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2003/2004, PLEASE CONTACT:

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FURTHER CONTACT DETAILS FOR THE CS ENERGY GROUP
OF COMPANIES AND OPERATIONAL SITES ARE PROVIDED ON
THE BACK COVER OF THIS REPORT.

Highlights

Highlights	2001/2002	2002/2003	2003/2004
NPAT (\$M)	60.7	39.7	30.4
ROPA (%)	9.5	6.8	5.3
Average pool price – time weighted NEM (\$/MWh)	35.4	37.54	28.19
Gearing	55.1	52.7	30.6
Lost time injury frequency rate	11.3	8.4	11.33
Total energy generated (GWh)	11,879	12,719	13,239
Reliability (%)	97.4	91.4	95.0
Carbon intensity (kg/MWh)	933	909	907
Reportable environmental incidents	0	0	0

PEOPLE

- Mark Chatfield appointed Chief Executive.
- Mica Creek Power Station operated 17 months without a lost time injury to 30 June 2004.
- Pilot professional graduate development program established.
- Swanbank E project team awarded an Engineers Australia *Excellence Award* and nominated for the national awards.
- Mica Creek Power Station staff received the GE Water Technologies *Return on Environment Award* for their work on cooling water treatment systems, allowing water recycling.

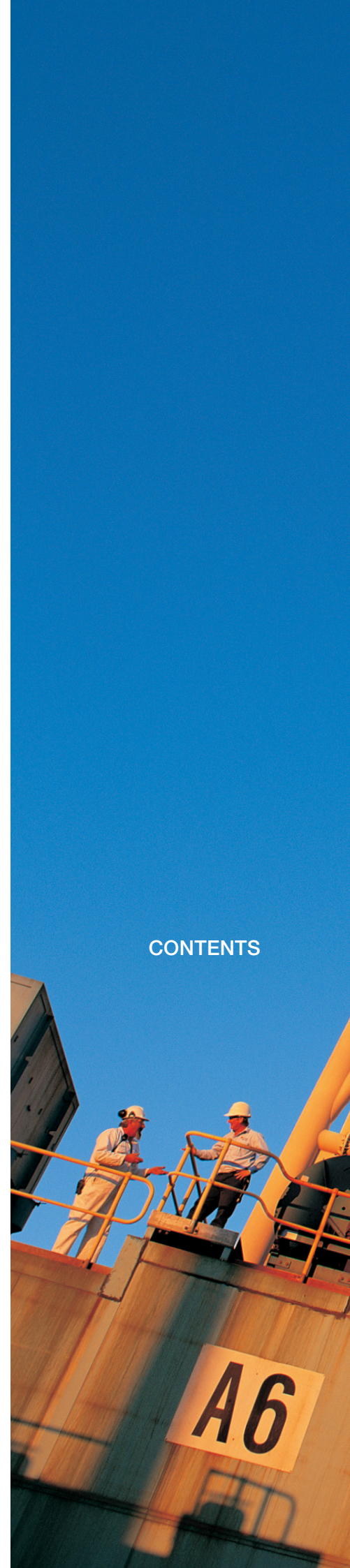
FINANCE

- Paid final dividend for 2002/2003 of \$37.73 million.
- Revenue maintained within 4 percent of 2002/2003 result while the 2003/2004 average pool price was reduced by 25 percent.
- Shareholder equity injection of \$260 million received to support the development of the Kogan Creek Power Project.

OPERATIONS

- Notice to Proceed on the \$1.1 billion, 750 megawatt, Kogan Creek Power Project given in May 2004.
- Swanbank B refurbishment project completed, extending the plant's life until at least 2011.
- Strategic investments made in a number of gas resources, and development of the Kogan Coal Mine continued in conjunction with the Kogan Creek Power Project.
- A \$20 million program to improve the efficiency of water use in the Callide ash handling system approved for 2004/2005.
- Design work completed for the Awoonga to Callide water pipeline, potentially saving up to 3,000 megalitres of water a year. Work will commence during 2004/2005.
- Over \$40 million spent on refurbishment and maintenance of existing assets to ensure their ongoing reliability.

CONTENTS



‘mission

TO SAFELY DEVELOP INNOVATIVE, ENVIRONMENTALLY RESPONSIBLE AND COMPETITIVELY PRICED RELIABLE ENERGY SOLUTIONS FOR OUR CUSTOMERS. ’

‘vision

TO BE THE LEADING AUSTRALIAN ENERGY COMPANY BASED IN QUEENSLAND. ’

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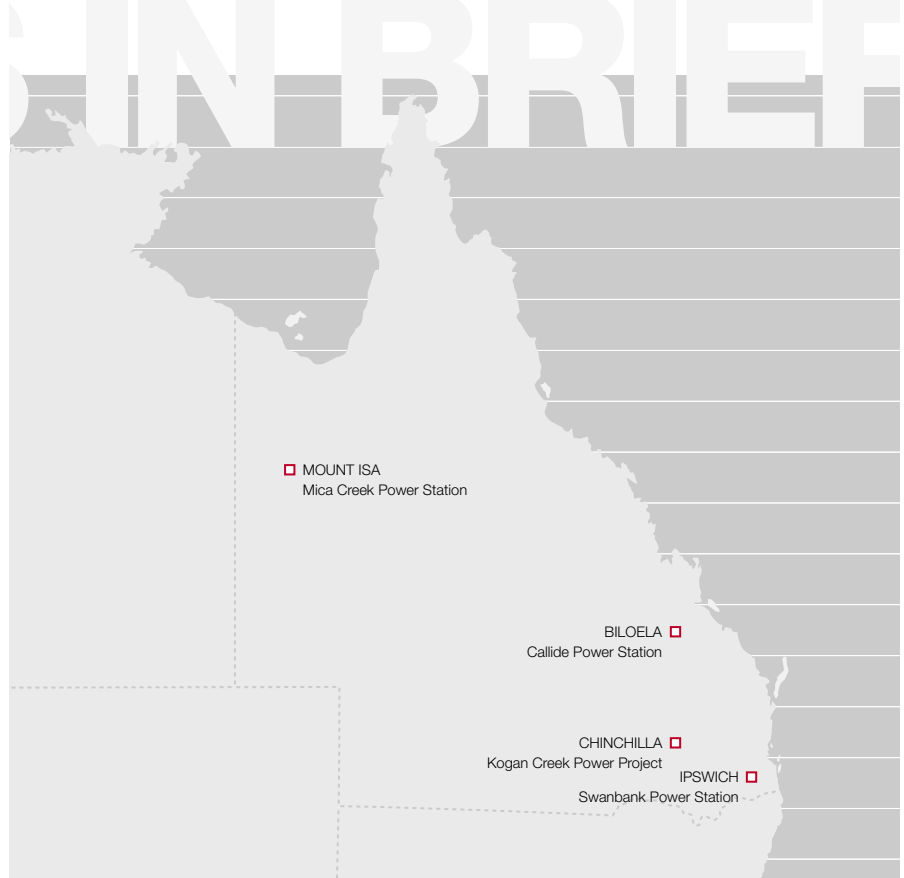
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Introducing CS Energy

CS ENERGY LTD (CS Energy) is a Queensland Government owned electricity generator that has the capability to supply around 30 percent of Queensland's energy requirements. With around 500 employees across five sites in Queensland, CS Energy uses a diverse mix of fuels to fire almost 3,000 megawatts (MW) of generation plant.

