2006/2007 FINANCIAL REPORT

CONTENTS

CS Energy Limited & controlled entities ACN 078 848 745

This financial report covers both CS Energy Limited as an individual entity and the consolidated entity consisting of CS Energy Limited and its subsidiaries. The financial report is presented in the Australian currency. CS Energy Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is: CS Energy Limited, Level 21, Central Plaza Two, 66 Eagle Street, Brisbane Qld 4000. A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 10 to 36 and in the directors' report on pages 46 to 47, both of which are not part of this financial report. The financial report was authorised for issue by the Directors on 31 August 2007. The company has the power to amend and reissue the financial report.

DIRECTORS' REPORT

Your Directors present their report on the consolidated group, consisting of CS Energy Limited and the entities it controlled at the end of, or during, the year ended 30 June 2007.

DIRECTORS

The following persons were directors of CS Energy Limited during the whole of the financial year and up to the date of this report:

Mr SE Lonie (Chairman)
Mr TBI Crommelin (Deputy Chairman)
Mr M Bucknall
Mr RJ Henricks
Ms S Israel
Ms JA Leaver
Mr T White

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

- Qualifications, experience and special responsibilities—page 43 (Company Secretary page 44); and
- Meetings held and director attendance—page 38

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

PRINCIPAL ACTIVITIES

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

Consolidated results	2007 $'000	2006 $'000
Profit from continuing operations after income tax	**43,300**	56,468

DIVIDENDS—CS ENERGY LIMITED

Details of dividends in respect of the current and prior year:

	$'000
Final Dividend for 2005/06 provided for in previous year, paid on 29 December 2006	40,170
Dividend for 2006/07 provided for in this report, due for payment on 31 December 2007	**34,640**

REVIEW OF OPERATIONS

The CS Energy group profit after tax reduced by 23% over the previous year in a volatile market environment.

Revenue from the sale of electricity has increased by 22% over the previous year, due primarily to an increase in production of 9% from strong operational performance, at a time of significant water conservation at the Swanbank B plant. While the Queensland pool price increased by 85% in the current year, these higher prices were reduced by the group's derivative book, and the impact of accounting standard AASB 139 *Financial Instruments: Recognition and Measurement.*

Operational expenses increased by 8% during the year, principally as a result of the progressive recognition of CS Energy's large overhaul programs for its operating sites at Swanbank, Mica Creek and Callide.

CS Energy's balance sheet has been significantly impacted through the application of AASB 139 to a steep rise in the forward price of electricity. The accounting approach required under this standard has meant that the group's equity has decreased from just under $1 billion at June 2006, to $488 million and the nominal gearing level (debt to debt plus equity) at the end of the financial year was 69%. This accounting adjustment does not reflect the significant upside for future pool revenues that are implicit in the steepening forward curve. The gearing level, adjusted for this AASB 139 impact, is 52%, which is considered to be a more reasonable indication of the financial strength of the balance sheet.

Consistent with the stronger underlying result, cash flow from operations was up 22%, as compared to the prior year.

The 2006/07 capital investment program totalled $373 million and included:

- Kogan Creek construction $340 million; and
- Major overhauls $17 million.

Further discussions on the operations of the group and the results of such operations a may be found in pages 13 to 21 of the annual report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Pursuant to the passing of regulation *QPTC Restructure—Stage 1* under the *Government Owned Corporations Act 1993*, Enertrade's interest in the long-term power purchase agreement ("PPA") for the Collinsville Power Station (owned and operated by Transfield Services) was transferred to CS Energy on 19 August 2007. The transfer was non-reciprocal.

The PPA agreement, which extends to 2016, is an onerous contract as the unavoidable costs of meeting the ongoing obligations under the PPA exceed the benefits expected to be received. Whilst work is still ongoing to finalise the valuation of the onerous obligation, the liability is currently estimated to be between $130 million and $160 million, dependent upon the future impacts of drought conditions.

In addition, Enertrade's obligations in respect of contaminated land both adjacent to and within the Collinsville Power Station, may be transferred to CS Energy. The future liability associated with these obligations is currently estimated to be between $1 million and $2 million.

Other than the transfer of the Collinsville PPA and obligations in respect of contaminated land from Enertrade to CS Energy, at the date of this report, the directors are not aware of any matter or circumstance which has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

CS Energy expects an improved level of operational and financial performance in 2007/08. The completion of the commissioning of CS Energy's new 750MW Kogan Creek Power Station in the last quarter of calendar 2007 will make a significant contribution to meeting long-term energy needs in Queensland.

The completion of the commissioning of Kogan Creek Power Station, aside from being a significant increase to operational capacity, will also trigger the requirement to expense interest costs, which have been capitalised during construction of this plant. The ongoing interest cost is currently of the order of $60 million, which should be more than offset by the contribution to profit from the operation of the Kogan Creek Power Station and the expected volatile, but higher overall market outcomes across the group's entire National Electricity Market portfolio.

The market price for electricity is expected to be higher than in recent years, principally as a as a result of the drought conditions currently being experienced throughout the National Electricity Market. These same drought conditions are also expected to increase the volatility in the market price for electricity. Consistent with prior years, the group will manage this volatility through prudent hedging strategies.

CS Energy's Swanbank B and E power stations are currently reliant on water supplies from the Wivenhoe and Moogerah dams to operate. The ongoing drought conditions in south-east Queensland have resulted in the Queensland Government constructing a new recycled water pipeline to provide water for Swanbank and other users.

The commercial arrangements for the new pipeline have not yet been developed, except for advice from the Queensland Department of Infrastructure that the water usage charge for 2007/08 will remain unchanged from 2006/07. However, the financial impact on CS Energy is uncertain for the 2008/09 and subsequent financial years—refer note 3(a) to the financial statements.

Further 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 consider that it would be likely to result in unreasonable prejudice to the consolidated group.

ENVIRONMENTAL REGULATION

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

During the year, a voluntary Environmental Management Program was submitted to the EPA covering the planned upgrade to bunding of the bulk ignition oil facility on the Callide B site. EPA amendments to the Swanbank development approvals are being finalised, to support operation under declared drought conditions and the use of recycled water on the site. The Swanbank management plan for the ash dam is also under review, which includes storage capacity assessment and enhancement.

The group received five environmental complaints at Callide: one complaint about noise, and the other four complaints about stack emissions or odours. All complaints were investigated and addressed by site management. The group also reported a minor exceedance of the particulate emission limit for the Callide power plant and six minor exceptions to Swanbank licence water limits during the year.

The group took actions in response to the complaints, exceedances and exceptions, all of 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.

INDEMNIFICATION AND INSURANCE OF OFFICERS

CS Energy Limited 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 Limited paid a premium 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.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 90.

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.

Stephen Lonie

Mr SE Lonie
Chairman

JA Leaver

Mrs JA Leaver
Director

Brisbane
31 August 2007

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated		Parent	
	Notes	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Revenue from continuing operations					
Revenue from the sale of electricity	5	**616,349**	505,131	**363,162**	347,834
Other revenue	5	**12,974**	22,444	**179,247**	83,940
		629,323	527,575	**542,409**	431,774
Other income	6	**181**	9,090	**181**	6,571
Cost of sales		**(396,149)**	(370,703)	**(271,574)**	(261,939)
Other expenses	7	**(166,499)**	(63,308)	**(161,350)**	(64,500)
Finance costs	7	**(4,955)**	(21,701)	**(54,655)**	(40,649)
Profit before income tax		**61,901**	80,953	**55,011**	71,257
Income tax expense	8	**(18,601)**	(24,485)	**15,188**	(20,638)
Profit for the period attributable to members of the parent		**43,300**	56,468	**70,199**	50,619

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

BALANCE SHEET

AS AT 30 JUNE 2007

		Consolidated		Parent	
	Notes	2007 $'000	2006 $'000	2007 $'000	2006 $'000
ASSETS					
Current assets					
Cash and cash equivalents	9	**3,286**	5,848	**111**	5,137
Trade and other receivables	10	**350,330**	83,046	**271,344**	69,702
Inventories	11	**34,564**	33,615	**26,629**	22,533
Derivative financial instruments	12	**176,652**	10,081	**176,652**	10,081
Total current assets		**564,832**	132,590	**474,736**	107,453
Non-current assets					
Other receivables	13	**99,790**	20,702	**1,540,909**	1,092,635
Investments accounted for using the equity method	14	**1**	1	**–**	–
Other non-current assets	15	**23,558**	14,344	**75,373**	66,159
Property, plant and equipment	16	**2,142,186**	1,870,080	**612,133**	655,636
Deferred tax assets	17	**359,237**	65,171	**353,622**	60,486
Derivative financial instruments	12	**47,542**	10,433	**47,542**	10,433
Retirement benefit obligations	25	**24,882**	7,571	**24,882**	7,571
Total non-current assets		**2,697,196**	1,988,302	**2,654,461**	1,892,920
Total assets		**3,262,028**	2,120,892	**3,129,197**	2,000,373
LIABILITIES					
Current liabilities					
Trade and other payables	18	**97,611**	55,763	**84,031**	43,661
Borrowings	19	**55,838**	48,771	**55,838**	48,771
Derivative financial instruments	12	**704,207**	26,312	**704,207**	26,312
Provisions	20	**45,491**	49,874	**43,485**	48,365
Total current liabilities		**903,147**	180,720	**887,561**	167,109
Non-current liabilities					
Payables	21	**–**	2,500	**–**	–
Borrowings	22	**1,048,722**	596,451	**1,048,722**	596,451
Derivative financial instruments	12	**400,838**	23,047	**400,838**	23,047
Deferred tax liabilities	23	**349,186**	258,100	**171,762**	118,303
Provisions	24	**71,831**	63,419	**58,174**	51,871
Total non-current liabilities		**1,870,577**	943,517	**1,679,496**	789,672
Total liabilities		**2,773,724**	1,124,237	**2,567,057**	956,781
Net assets		**488,304**	996,655	**562,140**	1,043,592
EQUITY					
Contributed equity	27	**1,072,504**	1,072,504	**1,072,504**	1,072,504
Reserves	26	**(537,942)**	(8,265)	**(537,942)**	(8,265)
Accumulated losses	28	**(46,258)**	(67,584)	**27,578**	(20,647)
Total equity		**488,304**	996,655	**562,140**	1,043,592

