4,151	(11,037)	(12)	9,474	1,522
Under provision prior year	-	-	-	-	-	234	234
Charged directly to equity	1,062	-	(4,689)	-	-	-	(3,627)
<b>Net deferred tax liabilities at 30 June 2009</b>	4,578	5,079	1,884	87,374	77	25,757	124,749

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	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>22. Non-current liabilities - provisions</b>				
Employee benefits	13,516	12,735	11,179	10,589
Rehabilitation and site closure costs	73,783	66,264	55,682	50,377
Onerous contracts	95,928	140,908	95,928	140,908
	183,227	219,907	162,789	201,874
Non-current provisions	183,227	219,907	162,789	201,874
Current provisions (refer note 19)	110,355	87,450	108,231	85,511
<b>Total provisions</b>	<b>293,582</b>	<b>307,357</b>	<b>271,020</b>	<b>287,385</b>
<b>Reconciliation of movements in provisions (note 19 and 22):</b>				
<b>Rehabilitation and site closure costs</b>				
Carrying amount at start of year	66,264	58,994	50,377	47,417
Increase in provisions	1,167	4,613	1,167	1,757
Provision used during the year	-	(3,111)	-	(3,111)
Finance costs	6,352	5,768	4,138	4,314
<b>Carrying amount at end of year</b>	<b>73,783</b>	<b>66,264</b>	<b>55,682</b>	<b>50,377</b>
<b>Onerous contracts</b>				
Carrying amount at start of year	169,155	-	169,155	-
Increase in provisions	-	165,388	-	165,388
Change from remeasurement	(41,671)	-	(41,671)	-
Provision used during the year	(28,247)	(15,219)	(28,247)	(15,219)
Finance costs	17,715	18,986	17,715	18,986
<b>Carrying amount at end of year</b>	<b>116,952</b>	<b>169,155</b>	<b>116,952</b>	<b>169,155</b>

#### Onerous contract provision for power purchase agreement

Pursuant to the passing of regulation *QPTC Restructure – Stage 1* under the *Government Owned Corporations Act 1993*, Enertrade's interest in the long-term power purchase agreement ("PPA") for the Collinsville Power Station (owned and operated by Transfield Services) was transferred to CS Energy Limited on 19 August 2007. The transfer was non-reciprocal. The PPA agreement, which extends to 2016, is an onerous contract as the unavoidable cost of meeting the ongoing obligations under the PPA exceeds the benefits expected to be received.

The provision for onerous contract reflects the least net cost of the PPA, which is the lower of the cost of fulfilling the agreement or the compensation payable as defined in the agreement for early termination.

The extent of the future losses from the PPA will depend on future wholesale pool prices, as well as the need for CS Energy Limited to meet its network support obligations. The future levels of Queensland wholesale pool prices are significantly uncertain. The critical determinants of future pool prices will be the bidding behaviour of participants in the National Electricity Market, load growth, the proposed Carbon Pollution Reduction Scheme, network reliability and the introduction of new generation capacity.

The discount rate used at 30 June 2009 reflects the current market assessments of the time value of money and the risks specific to the obligation.

#### Onerous contract provision for water purchase agreement

Pursuant to section 360ZDD(1)(b) of the *Water Act 2000 (Qld)*, CS Energy became a party to a contract with the South East Queensland Water Grid Manager for the supply of bulk water to the Swanbank power stations. The contract commenced on 1 July 2008 and has an initial term of 10 years.

This contract provides for a maximum allocation of water for use at the Swanbank power stations. Consideration consists of a fixed charge component, and a variable charge component, calculated on a per mega litre basis.

The maximum allocation specified in the contract is in excess of both the current and anticipated future operating requirements of the Swanbank power stations. A provision for an onerous contract has been recognised for that portion of the fixed charge that relates to water currently identified as excess to operating requirements.

The discount rate used at 30 June 2009 reflects the current market assessments of the time value of money and the risks specific to the obligation.

### Rehabilitation and site closure costs

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

## 23. Retirement benefit obligations – defined benefit plan

### (a) Superannuation Plans

Some employees of the consolidated group are entitled to benefits from the Queensland Electricity Supply Industry (QESI) Superannuation Scheme 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 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 following information in notes 23(b) to 23(j) is in respect of the QESI defined benefit plan only.