CS Energy's shares are held by State Government Ministers on behalf of the people of Queensland.

CS Energy is unique in the Australian electricity industry as the only company operating a diverse portfolio of generation plant able to supply base, intermediate and peak load, both on and off the national grid. The Company's operating sites are:

- Swanbank Power Station, near Ipswich in southeast Queensland;
- Callide Power Station, near Biloela in central Queensland; and
- Mica Creek Power Station, near Mount Isa in northwest Queensland.

Electricity generated at Swanbank and Callide power stations is sold into the National Electricity Market (NEM) to meet the electricity needs of business and domestic consumers across Australia's eastern seaboard. Customers in this market include energy retailers and major industrial operations in Queensland.

Mica Creek Power Station is the sole large-scale electricity supplier for the Mount Isa region. This area is not connected to the NEM and CS Energy's operations there support some of Australia's major mining and minerals processing companies, as well as the communities of Mount Isa and Cloncurry.

Since incorporation in 1997, CS Energy has worked to expand its energy portfolio and diversify its risk. This strategy of reinvestment has seen its asset value grow by more than 60 percent in just seven years.

CS Energy is currently developing the Kogan Creek Power Project near Chinchilla in southeast Queensland. The 750 MW plant will be constructed by a consortium of Siemens and Hitachi and is due for completion in October 2007.

With the commissioning of Swanbank E station in 2002, CS Energy became the largest consumer of gas in Queensland. To ensure continuity of economic fuel supply for the plant, and to underpin its economic performance, CS Energy has made a series of investments in coal seam methane operations. ■

Plant	Year commissioned	Fuel	Unit size (MW) and number of units	Total capacity (MW)	CS Energy owned capacity (MW)
In Operation					
Swanbank					
Swanbank B	1971	Coal-fired	120 x 4	480	480
Swanbank E	2002	Gas-fired	385 x 1	385	385
Callide					
Callide A ¹		Coal-fired	30 x 4	120	120
Callide B	1988	Coal-fired	350 x 2	700	700
Callide C	2001	Coal-fired	450 x 2	900	450
Mica Creek					
Mica Creek A (Units 1,2,3,4)	1960–1973	Gas-fired	33 x 4	132	132
Mica Creek A (Units 5,6,7)	1985–1997	Gas-fired combined cycle block	35 x 2, 33 x 1	103	103
Mica Creek B	1990	Gas-fired	35 x 1	35	35
Mica Creek C	1999	Gas-fired combined cycle block	35 x 1, 20 x 1	55	55
Under Construction					
Kogan Creek Power Project Kogan Creek ²	Due in 2007	Coal-fired	750 x 1	750	750
Total capacity				3,660	3,210

¹ Callide A was placed in storage in December 2001

² Kogan Creek Power Project is due for commissioning in August 2007

“diverse

WITH AROUND 500 EMPLOYEES ACROSS FIVE SITES IN QUEENSLAND, CS ENERGY USES A DIVERSE MIX OF FUELS TO FIRE ALMOST 3,000 MEGAWATTS (MW) OF GENERATION PLANT.”

APPOINTED CHAIRMAN OF CS ENERGY'S BOARD IN JULY 1999, STEPHEN LONIE HAS OVERSEEN THE COMPANY'S STRATEGIC DIRECTION THROUGH A PERIOD OF GROWTH. FACING RAPID CHANGE IN THE NATIONAL ELECTRICITY MARKET, CS ENERGY HAS REMAINED FOCUSED AND FLEXIBLE UNDER THE GUIDANCE OF STEPHEN AND HIS BOARD.

Reviewing the big picture



Stephen, you announced the development of another major power station this year. Is CS Energy's growth typical of the rest of the electricity market? In 1997, CS Energy started life with a portfolio of assets that were older and less efficient than most of the other companies in the national market. Change was a necessity and, since then, the Company has worked to improve the life expectancy and efficiency of CS Energy's asset portfolio by developing new, efficient, competitive plant, as well as refurbishing its older assets to extend their economic life.

Today, CS Energy operates one of the most diverse portfolios of plant in the NEM.

Demand for electricity is growing faster in Queensland than in any other Australian state. The Kogan Creek Power Project will help us meet some of this demand, coming on-line in the summer of 2007/2008, when the Queensland reserve plant margin is forecast to fall to about 10 percent.

Given this strong growth history, what emphasis do you place on the performance of your existing assets? CS Energy has a comprehensive asset management process, focused on the core requirements for reliable operation, as the Company generates its revenue by being available for dispatch in the NEM, 24 hours a day, 365 days per year.

Within the Company's assets management process is a preventative maintenance regime that is based on ongoing condition monitoring and performance assessment, to ensure that each asset's management plan remains dynamic and responsive to changing conditions.

For example, in the coming year, CS Energy will undertake a major maintenance outage at Callide B, taking both units off-line for the first time since they were commissioned in 1988, to work on common chimney and cooling infrastructure.

These decisions are made by the senior management team and recommended to the Board as part of the annual business planning process, with the overall focus on asset reliability and efficiency in a safe working environment.

Renewable energy became a public issue during 2003/2004. How has CS Energy responded to this interest? CS Energy recognises its community responsibility to ensure sufficient electricity is generated with as little impact on the environment as possible, but at an affordable price that will support the sustainable growth of Queensland's economy.

Economics dictate that coal will be the primary fuel for electricity generation in Queensland for the medium term at least, so CS Energy is investing in research to improve the environmental performance of coal fired power stations. During 2003/2004, the Company formalised partnerships with a range of research bodies including COAL21 and the Queensland Centre for Low Emissions Technology to this end.

