FINANCIAL REPORT

for the year ended 30 June 2004

CONTENTS

DIRECTORS' REPORT

Your directors present their report on the consolidated group consisting of CS Energy Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2004.

DIRECTORS

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

Mr SE Lonie
Chairman (1)

Mr TBI Crommelin
Deputy Chairman

Ms TG Handicott

Mr RJ Henricks (1)

Ms JA Leaver (1)

Mr TJ O'Dwyer (1)

Mr T White

(1) The prior term of this director expired on 30 June 2003. The director was re-appointed on 3 July 2003.

PRINCIPAL ACTIVITIES

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

Consolidated results	2004 $'000	2003 $'000
Profit from ordinary activities after income tax	30,397	39,716

DIVIDENDS – CS ENERGY LTD

Prior to 30 June 2003, the Board recommended, and the shareholding Ministers approved, a dividend of 95% of consolidated group profit after tax, which equated to a dividend of $37.73 million for the 2002/03 year. This amount was subsequently paid on 31 December 2003. On 22 April 2004, the Board recommended, and the shareholding Ministers subsequently approved, a dividend of 95% of consolidated group profit after tax, which equated to a dividend of $28.877 million for the 2003/04 year.

Details of dividends in respect of the current and prior year are as follows:

	2004 $'000	2003 $'000
Final dividend as approved by shareholding Ministers for 2002/03	–	37,730
Final dividend as approved by shareholding Ministers for 2003/04	28,877	–
	28,877	37,730

REVIEW OF OPERATIONS

In line with a 25% decrease in the Queensland average pool price between the current and prior year, there was a 23% reduction in the consolidated group's net profit after tax from $39.7 million to $30.4 million.

Gigawatt hours produced improved by 8.1% due to the first full year of operation of the Swanbank E power station. Despite the increase in volume, overall sales of electricity declined in line with the general pool price trends. The increase in costs, excluding interest and income tax, is largely volume related. Other revenues improved significantly following favorable outcomes to a range of contractual negotiations and sales of smaller non-core assets.

Interest costs are substantially in line with the prior financial year, while tax expense is in line with profit movements. The effective tax rate continues to be around 30%.

Cash flow received a major boost from the additional equity provided by shareholders of $260 million, which in turn resulted in a large reduction in gearing levels of the group (debt to debt plus equity) from around 50% to 30% toward the end of the financial year.

A significant capital investment program was undertaken, with $38.4 million invested across all the group's major sites by way of overhauls and modifications as well as the commencement of construction of the Kogan Creek Power Project.

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 other than:

(a) In May 2004, notification to commence construction was given on the Kogan Creek Power Project, a new 750MW power station and coal mine near Chinchilla, Queensland.

(b) CS Energy Ltd issued additional shares to shareholding Ministers in June 2004. Proceeds from the issue were $260 million.

LIKELY DEVELOPMENTS

Information on likely developments in the operations of the consolidated group and the reported results of these operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated group.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

At the date of this report, the directors are not aware of any matter or circumstance which has arisen since 30 June 2004 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.

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 licences and approvals it holds under these Acts, and its various generating licences.

The group manages its legal compliance obligations through an Environmental Management System (EMS), which incorporates a system to record the occurrence and management of environmental compliance issues. The CS Energy Ltd EMS is certified to ISO 14001 and is also based on the Energy Supply Association of Australia's Code of Environmental Practice.

This year, at the Callide Power Stations, CS Energy Ltd and Callide Power Management Pty Ltd managed the ongoing treatment and disposal of ash and waste water. As part of this process, CS Energy Ltd met all commitments given to the Environmental Protection Agency (EPA) in an approved Voluntary Environmental Management Program covering the raising of the ash dam wall.

During the year, the group received twenty-two environmental complaints at Callide about downstream water quality, the proposed raising of the Callide ash dam wall, fugitive dust, and noise. The group also reported four environmental incidents relating to Swanbank and Callide operations and incurred twenty-one minor exceptions to Swanbank licence water limits.

The group took actions in response to the complaints, incidents and exceptions which have been considered adequate by the EPA. There were no actions taken by the EPA, nor, to the group's knowledge, are there any environmental actions pending against it.

INFORMATION ON DIRECTORS

For information on the company's directors, refer to pages 58 to 60 of the annual report.

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

Details of directors' and executives' emoluments are provided in note 30 of the financial report.

DIRECTORS' BENEFITS

Details of directors' benefits are provided in note 30 of the financial report.

INDEMNIFICATION AND INSURANCE OF OFFICERS

CS Energy Ltd indemnifies each officer of the company and its controlled entities for all liabilities to another party other than the company and its controlled entities that may arise in connection with the performance of the officer's duties, except where the liability arises out of conduct involving a lack of good faith.

During the financial year, CS Energy Ltd paid a premium of $54,877 (2003: $44,326) 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.

The liabilities insured include the costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated group.

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 in accordance with a resolution of the directors.

Mr SE Lonie
Chairman

Ms TG Handicott
Director

Brisbane
9 September 2004

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2004

	Notes	Consolidated		Parent	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
Ordinary activities					
Revenue from sale of electricity		**444,314**	460,428	**267,935**	286,141
Cost of sales		**(325,629)**	(296,045)	**(216,070)**	(199,992)
Gross profit		**118,685**	164,383	**51,865**	86,149
Other revenue	3	**30,883**	18,624	**116,201**	57,766
Other expenses	4	**(69,231)**	(84,491)	**(50,158)**	(58,555)
Borrowing costs	4	**(39,472)**	(40,908)	**(36,120)**	(30,327)
Profit from ordinary activities before income tax		**40,865**	57,608	**81,788**	55,033
Income tax (expense) / benefit	5	**(10,468)**	(17,892)	**641**	(7,878)
Profit from ordinary activities after income tax		**30,397**	39,716	**82,429**	47,155

The above statement of financial performance should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2004

	Notes	Consolidated		Parent	
		2004	2003	2004	2003
		$'000	$'000	$'000	$'000
Current assets					
Cash assets	6	**4,328**	3,224	**1,684**	2,649
Receivables	7	**59,853**	47,244	**49,765**	33,778
Inventories	8	**22,437**	19,984	**16,220**	15,102
Other	9	**12,351**	6,098	**12,289**	5,940
Total current assets		**98,969**	76,550	**79,958**	57,469
Non-current assets					
Receivables	10	**—**	—	**445,398**	400,123
Investments accounted for using the equity method	11	**1**	1	**—**	—
Other financial assets	12	**987**	987	**53,366**	56,922
Deferred gas exploration and evaluation costs	13	**8,047**	—	**8,047**	—
Property, plant and equipment	14	**1,429,269**	1,485,365	**757,366**	804,402
Deferred tax assets	15	**35,838**	26,876	**35,838**	19,250
Other	16	**47,347**	20,049	**136,703**	20,049
Total non-current assets		**1,521,489**	1,533,278	**1,436,718**	1,300,746
Total assets		**1,620,458**	1,609,828	**1,516,676**	1,358,215
Current liabilities					
Payables	17	**44,929**	36,847	**33,507**	25,567
Interest bearing liabilities	18	**12,045**	11,170	**—**	—
Provisions	19	**35,226**	44,360	**34,369**	43,592
Other	20	**1,261**	1,163	**1,261**	1,605
Total current liabilities		**93,461**	93,540	**69,137**	70,764
Non-current liabilities					
Payables	21	**18,646**	—	**28,787**	—
Interest bearing liabilities	22	**371,931**	668,885	**261,746**	546,656
Deferred tax liabilities	23	**220,067**	200,646	**220,067**	124,905
Provisions	24	**38,275**	37,600	**32,363**	32,267
Other	25	**7,401**	—	**7,401**	—
Total non-current liabilities		**656,320**	907,131	**550,364**	703,828
Total liabilities		**749,781**	1,000,671	**619,501**	774,592
Net assets		**870,677**	609,157	**897,175**	583,623
Shareholders' equity					
Parent equity interest					
Contributed equity	26	**822,504**	562,504	**822,504**	562,504
Retained profits	27	**48,173**	46,653	**74,671**	21,119
Total shareholders' equity		**870,677**	609,157	**897,175**	583,623