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

STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated		Parent	
	Notes	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to:					
Accumulated losses	28	–	(17,259)	–	(17,259)
Reserves	26	–	(47,000)	–	(47,000)
Total adjustment on adoption of AASB 132 and 139		–	(64,259)	–	(64,259)
Changes in the fair value of cash flow hedges, net of tax	26	**(529,677)**	38,735	**(529,677)**	38,735
Actuarial gain/(loss) on the defined benefit plan, net of tax		**12,666**	3,889	**12,666**	3,889
Net loss recognised directly in equity		**(517,011)**	(21,635)	**(517,011)**	(21,635)
Profit for the year		**43,300**	56,468	**70,199**	50,619
Total recognised income and expense for the year		**(473,711)**	34,833	**(446,812)**	28,984

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated		Parent	
		2007	2006	2007	2006
	Notes	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		**668,364**	641,201	**438,885**	453,080
Payments to suppliers and employees (inclusive of GST)		**(367,697)**	(389,352)	**(270,723)**	(292,347)
		300,667	251,849	**168,162**	160,773
Interest received		**962**	1,039	**1,014**	940
Borrowing costs		**(48,019)**	(44,618)	**(48,019)**	(33,800)
Dividends received		**–**	–	**105,766**	10,000
Net cash inflow provided by operating activities	39	**253,610**	208,270	**226,923**	137,873
Cash flows from investing activities					
Payments for property, plant and equipment		**(407,777)**	(543,845)	**(12,412)**	(58,042)
Proceeds from sale of property, plant and equipment		**–**	376	**–**	320
Loans to related parties		**–**	–	**(515,367)**	(596,151)
Repayments from related parties		**–**	–	**144,225**	71,327
Payments for gas exploration and development		**(9,663)**	–	**(9,663)**	–
Payment for open futures positions		**(250,900)**	–	**(250,900)**	–
Net cash provided by (used in) investing activities		**(668,340)**	(543,469)	**(644,117)**	(582,546)
Cash flows from financing activities					
Proceeds from borrowings		**1,845,959**	1,057,402	**1,845,959**	1,057,402
Repayment of borrowings		**(1,393,621)**	(939,476)	**(1,393,621)**	(829,291)
Dividends paid	29	**(40,170)**	(29,151)	**(40,170)**	(29,151)
Proceeds from issue of shares	27	**–**	250,000	**–**	250,000
Net cash provided by (used in) financing activities		**412,168**	338,775	**412,168**	448,960
Net increase (decrease) in cash and cash equivalents		**(2,562)**	3,576	**(5,026)**	4,287
Cash and cash equivalents at the beginning of the financial year		**5,848**	2,272	**5,137**	850
Cash and cash equivalents at the end of the financial year	9	**3,286**	5,848	**111**	5,137

Financing arrangements	22
Non-cash financing and investing activities	40

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

CONTENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, the *Government Owned Corporations Act 1993 (Qld)* and related regulations and the *Corporations Act 2001.*

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

(a) Basis of preparation

Compliance with IFRSs Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of CS Energy Limited comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with AIFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure.*

Early adoption of standards The consolidated group has elected to apply the revised standard AASB 101 *Presentation of Financial Statements* (issued October 2006) to the annual reporting period beginning 1 July 2006.

This approach includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

Historical cost convention These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) carried at fair value through the profit or loss.

Critical accounting estimates The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the consolidated group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CS Energy Limited ('company' or 'parent') as at 30 June 2007 and the results of all subsidiaries for the year then ended. CS Energy Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated group.

Subsidiaries are all those entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed, where necessary to ensure consistency with the policies adopted by the group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

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

(ii) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its associates' post acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment.

Dividends receivable from associates are recognised in the parent entity's income statement as revenue, while in the consolidated financial statements they reduce the carrying amount of the investment.

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

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

(iii) Joint ventures

Jointly controlled assets The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings.

Joint venture entities The interest in each joint venture entity is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of each entity is recognised in the income statement, and the share of movements in reserves is recognised in reserves in the balance sheet. Details relating to each entity are set out in note 38.

Profits or losses on transactions establishing each joint venture entity and transactions with each joint venture are eliminated to the extent of the group's ownership interest until such time as they are realised by a joint venture entity on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

(d) Foreign currency translation

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

(e) Revenue recognition

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

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 settlement 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 (NEM).

Revenue from the sale of the Queensland Government's gas electricity certificate (GEC) scheme is recognised at fair value on an accruals basis as the generation giving rise to the GEC is dispatched into the NEM. Fair value is determined as the contracted sale price to the extent the GECs have been forward sold, or otherwise as based on observable market prices.

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.

(f) Income tax

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

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

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

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

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

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

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

(g) Leases

Leases of property, plant and equipment, where the group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(h) Impairment of assets

Assets are reviewed and tested annually for impairment where indicators of impairment exist. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets value in use and fair value less costs to sell. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Trade and other receivables

All trade debtors are recognised initially at fair value. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(k) Inventories

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

The recognition of water as inventory is a change in accounting policy first applied in the prior financial year.

(l) Investments and other financial assets

The group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and held to maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

i) Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets.

iii) Held to maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. If the group were to sell other than an insignificant amount of held to maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held to maturity financial assets are included in non current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(m) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as hedges of the cash flows of highly probable forecast transactions (cash flow hedges).

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

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

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

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

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

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value the income statement.

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

(n) Fair value estimation

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

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for non-standard financial instruments held by the group. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

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

(o) Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment adjustment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Power stations	4 – 29 years
Capitalised overhauls	2 – 4 years
Buildings	10 – 40 years
Other, property plant and equipment	1 – 5 years

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

The assets' residual values and useful lives are reviewed on a regular basis, and adjusted if appropriate. All major items are reviewed at each balance sheet date.

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

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

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

(q) 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. Other maintenance and repair costs, and minor renewals, are charged as expenses when incurred.

(r) 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 16).

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

(s) Rehabilitation and closure costs

Provision is made for the estimated rehabilitation and closure costs at the end of the producing life of each power station on a present value basis. The present value of the obligation is recognised as an asset and depreciated over the useful life of each power station. The discount is unwound over the producing life of each power station, with the cost recognised in the income statement as 'finance costs'.

(t) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid, on average, within 45 days of recognition.

(u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw down of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

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

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

(v) Borrowings costs

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

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year of 6.44% (2006 – 6.45%).

(w) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects the group's assessment of the current market relating to time value of money and the risks specific to the liability.

(x) Deferred gas exploration and evaluation 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.

(y) Employee benefits

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

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulated sick leave are recognised in respect of employees' services up to the reporting date and are measured at remuneration rates at reporting date.

(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

All employees of the group are entitled to benefits on retirement, disability or death from the group's defined benefit superannuation plan or defined contribution plan or the superannuation plan that the employee has elected to have their company contributions paid. The group's defined benefit plan provides lump sum benefits based on years of service and final average salary. The group's defined contribution plan and other superannuation plans chosen by the employee, receive fixed contributions from group companies and the group's legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined Benefits Plan A liability or asset in respect of the group's defined benefit superannuation plan is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the plan's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in retained earnings.

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

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

(iv) Bonus plans

The group recognises a liability and an expense for bonuses based on a range of performance indicators for the period to which the performance bonus relates.

(v) Termination benefits

Termination benefits are payable when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(z) Goods and services tax

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

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

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

(aa) Dividends

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

(ab) Rounding of amounts

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

(ac) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(ad) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

AASB 7 *Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038] AASB 7* and *AASB 2005-10* are applicable to annual reporting periods beginning on or after 1 January 2007. The company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's financial instruments.

2 FINANCIAL RISK MANAGEMENT

The group's activities expose it to a variety of financial risks—electricity price risk, currency risk, interest rate risk, credit risk, and liquidity risk. The group's overall risk management program includes the management of commodity and financial markets exposures and seeks to minimise potential adverse effects on the financial performance of the group.

Risk management is implemented pursuant to policies approved by the Board of directors. The Board provides written policies for overall risk management, as well as written policies covering specific areas, including all those risk areas mentioned previously.

(a) Electricity price risk

The group is exposed to commodity price risk in the National Electricity Market. This risk arises from fluctuations in the wholesale price of electricity. Electricity swaps, futures and option contracts are used to manage this commodity price risk. The majority of these type of financial instruments have a time horizon of between 3 months and 3 years.

The group's risk management policy is to hedge a substantial proportion of the production that is highly likely to occur. The policy prescribes a target range of allowable hedging levels for discrete time periods based on a number of operational, technical and market parameters.

The group also operates an electricity trading book to assist with market liquidity, accessing market information and for trading at a profit.

(b) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions are denominated in non-Australian currency. The group contracts to acquire new generation plant, spare parts and maintenance services for existing plant, and is exposed to foreign exchange risk arising from currency exposures to the Euro, Swiss Franc and US dollar.

Forward currency contracts are used to manage foreign exchange risk. The group's risk management policy is to hedge between 95% and 100% of committed transactions that are denominated in foreign currency where settlement is to be within 12–18 months.

(c) Interest rate risk

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

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

(d) Credit risk

The group has policies in place to ensure transactions which may result in credit risk either involve counterparties of appropriate credit quality, or that sufficient security is obtained. Overall credit risk is maintained within parameters specified by the Board so that a material loss on account of credit risk is unlikely. Financial instrument counterparties and cash transactions are limited to investment grade quality counterparties or above. The group has policies that limit the amount of credit exposure to any one counterparty.

(e) Liquidity risk

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are considered to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in (i) and (ii).