CS Energy is also exploring the possibility of using some of its older plant, like Callide A, as research facilities to develop these technologies.

The Company remains focused on identifying economically viable, environmentally sustainable technologies, which it can turn into feasible commercial applications.

Meeting safety targets has been a challenge for CS Energy in the last two years. Has safety become a priority for the Board? Safety has always been, and will remain a priority for CS Energy, not just the Board.

Creating a safe working environment, and taking that safety culture home, is a fundamental tenet of CS Energy's business philosophy. Safety is about self respect, respect for your colleagues, and respect for the families of our workforce. No-one wants to see anyone hurt in the workplace, and the Board recognises that everyone in CS Energy needs to work towards delivering this outcome.

CS Energy's safety programme is built upon individual leadership, and while CS Energy has first-rate systems and processes in place, safety is a cultural issue that is the responsibility of everyone, every day.

At Mica Creek this year, the Company achieved a major safety milestone of more than seventeen months without a lost time injury, a performance that demonstrates teamwork in operation.

You sound quite involved in operations. How do the Directors interact with the organisation? The Board operates in a range of modes to ensure that it has an effective governance framework within CS Energy. The Board holds monthly meetings, supported by comprehensive board papers. The Board also operates three sub committees that work on behalf of the Board and report to the Board, being:

- The Major Capital Committee, which monitors major capital and maintenance projects;
- The Staff and Remuneration Committee, which provides oversight to staff policy issues, including the EBA process and senior executive remuneration; and
- The Audit Committee, which addresses financial and risk management issues, including the oversight of the audit process.

These committees enable Directors and management to address issues of significance to the organisation as a precursor to bringing definitive resolutions for consideration by the Board.

In addition, Directors may have individual contact with senior executives on ongoing matters, as well as weekly meetings between the Chairman and the Chief Executive to review any issues of significance.

This activity does not replace the management of the business but supports it, through effective assessment of the performance of the operation and its senior executives.

CS Energy changed Chief Executives during the year. Did this affect operations? Our former Chief Executive, Tony Bellas, helped to shape CS Energy's future, particularly through his commitment to the Kogan Creek Power Project, and I am sure I speak for all my colleagues at CS Energy when I wish him well at Ergon Energy.

However, transitions are always a little unsettling and it is a testament to the talent and teamwork of the senior management team at CS Energy that the Company finished the year ahead of expectations.

I would particularly like to thank Richard Boys and the senior management team at CS Energy for taking up the challenge and ensuring that the Company continued to perform soundly during the year. Their leadership has ensured that our new Chief Executive, Mark Chatfield, takes the helm of a business ready for new opportunities.

Finally, I would like to thank my fellow Directors for their contribution to CS Energy's business this year. They are all committed to CS Energy and work hard to ensure that CS Energy is a sound, responsible and innovative company, meeting its many challenges in a sensible, efficient manner. ■

CFO
RICHARD
BOYS

CE
MARK
CHATFIELD

CHAIRMAN
STEPHEN
LONIE



Results under the microscope

CHIEF EXECUTIVE, MARK CHATFIELD, JOINED CS ENERGY IN AUGUST 2004 FOLLOWING A LONG CAREER WITH WESTERN POWER CORPORATION, THE MAJOR ELECTRICITY PROVIDER IN WESTERN AUSTRALIA. HIS FRESH PERSPECTIVE AND TECHNICAL BACKGROUND ARE WELCOME ADDITIONS TO A COMPANY COMMITTED TO MARKET-DRIVEN BUSINESS DECISIONS.

ARRIVING AS CS ENERGY LAUNCHED ITS KOGAN CREEK POWER PROJECT, MARK HAS TAKEN THE REINS OF A COMPANY FACING ALL THE CHALLENGES ASSOCIATED WITH STRONG GROWTH. ►

Your background is in operations and production. How do you rate CS Energy's production performance? I rate CS Energy quite highly. The Company faced many diverse challenges across all of its sites during 2003/2004 but all of these issues were managed, outages were run tightly and finished on time, and the Company finished the year ahead of budget with a net profit after tax of \$30.4 million.

My first impression is that the staff understand the technical, safety and financial imperatives that drive this business and apply themselves to balancing these issues. You can see this understanding in the way the Company optimised the timing of its maintenance outages this year.

CS Energy produced about 9 percent more electricity this year than in 2002/2003, which on the surface is a good result. However, some of our large, low cost units performed below expectation, so some of this increase was generated by higher cost plant. The Company's challenge is to optimise the performance of its plant portfolio, 365 days every year.

It's been a challenging year for generators, characterised by low pool prices. Are these conditions evident in CS Energy's result? Yes. It was a challenging year. The Company's net profit after tax for the year was \$30.4 million against \$39.7 million for 2002/2003, primarily due to a fall in pool average price from \$37.54/MWh in 2002/2003 to \$28.19/MWh in 2003/2004, representing a 25 percent fall in the Company's selling price. The NEM is a challenging competitive environment and we know that we have to perform well to achieve sustainable returns for our Shareholders.

The Company spent over \$40 million on maintenance and refurbishment of its existing assets this year, including a significant investment in a range of research and development projects.

Our shareholders have recognised the benefit of this reinvestment strategy and invested an additional \$260 million in equity in CS Energy this year to support the construction of the Kogan Creek Power Project.

CS Energy is an electricity generator, but there's been some press this year about the Company's investments in gas exploration companies. How does this fit CS Energy's business? With about one third of its portfolio firing on gas, CS Energy is actually the largest gas consumer in Queensland.

If Queensland is to have a strong gas industry supplying economically priced gas, it must include coal seam methane, and this industry is still in its infancy.

Swanbank E has stimulated growth in Queensland's coal seam methane industry, through the volume of gas it consumes. CS Energy is working to ensure that it has access to secure, economic gas for the long term. Consequently, the Company is developing gas supply agreements that involve CS Energy investing in the development of gas fields.

These investments in both gas and coal will soon be complemented by the CS Energy-owned Kogan Coal Mine, which will be developed to fuel the Kogan Creek Power Station.

These upstream investments in fuel are part of the Company's strategy to secure reliable efficient fuel supply.

You're in the unique position of seeing CS Energy from both the outside and the inside this year. What do you see as the major challenges facing the Company? CS Energy is facing several major challenges.