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2004

	Notes	Consolidated		Parent	
		2004 $'000	2003 $'000	2004 $'000	2003 $'000
Cash flows from operating activities					
Receipts in the course of operations		**494,479**	567,827	**300,923**	359,347
Payments in the course of operations		**(318,275)**	(323,554)	**(205,681)**	(214,398)
		176,204	244,273	**95,242**	144,949
Interest received		**595**	968	**517**	888
Borrowing costs		**(44,841)**	(35,362)	**(35,146)**	(24,781)
GST (paid) received		**(22,436)**	(33,237)	**(9,834)**	(18,300)
Net cash inflow from operating activities	40	**109,522**	176,642	**50,779**	102,756
Cash flows from investing activities					
Payments for property, plant and equipment		**(38,400)**	(65,906)	**(24,804)**	(52,367)
Loans to related parties		**—**	—	**(135,452)**	(131,566)
Repayments from related parties		**—**	—	**163,530**	182,213
Proceeds from sale of property, plant and equipment		**7,996**	1,385	**7,996**	899
Net cash inflow / (outflow) from investing activities		**(30,404)**	(64,521)	**11,270**	(821)
Cash flows from financing activities					
Proceeds from borrowings		**133,000**	95,300	**133,000**	95,300
Repayment of borrowings		**(433,284)**	(155,754)	**(418,284)**	(145,417)
Dividends paid		**(37,730)**	(51,657)	**(37,730)**	(51,657)
Proceeds from issue of shares		**260,000**	—	**260,000**	—
Net cash outflow from financing activities		**(78,014)**	(112,111)	**(63,014)**	(101,774)
Net increase / (decrease) in cash held		**1,104**	10	**(965)**	161
Cash at the beginning of the financial year		**3,224**	3,214	**2,649**	2,488
Cash at the end of the financial year	6	**4,328**	3,224	**1,684**	2,649
Financing arrangements	22				
Non-cash financing and investing activities	41				

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), the *Government Owned Corporations Act 1993 (Qld)* and related regulations and the *Corporations Act 2001*.

The report is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB will issue Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to International Accounting Standards Board (IASB) interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the consolidated entity's financial statements for the year ending 30 June 2006. Information about how the transition to Australian equivalents to IFRS is being managed, and the key differences in accounting policies that are expected to arise, is set out in note 43.

(a) Principles of consolidation

The consolidated accounts incorporate the assets and liabilities of all entities controlled by CS Energy Ltd as at 30 June 2004 and the results of all controlled entities for the year then ended. CS Energy Ltd and its controlled entities together are referred to in this financial report as the consolidated group. The effects of all transactions between entities in the consolidated group are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the profits or losses of associates is recognised as revenue in the consolidated statement of financial performance, and its share of movements in reserves is recognised in consolidated reserves. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

(b) Income tax

CS Energy Ltd 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 Ltd 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.

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax or future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

Tax consolidation legislation

CS Energy Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as at 1 July 2002.

As a consequence, CS Energy Ltd, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in the group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances.

Amounts receivable or payable under a tax sharing and tax funding agreement with the tax-consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense (revenue).

The deferred tax balances recognised by the parent entity in relation to wholly-owned entities joining the tax consolidated group are measured based on their carrying amounts at the level of the tax consolidated group before the implementation of the tax consolidation regime.

(c) Revenue recognition

Revenue from the sale of electricity is recognised as the electricity generated is traded in the pool market or in the period that the electricity is generated pursuant to a contract, as applicable. The net result of electricity derivatives, relating to electricity traded in the pool market, is recognised in the period to which the contract relates. Revenue from plant under construction is included within the capital cost of that plant. Pool market revenue is based on spot prices calculated by NEMMCO trading systems. NEMMCO is the operator of the National Electricity Market.

Revenue from the sale of professional services is recognised on an accrual basis. Revenue for fixed price and payment schedule assignments is accrued using the percentage completion method.

(d) Acquisitions of assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions.

Items acquired with a cost of $500 or lower are immediately expensed at the date of purchase. All other asset purchases are capitalised and depreciated where appropriate.

(e) Receivables

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 45 days from the date of recognition. Collectibility of trade debtors is reviewed on an ongoing basis and where considered appropriate adequate provision is made for doubtful debts. Debts which are known to be uncollectible are written off.

(f) Inventories

Inventories comprise fuel and stores 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.

(g) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the undiscounted net cash inflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write down occurs.

Under AASB 1040:8.2, material holdings of land and buildings are required to be valued at least once every 3 years and this valuation is shown for disclosure purposes only, in the notes to the financial statements. As the consolidated group's holdings of land and buildings are immaterial, valuations have not been conducted. Land and buildings continue to be carried at cost in the financial statements.

(h) Revaluation of non-current assets

All non-current assets are measured at cost subsequent to initial recognition.

(i) Non-current assets constructed by the consolidated group

The cost of non-current assets constructed by the consolidated group includes the cost of all materials in construction, direct labour on the project, commissioning costs and borrowing costs during construction.

Borrowing costs included in the cost of non-current assets are the costs that would have been avoided if the expenditure on the construction of the assets had not been made. Borrowing costs incurred while active construction is interrupted for extended periods are recognised as expenses.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings, which, during the year, was 6.5% (2003 – 7.1%).

(j) Overhauls, maintenance and repairs

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.

Maintenance, repair costs and minor renewals are charged as expenses when incurred.

(k) Development costs

Costs incurred in acquiring an interest in and furthering the development and construction of generation and coal 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 14).

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

(l) Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment (excluding land) over its expected useful life to the consolidated group. Estimates of the remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are in the following ranges:

Power stations	7–28 years
Capitalised overhauls	2–4 years
Buildings	10–40 years
Other, property plant and equipment	3–5 years

Major spares purchased specifically for particular plant are capitalised and depreciated on the same basis as the plant to which they relate.

(m) Rehabilitation and closure costs

Provision is made for the estimated rehabilitation and closure costs at the end of the producing lives of the power station on an undiscounted basis. Costs are provided for over the lives of those assets and are estimated based on current prices. Changes in estimates are recognised in the statement of financial performance over the remaining lives of the assets.

(n) Investments

Interests in listed and unlisted securities, other than controlled entities, are brought to account at cost and dividend income is recognised in the accounts when receivable. At balance date, investments in listed entities are recorded at the lower of cost and market value. Controlled entities and investment in associates are accounted for in the consolidated financial statements as set out in note 1(a). Interests in joint ventures are accounted for as set out in note 1(p).

(o) Research and development expenditure

Expenditure on research and development is written off against earnings as incurred, except that, when a project reaches the stage where such expenditure is considered capable of being recovered through development or sale, all subsequent expenditures are capitalised and amortised over the period in which the related benefits are expected to be realised.

(p) Joint ventures

(i) **Joint venture operations.** The consolidated group's proportionate interests in the assets, liabilities, revenues and expenses of joint venture operations are incorporated in the financial statements under the appropriate headings.

(ii) **Joint venture entities.** The consolidated group's interests in joint venture entities are accounted for using the equity method whereby its share of profits or losses of joint venture entities is recognised as 'share of net profits of joint venture entities' within the statement of financial performance and its share of movements in reserves is recognised in consolidated reserves in the statement of financial position.

Details of the joint ventures are set out in note 38.

(q) 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.

(r) Interest bearing liabilities

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(s) Deferred gas exploration, evaluation and development costs

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.

(t) Derivative financial instruments

The consolidated group enters into swaps, options and futures contracts, for the sale of electricity. These types of derivative financial instruments are not recognised in the financial statements at inception.

For swaps and options, the net amount receivable or payable under the contracts is brought to account once the electricity to which the contracts relate has been traded in the National Electricity Market. The amount recognised is accounted for as a component of sales revenue during the period. When an option is not exercised, the premium is recognised upon expiry of the option.

For futures contracts yet to commence, variation margin payments or receipts that arise from market changes in the value of the contract, are booked as deferred losses or gains in the statement of financial position. Following commencement of the contract, any gain or loss (including deferred gains or losses) are recognised as a component of sales revenue at the time the electricity to which the contracts relate is traded in the National Electricity Market.

(u) Employee benefits

(i) Wages and salaries, annual leave and sick leave. Liabilities for wages and salaries, annual leave and vested sick leave are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

(ii) Long service leave. The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised, and is measured, at the present value of expected future payments to be made in respect of services provided by employees at balance date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. 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.

(iii) Superannuation. The present value of accrued benefits is based on expected future payments which arise from membership of the fund to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates attaching, as at the reporting date, to national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The amount charged to the statement of financial performance in respect of superannuation represents the contributions made by the consolidated group to the superannuation fund.

(v) Foreign currency translation

(i) Transactions. Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date, amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year, except as stated in note 1(v)(ii).

(ii) Specific commitments. Hedging is undertaken in order to minimise possible adverse financial effects of movements in exchange rates. Gains or costs arising upon entry into a hedging transaction intended to hedge the purchase or sale of goods or services, together with subsequent exchange gains or losses resulting from those transactions are deferred in the statement of financial position from the inception of the hedging transaction up to the date of the purchase or sale and included in the measurement of the purchase or sale. The net amounts receivable or payable under the hedging transaction are also recorded in the statement of financial position. Any gains or losses arising on the hedging transaction after the recognition of the hedged purchase or sale are included in the statement of financial performance.