### (b) Balance sheet amounts

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

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Present value of the defined benefit obligation	(82,599)	(76,906)	(82,599)	(76,906)
Fair value of defined benefit plan assets	88,879	84,982	88,879	84,982
Net asset in the balance sheet	6,280	8,076	6,280	8,076

The consolidated group intends to continue to contribute to the defined benefit section of the plan at a rate of 12% of salaries, in line with the actuary's latest recommendations.

### (c) Categories of plan assets

The major categories of plan assets are as follows:

Cash	6,222	5,864	6,222	5,864
Equity instruments	37,328	44,276	37,328	44,276
Debt instruments	14,221	16,826	14,221	16,826
Property	13,332	10,453	13,332	10,453
Other assets	17,776	7,563	17,776	7,563
	88,879	84,982	88,879	84,982

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	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(d) Reconciliations</b>				
<b>Reconciliation of the present value of the defined benefit obligation, which is fully funded:</b>				
Balance at the beginning of the year	76,906	72,573	76,906	72,573
Current service cost	4,014	4,040	4,014	4,040
Interest cost	4,079	3,906	4,079	3,906
Actuarial (gains) and losses recognised in equity	3,517	2,166	3,517	2,166
Contributions by plan participants	1,221	1,223	1,221	1,223
Benefits paid by the plan	(7,138)	(7,002)	(7,138)	(7,002)
Balance at the end of the year	82,599	76,906	82,599	76,906
<b>Reconciliation of the fair value of plan assets:</b>				
Balance at the beginning of the year	84,982	97,455	84,982	97,455
Expected return on plan assets	5,444	6,254	5,444	6,254
Actuarial gains and (losses) recognised in equity	(12,113)	(14,817)	(12,113)	(14,817)
Contributions by group companies into the plan	15,704	3,092	15,704	3,092
Plan assets transferred by trustee	2,000	-	2,000	-
Benefits paid by the plan	(7,138)	(7,002)	(7,138)	(7,002)
Balance at the end of the year	88,879	84,982	88,879	84,982
<b>(e) Amounts recognised in income statement</b>				
The amounts recognised in the income statement are as follows:				
Current service cost	4,014	4,040	4,014	4,040
Interest cost	4,079	3,906	4,079	3,906
Expected return on plan assets	(5,444)	(6,254)	(5,444)	(6,254)
Plan assets transferred by trustee	(2,000)	-	(2,000)	-
Total included in employee benefits expense	649	1,692	649	1,692
<b>Actual return on plan assets</b>	<b>(6,669)</b>	<b>(8,563)</b>	<b>(6,669)</b>	<b>(8,563)</b>
<b>(f) Amounts recognised in statement of recognised income and expense</b>				
Cumulative gain amount at the beginning of year	2,933	19,916	2,933	19,916
Actuarial (loss)/gain recognised in the year	(15,630)	(16,983)	(15,630)	(16,983)
Cumulative loss amount at the end of year	(12,697)	2,933	(12,697)	2,933
<b>(g) Principal actuarial assumptions</b>				
The principal actuarial assumptions used (expressed as weighted averages) are as follows:				
Discount rate	5.5%	5.4%	5.5%	5.4%
Expected return on plan assets	6.0%	6.5%	6.0%	6.5%
Future salary increases	4.5%	4.5%	4.5%	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, and the last such assessment was undertaken in early 2009, as at 30 June 2008.

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 2008, the payment of employer contributions to the fund of 12% of salaries for employees who are members of the defined benefit section. These contribution rates have been adopted by the consolidated group from 1 July 2009.

Total employer contributions expected to be paid by the consolidated group for the year ending 30 June 2010 are \$4,012,000 (prior year \$2,991,000) and for the parent: \$4,012,000 (prior year \$2,991,000).

The economic assumptions used by the actuary to make the funding recommendations were a long term investment earning rate of 7% pa (net of fees and taxes) and a salary increase rate of 5% pa 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 has been determined as at the date of the most recent financial report of the superannuation fund (30 June 2008), and a surplus of \$961,000 was reported.

To maintain a funding surplus as at 30 June 2009, given the deterioration in investment returns earned by the plan during the 2008/09 financial year, in line with general industry experience, a lump sum contribution of \$12.5M was made in June 2009 by CS Energy Limited, based on actuarial advice.