Firstly, the Company needs to continue to focus on its safety performance. There are some interesting trends below the top line numbers, like the fact that 50 percent of our lost time injuries this year were muscular, and the result of poor manual handling techniques. Management is addressing this issue through training and awareness activity.



Kogan Creek Power Project must also remain a priority for the Company. Delivering a major project on time and on budget is an enormous challenge and CS Energy has assembled a highly experienced team to work on Kogan Creek.

Simultaneously, the Company must continue to extract maximum performance from our existing portfolio, so CS Energy will need to examine its methods and skills and invest in its people to ensure they remain leaders in our industry.

CS Energy is part of a thirsty industry on a dry continent and managing the Company's water use is also a significant priority. ■

2003/2004 in perspective

CS ENERGY'S STRENGTH lies in its diverse asset portfolio, and its business strategy reflects this diversity. Since 1997, the Company has focused on creating a portfolio that meets the needs of electricity consumers, through retiring older, less efficient plant, delivering new base load and intermediate load capacity to the market, and converting Mica Creek Power Station from coal to gas firing.

Over the past seven years, CS Energy has increased its generation capacity by 20 percent while reducing the greenhouse intensity of its portfolio by almost 10 percent.

CS Energy's strategy of building a flexible business, capable of responding quickly to market developments, is evident throughout the Company. Underlying all activities are three key business areas: people, profitability and positioning for the future.

Key Corporate Objective	Results 2002/2003	Results 2003/2004
Maximise short term returns while ensuring long term economic value	ROPA ¹ 6.8%	ROPA¹ 5.3%
Reduce lost time injury frequency rate	8.4	11.3
No reportable environmental incidents	No incidents	No incidents
Demonstrate market driven plant performance	91.4% reliability	95% reliability
Build generation market share	Swanbank E commissioned on time and on budget	Kogan Creek Power Project notice to proceed issued on 24 May 2004
Secure competitive long term fuel and water resources	Gas development and supply agreements negotiated with several major suppliers Development plan for the proposed Kogan Creek Coal Mine complete	Agreements signed with Santos and Mosaic Oil Kogan Creek Coal Mine development scheduled to commence in 2005/2006
Promote technology change and implement for commercial benefit	Development of clean coal technologies supported through the Cooperative Research Centre for Coal in Sustainable Development (CCSD) Invested in coal seam methane and underground coal gasification technologies	Participated in development of COAL21 National Action Plan, focused on clean coal opportunities Relationship with CCSD continued Investments in coal seam methane continued Relationships with Queensland Centre for Low Emission Technology and Queensland Sustainable Energy Industry Development Group established

¹ ROPA: Return on Productive Assets: Earnings before interest and tax x 100 percent, divided by average total assets minus average work in progress.

PEOPLE. Safe, secure operations are a priority for CS Energy and 2003/2004 delivered mixed results in this area. Overall, safety remains a challenge for the Company with the Lost Time Injury Frequency Rate (LTIFR) for the year reaching 11.33, above the 2002/2003 result of 8.4, and well above the 2003/2004 target. In a significant achievement, Mica Creek Power Station operated with no lost time injuries for 17 months at 30 June 2004. *For more information on the Company's safety performance see page 27.*

PROFIT. CS Energy returned a profit after tax of \$30.4 million (2002/2003 \$39.7 million). Although below last year's figure, this profit is a sound result given the 25 percent fall in time weighted average NEM pool price between 2002/2003 and 2003/2004. Generation dispatched into the NEM for 2003/2004 was 8 percent higher than the previous year, at 12,343 gigawatt hours, reflecting a full year of Swanbank E generation and the removal of drought related generation restrictions at Callide Power Station. *For more information on market related activity, see page 13.*

POSITIONING. Notice to Proceed for the 750 MW Kogan Creek Power Project was given on 24 May 2004. However, the Company's future rests on more than just the development of new generation plant. During 2003/2004, CS Energy continued work on its fuel management strategy, extending its investments in gas fields and developing the coal mine at Kogan Creek. The Company is also developing a clean energy strategy to co-ordinate its investments in research and development of new generation technology. *For more information on fuel strategy see page 17. For more information on CS Energy's clean energy strategy see page 22. ■*

BELOW. A CORPORATE FOCUS ON SAFETY RESULTED IN AN UPDATE OF THE ENTIRE PERMIT TO WORK CONTROL MANAGEMENT SYSTEM DURING THE YEAR.

ONE COMPONENT OF THE NEW SYSTEM, A TAG AND LOCK-OUT PROCESS, USES A SERIES OF PERSONAL PADLOCKS TO CONTROL ACCESS TO WORK AREAS.

STEVE WATTERSON, CALLIDE, LED THE COMPANY-WIDE IMPLEMENTATION OF THIS COMPONENT.



‘portfolio
OVER THE PAST SEVEN YEARS, CS ENERGY HAS INCREASED ITS GENERATION CAPACITY BY 20 PERCENT WHILE REDUCING THE GREENHOUSE INTENSITY OF ITS PORTFOLIO BY ALMOST 10 PERCENT.’

RIGHT. AFTER 23 YEARS OPERATING COAL FIRED PLANT AT SWANBANK B, MICK DREIER IS RETRAINING TO OVERSEE THE GAS FIRED SWANBANK E.

RELIABILITY

Coal seam methane

future fuel

BY MARTIN KLAPPER, THE AUSTRALIAN COAL SEAM GAS COUNCIL

GAS IS INCREASINGLY SEEN AS A BRIDGING FUEL FOR THE ELECTRICITY INDUSTRY, FIRING TECHNOLOGY THAT WILL DELIVER SECURE, LARGE-SCALE ELECTRICITY SUPPLY AT A LOWER CARBON INTENSITY THAN COAL.

QUEENSLAND DOES NOT HAVE SUFFICIENT LONG TERM TRADITIONAL NATURAL GAS RESOURCES TO SUPPLEMENT ITS COAL FIRED ELECTRICITY GENERATION, SO THE STATE IS TURNING TO COAL SEAM METHANE AND, IN THE PROCESS, PIONEERING A NEW INDUSTRY FOR AUSTRALIA. ➤





Coal seam methane, coal seam gas, coal bed methane and coal mine methane are all terms used to describe the methane gas (CH₄) that is held within coal seams.

Coal seam gas is a natural by-product of the coal formation process. It forms as heat and pressure transform organic matter into coal and methane over millions of years.

Whilst both natural gas and coal seam gas are substantially made up of methane, with several other gases in varying proportions, there are a number of significant geological differences in the way in which each occurs which impact upon its extraction and use.