(w) Goods and services tax

Revenues, expenses and assets are recognised net of any applicable goods and services tax (GST), except where the amount

Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables balances include GST, with the exception of accrued revenue and accrued expenses where no tax invoice has been issued or received. The net amount of GST payable to or receivable from the ATO is included in the statement of financial position.

Cash flows are included on a gross basis in the statement of cash flows.

(x) Dividends

Provision is made for the amount of any dividend declared, determined or recommended by the directors on or before the end of the financial year but not distributed at balance date.

(y) Cash

For the purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(z) 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, to the nearest dollar.

2 SEGMENT INFORMATION

Business segments

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

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and the segment reporting accounting standard, AASB1005 Segment Reporting.

3 REVENUE

	Consolidated		Parent	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Total revenue from ordinary activities	**475,197**	479,052	**384,136**	343,907
Revenue from operating activities				
Revenue from the sale of electricity	**444,314**	460,428	**267,935**	286,141
Professional services income	**—**	3,194	**—**	3,689
Operation, maintenance & services fees	**7,872**	9,850	**67,460**	18,801
	452,186	473,472	**335,395**	308,631
Revenue from outside the operating activities				
Interest received / receivable	**1,668**	1,715	**8,064**	1,634
Dividends received / receivable	**—**	—	**15,000**	30,000
Other	**21,343**	3,865	**25,677**	3,642
	23,011	5,580	**48,741**	35,276

4 PROFIT FROM ORDINARY ACTIVITIES

	Notes	Consolidated		Parent	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
Other expenses from ordinary activities					
Distribution costs		**16,931**	17,316	**5,241**	5,781
Administration costs		**52,300**	66,530	**41,332**	52,129
Write down of investment in controlled entity to recoverable amount	12	**—**	—	**3,585**	—
Write down of investment in other corporation to recoverable amount	12	**—**	645	**—**	645
		69,231	84,491	**50,158**	58,555
Profit from ordinary activities before income tax is arrived at after charging the following specific items:					
Borrowing costs					
Interest paid or payable		**45,946**	48,308	**36,120**	37,727
Less: amount capitalised		**(6,474)**	(7,400)	**—**	(7,400)
Borrowing costs expensed		**39,472**	40,908	**36,120**	30,327
Depreciation [1]					
Depreciation included in cost of sales		**73,625**	64,815	**47,011**	37,286
Depreciation included in administration costs		**2,856**	3,016	**2,228**	2,208
Total depreciation		**76,481**	67,831	**49,239**	39,494
Amortisation					
Capitalised overhauls included in cost of sales		**13,126**	11,851	**9,036**	9,170
Inventories					
Write down of inventories to net realisable value		**1,179**	362	**1,042**	323
Bad and doubtful debts					
Doubtful debts expense		**860**	1,545	**—**	—
Provisions					
Employee benefits		**2,845**	3,915	**2,321**	3,391
Other		**1,852**	1,942	**1,169**	1,347
Total provisions		**4,697**	5,857	**3,490**	4,738
Rental expense relating to operating lease					
Minimum lease payments		**643**	841	**643**	585

(1) Change in accounting estimate – depreciation

In 2003, the directors reassessed the estimated usef

5 INCOME TAX

	Consolidated		Parent	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Tax attributable to profit from ordinary activities				
The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the profit from ordinary activities. The differences are reconciled as follows:				
Profit from ordinary activities before income tax	**40,865**	57,608	**81,788**	55,033
Income tax calculated at 30%	**12,260**	17,282	**24,536**	16,510
Tax effect of permanent differences				
Non-deductible depreciation on buildings	**103**	88	**92**	78
Sundry items	**(1,941)**	410	**(20,765)**	80
Rebateable dividends	**—**	—	**(4,500)**	(9,000)
Income tax expense / (benefit) adjusted for permanent differences	**10,422**	17,780	**(637)**	7,668
Under (over) provision in previous year	**46**	112	**(4)**	210
Income tax expense / (benefit) attributable to profit from ordinary activities	**10,468**	17,892	**(641)**	7,878

Tax consolidation legislation

CS Energy Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy on implementation of the legislation is set out in note 1(b). The impact on the income tax expense for the year is disclosed in the tax reconciliation above.

The wholly-owned entities have fully compensated CS Energy Ltd for deferred tax liabilities assumed by CS Energy Ltd on the date of the implementation of the legislation and have been fully compensated for any deferred tax assets transferred to CS Energy Ltd.

The entities have also entered into a tax sharing and funding agreement. Under the terms of this agreement, the wholly-owned entities reimburse CS Energy Ltd for any current income tax payable by CS Energy Ltd arising in respect of their activities, plus adjustments for permanent and timing differences. The tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entities in the case of a default by CS Energy Ltd.

6 CURRENT ASSETS – CASH ASSETS

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Parent 2004 $'000	Parent 2003 $'000
Cash at bank and on hand		**3,075**	1,110	**431**	535
Deposits at call – Queensland Treasury Corporation (QTC)		**1,253**	2,114	**1,253**	2,114
		4,328	3,224	**1,684**	2,649
The above figures reconcile to cash at the end of the financial year as shown in the statement of cash flows as follows:					
Balance as above		**4,328**	3,224	**1,684**	2,649

Deposits at call
The deposits at call are bearing floating interest rates between 4.9% and 5.7% (2003: 4.9% and 5.3%).

7 CURRENT ASSETS – RECEIVABLES

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Parent 2004 $'000	Parent 2003 $'000
Trade debtors		**40,396**	36,757	**22,836**	23,909
Less: provision for doubtful debts		**—**	(1,545)	**—**	—
		40,396	35,212	**22,836**	23,909
Other debtors		**19,457**	12,032	**26,929**	9,869
Loan to associated entity	37	**2,774**	2,554	**2,774**	2,554
Less: provision for impairment		**(2,774)**	(2,554)	**(2,774)**	(2,554)
		59,853	47,244	**49,765**	33,778

8 CURRENT ASSETS – INVENTORIES

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Parent 2004 $'000	Parent 2003 $'000
Fuel and Stores – at cost		**23,187**	20,984	**16,970**	16,102
less: provision for obsolescence		**(750)**	(1,000)	**(750)**	(1,000)
		22,437	19,984	**16,220**	15,102

9 CURRENT ASSETS – OTHER

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Parent 2004 $'000	Parent 2003 $'000
Prepayments		**6,265**	4,821	**6,203**	4,663
Deferred foreign exchange costs	29	**5,428**	740	**5,428**	740
Deferred losses on electricity futures	29	**658**	537	**658**	537
		12,351	6,098	**12,289**	5,940

10 NON-CURRENT ASSETS – RECEIVABLES

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Parent 2004 $'000	Parent 2003 $'000
Loans to related parties		**—**	—	**445,398**	400,123

11 NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Parent 2004 $'000	Parent 2003 $'000
Investments in associates	37	**—**	—	**—**	—
Interests in joint venture entities	38	**1**	1	**—**	—
		1	1	**—**	—

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent, subject to application of a recoverable amounts test (note 37).

Interests in joint venture entities are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by a controlled entity (note 38).

12 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Notes	Consolidated		Parent	
		2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Investments in controlled entities – at cost	36	**—**	—	**51,814**	55,935
Investments in controlled entities – at recoverable amount	36	**—**	—	**565**	—
Investments in other corporations – at cost		**1,632**	1,632	**1,632**	1,632
Less: provision for impairment		**(645)**	(645)	**(645)**	(645)
		987	987	**987**	987
		987	987	**53,366**	56,922

13 NON-CURRENT ASSETS – DEFERRED GAS EXPLORATION AND EVALUATION COSTS

Gas exploration and evaluation costs	**8,047**	—	**8,047**	—

CS Energy Ltd has entered into gas development joint ventures with Queensland Gas Company Ltd and Australian CBM Pty Ltd to secure fuel supplies for its Swanbank E power station (refer note 38).