(i) Asset impairment testing

Annually, the group tests whether any asset or group of assets are impaired, in accordance with the accounting policy stated in note 1(h). The recoverable amount of the asset or group of assets has been determined on a value in use basis. Value in use calculations require assumptions to be made in the following key areas:

1 Risk adjusted time value of money;
2 Forecast electricity prices;
3 Forecast prices for fuel (coal and gas);
4 Plant reliability;
5 Forecast capital and operating expenditure requirements;
6 Future regulatory environment; and
7 Accessibility and pricing of water.

In relation to item 7, CS Energy's Swanbank B and E power stations are currently reliant on water supplies from the Wivenhoe and Moogerah dams to operate. Ongoing drought conditions in south-east Queensland have resulted in the Queensland Government constructing a new recycled water pipeline to provide water for Swanbank and other users. This pipeline is currently undergoing commissioning with first water expected to be delivered in October 2007.

In addition, on 24 May 2007, the Queensland Water Commission released its final report to the Queensland Government on Urban Water Supply Arrangements in south-east Queensland. The report outlines a range of structural and regulatory reforms proposed for urban water supply arrangements, including enhanced economic regulation and pricing. There is significant uncertainty over the price that CS Energy Limited would be required to pay for recycled water, as the commercial arrangements for delivery for the Western Corridor Recycled Water Pipeline have not yet been finalised. The Queensland Department of Infrastructure has advised that the water usage rates for 2007/08 will not be greater than rates for 2006/07.

Whilst the price for recycled water is uncertain for the 2008/09 and future years, the overall financial impact on the group of adverse price outcomes would be immaterial.

For the purpose of the assessment of asset impairment for this financial year, costs for the supply of recycled water to the Swanbank site were increased to a price that CS Energy Limited considers is most likely based on current information.

ii) Electricity financial instruments measured at fair value

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

(b) Critical judgements in applying the entity's accounting policies

Management judgement is applied in the following areas:

1 Forecasting future operating performance which is used when measuring value in use for impairment testing;
2 Establishing cash-generating units for impairment testing;
3 Establishing and assessing on an ongoing basis, the useful life of long-lived power station assets; and
4 Estimating the future rehabilitation costs of long-lived power station assets.

4 SEGMENT INFORMATION

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

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and the segment reporting accounting standard, AASB114 *Segment Reporting*.

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
5 REVENUE				
From continuing operations				
Sales revenue				
Revenue from the sale of electricity	**616,349**	505,131	**363,162**	347,834
Other revenue				
Interest received/receivable	**1,058**	727	**51,842**	31,663
Dividends received/receivable	**–**	–	**105,766**	10,000
Operation, maintenance & services fees	**10,273**	20,496	**20,548**	41,177
Other	**1,643**	1,221	**1,091**	1,100
	12,974	22,444	**179,247**	83,940
Total Revenue	**629,323**	527,575	**542,409**	431,774
6 OTHER INCOME				
Net gain on disposal of property, plant and equipment	**181**	374	**181**	319
Net gain on derivatives not qualifying as hedges	**–**	6,252	**–**	6,252
Other	**–**	2,464	**–**	–
	181	9,090	**181**	6,571
7 EXPENSES				
Profit before income tax includes the following specific expenses:				
Other expenses				
Distribution costs	**13,444**	13,182	**5,226**	5,067
Administration costs	**57,731**	50,126	**60,800**	59,433
Net loss on derivatives not qualifying as hedges	**95,324**	–	**95,324**	–
	166,499	63,308	**161,350**	64,500
Depreciation				
Depreciation included in cost of sales	**74,637**	64,982	**51,247**	41,278
Depreciation included in administration costs	**1,583**	1,117	**1,385**	649
Total depreciation	**76,220**	66,099	**52,632**	41,927
Amortisation				
Capitalised overhauls included in cost of sales	**23,032**	19,327	**15,175**	13,169
Finance costs				
Interest and finance charges paid/payable	**50,921**	49,449	**50,921**	38,631
Less: amount capitalised	**(50,828)**	(30,723)	**–**	–
Discount amortised [(1)]	**4,862**	2,975	**3,734**	2,018
Finance costs expensed	**4,955**	21,701	**54,655**	40,649
Rental expense relating to operating leases				
Minimum lease payments	**1,086**	1,007	**1,024**	977
Defined contribution superannuation expense	**2,487**	1,732	**1,693**	943

(1) Discount amortised relates to the provision for rehabilitation and closure costs (refer note 1(s))

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000

8 INCOME TAX EXPENSE

(a) Income tax expense				
Current tax	**(21,046)**	3,979	**(20,501)**	15,657
Deferred tax	**39,670**	20,445	**5,335**	2,828
Adjustments for current tax of prior periods	**(23)**	61	**(22)**	2,153
	18,601	24,485	**(15,188)**	20,638
Income tax expense is attributable to:				
Profit from continuing operations	**18,601**	24,485	**(15,188)**	20,638
Aggregate income tax expense	**18,601**	24,485	**(15,188)**	20,638
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 17)	**(32,839)**	(582)	**(33,451)**	(397)
(Decrease) increase in deferred tax liabilities (note 23)	**72,509**	21,027	**38,786**	3,225
	39,670	20,445	**5,335**	2,828
(b) Reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**61,901**	80,953	**55,011**	71,257
Tax at the Australian tax rate of 30% (2006 – 30%)	**18,570**	24,286	**16,504**	21,377
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Entertainment	**29**	24	**27**	22
Non-taxable dividends	**–**	–	**(31,730)**	(3,000)
Industry restructure fee	**–**	58	**–**	58
Sundry items	**25**	56	**34**	28
	18,624	24,424	**(15,165)**	18,485
Adjustments for current tax of prior years	**(23)**	61	**(23)**	2,153
Income tax expense	**18,601**	24,485	**(15,188)**	20,638
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Current tax – credited directly to equity (note 28)	**–**	–	**–**	–
Net deferred tax – debited (credited) directly to equity (notes 26 and 28)	**(221,577)**	18,391	**(221,577)**	18,391
	(221,577)	18,391	**(221,577)**	18,391
(d) Tax losses				
Unused Australian capital tax losses for which no deferred tax asset has been recognised	**86,841**	80,110	**86,841**	80,110
Potential tax benefit @ 30%	**26,052**	24,033	**26,052**	24,033

Tax consolidation legislation

CS Energy Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1. On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, CS Energy Limited.

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

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

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000

9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Cash at bank and on hand	**3,286**	5,848	**111**	5,137

Cash at Bank and on Hand

Cash held with banks is bearing an interest rate of between 4.75% and 5.25%. (2006: 4.5% and 4.75%)

Reconciliation to cash at the end of the year

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

10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Trade receivables	**145,237**	36,147	**68,441**	29,177
Other receivables	**28,027**	35,306	**26,227**	29,114
Prepayments	**6,570**	11,593	**6,180**	11,411
Futures margin deposits	**170,496**	–	**170,496**	–
	350,330	83,046	**271,344**	69,702

(a) Impaired trade receivables

The group has recognised no losses in respect of bad and doubtful trade receivables during the year ended 30 June 2007 (2006: nil).

(b) Other Receivables

These amounts generally arise from non-electricity related transactions of the group. Interest is not charged on outstanding balances. Collateral is not normally obtained.

(c) Effective interest rates

Trade and other receivables are non-interest bearing.

(d) Credit Risk

There is concentration of credit risk in relation to trade and other receivables. Refer to note 2 for more information on the risk management policies of the company or 12(b) for more details on specific concentrations of credit risk

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000

11 CURRENT ASSETS – INVENTORIES

	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Fuel and stores – at net realisable value	**35,314**	34,365	**27,379**	23,283
– provision for obsolescence	**(750)**	(750)	**(750)**	(750)
	34,564	33,615	**26,629**	22,533

12 DERIVATIVE FINANCIAL INSTRUMENTS

	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current Assets				
Electricity derivative contracts – cash flow hedges	**133,055**	7,334	**133,055**	7,334
Electricity derivative contracts – do not qualify for hedge accounting	**43,597**	2,747	**43,597**	2,747
Total current derivative financial instrument assets	**176,652**	10,081	**176,652**	10,081
Non-current Assets				
Electricity derivative contracts – cash flow hedges	**32,280**	9,688	**32,280**	9,688
Electricity derivative contracts – do not qualify for hedge accounting	**15,262**	745	**15,262**	745
Total non-current derivative financial instrument assets	**47,542**	10,433	**47,542**	10,433
Current liabilities				
Forward foreign exchange contracts – cash flow hedges	**6,803**	10,094	**6,803**	10,094
Electricity derivative contracts – cash flow hedges	**582,975**	10,248	**582,975**	10,248
Electricity derivative contracts – do not qualify for hedge accounting	**114,429**	5,970	**114,429**	5,970
Total current derivative financial instrument liabilities	**704,207**	26,312	**704,207**	26,312
Non-current liabilities				
Forward foreign exchange contracts – cash flow hedges	**–**	2,371	**–**	2,371
Electricity derivative contracts – cash flow hedges	**345,900**	5,815	**345,900**	5,815
Electricity derivative contracts – do not qualify for hedge accounting	**54,938**	14,861	**54,938**	14,861
Total non-current derivative financial instrument liabilities	**400,838**	23,047	**400,838**	23,047

(a) Derivative financial instruments

CS Energy Limited is a party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in wholesale electricity prices and foreign currency exchange rates. The majority of the electricity derivative financial instrument hedges are electricity swaps.

Over–the–counter contracts

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

Exchange traded futures contracts

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

Forward exchange contracts

CS Energy Limited 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.

Outstanding Forward Exchange Contracts at Balance Date

	Sell Australian dollars		Average exchange rate	
	2007 $'000	2006 $'000	2007 $	2006 $
Buy Euros				
Maturity in 0–6 months	**37,212**	70,290	**0.5475**	0.5475
Maturity in 6–12 months	**–**	53,751	**–**	0.5475
Maturity in 12–18 months	**–**	37,212	**–**	0.5475
Buy United States Dollars				
Maturity in 0–6 months	**10,925**	18,387	**0.6777**	0.6595
Maturity in 6–12 months	**–**	14,061	**–**	0.6595
Maturity in 12–18 months	**–**	9,735	**–**	0.6595

Amounts disclosed above represent currency sold measured at the contracted rate.