Natural gas is stored within the free pore spaces in a permeable material such as sandstone. It is generally held there by an impermeable layer above that prevents the gas from escaping. Coal seam gas on the other hand is found absorbed within coal in water-filled seams and is held to the coal by the pressure of the water. Unlike the extraction of natural gas, which occurs by drilling into the reservoir and permitting the gas to escape under its own pressure, coal seam gas is extracted by removing the water in the coal seam. As the water is pumped from the coal seam the pressure in the coal seam reduces, allowing the gas to be released from its adsorbed state. Once the pressure is sufficiently low the gas flows to the surface.

Other differences between coal seam gas and conventional gas production are the generally shallower depth of wells for coal seam gas, and the use of small and less expensive drilling rigs that are easy to mobilise and provide a more cost effective method of extraction.

Once the gas is harvested, gas processing for traditional natural gas and coal seam gas is substantially similar. The industries themselves are different, however, in their potential to overlap with other resource producers because coal seam gas occurs within coal resources that are, naturally, also targeted by coal explorers and producers.

The Queensland Government's requirement under its energy policy—A Cleaner Energy Strategy—is for electricity retailers to source 13 percent of all electricity from gas fired generation by 2005. This policy, and the large coal reserves in Queensland, have seen the coal seam gas industry rapidly expand, creating potential conflict between coal seam gas producers and coal producers.

The Minister for Natural Resources, Mines and Energy introduced the new *Petroleum and Gas (Production and Safety) Bill 2004* (P&G Bill) into Parliament on 12 May 2004. On 18 August 2004 the Minister also introduced the *Petroleum and Other Legislation Amendment Bill 2004* (POLA Bill) into Parliament. These Bills represent the first major review of petroleum legislation in Queensland for over 80 years, with one of the driving factors behind the review being the expansion of coal seam gas production and exploration in Queensland over the past 15 years.

The principles that these Bills introduce particularly for coal seam gas include:

- provisions to encourage the co-development of coal seam gas and coal resources by agreement between the respective explorers and producers; and
- where agreement on co-development cannot be reached, the Minister will generally be able to determine which resource is first to be exploited.

The legislation is the result of numerous years of industry consultation and ensures that Queensland can optimise the use of both resources.

Unlike coal seam gas production, where there is an obvious overlap with areas suitable for coal mining, it is unlikely that the natural gas industry will face similar issues of conflicting interests with coal producers.

Queensland coal seam gas production increased rapidly from 0.3 petajoules (PJ) in 1996 to in the order of 25 PJ per year currently, and represents in excess of 20 percent of Queensland gas demand. With gas contracts secured in recent times, production is forecast to exceed 60 PJ per annum by 2007. ■

MARTIN KLAPPER, THE AUSTRALIAN COAL SEAM GAS COUNCIL

MANAGING THE MARKET. CS Energy's revenue comes from its activities in the NEM and from long term electricity supply contracts at its Mica Creek Power Station in Mount Isa.

During 2003/2004, the time weighted average pool price for electricity was \$28.19/MWh, compared with \$37.50/MWh during 2002/2003. While significantly lower, electricity prices in the NEM were generally more stable this year as supply volatility associated with commissioning plant disappeared from the market.

Queensland is experiencing the highest electricity load growth in the NEM. During the summer of 2003/2004, Queensland's electricity demand record was broken on six separate days, with the highest demand peak over 12 percent higher than the previous summer's peak. While Queensland's reserve plant margin was at 24.4 percent during this peak, ensuring sufficient generation to meet current needs, CS Energy expects demand growth to continue for the foreseeable future and has consequently commenced work on the Kogan Creek Power Project to meet this growth.

CS Energy's activities in the NEM are supported by hedge contracts traded in a parallel financial market, an activity that now falls within the provisions of the *Financial Services Reform Act 2001*. In February 2004, the Australian Securities and Investments Commission (ASIC) advised that CS Energy's financial market operations had been licensed prior to this new legislation coming into force.

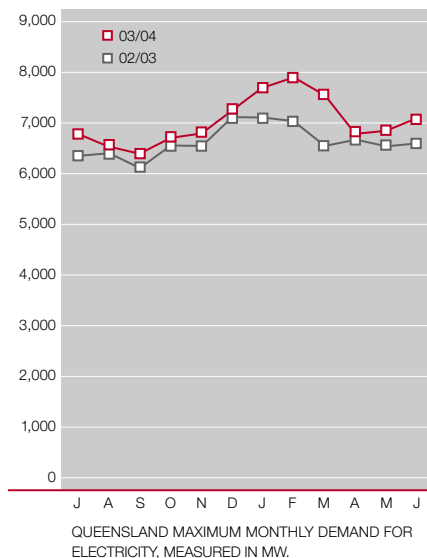
As part of its enterprise-wide risk management process, CS Energy's market trading processes were audited, in consultation with the Queensland Audit Office, during April 2004. The audit examined CS Energy's trading risk management and operational controls, including measures for preventing unauthorised trading. The audit also tested the accuracy of NEM transaction recording and reporting processes, and CS Energy's governance and reporting structures, to provide an assurance that CS Energy maintains a well documented and controlled environment with low residual risk exposure. The results of this review were positive, supporting CS Energy's current processes.

CS Energy also continues to actively respond to large energy consumers considering investment in Queensland, including major minerals processing operations in central Queensland.

RESULTS FROM OFF-GRID OPERATIONS.

Generation from Mica Creek Power Station reflects the level of industrial activity in the remote community around Mount Isa. During 2003/2004, generation was slightly down compared to the previous year, largely as a result of the change in ownership of the Mount Gordon Mine, which has reduced overall electricity demand following changes to its on-site operations. ■

Trading on our expertise



RIGHT: ULTRASONIC TESTING BY SIGMA PROCESS SOLUTIONS WAS USED TO LOCATE STRUCTURAL DEFECTS INSIDE THE BOILERS DURING SWANBANK B'S MAJOR OVERHAUL.



Maintaining the balance

CALLIDE POWER STATION. Water remained a focal point for activity at the Callide site during 2003/2004. The wall of the Callide ash dam was raised 1.4 metres early in the financial year, following heavy rains the previous summer. The action was taken to reduce the potential risk of discharge of water over the spillway in the event of a similarly high rainfall summer during 2003/2004.

In addition, CS Energy developed a long term ash management strategy for the Callide site. Work commenced during 2003/2004 on a two-year, \$20 million project to replace and upgrade ash handling equipment across the site. Callide B station will be converted to dense-slurry ash handling, which will reduce water use and extend the life of the ash dam.