14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Power stations – at cost	**1,643,211**	1,643,295	**969,700**	974,308
Less: accumulated depreciation	**(371,589)**	(304,043)	**(249,214)**	(207,883)
Total power stations	**1,271,622**	1,339,252	**720,486**	766,425
Capitalised overhauls – at cost	**85,815**	73,725	**65,137**	60,393
Less: accumulated amortisation	**(69,257)**	(56,131)	**(57,653)**	(48,618)
Total capitalised overhauls	**16,558**	17,594	**7,484**	11,775
Other property, plant and equipment – at cost	**51,229**	49,770	**41,760**	40,813
Less: accumulated depreciation	**(30,212)**	(27,666)	**(26,558)**	(24,640)
Total other property, plant and equipment	**21,017**	22,104	**15,202**	16,173
Capital work in progress – at cost	**116,943**	13,803	**14,194**	10,029
Development costs – at cost	**3,129**	92,612	**—**	—
Total property, plant and equipment	**1,429,269**	1,485,365	**757,366**	804,402

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below:

	Consolidated		Parent	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Power stations				
Carrying amount at start of year	**1,339,252**	1,116,610	**766,425**	521,112
Additions / transfers in	**18,241**	287,686	**12,583**	282,828
Disposals	**(12,246)**	(229)	**(11,511)**	(229)
Provision for depreciation	**(73,625)**	(64,815)	**(47,011)**	(37,286)
Carrying amount at end of year	**1,271,622**	1,339,252	**720,486**	766,425
Capitalised overhauls				
Carrying amount at start of year	**17,594**	17,378	**11,775**	13,040
Additions	**12,240**	12,067	**4,745**	7,905
Disposals	**(150)**	—	**—**	—
Provision for amortisation	**(13,126)**	(11,851)	**(9,036)**	(9,170)
Carrying amount at end of year	**16,558**	17,594	**7,484**	11,775
Other property, plant and equipment				
Carrying amount at start of year	**22,104**	21,330	**16,173**	16,695
Additions	**2,517**	4,801	**1,579**	1,686
Disposals	**(748)**	(1,011)	**(322)**	—
Provision for depreciation	**(2,856)**	(3,016)	**(2,228)**	(2,208)
Carrying amount at end of year	**21,017**	22,104	**15,202**	16,173
Capital work in progress				
Carrying amount at start of year	**13,803**	256,846	**10,029**	254,593
Additions / transfers in	**107,555**	37,344	**8,072**	31,585
Transfers out	**(4,415)**	(280,387)	**(3,907)**	(276,149)
Carrying amount at end of year	**116,943**	13,803	**14,194**	10,029
Development costs				
Carrying amount at start of year	**92,612**	92,310	**—**	—
Additions	**10,453**	1,568	**—**	—
Transfers out	**(99,936)**	(1,266)	**—**	—
Carrying amount at end of year	**3,129**	92,612	**—**	—

15 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

Future income tax benefit attributable to:				
Tax losses	**22,204**	11,355	**22,204**	6,084
Other timing differences	**13,634**	15,521	**13,634**	13,166
	35,838	26,876	**35,838**	19,250

16 NON-CURRENT ASSETS – OTHER

Prepayments	**21,300**	20,049	**21,300**	20,049
Deferred foreign exchange costs (note 29)	**26,047**	—	**26,047**	—
Tax-related receivable	**—**	—	**89,356**	—
	47,347	20,049	**136,703**	20,049

17 CURRENT LIABILITIES – PAYABLES

	Notes	Consolidated			Parent
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
Trade creditors		**27,899**	25,165	**16,477**	13,885
Other creditors		**17,030**	11,682	**17,030**	11,682
		44,929	36,847	**33,507**	25,567

18 CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Parent 2004 $'000	Parent 2003 $'000
Loans from QTC	22	**12,045**	11,170	**—**	—

19 CURRENT LIABILITIES – PROVISIONS

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Parent 2004 $'000	Parent 2003 $'000
Dividends	28	**28,877**	37,730	**28,877**	37,730
Employee benefits – leave provisions		**6,349**	6,630	**5,492**	5,862
		35,226	44,360	**34,369**	43,592

20 CURRENT LIABILITIES – OTHER

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Parent 2004 $'000	Parent 2003 $'000
Deferred revenue		**—**	1,163	**—**	1,605
Deferred foreign exchange gains	29	**1,261**	—	**1,261**	—
		1,261	1,163	**1,261**	1,605

21 NON-CURRENT LIABILITIES – PAYABLES

	Notes	Consolidated 2004 $'000	Consolidated 2003 $'000	Parent 2004 $'000	Parent 2003 $'000
Other creditors		**18,646**	—	**18,646**	—
Tax-related payable		**—**	—	**10,141**	—
		18,646	—	**28,787**	—

22 NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

	Consolidated		Parent	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Loans from QTC	**371,931**	668,885	**261,746**	546,656
As part of CS Energy Ltd's debt management, net non-current borrowings from QTC include an at call debt-offset facility with funds available at 30 June 2004 of $355,836,753 (2003 – nil).				
Financing arrangements				
Access was available at balance date to the following lines of credit:				
Total facilities				
QTC facilities (1)	**692,583**	621,656	**692,583**	621,656
QTC facilities (2)	**122,230**	133,399	**—**	—
Bank loan facilities	**1,000**	1,000	**1,000**	1,000
	815,813	756,055	**693,583**	622,656
Used at balance date				
QTC facilities (1)	**261,746**	546,656	**261,746**	546,656
QTC facilities (2)	**122,230**	133,399	**—**	—
Bank loan facilities	**—**	—	**—**	—
	383,976	680,055	**261,746**	546,656
Unused at balance date				
QTC facilities (1)	**430,837**	75,000	**430,837**	75,000
QTC facilities (2)	**—**	—	**—**	—
Bank loan facilities	**1,000**	1,000	**1,000**	1,000
	431,837	76,000	**431,837**	76,000

(1) Unrestricted access available.

(2) These facilities include the North West Energy Pty Ltd Facility Agreement. CS Energy Mica Creek Pty Ltd financed its purchase of the Mica Creek Power Station, 70MW expansion and the station's conversion to gas with a limited recourse debt facil
The Facility Agreement is currently subject to a limite

23 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

Provision for deferred income tax	**220,067**	200,646	**220,067**	124,905

24 NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Employee benefits – leave provisions	**13,316**	14,071	**10,788**	11,439
Site rehabilitation	**24,959**	23,529	**21,575**	20,828
	38,275	37,600	**32,363**	32,267

Site rehabilitation

Provision is made for the estimated rehabilitation and closure costs at the end of the producing lives of the power stations on an undiscounted basis.

Reconciliation of movements in site rehabilitation and dividend provisions

	Site rehabilitation	Dividends	Total
	$'000	$'000	$'000
Consolidated – 2004			
Carrying amount at start of year	**23,529**	**37,730**	**61,259**
Additional provisions recognised	**1,852**	**28,877**	**30,729**
Payments/other sacrifices of economic benefits	**(422)**	**(37,730)**	**(38,152)**
Reductions from remeasurement	**—**	**—**	**—**
Carrying amount at end of year	**24,959**	**28,877**	**53,836**
Parent entity – 2004			
Carrying amount at start of year	**20,828**	**37,730**	**58,558**
Additional provisions recognised	**1,169**	**28,877**	**30,046**
Payments/other sacrifices of economic benefits	**(422)**	**(37,730)**	**(38,152)**
Reductions from remeasurement	**—**	**—**	**—**
Carrying amount at end of year	**21,575**	**28,877**	**50,452**

25 NON-CURRENT LIABILITIES – OTHER

	Notes	Consolidated		Parent	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
Deferred foreign exchange gains	29	**7,401**	—	**7,401**	—

26 CONTRIBUTED EQUITY

	Parent	Parent
	2004	2003
	$	$
Share capital		
A class shares – fully paid	**4**	4
B class shares – fully paid	**822,503,917**	562,503,917
	822,503,921	562,503,921

In the current year, an additional $260 million of B class shares were issued to shareholding Ministers. In the prior year, $4.05 million of B class shares were issued to shareholding Ministers, in full satisfaction of the loan owed to shareholding Ministers.

27 RETAINED PROFITS

	Consolidated		Parent	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Retained profits at the beginning of the financial year	**46,653**	44,667	**21,119**	11,694
Adjustment arising from change in accounting policy for dividends	**—**	51,657	**—**	51,657
Adjusted retained profits at the beginning of the financial year	**46,653**	96,324	**21,119**	63,351
Net profit attributable to members of CS Energy Ltd	**30,397**	39,716	**82,429**	47,155
Dividends provided for or paid	**(28,877)**	(89,387)	**(28,877)**	(89,387)
Retained profits at the end of the financial year	**48,173**	46,653	**74,671**	21,119

28 DIVIDENDS

Final dividend provided for	**28,877**	37,730	**28,877**	37,730
Total dividends provided for or paid (1)	**28,877**	37,730	**28,877**	37,730

(1) Pursuant to the Queensland Treasurer's Tax Equivalents Manual, CS Energy Ltd is not required to maintain a franking account.

29 FINANCIAL INSTRUMENTS

(a) Derivative financial instruments

CS Energy Ltd 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, contracted with counterparties that are also Queensland Government Owned Corporations.