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 in equity 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.

(b) **Credit risk exposures**

For financial instruments, credit risk arises from the potential failure of counterparties to meet their financial obligations under their respective contracts. A material exposure arises from OTC swap contracts and the consolidated group is exposed to loss in the event that counterparties fail to settle the contracted amount. A significant portion of the group's hedge contracts, and consequent credit risk, are with the two major retailers in the Queensland market.

The consolidated group also has a concentration of credit exposure in the National Electricity Market, operated by NEMMCO. The National Electricity Market operates with strict prudential guidelines that minimise the potential for credit related losses.

The group's risk management policy for credit risk is discussed in note 2(d). The credit risk is generally the carrying amount, net of any provisions for doubtful debts.

13 NON CURRENT ASSETS – OTHER RECEIVABLES

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Prepayments	**16,794**	20,702	**16,794**	20,702
Loans to related parties	**–**	–	**1,441,119**	1,071,933
Futures margin deposits	**82,996**	–	**82,996**	–
	99,790	20,702	**1,540,909**	1,092,635

Further information relating to loans to related parties is set out in note 36.

(a) **Interest rate risk** – trade & other receivables balances are non-interest bearing.

(b) **Credit risk** – refer to note 10 (d) for more details.

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000

14 NON CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Interest in joint venture entities	**1**	1	**–**	–

The interest in the joint venture entities are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by a subsidiary of the group (note 38).

15 NON CURRENT ASSETS – OTHER NON-CURRENT ASSETS

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Financial				
Shares in subsidiaries (note 37)	**–**	–	**51,815**	51,815
Other				
Gas exploration and evaluation costs	**23,558**	14,344	**23,558**	14,344
	23,558	14,344	**75,373**	66,159

These financial assets are carried at cost.

CS Energy Limited has entered into gas development joint ventures to secure fuel supplies for its Swanbank E power station (refer note 38).

Movements in gas exploration and evaluation costs	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Opening balance at 1 July	**14,344**	12,685	**14,344**	12,685
Additions	**9,994**	1,735	**9,994**	1,735
Disposals	**–**	–	**–**	–
Write-off	**–**	–	**–**	–
Amortisation	**(780)**	(76)	**(780)**	(76)
Closing balance at 30 June	**23,558**	14,344	**23,558**	14,344

16 NON CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Power Stations $'000	Capitalised Overhauls $'000	Other Property, Plant & Equipment $'000	Work in Progress $'000	Develop–ment Costs $'000	Total $'000
CONSOLIDATED						
At 1 July 2005						
Cost or fair value	1,529,680	171,221	52,206	307,246	3,631	2,063,984
Accumulated depreciation	(421,478)	(140,114)	(31,148)	–	–	(592,740)
Net book amount	1,108,202	31,107	21,058	307,246	3,631	1,471,244
Movements for the year ended 30 June 2006						
Opening net book amount	1,108,202	31,107	21,058	307,246	3,631	1,471,244
Additions	30,427	20,080	3,543	434,765	1,980	490,795
Transfers	12,116	9,015	1,166	(22,297)	–	–
Disposals	(3)	–	(95)	(6,424)	–	(6,522)
Depreciation charge	(63,815)	(19,326)	(2,296)	–	–	(85,437)
Closing net book amount	1,086,927	40,876	23,376	713,290	5,611	1,870,080
At 30 June 2006						
Cost or fair value	1,572,218	200,321	56,087	713,290	5,611	2,547,527
Accumulated depreciation	(485,291)	(159,445)	(32,711)	–	–	(677,447)
Net book amount	1,086,927	40,876	23,376	713,290	5,611	1,870,080
Movements for the year ended 30 June 2007						
Opening net book amount	**1,086,927**	**40,876**	**23,376**	**713,290**	**5,611**	**1,870,080**
Additions	**10,768**	**17,612**	**4,993**	**321,871**	**17,919**	**373,163**
Transfers	**2,808**	**5,128**	**665**	**(8,601)**	**–**	**–**
Disposals	**(1,485)**	**–**	**–**	**(126)**	**–**	**(1,611)**
Depreciation charge	**(73,234)**	**(23,032)**	**(3,180)**	**–**	**–**	**(99,446)**
Closing net book amount	**1,025,784**	**40,584**	**25,854**	**1,026,434**	**23,530**	**2,142,186**
At 30 June 2007						
Cost or fair value	**1,573,164**	**107,940**	**59,898**	**1,026,434**	**23,530**	**2,790,966**
Accumulated depreciation	**(547,380)**	**(67,356)**	**(34,044)**	**–**	**–**	**(648,780)**
Net book amount	**1,025,784**	**40,584**	**25,854**	**1,026,434**	**23,530**	**2,142,186**

	Power Stations $'000	Capitalised Overhauls $'000	Other Property, Plant & Equipment $'000	Work in Progress $'000	Total $'000
PARENT					
At 1 July 2005					
Cost or fair value	875,219	120,228	43,170	42,604	1,081,221
Accumulated depreciation	(279,794)	(98,508)	(27,740)	–	(406,042)
Net book amount	595,425	21,720	15,430	42,604	675,179
Movements for the year ended 30 June 2006					
Opening net book amount	595,425	21,720	15,430	42,604	675,179
Additions	26,964	8,302	2,418	4,390	42,074
Transfers	9,593	9,000	1,100	(19,693)	–
Disposals	(3)	–	(94)	(6,424)	(6,521)
Depreciation charge	(40,136)	(13,169)	(1,791)	–	(55,096)
Closing net book amount	591,843	25,853	17,063	20,877	655,636
At 30 June 2006					
Cost or fair value	911,771	137,533	46,030	20,877	1,116,211
Accumulated depreciation	(319,928)	(111,680)	(28,967)	–	(460,575)
Net book amount	591,843	25,853	17,063	20,877	655,636
Movements for the year ended 30 June 2007					
Opening net book amount	**591,843**	**25,853**	**17,063**	**20,877**	**655,636**
Additions	**8,598**	**8,070**	**3,720**	**3,916**	**24,304**
Transfers	**1,821**	**4,850**	**662**	**(7,333)**	**–**
Disposals	**–**	**–**	**–**	**–**	**–**
Depreciation charge	**(50,131)**	**(15,175)**	**(2,501)**	**–**	**(67,807)**
Closing net book amount	**552,131**	**23,598**	**18,944**	**17,460**	**612,133**
At 30 June 2007					
Cost or fair value	**911,044**	**53,964**	**48,570**	**17,460**	**1,031,038**
Accumulated depreciation	**(358,913)**	**(30,366)**	**(29,626)**	**–**	**(418,905)**
Net book amount	**552,131**	**23,598**	**18,944**	**17,460**	**612,133**

17 NON CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Accruals	**975**	574	**975**	574
Provisions	**8,218**	7,791	**6,271**	6,109
Provisions for rehabilitation	**17,698**	15,257	**14,225**	12,301
Prepayments	**375**	375	**375**	375
Derivatives not qualifying as hedges	**26,407**	(1,876)	**26,407**	(1,876)
Other	**5,446**	2,554	**5,251**	2,507
Tax losses	**62,270**	29,572	**62,270**	29,572
	121,389	54,247	**115,774**	49,562
Amounts recognised directly in equity				
Derivative financial instruments	**237,848**	10,924	**237,848**	10,924
	237,848	10,924	**237,848**	10,924
Net deferred tax assets	**359,237**	65,171	**353,622**	60,486
Movements:				
Opening balance at 1 July	**65,171**	57,753	**60,486**	53,225
Change on adoption of AASB 132 and AASB 139	**–**	27,540	**–**	27,540
Credited/(charged) to the income statement	**32,839**	582	**33,451**	397
Acquisition/(utilisation) of tax losses	**21,046**	(3,981)	**21,046**	(3,980)
Credited/(charged) to equity	**240,181**	(16,723)	**238,639**	(16,696)
Closing balance at 30 June	**359,237**	65,171	**353,622**	60,486
Deferred tax assets to be recovered after more than 12 months	**352,443**	61,669	**347,022**	57,030
Deferred tax assets to be recovered within 12 months	**6,794**	3,502	**6,600**	3,456
	359,237	65,171	**353,622**	60,486

17 NON CURRENT ASSETS – DEFERRED TAX ASSETS (CONTINUED)

	Derivative Financial Instruments $'000	Provisions $'000	Provision for Rehabili–tation $'000	Tax Losses $'000	Other $'000	Total $'000
CONSOLIDATED						
At 1 July 2005	–	7,466	16,869	32,249	1,169	57,753
Change on adoption of AASB 132 and AASB 139	27,540	–	–	–	–	27,540
Charged/(credited) to the income statement	(1,769)	325	(1,612)	1,304	2,334	582
Charged directly to equity	(16,723)	–	–	–	–	(16,723)
Utilisation of tax losses	–	–	–	(3,981)	–	(3,981)
At 30 June 2006	9,048	7,791	15,257	29,572	3,503	65,171
Charged/(credited) to the income statement	28,202	184	2,441	(1,279)	3,293	32,841
True up prior year	–	243	–	12,931	–	13,174
Charged directly to equity	227,005	–	–	–	–	227,005
Acquisition of tax losses	–	–	–	21,046	–	21,046
At 30 June 2007	**264,255**	**8,218**	**17,698**	**62,270**	**6,796**	**359,237**
PARENT						
At 1 July 2005	–	5,665	14,200	32,249	1,112	53,226
Change on adoption of AASB 132 and AASB 139 (Note 35)	27,540	–	–	–	–	27,540
Charged/(credited) to the income statement	(1,796)	444	(1,899)	1,304	2,344	397
Charged directly to equity	(16,696)	–	–	–	–	(16,696)
Utilisation of tax losses	–	–	–	(3,981)	–	(3,981)
At 30 June 2006	9,048	6,109	12,301	29,572	3,456	60,486
Charged/(credited) to the income statement	28,202	180	1,924	–	3,145	33,451
True up prior year	–	243	–	11,652	–	11,895
Charged directly to equity	227,005	–	–	–	–	227,005
Assumption of tax losses from tax consolidated entities	–	(261)	–	–	–	(261)
Acquisition of tax losses	–	–	–	21,046	–	21,046
At 30 June 2007	**264,255**	**6,271**	**14,225**	**62,270**	**6,601**	**353,622**