Maintenance on Unit B1, scheduled for 2003/2004, was deferred to provide a dual outage opportunity during a low price period and also to coincide with the outage for ash plant upgrade. This delay resulted in an anticipated degradation of the plant's performance, particularly over the summer months when Unit B1 was limited to 300 megawatts of output. The plant's capacity rose to 320 megawatts as the weather cooled, and maintenance in early 2004/2005 will return the plant to its full 360 megawatt capacity by late September 2004.

In January 2004, CS Energy and its Callide C joint venture partners approved the extension of the pipeline delivering water to the Callide site. The 15 kilometre extension is expected to save up to 3,000 megalitres of water each year. Construction is expected to commence during the 2004/2005 financial year.

2004/2005 challenge: for the first time ever, both Callide B units will be off-line simultaneously during August 2004 and September 2004 to allow overhaul work on the shared cooling tower and chimney. A comprehensive overhaul program was developed to manage this critical activity.

TOP. MICA CREEK'S SIGNIFICANT MAINTENANCE PROGRAM AVERAGES 90 DAYS PER YEAR OF UNIT OVERHAULS. PETER SCHMIDT (L) AND GARY BREBNER (R), HELPED PLAN AND MANAGE THE EXECUTION OF THE MAJOR OVERHAUL PROGRAM DURING 2003/2004.

BOTTOM. CALLIDE B GEARED UP FOR THE LARGEST OVERHAUL PROGRAM THE STATION HAS SEEN IN SIXTEEN YEARS OF OPERATION. PROJECT MANAGER NICHOLAS REA (L), REVIEWS COOLING TOWER WORK PLANS WITH BRYAN COOPER, FROM CONTRACTED COMPANY PINEFAB.

SWANBANK POWER STATION.

CS Energy's commitment to delivering a market responsive portfolio was evident at Swanbank during the year as changes were made to operating regimes to better balance efficiency and market demand.

Gas fired Swanbank E station had its operation reduced from five to four days a week in order to maximise the efficient use of fuel. Swanbank B station, a coal fired plant less able to respond quickly to fluctuations in demand, had two of its units placed on standby over the Christmas period in 2003 when business and industry activity contracts and base load demand is lower.

A \$40 million life-extension program for Swanbank B was completed during 2003/2004, with work undertaken on units B1 and B2. Already over 30 years old, the plant is now capable of operating until 2011.

During the year, Swanbank E was taken off-line for eight weeks to upgrade turbine blades, incorporating the latest design improvements.

Although it is designed as a base load plant, and all similar plant around the world operates as base load plant, Swanbank E supports intermediate load four days a week in Queensland. From January 2005, the Queensland Government will require 13 percent of Queensland's electricity consumption to be generated from gas fired generation and will introduce tradable Gas Electricity Certificates (GECs). Swanbank E will be the most significant generation plant available to support these initiatives.

2004/2005 challenge: the introduction of GECs, and related changes to Swanbank E operations.

MICA CREEK POWER STATION. Mica Creek Power Station operated reliably during 2003/2004, despite challenging operating conditions including water shortages and the start of a program of significant overhauls on all the station's gas turbines.

This year saw some major developments among large electricity users in north west Queensland. Most notably, Mount Isa Mines was purchased by Xstrata Ltd, a Swiss based mining company with global operations. Gunpowder Mine also changed hands during the year, and is now owned by Birla Copper, an Indian company which intends to export copper concentrate from the mine.

Ambient temperature affects generation capacity at Mica Creek Power Station. During recent summers, high demand driven by customers' increased load for cooling and underlying load growth, combined with this reduced capacity, have prompted consideration of expansion options. However, a change of ownership and operating regime has reduced demand for electricity at Gunpowder Mine, deferring the need to increase generation capacity at Mica Creek at this stage.

Water remained a concern for the entire Mount Isa community for much of the year. Mica Creek Power Station staff worked closely with the local council and other industrial water users to provide input into the development of contingency plans. Seasonal rain in January 2004 provided relief, filling all local dams to capacity, but CS Energy continues to work to conserve water.

2004/2005 challenge: managing what will now be an ongoing overhauls program for the gas turbines and matching capital investment and demand growth in the north west minerals province. ■





Powering up Chinchilla

KOGAN CREEK POWER PROJECT.

Notice to Proceed on the Kogan Creek Power Project (KCPP) was issued on 24 May 2004.

The Project includes the construction and commissioning of the 750MW Kogan Creek Power Station, construction of a transmission line to connect the plant to the national electricity grid, the development of dedicated deep artesian bores to supply water and development of the adjacent Kogan Coal Mine.

On 24 May 2004, a consortium of Siemens and Hitachi was issued the Notice to Proceed with the 'turn-key' contract to build Kogan Creek Power Station, which will commence operation in the NEM in October 2007. Site construction work commenced in June 2004 and activity is expected to peak in March 2006, when over 1,000 people will be on site.

More than 500 people attended a public briefing on the Project, held in Chinchilla in June 2004. With local employment and business opportunities highlighted as important issues for the community, CS Energy has appointed a Local Liaison Manager to represent the Project in Chinchilla.

A Local Industry Participation Plan has been developed for the Kogan Creek Power Project to maximise the opportunity for local contractors and suppliers to participate in the Project and contribute to the regional and Queensland economy. CS Energy's contract with Siemens Hitachi binds these companies to the application of this plan.

The consortium has engaged the national Industry Capability Network to identify Australian companies qualified to supply components of the Project.

Following an open tender process, PB Power was appointed Owner's Engineer for the Project and will undertake the design review, construction supervision and commissioning activities on a daily basis at site on behalf of CS Energy.

Ten Cultural Heritage officers and three archaeologists undertook cultural heritage management at the site under a Cultural Heritage Management Plan agreed with Traditional Custodians in July 2003. Site clearance work was completed in September 2003 with more than 20,000 items identified, logged and collected. ■

FUELLING GROWTH. With around 20 percent of its portfolio fuelled by gas, CS Energy has taken a strategic interest in Queensland's developing coal seam gas industry. In order to secure economic fuel supply, the Company has entered into agreements with a number of publicly listed gas exploration companies.

Under two of these agreements, CS Energy has taken a financial position in the gas exploration company, supporting field development in return for gas rights. Farm-in agreements are in place over Queensland Gas Company's Berwyndale South field and Arrow Energy's Kogan North field and, at 30 June 2004, both companies had submitted development proposals for review by CS Energy. Independent gas reserves expert, Mr Greg Hueni of Malkewicz Hueni Associates, provided technical advice with this process.