The surplus as at 30 June 2008 under AAS 25 differs from the net asset of \$6,280,000 recognised in the balance sheet as at 30 June 2009 due to the different rules in the relevant accounting standards AAS 25 and AASB 119 *Employee Benefits* and the different measurement dates.

#### (j) Historic summary

	Consolidated			Parent		
	2009 \$'000	2008 \$'000	2007 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Defined benefit plan obligation	(111,727)	(75,864)	(75,864)	(111,727)	(75,864)	(75,864)
Fair value of plan assets	112,688	83,956	83,956	112,688	83,956	83,956
Surplus	961	8,092	8,092	961	8,092	8,092

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>24. Reserves</b>				
<b>Hedging reserve – cash flow hedges</b>				
Balance at 1 July	(174,565)	(537,942)	(174,565)	(537,942)
Revaluation of forward foreign exchange contracts – gross	(434)	(658)	(434)	(658)
Revaluation of electricity derivative contracts – gross	224,520	473,288	224,520	473,288
Forward foreign exchange contracts realised, capitalised to property, plant and equipment – gross	658	6,803	658	6,803
Electricity derivative contracts realised as revenue – gross	52,782	39,677	52,782	39,677
Deferred tax	(83,258)	(155,733)	(83,258)	(155,733)
<b>Balance at 30 June</b>	<b>19,703</b>	<b>(174,565)</b>	<b>19,703</b>	<b>(174,565)</b>

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(j). Amounts are recognised in the income statement when the associated hedged transaction affects income.

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	Parent		Parent	
	2009 Shares	2008 Shares	2009 \$	2008 \$
<b>25. Contributed equity</b>				
<b>a) Share capital</b>				
Ordinary shares – fully paid				
A Class (voting)	260,000,004	260,000,004	260,000,004	260,000,004
B Class (non-voting)	822,503,917	822,503,917	822,503,917	822,503,917
	1,082,503,921	1,082,503,921	1,082,503,921	1,082,503,921

The shares are held by the Queensland Treasurer and the Minister for Natural Resources, Mines and Energy and Minister for Trade.

**b) Movements in ordinary share capital**

	No.	Issue Price	\$
Balance at 1 July 2007	1,072,503,921	\$1.00	1,072,503,921
Issue of 'A' class share capital	10,000,000	\$1.00	10,000,000
Balance at 30 June 2008	1,082,503,921	\$1.00	1,082,503,921
Issue of 'A' class share capital	-	-	-
Balance at 30 June 2009	1,082,503,921	\$1.00	1,082,503,921

**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.

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) Other adjustments to contributed equity**

During the prior year, certain liabilities and assets were transferred from Enertrade to CS Energy Limited, which constituted an effective 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.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

**26. Accumulated losses/retained earnings**

Balance at 1 July	(46,345)	(46,258)	22,236	27,578
Net profit for the year	93,816	59,007	117,791	53,752
Actuarial gain (loss) on defined benefit plan	(10,941)	(11,888)	(10,941)	(11,888)
Dividends – final dividend provided for	(75,053)	(47,206)	(75,053)	(47,206)
Balance at 30 June	(38,523)	(46,345)	54,033	22,236

	Parent	
	2009 \$'000	2008 \$'000

**27. Dividends**

Final dividend for the year ended 30 June	75,053	47,206
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	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>28. Total equity reconciliation</b>				
Balance at 1 July	732,205	488,304	800,786	562,140
Total recognised income and expense for the year	277,143	410,496	301,118	405,241
Transactions with equity holders in their capacity as shareholders:				
Contribution of equity, net of transaction costs (refer note 25)	-	10,000	-	10,000
Reduction in equity (refer note 25)	-	(129,389)	-	(129,389)
Dividends provided for	(75,053)	(47,206)	(75,053)	(47,206)
<b>Balance at 30 June</b>	<b>934,295</b>	<b>732,205</b>	<b>1,026,851</b>	<b>800,786</b>

## 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:

SE Lonie.

#### Non-executive Directors:

M Bucknall;

T Dare (appointed 1 October 2008);

RJ Henricks;

S Israel;

R Kempnich (appointed 1 October 2008);

JA Leaver;

TBI Crommelin (term expired 30 September 2008); and

T White (term expired 30 September 2008).