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
18 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES				
Trade payables	**19,923**	19,572	**6,343**	7,470
Other payables	**77,465**	34,827	**77,465**	34,827
Deferred revenue	**223**	1,364	**223**	1,364
	97,611	55,763	**84,031**	43,661
19 CURRENT LIABILITIES – BORROWINGS				
Loans from QTC (note 22)	**55,838**	48,771	**55,838**	48,771
20 CURRENT LIABILITIES – PROVISIONS				
Dividends	**34,640**	40,170	**34,640**	40,170
Employee benefits	**10,851**	9,704	**8,845**	8,195
	45,491	49,874	**43,485**	48,365
Dividends				
Carrying amount at start of year	**40,170**		**40,170**	
Additional provisions recognised	**34,640**		**34,640**	
Payments	**(40,170)**		**(40,170)**	
Carrying amount at end of year	**34,640**		**34,640**	
21 NON-CURRENT LIABILITIES – PAYABLES				
Deferred revenue	**–**	2,500	**–**	–
22 NON-CURRENT LIABILITIES – BORROWINGS				
Loans from QTC	**1,048,722**	596,451	**1,048,722**	596,451
All loans from the Queensland Treasury Corporation at 30 June 2007 are unsecured (2006: unsecured)				
(a) **Financing arrangements**				
Total facilities				
QTC facilities [(1)]	**1,668,267**	911,061	**1,668,267**	911,061
Bank loan facilities	**1,000**	1,000	**1,000**	1,000
	1,669,267	912,061	**1,669,267**	912,061
Used at balance date				
QTC facilities [(1)]	**1,104,560**	645,222	**1,104,560**	645,222
Bank loan facilities	**–**	–	**–**	–
	1,104,560	645,222	**1,104,560**	645,222
Unused at balance date				
QTC facilities [(1)]	**163,707**	265,839	**163,707**	265,839
QTC facilities [(2)]	**400,000**	–	**400,000**	–
Bank loan facilities	**1,000**	1,000	**1,000**	1,000
	564,707	266,839	**564,707**	266,839

(1) Unrestricted access available.
(2) Access restricted to transactions associated with hedging and trading activities and compliance with conditions contained in CS Energy's Australian Financial Services Licence.

(b) Interest rate risk exposure

The following table sets out the group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods.

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

	Floating interest rate $'000	1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Over 5 years $'000	Total $'000
2007								
Loans from QTC (note 19 and note 22)	**439,499**	**–**	**–**	**186,445**	**120,119**	**–**	**358,497**	**1,104,560**
Weighted average interest rate	**5.55%**	**–**	**–**	**6.44%**	**6.44%**	**–**	**6.44%**	
2006								
Loans from QTC (note 19 and note 22)	104,542	–	121,514	–	237,623	80,949	100,594	645,222
Weighted average interest rate	5.55%	–	6.45%	–	6.45%	6.45%	6.45%	

(c) Fair value

The carrying amounts and fair values of borrowings at balance date are:

	Carrying amount	Fair value $'000	Carrying amount $'000	Fair value $'000
	2007 $'000	2007 $'000	2006 $'000	2006 $'000
On balance sheet				
Non traded financial liabilities				
Loans from QTC	**1,104,560**	**1,080,619**	645,222	521,051

Fair value is inclusive of costs which would be incurred on settlement of a liability.

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

23 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Accounts receivable	**64,071**	7,336	**45,070**	5,775
Inventories	**7,770**	8,153	**6,375**	5,448
Prepayments	**–**	–	**–**	–
Property, plant and equipment	**202,519**	192,182	**104,939**	98,174
Capital work in progress	**59,764**	42,839	**316**	1,316
Investments	**5,993**	4,303	**5,993**	4,303
Defined benefit plan	**(26)**	208	**(26)**	208
Unrealised foreign exchange gains/losses	**197**	197	**197**	197
Other	**1,406**	818	**1,406**	818
	341,694	256,036	**164,270**	116,239
Amounts recognised directly in equity				
Defined benefit asset	**7,492**	2,064	**7,492**	2,064
	7,492	2,064	**7,492**	2,064
Net deferred tax liabilities	**349,186**	258,100	**171,762**	118,303
Movements:				
Opening balance at 1 July	**258,100**	235,405	**118,303**	113,412
Change on adoption of AASB 132 and AASB 139	**–**	–	**–**	–
Charged/(credited) to the income statement	**72,509**	21,027	**38,786**	3,225
Charged/(credited) to equity	**18,577**	1,668	**14,673**	1,666
Closing balance at 30 June	**349,186**	258,100	**171,762**	118,303
Deferred tax liabilities to be settled after more than 12 months	**(13,151)**	242,769	**(13,151)**	106,066
Deferred tax liabilities to be settled within 12 months	**362,337**	15,331	**184,913**	12,237
	349,186	258,100	**171,762**	118,303

	Accounts receivable $'000	Defined Benefit $'000	Property Plant and Equipment $'000	Capital work in progress $'000	Other $'000	Total $'000
CONSOLIDATED						
At 1 July 2005	6,157	398	183,555	32,197	13,099	235,406
Change on adoption of AASB 132 and AASB 139 (Note 35)	–	–	–	–	–	–
Charged/(credited) to the income statement	1,179	208	8,627	10,642	372	21,028
Charged directly to equity	–	1,666	–	–	–	1,666
At 30 June 2006	7,336	2,272	192,182	42,839	13,471	258,100
Charged/(credited) to the income statement	56,735	(234)	(2,814)	16,925	1,895	72,507
True up prior year	–	–	13,151	–	–	13,151
Charged directly to equity	–	5,428	–	–	–	5,428
At 30 June 2007	**64,071**	**7,466**	**202,519**	**59,764**	**15,366**	**349,186**
PARENT						
At 1 July 2005	4,288	398	97,451	–	11,275	113,412
Change on adoption of AASB 132 and AASB 139 (Note 35)	–	–	–	–	–	–
Charged/(credited) to the income statement	1,487	208	723	1,316	(509)	3,225
Charged directly to equity	–	1,666	–	–	–	1,666
At 30 June 2006	5,775	2,272	98,174	1,316	10,766	118,303
True up prior year	–	–	13,151	–	–	13,151
Transfer group companies	–	–	(3,906)	–	–	(3,906)
Charged/(credited) to the income statement	39,295	(234)	(2,480)	(1,000)	3,205	38,786
Charged directly to equity	–	5,428	–	–	–	5,428
At 30 June 2007	**45,070**	**7,466**	**104,939**	**316**	**13,971**	**171,762**

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000

24 NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Employee benefits	**12,837**	12,563	**10,757**	10,869
Site rehabilitation	**58,994**	50,856	**47,417**	41,002
	71,831	63,419	**58,174**	51,871

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

Reconciliation of movements in site rehabilitation provision:

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Carrying amount at start of year	**50,856**		**41,002**	
Additional provisions recognised	**10,649**		**10,054**	
Payments	**(7,373)**		**(7,373)**	
Unwind of discount	**4,862**		**3,734**	
Carrying amount at end of year	**58,994**		**47,417**	

25 RETIREMENT BENEFIT OBLIGATIONS – DEFINED BENEFIT PLAN

(a) Superannuation Plan

Employees of the group are entitled to benefits from the Queensland Electricity Supply Industry Superannuation Scheme on retirement, disability or death. The group has a defined benefit plan and a defined contribution plan. The defined benefit section provides lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from group companies and the group's legal or constructive obligation is limited to these contributions. Other employees have exercised their right to have their superannuation contributions paid to their nominated superannuation funds.

(b) Balance sheet amounts

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

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Present value of the defined benefit obligation	**(72,573)**	(74,829)	**(72,573)**	(74,829)
Fair value of defined benefit plan assets	**97,455**	82,400	**97,455**	82,400
	24,882	7,571	**24,882**	7,571
Unrecognised actuarial (losses)/gains	**–**	–	**–**	–
Unrecognised past service costs	**–**	–	**–**	–
Net asset in the balance sheet	**24,882**	7,571	**24,882**	7,571

The group intends to continue to contribute to the defined benefit section of the plan at a rate of 8% of salaries, in line with the actuary's latest recommendations.

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(c) Categories of plan assets				
The major categories of plan assets are as follows:				
Cash	**5,555**	4,038	**5,555**	4,038
Equity instruments	**53,698**	47,875	**53,698**	47,875
Debt instruments	**22,415**	19,034	**22,415**	19,034
Property	**11,012**	8,899	**11,012**	8,899
Other assets	**4,775**	2,554	**4,775**	2,554
	97,455	82,400	**97,455**	82,400
(d) Reconciliations				
Reconciliation of the present value of the defined benefit obligation, which is fully funded:				
Balance at the beginning of the year	**74,829**	70,350	**74,829**	70,350
Current service cost	**4,385**	4,571	**4,385**	4,571
Interest cost	**3,607**	2,951	**3,607**	2,951
Actuarial (gains) and losses	**(8,557)**	(464)	**(8,557)**	(464)
Contributions by plan participants	**1,192**	1,223	**1,192**	1,223
Benefits paid	**(2,883)**	(3,802)	**(2,883)**	(3,802)
Balance at the end of the year	**72,573**	74,829	**72,573**	74,829
Reconciliation of the fair value of plan assets:				
Balance at the beginning of the year	**82,400**	71,675	**82,400**	71,675
Expected return on plan assets	**5,304**	5,034	**5,304**	5,034
Actuarial gains and (losses)	**9,535**	5,090	**9,535**	5,090
Contributions by group companies	**3,099**	4,403	**3,099**	4,403
Benefits paid	**(2,883)**	(3,802)	**(2,883)**	(3,802)
Balance at the end of the year	**97,455**	82,400	**97,455**	82,400
(e) Amounts recognised in income statement				
The amounts recognised in the income statement are as follows:				
Current service cost	**4,385**	4,571	**4,385**	4,571
Interest cost	**3,607**	2,951	**3,607**	2,951
Expected return on plan assets	**(5,304)**	(5,034)	**(5,304)**	(5,034)
Total included in employee benefits expense	**2,688**	2,488	**2,688**	2,488
Actual return on plan assets	**14,839**	10,124	**14,839**	10,124
(f) Amounts recognised in statements of recognised income and expense				
Actuarial (loss)/gain recognised in the year	**18,092**	5,554	**18,092**	5,554
Cumulative actuarial (losses)/gains recognised in the statement of recognised income and expense	**19,916**	1,824	**19,916**	1,824

	Consolidated		Parent	
	2007	2006	2007	2006
(g) Principal actuarial assumptions				
The principal actuarial assumptions used (expressed as weighted averages) were as follows:				
Discount rate	**5.3%**	4.9%	**5.3%**	4.9%
Expected return on plan assets	**6.5%**	6.5%	**6.5%**	6.5%
Future salary increases	**4.5%**	4.5%	**4.5%**	4.5%

The expected rate of return on assets has been based on historical and future expectations of returns for each of the major categories of asset classes, as well as the expected and actual allocation of plan assets to these major categories, which resulted in the selection of a 7.6% rate of return (gross of tax and net of expenses) and a 6.5% rate of return (net of tax and expenses).