Over-the-counter contracts

CS Energy Ltd 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 Ltd 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 debtors or other creditors.

Calculations of CS Energy Ltd's total exposure under these instruments have not been provided as it is considered that the market for future pool prices, upon which the exposure is based, lacks sufficient depth and liquidity to provide a reliable basis for the calculation of the exposure.

Exchange traded futures contracts

CS Energy Ltd has entered into a number of exchange traded electricity futures contracts. The majority of these contracts are such that CS Energy Ltd 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 via 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. For forward starting contracts at balance date, margin payments or receipts are booked as deferred losses or gains.

Forward exchange contracts

CS Energy Ltd has entered into forward exchange contracts to purchase Euros, Swiss Francs 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.

At balance date, the details of outstanding contracts are:

Outstanding forward exchange contracts at balance date

	Sell Australian dollars		Average exchange rate	
	2004 $'000	2003 $'000	2004	2003
Buy Swiss Francs				
Maturity in 0–6 months	5,733	–	0.8627	–
Maturity in 6–12 months	17,478	135	0.8276	0.7390
Maturity in 18–24 months	–	3,386	–	0.7206
Buy Euros				
Maturity in 0–6 months	19,640	451	0.5475	0.5429
Maturity in 6–12 months	51,120	–	0.5487	–
Maturity in 12–18 months	95,098	–	0.5475	–
Maturity in 18–24 months	86,828	–	0.5475	–
Maturity in 24–30 months	70,290	–	0.5475	–
Maturity in 30–36 months	53,751	–	0.5475	–
Maturity in 36–42 months	37,212	–	0.5475	–
Buy United States Dollars				
Maturity in 0–6 months	5,138	–	0.6595	–
Maturity in 6–12 months	12,979	–	0.6595	–
Maturity in 12–18 months	24,877	–	0.6595	–
Maturity in 18–24 months	22,714	–	0.6595	–
Maturity in 24–30 months	18,387	–	0.6595	–
Maturity in 30–36 months	14,061	–	0.6595	–
Maturity in 36–42 months	9,735	–	0.6595	–

As these contracts are hedging anticipated future purchases, any unrealised gains and losses on the contracts, together with the cost of the contracts, are deferred and will be recognised in the measurement of the underlying transaction provided the underlying transaction is still expected to occur as originally designated. Included in the amounts deferred are any gains and losses on hedging contracts terminated prior to maturity where the related hedged transaction is still expected to occur as designated.

Amounts receivable and payable on open contracts are included in other assets and other creditors respectively.

The following gains, losses and costs have been deferred at 30 June 2004:

	2004 $'000	2003 $'000
Unrealised gains (losses)	8,662	–
Total gains (losses)	**8,662**	–
Unrealised gains (losses)	–	(433)
Costs of contracts	(31,475)	(307)
Total losses and costs	(31,475)	(740)
Net gains (losses and costs)	**(22,813)**	(740)

(b) Credit risk exposures

For financial instruments not recognised on the statement of financial position, credit risk arises from the potential failure of counterparties to meet their financial obligations under their respective contracts. A material exposure arises from over-the-counter swap contracts and the consolidated group is exposed to loss in the event that counterparties fail to settle the contracted amount. In order to mitigate any potential credit related losses, CS Energy Ltd has a policy of only dealing with counterparties with investment-grade credit ratings, or where investment-grade credit support is provided. The majority of counterparties are currently Government Owned Corporations.

For financial assets recognised on the statement of financial position, the credit risk is generally the carrying amount, net of any provisions for doubtful debts. In relation to recognised financial assets, CS Energy Ltd has a concentration of credit exposure in the National Electricity Market, operated by NEMMCO. The National Electricity Market operates with strict prudential guidelines that minimise the potential for credit related losses.

(c) Interest rate exposures

The consolidated group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated group intends to hold fixed rate assets and liabilities to maturity.

Interest rate exposures

	Notes	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	1 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
2004							
Financial assets							
Cash and deposits (1)	6	**4,328**	**—**	**—**	**—**	**—**	**4,328**
Receivables	7, 10	**—**	**—**	**—**	**—**	**59,853**	**59,853**
		4,328	**—**	**—**	**—**	**59,853**	**64,181**
Weighted average interest rate		**5.29%**					
Financial liabilities							
Loans from QTC	18, 22	**78,707**	**12,045**	**77,300**	**215,924**	**—**	**383,976**
Payables	17, 21	**—**	**—**	**—**	**—**	**63,575**	**63,575**
		78,707	**12,045**	**77,300**	**215,924**	**63,575**	**447,551**
Weighted average interest rate		**5.63%**	**6.83%**	**6.83%**	**6.83%**		
Net financial assets (liabilities)		**(74,379)**	**(12,045)**	**(77,300)**	**(215,924)**	**(3,722)**	**(383,370)**
2003							
Financial assets							
Cash and deposits (1)	6	3,224	—	—	—	—	3,224
Receivables	7, 10	—	—	—	—	47,244	47,244
		3,224	—	—	—	47,244	50,468
Weighted average interest rate		5.12%					
Financial liabilities							
Loans from QTC	18, 22	16,294	11,170	207,102	445,489	—	680,055
Payables	17	—	—	—	—	36,847	36,847
		16,294	11,170	207,102	445,489	36,847	716,902
Weighted average interest rate		5.63%	6.72%	6.72%	6.72%		
Net financial assets (liabilities)		(13,070)	(11,170)	(207,102)	(445,489)	10,397	(666,434)

(1) As all investments / loans held for less than one year are on a floating rate basis, they are all included under the 'Floating interest rate' category.

(d) Net fair value of financial assets and liabilities

(i) On-balance sheet. The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated group approximates their carrying value. The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. Other monetary financial assets and liabilities that will mature prior to 30 June 2004 have not been discounted.

(ii) Off-balance sheet. The parent entity and the controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in note 32. Due to the inherent uncertainty regarding the settlement amount of these contingent liabilities, it has not been possible to assign a fair value.

The carrying amounts and net fair values of financial assets and liabilities at balance dates are:

On-balance sheet financial instruments

	Carrying amount	Consolidated Net fair value	Carrying amount	Consolidated Net fair value
	2004	**2004**	2003	2003
	$'000	**$'000**	$'000	$'000
Financial assets				
Cash and deposits	**4,328**	**4,328**	3,224	3,224
Receivables	**59,853**	**59,853**	47,244	47,244
	64,181	**64,181**	50,468	50,468
Financial liabilities				
Loans from QTC	**383,976**	**388,720**	680,055	713,517
Payables	**63,575**	**63,575**	36,847	36,847
	447,551	**452,295**	716,902	750,364

30 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) DIRECTORS

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

Non-executive Chairman

SE Lonie [(1)]

Non-executive directors

TBI Crommelin
TG Handicott
RJ Henricks [(1)]
JA Leaver [(1)]
TJ O'Dwyer [(1)]
T White

(1) The prior term of this director expired on 30 June 2003. The director was re-appointed on 3 July 2003.

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 also receive superannuation contributions.

Relationship between remuneration and entity's performance

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

Future Changes

The shareholding Ministers advised an increase of 16% to director fees in July 2004. The fees had previously remain unchanged since June 1999.

Remuneration

Details of the remuneration of each specified director of CS Energy Ltd, including their director-related entities, are set out in the following tables:

Specified director remuneration

	Primary Cash salary and fees $	Post Employment Superannuation $	Total $
SE Lonie			
2004	**55,350**	**4,982**	**60,332**
2003	55,780	5,200	60,980
TBI Crommelin			
2004	**20,000**	**–**	**20,000**
2003	20,000	–	20,000
TG Handicott			
2004	**24,000**	**–**	**24,000**
2003	24,000	–	24,000
RJ Henricks			
2004	**22,823**	**2,070**	**24,893**
2003	23,000	2,050	25,050
JA Leaver			
2004	**22,823**	**2,070**	**24,893**
2003	23,000	2,250	25,250
TJ O'Dwyer			
2004	**26,792**	**–**	**26,792**
2003	27,000	–	27,000
T White			
2004	**26,000**	**–**	**26,000**
2003	29,667	–	29,667
Total			
2004	**197,788**	**9,122**	**206,910**
2003	202,447	9,500	211,947

Other transactions with directors and director-related entities

A director, Mr SE Lonie, is an independent consultant who provided consulting services in relation to practice management to KPMG, Chartered Accountants and McCullough Robertson, Solicitors. KPMG provided accounting and financial advisory services and McCullough Roberston provided legal services to the consolidated group.

A director, Ms TG Handicott, is a partner of Corrs Chambers Westgarth, Solicitors. Corrs Chambers Westgarth provided legal services to the consolidated group.