#### 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:

CS Energy Limited (and controlled entities) Notes to the Financial Statements  
for the year ended 30 June 2009

Specified director remuneration

Consolidated			
Director	Short-term employee benefits \$	Post employment benefits \$	Total \$
<b>SE Lonie</b>			
2009	77,401	-	77,401
2008	74,282	-	74,282
<b>TBI Crommelin <sup>(1)</sup></b>			
2009	6,584	-	6,584
2008	25,274	-	25,274
<b>M Bucknall</b>			
2009	31,164	2,805	33,969
2008	29,065	2,616	31,681
<b>T Dare <sup>(2)</sup></b>			
2009	22,385	2,015	24,400
2008	-	-	-
<b>RJ Henricks</b>			
2009	32,919	3,397	36,316
2008	29,065	2,999	32,064
<b>S Israel</b>			
2009	30,792	3,206	33,998
2008	29,065	2,966	32,031
<b>R Kempnich <sup>(2)</sup></b>			
2009	22,385	2,015	24,400
2008	-	-	-
<b>JA Leaver</b>			
2009	31,603	2,844	34,447
2008	30,329	2,889	33,218
<b>T White <sup>(1)</sup></b>			
2009	8,888	800	9,688
2008	34,120	2,303	36,423
<b>Total</b>			
<b>2009</b>	<b>264,121</b>	<b>17,082</b>	<b>281,203</b>
<b>2008</b>	<b>251,200</b>	<b>13,773</b>	<b>264,973</b>

(1) Remuneration details for 2009 are in respect of the period 1 July 2008 to 30 September 2008. (2) Remuneration details for 2009 are in respect of the period 1 October 2008 to 30 June 2009.

**Other transactions with directors and director-related entities**

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

A Director, Mr R Kempnich, is Non-Executive Chairman of Sedgman Limited. Sedgman provided engineering services to the consolidated group on normal commercial terms and conditions.

A former Director, Mr TBI Crommelin, was a director of Queensland Gas Company Limited. The Queensland Gas Company Limited

supplies gas to CS Energy Limited for use in its Swanbank E power station. The gas supply agreement with Queensland Gas Company Limited was entered into prior to Mr TBI Crommelin becoming a director of that company. All of these goods and services were provided to CS Energy Limited on normal commercial terms and conditions.

A Director, Mr R Henricks, is Chairman of the QESI Superannuation Fund. A Director, Ms S Israel, is a director of the QESI Superannuation Fund. The majority of employees of CS Energy Limited are entitled to benefits from this fund.

CS Energy Limited (and controlled entities) **Notes to the Financial Statements**  
for the year ended 30 June 2009

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
Accounting fees: KPMG	164,577	304,146	164,577	304,146
Engineering services: Sedgman	2,530,885	-	2,530,885	-
Gas supply: Queensland Gas Company	3,266,266	11,332,537	3,266,266	11,332,537

### Executives

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

Chief Executive Officer;  
Chief Financial Officer;  
General Manager Operations;  
General Manager Business Development;  
General Manager Organisation Development;  
General Manager Corporate Services; and  
General Manager Portfolio Services.

### 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 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 considers being 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 package a range of benefits including a motor vehicle and superannuation.

The Chief Executive Officer was initially engaged as the General Manager Operations in the form of a fixed term consultancy contract for 1 year, commencing 1 September 2007. On 24 December 2007, he was appointed to the position of Chief Executive Officer. The contractual arrangements for the Chief Executive Officer include the following terms:

- Employment term - 3 years expiring 23 December 2010, with an opportunity for CS Energy Limited to either extend beyond the termination date under the existing agreement or extend beyond the termination date under the terms of a new agreement;
- Remuneration reviewed annually;
- Total remuneration as outlined in the following table;
- 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 General Manager Organisation Development (resigned on 15 May 2009) included the following terms:

- Employment term – 3 years expiring 16 April 2010, with renewal for a further 2 year term contemplated;
- Remuneration reviewed annually;
- Total remuneration as outlined in the following table;
- 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, 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 General Manager Portfolio Services (contract commenced 17 December 2007) include the following terms:

- Employment term – 3 years expiring 16 December 2010, with renewal for a further 2 year term contemplated;
- Remuneration reviewed annually;
- Total remuneration as outlined in the following table;
- Payment of a severance payment equivalent to CS Energy Redundancy Policy 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 CS Energy Redundancy Policy and in addition a separation payment of 20% of the residual value of the contract (excluding future bonuses).