(h) Employer contributions

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three yearly intervals, and the last such assessment was made as at 30 June 2006.

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

Using the funding method described above and particular actuarial assumptions as to the plan's future experience (as detailed below), the actuary recommended in the actuarial review as at 30 June 2006, the payment of employer contributions to the fund of 8% of salaries for employees who are members of the defined benefit section. These contribution rates have been adopted by the group from 1 July 2006 and represent a decrease of 4.9% of salaries in the group's contributions from that previously used.

Total employer contributions expected to be paid by group companies for the year ending 30 June 2008 are $2,989,000 (2007: 3,092,000) and for the parent: $2,989,000 (2007: 3,092,000).

The economic assumptions used by the actuary to make the funding recommendations were a long term investment earning rate of 7% pa (net of fees and taxes), a salary increase rate of 5% pa together with an age related promotional scale, and an inflation rate of 4.5% pa.

(i) Net financial position of plan

In accordance with AAS 25 *Financial Reporting by Superannuation Plans* the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (30 June 2006), and a surplus of $8,092,000 was reported.

The surplus, as at 30 June 2007, under AAS 25 differs from the net asset of $24,882,000 (2006: $7,571,000) recognised in the balance sheet as at 30 June 2007 due to different measurement rules (principally due to discount rates) in the relevant accounting standards AAS 25 and AASB 119 *Employee Benefits* and different measurement dates.

(j) Historic summary

	2007 $'000	2006 $'000	2005 $'000
Defined benefit plan obligation	**(75,864)**	(75,864)	(67,903)
Plan assets	**83,956**	83,956	70,539
Surplus/(deficit)	**8,092**	8,092	2,636

Information for years prior to 2005 is not available.

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000

26 RESERVES

Hedging Reserve – Cash Flow Hedges				
Balance at 1 July	**(8,265)**	–	**(8,265)**	–
Adjustment on adoption of AASB 132 and 139 (net of tax)	**–**	(47,000)	**–**	(47,000)
Revaluation of forward foreign exchange contracts – gross	**(4,433)**	(4,599)	**(4,433)**	(4,599)
Revaluation of electricity derivative contracts – gross	**(773,248)**	7,180	**(773,248)**	7,180
Amounts realised forward foreign exchange contracts – gross	**10,094**	22,210	**10,094**	22,210
Amounts realised electricity derivative contracts – gross	**10,906**	30,546	**10,906**	30,546
Deferred tax	**227,004**	(16,602)	**227,004**	(16,602)
Balance at 30 June	**(537,942)**	(8,265)	**(537,942)**	(8,265)

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

	Parent		Parent	
	2007 Shares	2006 Shares	2007 $	2006 $

27 CONTRIBUTED EQUITY

a) Share capital				
Ordinary shares – fully paid				
A Class (voting)	**250,000,004**	250,000,004	**250,000,004**	250,000,004
B Class (non-voting)	**822,503,917**	822,503,917	**822,503,917**	822,503,917
	1,072,503,921	1,072,503,921	**1,072,503,921**	1,072,503,921

	No.	Issue Price	$
(b) Movements in ordinary share capital			
1 July 2005	822,503,921	$1.00	822,503,921
Issue of 'A' class share capital	250,000,000	$1.00	250,000,000
Balance at 30 June 2006	1,072,503,921		1,072,503,921

There were no movements in ordinary share capital during the year ended 30 June 2007.

c) Ordinary shares

Ordinary shares A and B class entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

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

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000

28 ACCUMULATED LOSSES

Balance at 1 July	**(67,584)**	(70,512)	**(20,647)**	(17,726)
Adjustment on adoption of AASB 132 and AASB 139, net of tax	**–**	(17,259)	**–**	(17,259)
Net profit for the year	**43,300**	56,468	**70,199**	50,619
Actuarial gain (loss) on defined benefit plan	**12,666**	3,889	**12,666**	3,889
Dividends – final dividend provided for	**(34,640)**	(40,170)	**(34,640)**	(40,170)
Balance at 30 June	**(46,258)**	(67,584)	**27,578**	(20,647)

29 DIVIDENDS

Final dividend for the year ended 30 June			**34,640**	40,170

30 TOTAL EQUITY RECONCILIATION

Total equity at the beginning of the financial year	**996,655**	751,992	**1,043,592**	804,778
Total recognised income and expense for the year	**(473,711)**	34,833	**(446,812)**	28,984
Transactions with equity holders in their capacity as shareholders:				
Contribution of equity, net of transaction costs	**–**	250,000	**–**	250,000
Dividends provided for	**(34,640)**	(40,170)	**(34,640)**	(40,170)
Total equity at the end of the financial year	**488,304**	996,655	**562,140**	1,043,592

31 DIRECTORS AND EXECUTIVES DISCLOSURES

(a) Directors

The following persons were Directors of CS Energy Limited during the whole financial year:

Non-executive Chairman:

SE Lonie

Non-executive Directors:

M Bucknall
TBI Crommelin
RJ Henricks
S Israel
JA Leaver
T White

Principles used to determine the nature and amount of remuneration

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

Superannuation

Directors receiving personal payments are also entitled to superannuation contributions.

Relationship between remuneration and entity's performance

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

Remuneration

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

Specified director remuneration

Director	Short-term employee benefits	Post employment	Total
SE Lonie			
2007	**70,428**	**–**	**70,428**
2006	70,128	3,334	73,462
TBI Crommelin			
2007	**24,682**	**–**	**24,682**
2006	23,963	–	23,963
M Bucknall			
2007	**28,384**	**2,555**	**30,939**
2006	27,258	2,772	30,030
RJ Henricks			
2007	**28,384**	**2,555**	**30,939**
2006	27,557	2,863	30,420
S Israel			
2007	**28,384**	**2,555**	**30,939**
2006	27,258	2,772	30,030
JA Leaver			
2007	**29,619**	**2,665**	**32,284**
2006	28,756	2,971	31,727
T White			
2007	**33,321**	**–**	**33,321**
2006	32,250	–	32,250
Total			
2007	**243,202**	**10,330**	**253,532**
2006	237,170	14,712	251,882

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 McCullough Robertson, Solicitors to 30 September 2005. McCullough Robertson provided legal services to the consolidated group. Mr Lonie is also a former partner of KPMG. KPMG provided accounting services to the consolidated group.

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.

A Director, Mr TBI Crommelin, is a director of Queensland Gas Company Limited. The Queensland Gas Company Limited supplies gas to CS Energy Limited for use in its Swanbank E power station. The gas supply agreement with Queensland Gas Company Limited was entered into prior to Mr TBI Crommelin becoming a director of that company.

All of these goods and services were provided to CS Energy Limited on normal commercial terms and conditions.

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

		Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Legal fees:	McCullough Robertson	**3,734**	36,702	**3,734**	36,702
Accounting fees:	BDO Kendalls	**–**	12,910	**–**	12,910
	KPMG	**115,158**	95,952	**115,158**	95,952
		115,158	108,862	**115,158**	108,862
Gas supply:	Queensland Gas Company	**8,606,006**	371,336	**8,606,006**	371,336

(b) Executives/Key Management Personnel

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

- Chief Executive Officer
- Chief Financial Officer
- General Manager Major Projects
- General Manager Operations
- General Manager New Business
- General Manager Organisation Development
- 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 being indicators of good corporate performance.

Service contracts

All executive appointments are approved by the Governor-in-Council after recommendation by the CS Energy Limited Board of Directors.

The remuneration and other terms of employment for each executive is specified in individual employment agreements. Annual adjustments to the remuneration are approved by the shareholding Ministers. The agreement provides a total remuneration package that enables each executive to package a range of benefits including a motor vehicle and superannuation.

The General Manager New Business was initially engaged in the form of a fixed term consultancy contract for 12 months commencing 10 April 2006, without entitlement to separation payments on completion of the fixed term. On 3 August 2006, the contractual arrangements were varied to include the following terms:

- Employment term — 3 years expiring 2 August 2009, with renewal for a further 2 year term contemplated.
- Remuneration reviewed annually.
- Total remuneration as outlined in the following table.
- Payment of a severance payment of 12 weeks remuneration if the employment contract is not renewed upon serving the full term of the contract.
- Payment of a termination benefit on early termination, other than for disciplinary reasons, equivalent to 2 weeks remuneration per completed year of service, with a minimum 4 weeks, in addition to a separation payment of 20% of the residual value of the contract (excluding future bonuses).