A director, Mr TJ O'Dwyer, is a partner of BDO Kendalls, Chartered Accountants. A director, Ms JA Leaver, has a sister who is a partner of BDO Kendalls, Chartered Accountants. BDO Kendalls provided accounting services to the consolidated group.

All of the above services were provided to CS Energy Ltd on normal commercial terms and conditions.

A director, Mr R Henricks, is Chairman of the QESI Superannuation Fund. The majority of employees of CS Energy Ltd are entitled to benefits from this fund. Payments made to the fund in the year are disclosed in note 34.

Other transactions with directors and director related entities

		Consolidated		Parent	
		2004	2003	**2004**	2003
		$	$	**$**	$
Legal fees :	Corrs Chambers Westgarth	**120,849**	211,146	**120,849**	211,146
	McCullough Robertson	**46,111**	34,258	**45,634**	34,258
		166,960	245,404	**166,483**	245,404
Accounting fees:	BDO Kendalls	**25,125**	117,651	**25,125**	117,651
	KPMG	**70,784**	39,519	**70,784**	39,519
		95,909	157,170	**95,909**	157,170

(b) EXECUTIVES

The following persons were the six executives with the greatest authority for the strategic direction and management of the consolidated entity ('specified executives'), all of whom were employed by CS Energy Ltd during the financial year:

Chief Executive Officer;
Chief Financial Officer;
General Manager Production;
General Manager Projects and Technical Services;
General Manager Market Trading; and
General Manager Corporate Services.

Principles used to determine the nature and amount of remuneration

Executives receive a base salary (incorporating cash, allowances and non-monetary benefits), superannuation 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 base salary. Executive remuneration (and any change to executive remuneration) requires approval of the Board in consultation with the shareholding Ministers.

Relationship between remuneration and entity's performance

The base 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 to be indicators of good corporate performance.

Impact of remuneration contracts on future periods

No specific contract terms of any executive affect remuneration of future periods, other than annual adjustments based on cost of living and general labour market escalation.

Performance related bonuses

Executive performance payments, as described above, are determined by the remuneration committee each July, immediately after the financial year to which the performance payment relates. Payment is made once the shareholding Ministers have been consulted with respect to the payments.

The quantum of each executive's performance payment is based on predetermined performance criteria taking into account a blend of 3 areas:

- overall company performance;
- performance by the division which the executive leads; and
- the executive's personal contribution to the overall company result as determined by the Board.

Performance criteria include specific relevant measures in the following broad key result areas:

- safety;
- plant reliability;
- financial returns;
- environmental performance; and
- project delivery.

There have been no changes to the terms and conditions of employment of executives over the past financial year, and no current proposal to change the terms and conditions in the foreseeable future.

Remuneration

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

Specified executive remuneration

	Primary		Post Employment	
	Cash salary and fees	Non-monetary benefits	Superannuation	Total
	$	$	$	$
Chief Executive Officer [1]				
2004	**178,432**	**18,107**	**21,412**	**217,951**
2003	304,000	22,792	30,400	357,192
Chief Financial Officer [2]				
2004	**211,005**	**38,000**	**25,234**	**274,239**
2003	165,338	38,000	20,334	223,672
General Manager Production				
2004	**172,706**	**38,000**	**25,285**	**235,991**
2003	165,750	38,000	20,375	224,125
General Manager Projects and Technical Services				
2004	**176,052**	**38,000**	**25,686**	**239,738**
2003	168,983	38,000	20,698	227,681
General Manager Market Trading				
2004	**176,873**	**38,000**	**25,785**	**240,658**
2003	169,776	38,000	20,778	228,554
General Manager Corporate Services				
2004	**153,555**	**38,664**	**22,987**	**215,206**
2003	135,288	38,664	17,329	191,281
Total				
2004	**1,068,623**	**208,771**	**146,389**	**1,423,783**
2003	1,109,135	213,456	129,914	1,452,505

(1) The Chief Executive Officer resigned and ceased employment with CS Energy on 23 January 2004.

(2) The cash salary and fees component of remuneration paid / payable to the Chief Financial Officer includes a component for higher duties allowance following his appointment as Acting Chief Executive Officer for the period 29 December 2003 to 30 June 2004.

Other transactions with executives and executive-related entities

There were no other transactions with executives, including their executive-related entities. CS Energy Ltd is not a disclosing entity and is not required to comply with the disclosure requirements relating to executive remuneration included in accounting standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities*. Senior executives may also earn performance based at risk incentive bonuses which are not shown in this note.

31 REMUNERATION OF AUDITORS

	Consolidated		Parent	
	2004	2003	**2004**	2003
	$	$	**$**	$
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated group:				
Auditors of the parent entity				
Parent entity	**118,800**	110,000	**118,800**	110,000
Controlled entities	**12,060**	10,150	**—**	—
	130,860	120,150	**118,800**	110,000

32 CONTINGENT LIABILITIES

As CS Energy Ltd considers that the probability of a future sacrifice of economic benefits is remote, specific details about contingent liabilities have not been disclosed.

33 COMMITMENTS FOR EXPENDITURE

Capital commitments

Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable as follows:

	Consolidated		Parent	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Not later than one year	**207,002**	16,302	**36,175**	12,000
Later than one year, but not later than five years	**1,012,384**	117,946	**71,761**	105,791
Later than five years	**14,011**	110,208	**—**	93,897
	1,233,397	244,456	**107,936**	211,688
Lease commitments				
Commitments 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	**456**	723	**410**	640
Later than one year, but not later than five years	**2,288**	705	**2,112**	637
Later than five years	**1,123**	—	**1,123**	—
	3,867	1,428	**3,645**	1,277

34 EMPLOYEE BENEFIT LIABILITIES

	Consolidated		Parent	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Employee benefit liabilities				
Provisions for employee benefits				
Current	**7,309**	7,579	**6,452**	6,811
Non-current	**13,316**	14,071	**10,788**	11,439
Aggregate employee benefit liability	**20,625**	21,650	**17,240**	18,250

	Consolidated		Parent	
	2004	2003	**2004**	2003
Employee numbers				
Employees at reporting date	**467**	501	**392**	427

The amounts for long service leave and superannuation are measured at their present values. The following assumptions were adopted in measuring present values of long service leave:

Weighted average rates of increase in annual employee benefits to settlement of the liabilities	**3.5%**	3.4%	**3.5%**	3.4%
Weighted average discount rates	**5.85%**	5.28%	**5.85%**	5.28%
Weighted average terms to settlement of the liabilities	**10.0 yrs**	10.0 yrs	**10.0 yrs**	10.0 yrs

Superannuation – defined benefit
A number of employees of the consolidated group are entitled to benefits on retirement, disability or death from the Queensland Electricity Supply Industry (QESI) Superannuation Fund. This fund provides lump sum benefits based on years of service and final average salary.

Actuarial assessments of the fund are made at no more than three yearly intervals, and the last such assessment dated January 2003 was made as at 30 June 2002.

Information relating to the fund based on the latest actuarial assessment and the financial report of the fund for the year ended 30 June 2002 is set out below.

	Consolidated		Parent	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Net market value of assets held by the fund to meet future benefit payments	**70,539**	70,539	**70,539**	70,539
Present value of employees' accrued benefits	**67,903**	67,903	**67,903**	67,903
Excess of present value of assets held to meet future benefit payments over employees' accrued benefits	**2,636**	2,636	**2,636**	2,636
Vested benefits	**67,903**	67,903	**67,903**	67,903
Defined benefit superannuation expense	**5,090**	6,398	**4,248**	5,623
Defined contribution superannuation expense	**357**	181	**289**	160
Total employer superannuation expense	**5,447**	6,579	**4,537**	5,783

The above amounts were measured as at 30 June of each year.

A review of the QESI Superannuation Fund by the actuary on behalf of CS Energy Ltd, dated 23 April 2004, indicates that the ratio of net market value of plan assets to the present value of accrued benefits (estimated to 1 July 2004) has fallen from 104% to 100%.

Vested benefits are benefits which are not conditional upon continued membership of the fund (or any factor other than resignation from the fund) and include benefits which members were entitled to receive had they terminated their fund membership as at the reporting date.

35 RELATED PARTIES

Directors and specified executives
Disclosures relating to directors and specified executives are set out in note 30.