The contractual arrangements for the General Manager Operations (contract commenced 21 April 2008) include the following terms:

- Employment term – open tenure;
- Remuneration reviewed annually;
- Total remuneration as outlined in the following table;
- 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 General Manager Corporate Services (contract commenced 25 May 2009) 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; and
- 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).

The contractual arrangements for the General Manager Business Development (contract commenced 23 March 2009) include the following terms:

- Employment term – open tenure;
- Remuneration reviewed annually;
- Total remuneration as outlined in the following table;
- Should the position become redundant, a payment of a severance amount equivalent to 3 weeks remuneration per completed year of service in addition to a separation payment of 13 weeks remuneration to a maximum of 75 weeks remuneration; and
- If an executive is terminated for reasons other than voluntary separation or discipline they are entitled to 12 months salary or entitlements if they have been employed for more than 5 years, or 9 months salary and entitlements if employed for less than 5 years.

The contractual arrangements for the Chief Financial Officer (contract commenced 13 December 2002) include the following terms:

- Employment term – open tenure;
- Remuneration reviewed annually;
- Total remuneration as outlined in the following table;
- Should the position become redundant, a payment of a severance amount equivalent to 3 weeks remuneration per completed year of service in addition to a separation payment of 13 weeks remuneration to a maximum of 75 weeks remuneration; and
- If an executive is terminated for reasons other than voluntary separation or discipline they are entitled to 12 months salary or entitlements if they have been employed for more than 5 years, or 9 months salary and entitlements if employed for less than 5 years.

CS Energy Limited (and controlled entities) Notes to the Financial Statements  
for the year ended 30 June 2009

### Impact of remuneration contracts on future periods

No specific contract terms of any executive affect remuneration of future periods, other than as disclosed above and the right to receive annual adjustments based on cost of living and general labour market escalation.

### Performance related bonuses

The Board 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.

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 tables:

Consolidated			
Executive	Short-term employee benefits \$	Post employment benefits \$	Total \$
<b>Chief Executive Officer <sup>(1)</sup></b>			
2009	469,158	41,740	510,898
2008	329,932	29,993	359,925
<b>Chief Financial Officer</b>			
2009	253,565	20,729	274,294
2008	243,098	19,797	262,895
<b>General Manager Operations <sup>(2)</sup></b>			
2009	266,242	23,798	290,040
2008	42,770	3,913	46,683
<b>General Manager Business Development <sup>(3)</sup></b>			
2009	267,003	20,805	287,808
2008	300,066	19,648	319,714
<b>General Manager Organisational Development <sup>(4)</sup></b>			
2009	252,123	19,929	272,052
2008	211,060	21,018	232,078
<b>General Manager Corporate Services <sup>(5)</sup></b>			
2009	22,654	2,265	24,919
2008	246,833	18,203	265,036
<b>General Manager Portfolio Services <sup>(6)</sup></b>			
2009	237,379	18,223	255,602
2008	186,912	13,456	200,368
<b>Total</b>			
<b>2009</b>	<b>1,768,124</b>	<b>147,489</b>	<b>1,915,613</b>
<b>2008</b>	<b>1,560,671</b>	<b>126,028</b>	<b>1,686,699</b>

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

(1) Remuneration details for 2008 are in respect of the period 3 September 2007 to 30 June 2008. The Chief Executive Officer was initially employed as the General Manager Operations between 3 September 2007 and 20 December 2007.

(2) Remuneration details for 2008 are in respect of the period 21 April 2008 to 30 June 2008.

(3) Remuneration details for 2009 are for the General Manager Business Development from 23 March 2009 to 30 June 2009, and his previous appointment as the General Manager Corporate Services from 1 July 2008 to 22 March 2009. Remuneration details for 2008 are in respect of the period 1 July 2007 to 8 May 2008. As a consequence of ceasing employment on 8 May 2008, the General Manager New Business received a termination payment, calculated in accordance with the terms of his contract.