The General Manager Organisation Development was initially engaged in the form of a fixed term consultancy contract for 3 months commencing 4 December 2006, without entitlement to separation payments on completion of the fixed term. This agreement was extended for a further period of 3 months, on the same terms, on 4 March 2007. On 17 April 2007, the contractual arrangements were varied to include the following terms:

- Employment term—3 years expiring 16 April 2010, with renewal for a further 2 year term contemplated.
- Remuneration reviewed annually.
- Total remuneration as outlined in the following table.
- Payment of a severance payment of 12 weeks remuneration if the employment contract is not renewed upon serving the full term of the contract.
- Payment of a termination benefit on early termination, other than for disciplinary reasons, equivalent to 2 weeks remuneration per completed year of service, with a minimum 4 weeks, in addition to a separation payment of 20% of the residual value of the contract (excluding future bonuses).

The key elements of other senior executives' employment agreements are as follows:

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

Impact of remuneration contracts on future periods

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

Performance related bonuses

The Board determines executive performance payments, 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 2 areas:

- Overall company performance;
- 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 executive of CS Energy Limited, including their executive-related entities, are set out in the following tables:

Executive Remuneration	Short-term employee benefits	Post employment	Total
Chief Executive Officer (1)			
2007	**285,504**	**24,746**	**310,250**
2006	312,075	31,590	343,665
Chief Financial Officer			
2007	**229,537**	**18,961**	**248,498**
2006	227,026	28,276	255,302
General Manager Major Projects (2)			
2007	**248,925**	**19,302**	**268,227**
2006	231,107	28,869	259,976
General Manager Operations (3)			
2007	**218,383**	**17,762**	**236,145**
2006	231,995	28,980	260,975
General Manager New Business (4)			
2007	**263,945**	**24,026**	**287,971**
2006	44,037	4,027	48,064
General Manager Organisation Development (5)			
2007	**161,999**	**4,481**	**166,480**
2006	236,190	4,573	240,763
General Manager Corporate Services			
2007	**226,275**	**18,187**	**244,462**
2006	207,468	25,916	233,384
Total			
2007	**1,634,568**	**127,465**	**1,762,033**
2006	1,489,898	152,231	1,642,129

The above disclosure relates to the total compensation provided by CS Energy Limited in respect of each position.

(1) Remuneration details for 2007 are in respect of the period 1 July 2006 to 10 May 2007.
(2) Remuneration details for 2007 include a component of higher duties allowance as Acting Chief Executive Officer for the period 14 May 2007 to 30 June 2007.
(3) The General Manager Operations ceased employment with CS Energy on 1 June 2007. As a consequence of ceasing employment, the General Manager Operations received a redundancy payment of $296,036 calculated in accordance with the terms of his contract.
(4) Remuneration details for 2006 are in respect of the period 10 April 2006 to 30 June 2006.
(5) Remuneration details for 2007 are in respect of the period 1 July 2006 to 3 August 2006 and 4 December 2006 to 30 June 2007.

Other transactions with executive and executive-related entities

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

Whilst CS Energy Limited is not a disclosing entity and thus not required to comply with the disclosure requirements relating to executive remuneration included in accounting standard AASB 124 Related Party Disclosures, the note has been prepared on the basis of guidelines issued by the Treasurer, which are generally in accordance with the requirements of the standard. Senior executives may also earn performance based at risk incentive bonuses, which are not disclosed in this note.

32 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
2006	1,420,751	45,813,265	464
2007	**2,448,028**	**59,450,122**	**569**

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.

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
33 REMUNERATION OF AUDITORS				
Remuneration for audit or review of the financial reports of the parent or any entity in the consolidated group:				
Auditors of the parent				
Parent	**162,100**	146,400	**162,100**	146,400
Controlled entities	**10,500**	9,600	**–**	–
	172,600	156,000	**162,100**	146,400
34 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:				
Property, plant and equipment				
Within one year	**105,114**	313,799	**8,622**	492
Later than one year, but not later than five years	**32,943**	117,157	**27,700**	30,251
Later than five years	**–**	–	**–**	–
	138,057	430,956	**36,322**	30,743
Lease commitments – group as lessee				
Commitments for minimum lease payments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, payable as follows:				
Not later than one year	**895**	642	**762**	595
Later than one year, but not later than five years	**2,245**	2,487	**2,072**	2,393
Later than five years	**–**	—	**–**	
	3,140	3,129	**2,834**	2,988

Operating Leases

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

35 CONTINGENT LIABILITIES

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

36 RELATED PARTIES

Directors and executives

Disclosures relating to directors and executives are set out in note 31.

Parent Entities

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

Controlled Entities

Ownership interests in these controlled entities are set out in note 37.

Transactions with Related Parties:

Transactions between CS Energy Limited and other entities in the wholly owned group during the year ended 30 June 2007 consisted of:

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

Interest was charged on loans only to the extent that capitalisation was adopted in accordance with AASB 123 Borrowing Costs. The average interest rate charged in relation to these loans was 6.44% (2006 – 6.45%).

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Related Party Transactions and Balances				
The following transactions occurred with related parties				
Sale of goods and services	**–**	–	**10,275**	20,681
Interest revenue	**–**	–	**50,975**	31,035
Dividend revenue	**–**	–	**105,766**	10,000
The following balances are outstanding at reporting date in relation to transactions with related parties				
Current receivables – other debtors	**–**	–	**1,938**	6,981
Non-current receivable – loans to related parties	**–**	–	**1,441,119**	1,045,298
Tax-related payable	**–**	–	**43,660**	26,635
Non-current payables – other creditors				–

There were no transactions between the consolidated group and any other related party.

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Loans To/From Related Parties				
Loans to subsidiaries				
Beginning of the year	**–**	–	**1,071,933**	570,020
Loans advanced	**–**	–	**587,973**	703,810
Loan repayments received	**–**	–	**(269,615)**	(232,620)
Interest charged	**–**	–	**50,828**	30,723
Interest paid	**–**	–	**–**	–
End of year	**–**	–	**1,441,119**	1,071,933

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

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

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The average interest rate on loans during the year, where interest was charged, was 6.44% (2006 – 6.45%).

Outstanding balances are unsecured and are repayable in cash.

State Controlled Entities

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

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

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Income Statement				
Amounts included in revenue from the sale of electricity and other revenue	**37,156**	77,175	**16,436**	56,254
Amounts included in cost of sales and other expenses	**28,506**	27,369	**13,927**	13,350
Amounts included in finance costs	**50,917**	49,448	**50,917**	38,630
Balance Sheet				
Amounts included in trade and other receivables	**6,474**	9,074	**4,244**	5,187
Amounts included in trade and other payables	**3,473**	3,868	**2,295**	3,417
Amounts included in borrowings	**1,104,560**	645,222	**1,104,560**	645,222
Provision for dividend	**34,640**	40,170	**34,640**	40,170

37 INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding % 2007	Equity Holding % 2006
CS Energy Mica Creek Pty Ltd	Australia	Ordinary	**100**	100
CS North West Pty Ltd	Australia	Ordinary	**100**	100
Callide Energy Pty Ltd	Australia	Ordinary	**100**	100
Kogan Creek Power Station Pty Ltd (formerly CEPA (Kogan Creek) Holding Pty Ltd)	Australia	Ordinary	**100**	100
Aberdare Collieries Pty Ltd	Australia	Ordinary	**100**	100
CS Energy Kogan Creek Pty Ltd	Australia	Ordinary	**100**	100
Kogan Creek Power Pty Ltd	Australia	Ordinary	**100**	100
CS Kogan (Australia) Pty Ltd	Australia	Ordinary	**100**	100
Swanbank Energy Pty Ltd	Australia	Ordinary	**100**	100
SE CSE Pty Ltd	Australia	Ordinary	**100**	100
Manzillo Insurance (PCC) Ltd - Cell EnMach	Guernsey	Ordinary	**100**	–

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

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

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

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

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current assets				
Cash	**873**	469	**–**	–
Receivables	**395**	293	**–**	–
Inventories	**1,760**	5,215	**–**	–
	3,028	5,977	**–**	–
Non–current assets				
Gas exploration and evaluation costs	**23,558**	14,344	**–**	–
Property, plant and equipment	**381,131**	382,740	**–**	–
Share of assets employed in joint ventures	**407,717**	403,061	**–**	–

(b) Joint venture entities

Name of entity	Principal activity	Ownership interest		Carrying amount	
		2007 %	2006 %	2007 $	2006 $
Callide Power Management Pty Ltd	Joint Venture Manager	**50**	50	**500**	500
Callide Power Trading Pty Ltd	Electricity Marketing Agent	**50**	50	**500**	500
				1,000	1,000

	Consolidated	
	2007 $'000	2006 $'000
Movements in carrying amount of interests in joint venture entities		
Carrying amount at the beginning of the financial year	**1**	1
Carrying amount at the end of the financial year	**1**	1
Share of joint venture entities' assets and liabilities		
Current assets	**1**	1
Total assets	**1**	1
Total liabilities	**–**	–
Net assets	**1**	1
Share of joint venture entities' revenues, expenses and results		
Revenues	**–**	–
Expenses	**–**	–
Profit/(loss) before income tax	**–**	–

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000

39 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Profit after income tax	**43,300**	56,468	**70,199**	50,619
Depreciation and amortisation	**101,000**	85,426	**68,587**	55,096
Fair value adjustment to derivatives	**95,324**	6,252	**95,324**	6,252
Non–cash retirement benefits expense	**781**	–	**781**	–
Net loss/(gain) on sale of non–current assets	**(181)**	(374)	**(181)**	(319)
Change in operating assets and liabilities				
(Increase) decrease in assets:				
Receivables	**(53,226)**	26,833	**(34,642)**	5,594
Inventories	**(949)**	(6,377)	**(4,096)**	(3,153)
Future income tax benefit	**(19,955)**	(642)	**(20,501)**	(4,044)
Prepayments	**5,647**	(1,004)	**5,647**	(893)
(Decrease) increase in liabilities:				
Accounts payable, employee benefits, borrowings and other provisions	**64,670**	20,661	**44,091**	24,769
Provision for deferred income tax	**17,199**	21,027	**1,714**	3,952
Net cash provided by operating activities	**253,610**	208,270	**226,923**	137,873

40 NON–CASH FINANCING AND INVESTING ACTIVITIES

	Consolidated 2007 $'000	Consolidated 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Accrued property, plant and equipment	**–**	12,373	**–**	8,347

41 EVENTS OCCURRING AFTER BALANCE DATE

Pursuant to the passing of regulation *QPTC Restructure—Stage 1* under the *Government Owned Corporations Act 1993*, Enertrade's interest in the long-term power purchase agreement ("PPA") for the Collinsville Power Station (owned and operated by Transfield Services) was transferred to CS Energy on 19 August 2007. The transfer was non-reciprocal.