CS Energy also owns the fuel source for the Kogan Creek Power Project. The 2.8 million tonnes per annum Kogan Coal Mine will be developed in conjunction with the power station and operated under contract during the life of the plant.

GENERATING OPTIONS. CS Energy's business development activity is focused on creating opportunities that support the Company's on-grid expansion by securing contracts to supply energy intensive industries. Co-locating energy generation and end users is the most efficient way to supply these customers, and a range of business models are being explored by CS Energy's business development staff to support these opportunities.

Swanbank Enterprise Park, a new industrial precinct around the Swanbank Power Station, continued to take shape during 2003/2004. Designed to house a range of businesses, this master planned development is a joint initiative of CS Energy and private developers.

CS Energy has an electricity supply arrangement with the proposed Aldoga Aluminium Smelter (AAS). This arrangement is under review following uncertainty regarding the timing of the project.

The redundant 37 megawatt Swanbank D Power Station, initially installed as emergency generation in 1999, was sold during 2003/2004. ■

Future business



*“strategic
WITH AROUND 20 PERCENT OF ITS PORTFOLIO FUELLED BY GAS, CS ENERGY HAS TAKEN A STRATEGIC INTEREST IN QUEENSLAND'S DEVELOPING COAL SEAM GAS INDUSTRY.”*

RIGHT: THE MOTHBALLED CALLIDE A STATION COULD BECOME A REAL LIFE LABORATORY FOR A WORLD FIRST CLEAN COAL TECHNOLOGY, OXY-FUEL COMBUSTION.

CALLIDE'S PRODUCTION SUPERINTENDENT, BEN HAYDEN, WILL OVERSEE THE CONVERSION PROJECT.

READINESS

Can BLACK be GREEN ?

BY COAL21 GROUP

DURING 2003/2004, FUTURE OPTIONS FOR AUSTRALIA'S ENERGY SECTOR WERE THE SUBJECT OF PUBLIC AND MEDIA DEBATE. COAL21, A NATIONAL COALITION OF INDUSTRY, GOVERNMENT AND ACADEMIA, LAUNCHED ITS NATIONAL ACTION PLAN IN MARCH 2004, DECLARING THAT COAL CAN BE CLEANED UP. WHAT EXACTLY IS CLEAN COAL AND HOW REAL IS ITS ROLE IN AUSTRALIA'S ENERGY FUTURE? ►





The COAL21 National Action Plan, launched in March 2004, identifies a range of actions for reducing or eliminating greenhouse gas emissions from the use of coal in Australia's electric power generation.

It was developed during 2003/2004 as part the COAL21 program—a collaborative partnership between the federal and state governments, the coal and electricity industries and research organisations.

The measures outlined complement efforts to increase the uptake of renewables and reign in rapidly growing energy demand through measures to increase end-use efficiency.

The National Action Plan identifies a number of emerging technologies that hold the key to reducing or even eliminating emissions from coal.

These include technologies to capture carbon dioxide (CO₂) emissions from power stations and permanently store them in underground geological structures, a strategy the Plan identifies as the pathway to achieving near zero emissions from coal.

Other priority technologies identified in the Plan include ones that increase the efficiency of coal use and others such as coal gasification that may allow coal to one day provide large amounts of hydrogen gas for a future 'hydrogen economy'.

Speaking at the launch of the National Action Plan, the Chair of the COAL21 Steering Committee, Mr Tim Besley A.C., said that solving the problem of greenhouse gas emissions will require major changes in the way we produce and use energy.

'An essential part of the solution must be to minimise emissions from our use of coal and other fossil fuels during what will be a very long transition to more sustainable energy systems.

'Renewable forms of energy may well prove to be the long-term solution, but it will be many decades or longer before these become a significant part of the generation mix.

'The measures outlined in the Action Plan for reducing emissions from coal therefore complement efforts to increase the uptake of renewables and reign in rapidly growing energy demand through measures to increase end-use efficiency', Mr Besley said.

Participants in COAL21 have included the Federal Government, through the Department of Industry, Tourism and Resources and the Australian Greenhouse Office, State Government agencies from New South Wales, Queensland, South Australia and Victoria, public and private research bodies, technology developers, electricity generators from Queensland, New South Wales and Victoria, industry associations and individual coal producers.

The COAL21 Action Plan has been developed as an input to policy making and as a valuable contribution to the national discussion around energy and greenhouse.

The Plan outlines actions that should be pursued in Australia to accelerate the development of each of the technologies. These actions are divided into two broad phases: an RD&D phase out to around 2015 and a subsequent deployment phase.

There are opportunities for reducing emissions from all stages of the coal chain including production, utilisation and waste disposal. However, as more than 95 percent of emissions occur at the point of combustion at power stations, these emissions represent the best opportunity large scale abatement action. A number of promising technologies have been identified as being of particular relevance to Australia. These include technologies that enable CO₂ capture and storage (the pathway to near zero emissions), higher coal-efficiency, and hydrogen production.

The range of technologies associated with CO₂ capture and geological storage (also known as geosequestration) are identified as the key to achieving deep cuts or even near zero emissions in coal-based electricity generation. Other technologies that meet one or more of the criteria include Integrated Gasification Combined Cycle (IGCC), Oxy-fuel Combustion, Lignite Dewatering and Drying and Ultra Clean Coal (UCC). Ultra supercritical Pulverised Fuel (PF) technology meets the criterion of increased coal-use efficiency, but has not been included in the Action Plan because it is unlikely that Australia could play a meaningful role in its further development. ■

FOR MORE INFORMATION: WWW.COAL21.COM.AU

CS ENERGY CONTINUED to consolidate its environmental performance, applying a corporate culture of responsible environmental management to its daily operations at all sites.

WATER MANAGEMENT. Water is delivered to the Callide site from the Awoonga Dam at Gladstone through a pipeline to the top of the Calliope range, and then along a natural watercourse to the Callide Dam. Following extensive environmental and economic feasibility studies, CS Energy and its Callide C joint venture partners this year announced the intention to construct a 15 kilometre extension to this pipeline. The project will commence during 2004/2005 and will conserve up to 3,000 megalitres of water each year, enough to supply 5,000 domestic households.

During the year, CS Energy raised the height of the Callide ash dam wall and spillway to reduce the potential risk of discharge in the event of major rain events like that experienced in February 2003.