(4) Remuneration details for 2009 are in respect of the period 1 July 2008 to 15 May 2009.

(5) Remuneration details for 2009 are in respect of the period 25 May 2009 to 30 June 2009.

(6) Remuneration details for 2008 are in respect of the period 1 September 2007 to 30 June 2008.

Senior executives may also earn performance based at risk incentive bonuses, which are not disclosed in this note.

### 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 payable in respect of the relevant financial year:

Financial Year	Aggregate performance payments \$	Total salary and wages earned by employees receiving a performance payment \$	Number of employees receiving a performance payment
2009	3,532,062	71,830,177	645
2008	2,545,604	60,387,543	578

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

- Chief Executive Officer;
- 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		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Auditors of the parent</b>				
Parent	213,000	171,400	213,000	171,400
Controlled entities	17,000	14,800	-	-
Consolidated group	230,000	186,200	213,000	171,400

### 32. Commitments for expenditure

Capital Commitments	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable as follows:				
<b>Property, plant and equipment</b>				
Within one year	1,526	40,169	-	37,598
Later than one year, but not later than five years	4,282	19,446	-	18,325
	5,808	59,615	-	55,923

Operating lease commitments – group as lessee	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
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:				
Not later than one year	1,177	846	1,071	846
Later than one year, but not later than five years	1,044	1,389	1,044	1,389
	2,221	2,235	2,115	2,235

#### 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.

### 33. Contingent liabilities

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

### 34. Related parties

#### Directors and executives

Disclosures relating to directors and executives are set out in note 29.

#### Parent entities

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

#### Investments in controlled entities

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

#### Transactions with related parties

Transactions between CS Energy Limited and other entities in the wholly-owned consolidated group during the year ended 30 June 2009 consisted of:

- Loans advanced by CS Energy Limited;
- The payment of interest on the above loans;
- The supply of labour by CS Energy Limited;
- Dividends paid to controlling entity; and
- 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 2009 (2008: 6.57%).

#### Related party transactions and balances

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
The following transactions occurred with related parties				
Sale of goods and services	-	-	28,883	27,857
Interest revenue	-	-	-	28,184
Dividend revenue	-	-	48,609	99,462
	-	-	77,492	155,503
The following balances are outstanding at reporting date in relation to transactions with related parties				
Current receivables – other debtors	-	-	-	2,414
Non-current receivable – loans to related parties	-	-	1,359,821	1,391,293
Tax-related payable	-	-	-	40,939
	-	-	1,359,821	1,434,646
<b>Loans to subsidiaries</b>				
Balance at 1 July	-	-	1,391,293	1,441,119
Loans advanced	-	-	336,193	472,507
Loan repayments received	-	-	(367,665)	(550,517)
Interest charged	-	-	-	28,184
Balance at 30 June	-	-	1,359,821	1,391,293

No impairments have been recognised in relation to any outstanding balances.

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 (2008 – 6.57%).

Outstanding balances are unsecured and are repayable in cash.

CS Energy Limited (and controlled entities) **Notes to the Financial Statements**  
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**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	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Income statement</b>				
Amounts included in revenue from the sale of electricity and other revenue	36,522	57,366	11,514	18,387
Amounts included in cost of sales and other expenses	37,927	30,036	21,303	15,041
Amounts included in finance costs	89,057	62,285	89,057	62,285
<b>Balance sheet</b>				
Amounts included in trade and other receivables	2,172	1,965	2,172	1,965
Amounts included in trade and other payables	3,357	3,839	2,658	3,018
Amounts included in borrowings	824,789	1,085,268	824,789	1,085,268
Provision for dividend	75,053	47,206	75,053	47,206

**Equity distribution to owners**

During the prior 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 at the date of transfer. The transfers were made 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 at \$20,888,178.

**35. Investments in controlled entities**

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	Equity Holding
			% 2009	% 2008
CS Energy Mica Creek Pty Ltd	Australia	Ordinary	100	100
CS North West Pty Ltd	Australia	Ordinary	100	100
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
Swanbank Energy Pty Ltd	Australia	Ordinary	100	100
SE CSE Pty Ltd	Australia	Ordinary	100	100
CS Energy Oxyfuel Pty Ltd	Australia	Ordinary	100	100
Manzillo Insurance (PCC) Ltd - Cell EnMach	Guernsey	Ordinary	100	100

## 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 holds the remaining 50% interest.

The consolidated group has a 50% participating interest in the Kogan North Joint Venture, a gas development joint venture with Australian CBM Pty Ltd, a wholly-owned subsidiary of Arrow Energy NL.