Wholly-owned group
The wholly-owned group consists of CS Energy Ltd and its wholly-owned controlled entities:

CS Energy Mica Creek Pty Ltd
CS North West Pty Ltd
Callide Energy Pty Ltd
Delta Solutions Pty Ltd
CS Energy Kogan Creek Pty Ltd
Kogan Creek Power Pty Ltd
CS Kogan (Australia) Pty Ltd
Aberdare Collieries Pty Ltd
CEPA (Kogan Creek) Holding Pty Ltd
CEPA (Kogan Creek) Leasing I Pty Ltd
CEPA (Kogan Creek) Leasing II Pty Ltd
CEPA (Kogan Creek) Leasing III Pty Ltd
CEPA (Kogan Creek) Leasing IV Pty Ltd
SE CSE Pty Ltd
Swanbank Energy Pty Ltd

Ownership interests in these controlled entities are set out in note 36.

Disposal of controlled entities
Mirant Asia-Pacific (Dutch) BV was wound up and ceased to exist on the register of The Chamber of Commerce and Industries for Amsterdam on 24 November 2003.

MAP (Holding) Denmark ApS was wound up and deregistered from the Danish Commerce and Companies Agency on 8 January 2004.

Disposal of controlled entity – prior year
MAP Australia (BVI) Ltd was wound up and struck from the register of companies in the British Virgin Islands on 17 June 2003.

Transactions between CS Energy and wholly-owned group members
Transactions between CS Energy Ltd and other entities in the wholly-owned group during the year ended 30 June 2004 consisted of:

(a) loans advanced by CS Energy Ltd;

(b) the payment of interest on the above loans;

(c) the supply of labour by CS Energy Ltd;

(d) the supply of engineering services to CS Energy Ltd;

(e) dividends paid to controlling entity; and

(f) transactions between CS Energy Ltd and its wholly owned controlled entities under the tax sharing agreement described in note 5.

Interest was charged on loans only to the extent that capitalisation was required in accordance with AASB 1036 *Borrowing Costs*. The average interest rate charged in relation to these loans was 6.5% (2003 – 7.1%).

Related party transactions and balances

	Parent	
	2004	2003
	$'000	$'000
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly owned group:		
Sale of goods and services	**7,331**	8,302
Purchase of goods and services	**—**	(1,569)
Interest revenue	**6,474**	—
Dividend revenue	**15,000**	30,000
Aggregate amounts receivable from and payable to entities in the wholly owned group at balance date:		
Current receivables – other debtors	**9,174**	1,207
Tax-related receivable	**97,593**	—
Non-current receivable – loans to related parties	**488,780**	404,968
Current payables – other creditors	**4,241**	154
Tax-related payable	**97,593**	—
Non-current payables – other creditors	**5,800**	—

Controlling entities

The ultimate parent entity in the wholly-owned group is CS Energy Ltd.

Ownership interests in related parties

Interests held in the following classes of related parties are set out in the following notes:

(a) controlled entities – note 36;

(b) associates – note 37; and

(c) joint ventures – note 38.

36 INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding % 2004	Equity Holding % 2003
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
Delta Solutions Pty Ltd	Australia	Ordinary	**100**	100
CS Energy Kogan Creek Pty Ltd	Australia	Ordinary	**100**	100
Swanbank Energy Pty Ltd	Australia	Ordinary	**100**	100
SE CSE Pty Ltd	Australia	Ordinary	**100**	100
CS Kogan (Australia) Pty Ltd	Australia	Ordinary	**100**	100
Kogan Creek Power Pty Ltd	Australia	Ordinary	**100**	100
Aberdare Collieries Pty Ltd	Australia	Ordinary	**100**	100
CEPA (Kogan Creek) Holding Pty Ltd	Australia	Ordinary	**100**	100
CEPA (Kogan Creek) Leasing I Pty Ltd	Australia	Ordinary	**100**	100
CEPA (Kogan Creek) Leasing II Pty Ltd	Australia	Ordinary	**100**	100
CEPA (Kogan Creek) Leasing III Pty Ltd	Australia	Ordinary	**100**	100
CEPA (Kogan Creek) Leasing IV Pty Ltd	Australia	Ordinary	**100**	100

37 INVESTMENTS IN ASSOCIATES

Name of company	Principal activity	Ownership interest		Consolidated carrying amount		Parent carrying amount	
		2004	2003	**2004**	2003	**2004**	2003
		%	%	**$'000**	$'000	**$'000**	$'000
Linc Energy Ltd	Gas exploration	**33.33**	33.33	**–**	–	**–**	–
Movements in carrying amounts of investments in associates							
Carrying amount at the beginning of the financial year				**–**	–	**–**	–
Acquired during the year				**–**	–	**–**	–
Share of loss from ordinary activities after income tax				**–**	–	**–**	–
Amortisation of goodwill				**–**	–	**–**	–
Impairment write down				**–**	–	**–**	–
Carrying amount at end of financial year				**–**	–	**–**	–
Results attributable to associates							
Loss from ordinary activities before income tax				**–**	–		
Income tax benefit (expense)				**–**	–		
Loss from ordinary activities after income tax				**–**	–		
Retained losses attributable to associates at beginning of financial year				**(4,642)**	(4,642)		
Retained losses attributable to associates at end of financial year				**(4,642)**	(4,642)		
Reserves attributable to associates							
Asset revaluation reserve							
Balance at beginning of the financial year				**–**	–		
Acquired during the year				**–**	–		
Revaluation reserve decrement				**–**	–		
Balance at end of the financial year				**–**	–		
Share of associate's contingent liabilities				**–**	–		
Share of associate's expenditure commitments				**–**	–		

CS Energy Ltd has provided funds in prior years under a convertible note to assist Linc Energy Ltd in meeting its obligations. On the basis of CS Energy Ltd's view on the outlook for Linc Energy Ltd at balance date, the company continued to carry its investment at nil. Refer note 39.

38 INTERESTS IN JOINT VENTURES

(a) Joint venture operations

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 Ltd). IG Power (Callide) Ltd holds the remaining 50% interest.

The consolidated group has a 50% participating interest in a gas development joint venture with Queensland Gas Company Ltd. The consolidated group has a 5% participating interest in a gas development joint venture with Australian CBM Pty Ltd (a wholly-owned subsidiary of Arrow Energy NL).

The consolidated group's share of assets employed in the joint ventures is included in the statement of financial position under the following classifications.

	Consolidated	
	2004	2003
	$'000	$'000
Current assets		
Cash	**2,528**	82
Receivables	**1,560**	2,010
Inventories	**2,480**	2,062
	6,568	4,154
Non-current assets		
Gas exploration and evaluation costs	**8,047**	—
Property, plant and equipment	**376,959**	371,557
Share of assets employed in joint venture	**391,574**	375,711

(b) Joint venture entities

Name of entity	Principal activity	Ownership interest		Carrying amount	
		2004	2003	**2004**	2003
		%	%	**$**	$
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

Joint venture entities

	Consolidated	
	2004	2003
	$'000	$'000
Movements in carrying amount of interests in joint venture entities		
Carrying amount at the beginning of the financial year	**1**	1
New capital invested	**–**	–
Share of profit (loss) after tax	**–**	–
Carrying amount at the end of the financial year	**1**	1
Share of joint venture entities' assets and liabilities		
Current assets	**1**	1
Non-current assets	**–**	–
Total assets	**1**	1
Current liabilities	**–**	–
Non-current liabilities	**–**	–
Total liabilities	**–**	–
Net assets	**1**	1
Share of joint venture entities' revenues, expenses and results		
Revenues	**–**	–
Expenses	**–**	–
Profit (loss) from ordinary activities before income tax	**–**	–

39 EVENTS OCCURRING AFTER BALANCE DATE

On 6 August 2004, CS Energy Ltd sold its investment and the convertible notes it held in its associate Linc Energy Ltd for $1,000,001. The carrying value of the investment is nil (note 37). The carrying value of the convertible notes is nil (note 37). The financial effect of this event was not recognised in the 2003/04 financial year but a gain of $1,000,001 will be recognised in the 2004/05 financial year.

There was no other event occurring after balance date that has affected or may affect the financial position of the company.

40 RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Profit from ordinary activities after income tax	**30,397**	39,716	**82,429**	47,155
Depreciation and amortisation	**89,607**	79,682	**58,275**	48,664
Write down of investments to recoverable amount	**—**	645	**3,585**	645
Net loss (gain) on sale of non-current assets	**(2,666)**	(259)	**(2,666)**	(801)
Change in operating assets and liabilities (increase) / decrease in assets:				
Trade and other debtors	**(13,982)**	14,629	**(80,236)**	5,815
Inventories	**(2,452)**	(4,965)	**(1,118)**	(4,082)
Future income tax benefit	**(8,928)**	(8,903)	**(8,351)**	(7,126)
Prepayments	**(3,309)**	21,232	**(3,405)**	21,246
(Decrease) / increase in liabilities:				
Accounts payable, employee benefits and other Provisions	**1,425**	7,695	**(5,443)**	(23,101)
Provision for deferred income tax	**19,430**	27,170	**7,709**	14,341
Net cash inflow from operating activities	**109,522**	176,642	**50,779**	102,756

41 NON-CASH FINANCING AND INVESTING ACTIVITIES

Accrued capital work in progress	**—**	—	**—**	—

42 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
2004	**1,374,023**	**46,887,830**	**459**
2003	1,362,401	47,600,714	489

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

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

43 INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Australian Financial Reporting Council (FRC) has determined that Australian entities reporting under the *Corporations Act 2001* must prepare their financial statements under International Financial Reporting Standards (IFRS) as adopted by the Australian Accounting Standards Board from financial years commencing on or after 1 January 2005. This requirement will involve CS Energy Ltd completing a first time set of financial statements under IFRS for the financial year ended 30 June 2006.