The PPA agreement, which extends to 2016, is an onerous contract as the unavoidable costs of meeting the ongoing obligations under the PPA exceed the benefits expected to be received. Whilst work is still ongoing to finalise the valuation of the onerous obligation, the liability is currently estimated to be between $130 million and $160 million, dependent upon the future impacts of drought conditions.

In addition, Enertrade's obligations in respect of contaminated land both adjacent to and within the Collinsville Power Station, may be transferred to CS Energy. The future liability associated with these obligations is currently estimated to be between $1 million and $2 million.

Other than the transfer of the Collinsville PPA and obligations in respect of contaminated land, from Enertrade to CS Energy, there were no events occurring after balance date that have affected or may affect the financial position of the company.

DIRECTORS' DECLARATION
30 JUNE 2007

In the directors' opinion:

(a) The financial statements and notes set out on pages 49 to 89 are in accordance with the Corporations Act 2001, including:

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

(ii) Giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

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

In accordance with subsection 334(5) of the *Corporations Act 2001*, the directors have elected to early adopt a number of Australian Accounting standards as set out in note 1(a) to the financial statements.

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

Mr SE Lonie
Chairman

Mrs JA Leaver
Director

Brisbane
31 August 2007

AUDITOR'S INDEPENDENCE DECLARATION
30 JUNE 2007

To the Directors of CS Energy Limited

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

Independence Declaration
As lead auditor for the audit of CS Energy Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been –

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

O C Clare, FCPA
Director of Audit
Delegate of the Auditor-General of Queensland

Queensland Audit Office
Brisbane

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2007

To the Members of CS Energy Limited

REPORT ON THE FINANCIAL REPORT

I have audited the accompanying financial report of CS Energy Ltd, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. These Auditing Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

Independence

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor General and QAO authorised auditors. The Auditor-General is the auditor of all Queensland government owned corporations and their controlled entities and can only be removed by Parliament.

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

In conducting the audit, the independence requirements of the *Corporations Act 2001* have been complied with. I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of CS Energy Ltd on 29 August 2007, would be in the same terms if provided to the directors, as at the date of this auditor's report.

Auditor's Opinion

In my opinion –

(a) the financial report of CS Energy Ltd is in accordance with the *Corporations Act 2001*, including –
   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

O. C. Clare

O C Clare, FCPA
as Delegate of the Auditor-General of Queensland

Queensland Audit Office
Brisbane

GLOSSARY AND ABBREVIATIONS

Term	Definition
2P	Proven and probable gas reserves
3P	Proven, probable and possible gas reserves
Availability	A measure of a generator's capacity to achieve full load. This measure takes into account both planned and forced outages
CO2 CRC	Cooperative Research Centre for Greenhouse Gas Technologies
Energy sent out	The amount of electricity sent to the grid
Gearing	A financial term that describes the relationship between debt and equity
GEC	Gas Electricity Certificate
GW	Gigawatt (One GW = one thousand megawatts)
GWh	Gigawatt hour
Greenhouse intensity per energy sent out	Emissions of CO_2 per gigawatt hour of energy sent out (tCO_2e/GWh)
ISO 14001	International Standard for Environment 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 including 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	Megalitre (One MW = one million litres)
MW	Megawatt (One MW = one million watts)
MWh	Megawatt hour
NEM	National Electricity Market
PAT	Profit after tax
PEL	Petroleum Exploration Licence
PPA	Power Purchase Agreement
Reliability	A measure of a generator's capacity to achieve full load when plant is not undergoing a planned outage
ROPA	Return on productive assets
SAP	Systems Applications and Products software
TJ	Terajoule (One TJ = one million megajoules)
Water use intensity	Water use per gigawatt hour of energy sent out

STATEMENT OF CORPORATE INTENT

Under the *Government Owned Corporations Act 1993*, CS Energy is required to prepare a Statement of Corporate Intent (SCI) each financial year.

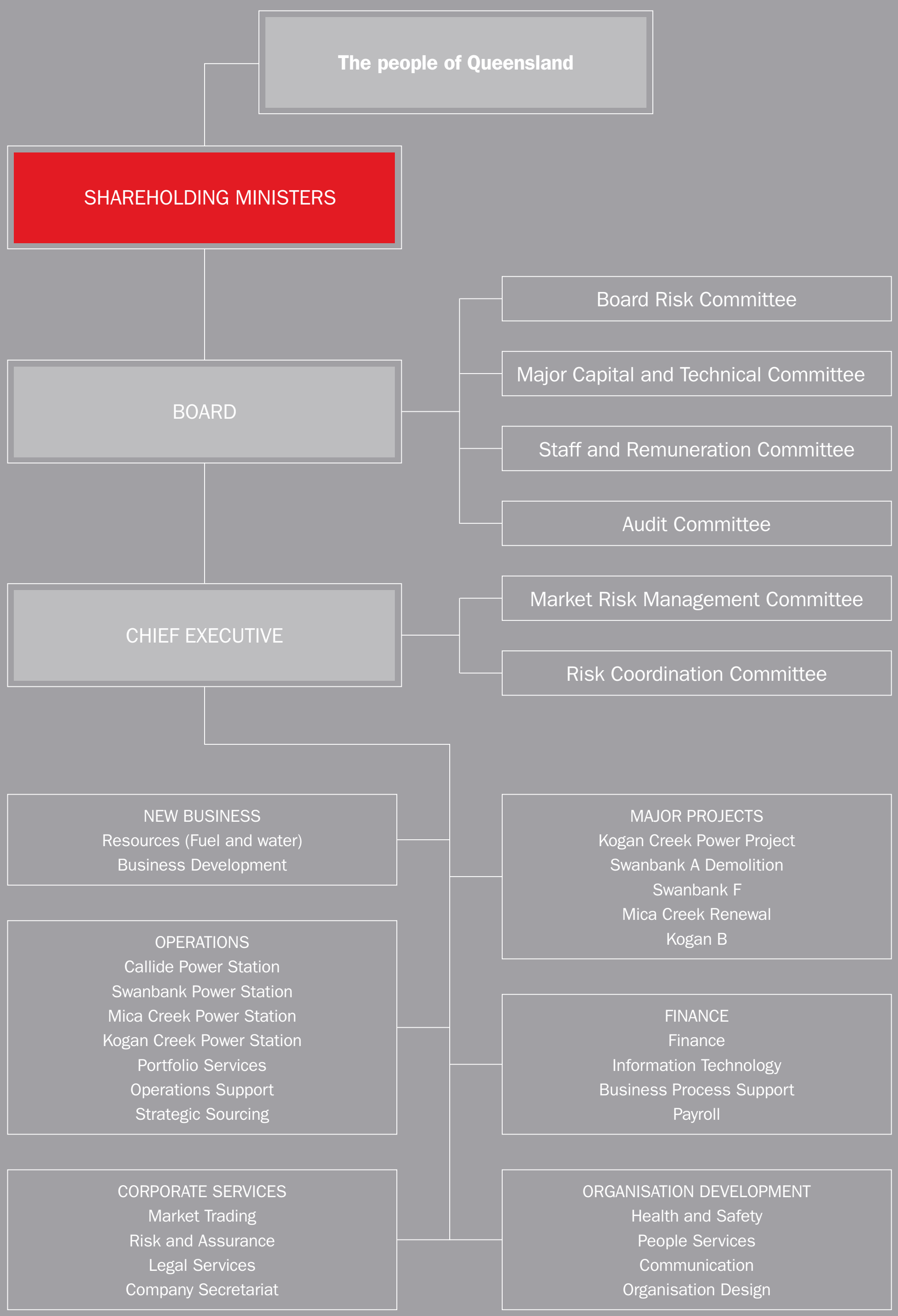
The SCI is a performance agreement between CS Energy and its voting shareholding Ministers and complements the Company's five-year Corporate Plan.

The full SCI, which includes details of the Company's mission, vision, objectives, activities, capital structure and dividend policies, will be tabled in the Queensland Legislative Assembly in accordance with Section 132 of the GOC Act.

In summary, the 2006/2007 SCI outlines the following objectives:

- increase the Company's portfolio of generating assets
- secure future fuel supplies to facilitate the expansion of existing assets.
- continue its focus on safety, environment and plant reliability.
- secure Commonwealth Funding for the Callide Oxyfuel Project.

ORGANISATIONAL STRUCTURE



Design Minale Bryce Design Strategy **Photography** Nadine Shaw Photography, Ron Cottee Photography and Bill Counsell Photography **Print** Printpoint

CORPORATE OFFICE AND REGISTERED OFFICE

CS Energy Ltd, ABN 54 078 848 745
Level 21 Central Plaza Two
66 Eagle Street Brisbane QLD 4000
GPO Box 769 Brisbane QLD 4001
Telephone 61 7 3222 9333
Facsimile 61 7 3222 9300
Email energyinfo@csenergy.com.au
Website www.csenergy.com.au

OPERATIONS

CALLIDE POWER STATION
PO Box 392 Biloela QLD 4715
Telephone 61 7 4992 9329
Facsimile 61 7 4992 9328

MICA CREEK POWER STATION
PO Box 1077 Mailing Distribution Centre
Mount Isa QLD 4825
Telephone 61 7 4740 0700
Facsimile 61 7 4740 0710

SWANBANK POWER STATION
Mail Service 460 Ipswich QLD 4306
Telephone 61 7 3810 8800
Facsimile 61 7 3810 8777

KOGAN CREEK POWER STATION
PO Box 41 Brigalow QLD 4412
Telephone 61 7 4665 2500
Facsimile 61 7 4665 2599

cs energy
generations ahead