The consolidated group has a 7.5% participating interest in the Stratheden Joint Venture, a gas development joint venture with Metgasco Limited.

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		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Current assets</b>				
Cash	1,242	835	-	-
Receivables	585	696	-	-
Inventories	4,640	5,053	-	-
	6,467	6,584	-	-
<b>Non-current assets</b>				
Gas exploration and evaluation costs	19,945	30,724	-	-
Property, plant and equipment	315,199	308,986	-	-
Share of assets employed in joint ventures	341,611	346,294	-	-

### (b) Jointly controlled entities

Name of Entity	Principal Activity	Ownership interest		Carrying amount	
		2009 %	2008 %	2009 \$	2008 \$
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	
	2009 \$'000	2008 \$'000
<b>Movements in carrying amount of interests in jointly controlled entities</b>		
Carrying amount at the beginning of the financial year	1	1
Carrying amount at the end of the financial year	1	1
<b>Share of joint venture entities' assets and liabilities</b>		
Current assets	1	1
Total assets	1	1
Total liabilities	-	-
Net assets	1	1
<b>Share of joint venture entities' revenues, expenses and results</b>		
Revenues	-	-
Expenses	-	-
Profit/(loss) before income tax	-	-

CS Energy Limited (and controlled entities) Notes to the Financial Statements  
for the year ended 30 June 2009

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>37. Reconciliation of profit for the year to net cash provided by operating activities</b>				
Profit for the year	93,816	59,007	117,791	53,752
Depreciation and amortisation	156,294	145,373	71,452	84,419
Fair value adjustment to derivatives	(58,937)	(51,618)	(58,937)	(51,619)
Non-cash retirement benefits net income	(1,334)	(177)	(1,334)	(177)
Net loss/(gain) on sale of non-current assets	(1,377)	1,719	(1,377)	522
Impairment write-down	49,542	31,649	20,242	31,649
Onerous contract – initial recognition	-	20,631	-	20,631
Onerous contract – re-measurement	(52,203)	19,974	(52,203)	19,974
Change in operating assets and liabilities				
(Increase) decrease in assets:				
Receivables	(10,511)	141,377	(16,890)	20,746
Inventories	47,600	(29,934)	35,850	(5,033)
Deferred tax asset	14,980	55,317	23,036	56,949
Prepayments	(2,443)	(13,281)	(2,444)	(13,046)
(Decrease) increase in liabilities:				
Accounts payable, employee benefits, borrowings and other provisions	4,793	4,226	(3,968)	(71,859)
Deferred tax liability	4,453	(37,620)	1,522	(40,047)
Net cash provided by operating activities	244,673	346,643	132,740	106,861

### 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 the Company 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:

- CS Energy Mica Creek Pty Ltd;
- CS North West Pty Ltd;
- 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;
- Swanbank Energy Pty Ltd;
- SE CSE Pty Ltd; and
- CS Energy Oxyfuel Pty Ltd.

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

CS Energy Limited (and controlled entities) Notes to the Financial Statements  
for the year ended 30 June 2009

2009					
Subsidiary Name	Purpose	Total Assets \$'000	Total Liabilities \$'000	Total Revenue from Ordinary Activities \$'000	Profit/(Loss) Before Income Tax \$'000
Callide Energy Pty Ltd	Owner of 50% of Callide C power station	329,786	328,152	89,653	13,159
Kogan Creek Power Station Pty Ltd	Owner of Kogan Creek power station	1,031,452	1,064,266	146,133	35,903
Kogan Creek Power Pty Ltd	Provides labour to Kogan Creek power station	7,153	1,389	7,483	-
CS Energy Kogan Creek Pty Ltd	40% owner of Kogan Creek Power Pty Ltd	72,670	36,349	-	-
CS Kogan (Australia) Pty Ltd	60% owner of Kogan Creek Power Pty Ltd	486	-	-	-
Aberdare Collieries Pty Ltd	Owner of coal mine that supplies Kogan Creek power station	94,880	95,566	28,973	90
CS Energy Mica Creek Pty Ltd	Owner of Mica Creek power station	148,826	156,175	99,388	(13,012)
CS North West Pty Ltd	Provides labour to Mica Creek power station	4,619	3,133	11,099	-
CS Energy Oxyfuel Pty Ltd	Holds CS Energy's interest in the Callide Oxyfuel clean coal project	10,840	16,240	287	(7,714)
Swanbank Energy Pty Ltd	Dormant entity	-	-	-	-
SE CSE Pty Ltd	Dormant entity	-	-	-	-