Comparatives will also be remeasured under IFRS and restated for the financial years ending 30 June 2005, with an opening statement of financial position prepared as at 1 July 2004, being the date of transition to IFRS.

A project has been established, and is monitored by the Audit Committee, to manage the convergence to IFRS and ensure the group is prepared to report for the first time under IFRS in accordance with these dates.

Currently, the major areas of focus are issues associated with adoption of Australian equivalents to IAS 32 – *Financial Instruments: Disclosure and Presentation* / IAS 39 – *Financial Instruments: Recognition and Measurement,* IAS 19 – *Employee Benefits,* IAS 12 – *Income Taxes,* IAS 16 – *Property, Plant & Equipment* and IAS 36 – *Impairment of Assets*. Adoption of IFRS will result in changes to group accounting policies, procedures and financial reporting systems.

Major changes identified to date that will be required to the consolidated group's existing accounting policies include the following:

(i) Income tax

Current approach

Deferred tax balances are determined using the income statement method where items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss. Current and deferred taxes cannot be recognised directly in equity, under the current standard.

IFRS Requirements

Under the Australian equivalent to IAS 12 *Income Taxes*, deferred tax balances will be determined using the balance sheet method, which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

(ii) Impairment of assets

Current approach

The basis for assessing impairment under the current standard is performed at the lowest level of aggregation of non-current assets having a similar nature or function, as adopted in the financial report for disclosure, using undiscounted cash flows.

IFRS Requirements

Under the Australian equivalent to IAS 36 *Impairment of Assets*, the test for the recoverable amount of assets will be performed at the cash generating unit level and will require the future cash flows used in the value of the recoverable amount test calculations to be discounted using a risk adjusted discount rate.

In the event the cash flow valuation of a cash-generating unit is assessed to be below its cost, a write down of asset values to their recoverable amount will be required, with impairment write downs impacting on profits in the future. Where the recoverable amount exceeds the book value of the asset, the book value will remain unchanged, i.e. there will be no upwards revaluation.

Otherwise, no significant changes to asset values are anticipated.

(iii) Employee benefits

Current approach

Under the current standard, the cost of providing future benefits to employees is based on actual contributions payable to the superannuation plan during the period. For the defined benefit fund a liability is only recognised when the value of plan assets is less than the value of accrued benefits. Movements in the carrying value of plan assets and liabilities are not recognised in the statement of financial performance.

IFRS Requirements

Under the Australian equivalent to IAS 19 *Employee Benefits*, the cost of providing future benefits to employees under defined benefit plans are recognised over the period during which employees provide the services.

An asset or liability will also need to be recognised in the statement of financial position in relation to the defined benefit plan, being the net of the defined benefit obligation and the fair value of the assets. Going forward, movements in the carrying amount of the assets or liabilities of the plan will be recognised in the statement of financial performance.

(iv) Financial instruments

Current approach

Derivatives are not recognised on the statement of financial position and changes in the fair value of financial instruments are not recognised in the statement of financial performance or statement of financial position.

IFRS Requirements

Under the Australian equivalent to IAS 39 *Financial Instruments: Recognition and Measurement*, all financial assets and liabilities, including derivatives will be recognised on the statement of financial position.

This approach means that all swaps, options and futures contracts for the sale of electricity will be recognised on the statement of financial position at inception unless these contracts meet the definition of a cash flow hedge. Gains and losses on these instruments that do not meet the definition of a cash flow hedge will be recognised in the statement of financial performance as they arise.

The above may not be a complete list of changes in accounting policies that will result from the transition to Australian equivalents of IFRS, as standards continue to be analysed in detail, and some decisions have not yet been made where choices of accounting policies are available. For these reasons, it is not yet possible to quantify the impact of the transition to Australian equivalents of IFRS on the consolidated entity's financial position and reported results at this date.

DIRECTORS' DECLARATION

for the year ended 30 June 2004

The directors declare that the financial statements and notes set out on pages 40 to 70:

(a) comply with Accounting Standards, the Corporations Act 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the company's and consolidated group's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

IN THE DIRECTORS' OPINION:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that CS Energy Ltd will be able to pay its debts as and when they become due and payable.

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

Mr SE Lonie
Chairman

Ms TG Handicott
Director

Brisbane
9 September 2004

Matters relating to the electronic presentation of the audited financial report

The audit report relates to the financial report of CS Energy Ltd for the financial year ended 30 June 2004 included on CS Energy Ltd's web site. The Directors are responsible for the integrity of CS Energy Ltd's web site. The audit report refers only to the financial report identified below and does not include a review of the integrity of this web site or provide an opinion on any other information which may have been hyperlinked to/from the financial report. 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 Ltd, to confirm the information included in the audited financial report presented on this web site.

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

To the Members of the CS Energy Ltd

SCOPE

The financial report

The financial report of CS Energy Ltd consists of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial report, and the directors' declaration for both CS Energy Ltd (the company) and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

Directors' responsibility

The directors are responsible for the preparation and true and fair presentation of the financial report, the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

As required by law, an independent audit was conducted in accordance with *QAO Auditing Standards* to enable me to provide an independent opinion whether in all material respects the financial statements are presented fairly, in accordance with the prescribed requirements.

Audit procedures included -

- examining information on a test/sample basis to provide evidence supporting the amounts and disclosures in the financial report,
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors,
- obtaining written confirmation regarding the material representations made in conjunction with the audit, and
- reviewing the overall presentation of information in the financial report.

The names of the entities controlled during all or part of, or at the end of, the financial year but of which I have not acted as auditor are:

Mirant Asia-Pacific (Dutch) BV
MAP (Holding) Denmark ApS

INDEPENDENCE

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO authorised auditors.

The Auditor-General is the auditor of 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 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.

AUDIT OPINION

In my opinion, the financial report of CS Energy Ltd is in accordance with:

(a) the *Corporations Act 2001*, including:

- **(i)** giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
- **(ii)** complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

B P WORRALL, FCA
Assistant Auditor-General
Queensland Audit Office
(as Delegate of the Auditor-General of Queensland) Brisbane

GLOSSARY

Term	Definition
Availability	A measure of a generator's capability to achieve full load. This measure takes into account both planned and forced outages.
Carbon intensity	Emissions of CO_2 per megawatt hour of electricity generation.
CO_2	Carbon dioxide; a greenhouse gas.
Combined cycle	Combined cycle is the most efficient way to generate electricity. The combined cycles unit reuses the waste heat to drive a second generation unit.
GW	Gigawatt. One gigawatt = one billion watts.
GWh	Gigawatt hour. One gigawatt of capacity, generating for one hour.
Gearing	A financial term that describes the relationship between debt and equity. Gearing = debt x 100 divided by debt + equity.
ISO 14001	International Standard for Environmental Management Systems.
Lost time injury	A lost time injury is an occurrence that results in time lost from work of one shift or more, not counting the shift in which the injury occurred.
LTIFR	Lost Time Injury Frequency Rate. The number of lost time injuries per million hours worked by employees and contractors (calculated on a 12 month moving average).
ML	Megalitres. One ML = 1,000,000 litres.
MW	Megawatt. One megawatt = 1,000,000 watts.
MWh	Megawatt hour. One megawatt hour = one million watt hours.
NEM	National Electricity Market.
Pool price	The variable market price for electricity.
Reliability	A measure of a generator's capacity to achieve full load when plant is not undergoing a planned outage.
Reportable environmental incidents	Refers to incidents that result in a release to the environment. These are notified to the Environmental Protection Agency (EPA) as a condition of license.
Return on productive assets	Return on productive assets = earnings before interest and tax minus investment income x 100% divided by average total assets minus average financial assets.

DESIGN. MINALE BRYCE DESIGN STRATEGY **PHOTOGRAPHY.** STEFAN JANNIDES PHOTOGRAPHY, TONY WALLER PHOTOGRAPHICS (PAGE 19) **PRINT.** FINE PRINT

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