2008					
Subsidiary Name	Purpose	Total Assets \$'000	Total Liabilities \$'000	Total Revenue from Ordinary Activities \$'000	Profit/(Loss) Before Income Tax \$'000
Callide Energy Pty Ltd	Owner of 50% of Callide C power station	338,275	333,457	123,014	48,806
Kogan Creek Power Station Pty Ltd	Owner of Kogan Creek power station	1,067,823	1,091,660	133,687	75,728
Kogan Creek Power Pty Ltd	Provides labour to Kogan Creek power station	6,741	4,289	6,266	-
CS Energy Kogan Creek Pty Ltd	40% owner of Kogan Creek Power Pty Ltd	72,657	36,336	-	-
CS Kogan (Australia) Pty Ltd	60% owner of Kogan Creek Power Pty Ltd	487	-	-	-
Aberdare Collieries Pty Ltd	Owner of coal mine that supplies Kogan Creek power station	60,116	60,866	-	-
CS Energy Mica Creek Pty Ltd	Owner of Mica Creek power station	179,575	177,856	101,472	24,971
CS North West Pty Ltd	Provides labour to Mica Creek power station	4,559	3,074	10,082	-
CS Energy Oxyfuel Pty Ltd	Holds CS Energy's interest in the Callide Oxyfuel clean coal project	15,400	15,400	-	-
Swanbank Energy Pty Ltd	Dormant entity	-	-	-	-
SE CSE Pty Ltd	Dormant entity	-	-	-	-

### 39. Events occurring after balance date

There were no events occurring after balance date that have affected or may affect the financial position of the consolidated group.

## CS Energy Limited (and controlled entities) Directors' declaration

30 June 2009

In the directors' opinion:

- (a) The financial statements and notes set out on pages 72 to 117 are in accordance with the *Corporations Act 2001*, including:
- (i) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
  - (ii) Giving a true and fair view of the company's and consolidated group's financial position as at 30 June 2009 and of their performance for the financial 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 SE Lonie

Chairman



Mrs JA Leaver

Director

Brisbane

27 August 2009

## CS Energy Limited (and controlled entities) 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 2009, 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.



CF Dougherty CPA

(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office

Brisbane

## Independent Auditor's Report

### To the Members of CS Energy Limited

#### Matters relating to the Electronic Presentation of the Audited Financial Report

The auditor's report relates to the financial report of CS Energy Limited for the financial year ended 30 June 2009 included on CS Energy Limited's website. The directors are responsible for the integrity of the CS Energy Limited's website. I have not been engaged to report on the integrity of the CS Energy Limited's website. The auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from CS Energy Limited, to confirm the information included in the audited financial report presented on this website.

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

#### Report on the financial report

I have audited the accompanying financial report of CS Energy Ltd, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit is prescribed in the Auditor-General Act 2009. This Act, including transitional provisions, came into operation on 1 July 2009 and replaces the previous requirements contained in the Financial Administration and Audit Act 1977.

The audit was conducted in accordance with *Auditor-General of Queensland Auditing Standards*, which incorporate the *Australian Auditing Standards*. These Auditing Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance 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 risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the audit considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies 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 QAO authorised auditors. The Auditor-General is the auditor of all Queensland government owned corporations and their controlled entities and can only be removed 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*, provided to the directors of CS Energy Ltd on 27 August 2009 would be in the same terms if provided to the directors, as at the date of this auditor's report.

#### Auditor's opinion

In my opinion –

the financial report of CS Energy Ltd is in accordance with the *Corporations Act 2001*, including –

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.



C F DOUGHERTY CPA  
(as Delegate of the Auditor-General of Queensland)



Queensland Audit Office  
Brisbane