Mica Creek Power Station was awarded the prestigious GE Water Technologies *Return on Environment Partnership Award* for the installation of a more environmentally friendly cooling water treatment system. It was only the third time this global award has been granted to a company in Australia or New Zealand. The changes allow the Xstrata mining operations to re-use all the station's effluent water. This innovative application of industrial ecology not only saved money, but has also resulted in a significant saving on fresh water use.

CONTINUAL IMPROVEMENT. Mica Creek upgraded its acid handling, storage and distribution system. The new facilities have reduced the number of acid sites from 10 to 5, and increased the effectiveness of environmental controls against the risk of spillage. The original bulk acid storage tank has been decommissioned and the design and installation of a new storage and transfer facility is proceeding.

RIGOROUS REVIEW. CS Energy takes its environmental responsibility seriously and the Company worked with a number of external agencies during 2003/2004 to ensure that its systems and processes remain best practice.

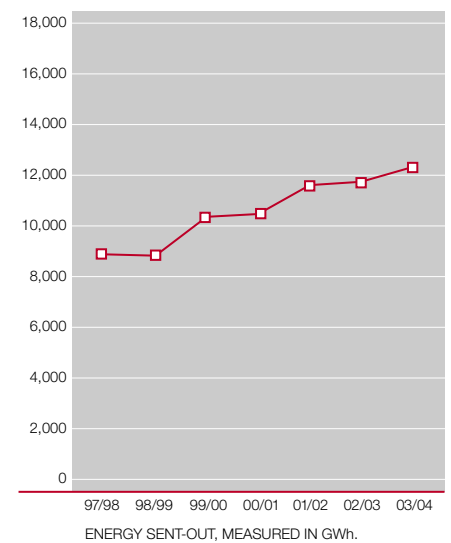
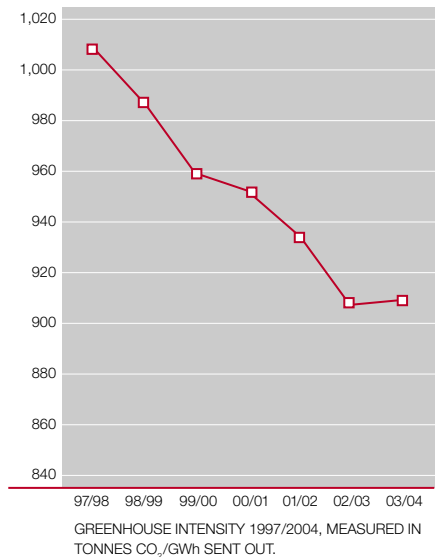
All CS Energy sites operate under Environmental Management Systems (EMS), which comply with the international EMS standard ISO14001. All sites underwent an external audit of these systems during the year, resulting in re-certification for three years. The extension of the Swanbank EMS to cover Swanbank E was also certified during this process.

The Environmental Protection Agency (EPA) audited the Callide Power Plant and Mica Creek Power Station sites for environmental licence compliance. No significant issues were identified. The EPA noted the high standard of environmental management at both sites, and at Mica Creek made special note of the level of staff environmental awareness and site housekeeping.

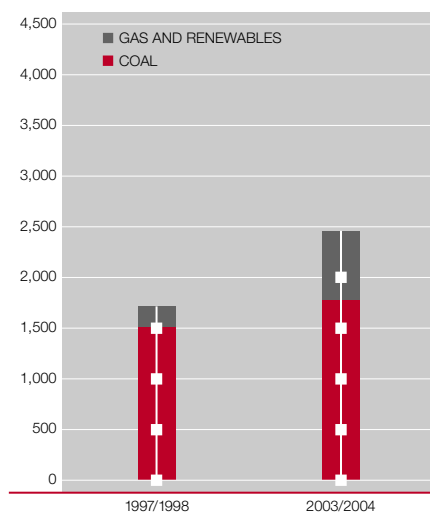
CS Energy has been a signatory to the Energy Supply Association of Australia (ESAA) Code of Environmental Practice since 1997, and undertakes audits as required by the Code. The Code provides policy standards for best practice in the areas of sustainable development, social responsibility, environmental management and resource management. CS Energy has consistently outperformed the industry average and continues to improve its compliance with the Code.

A SHARED APPROACH. In consultation with the EPA and the local community, staff at Callide Power Station developed a systematic approach to noise complaint management during the year. Noise monitors have been installed to examine the impact of operational noise under a range of weather conditions. ■

Environmental management



Investing in the future



GENERATING CAPACITY BY FUEL SOURCE 1997/2004, MEASURED IN MW.

CLEANER ENERGY. Supporting economic growth while minimising impact on the environment is an ongoing challenge for the electricity industry. CS Energy has approached this challenge by developing a portfolio of plant that affords the Company a range of generation alternatives with which to respond to the market.

This portfolio approach to managing its assets has resulted in a 10 percent reduction in the greenhouse intensity of its business since 1997. The Company has made a conscious decision to invest in the most advanced, most appropriate technology to meet electricity consumers' needs.

The national electricity generation portfolio will become increasingly diverse over the next decade as these new technologies mature. Most, however, can only supply a small proportion of our electricity requirements.

CS Energy's clean energy strategy, supported by its research and development and environment strategies, focuses on encouraging the commercial development of new technologies and reducing the time between the laboratory and the real world.

Current generation. Coal fired electricity generation will be part of Queensland's, and Australia's, energy industry for the foreseeable future. This competitively priced, reliable electricity, generated by coal fired power stations, underwrites Queensland's economy and ensures the State's continued attraction as an investment destination. CS Energy is working to minimise the impact of coal fired generation on the environment and helping to develop environmentally friendly technologies that can be exported to countries more reliant on coal fired generation.

Next generation. Gas also has a role to play in delivering flexible generation able to respond quickly to increases in electricity demand. CS Energy is investing in Queensland's developing coal seam methane industry to ensure gas is available to power future economic growth.

Generations ahead. Renewable energy projects have expanded rapidly in Australia in recent years. These developments are necessary and will play an important role in powering our nation into the future. CS Energy is currently focusing on the commercial application of biomass, such as green waste, and landfill gas to supplement coal fired generation.

RESEARCH PARTNERSHIPS.

CS Energy invests in a variety of research and development projects, all aimed at developing processes that will either improve the efficiency of the Company's plant or reduce its impact on the environment.

CS Energy is a member of the COAL21 partnership and, during 2003/2004, assisted in the development of a National Plan of Action to reduce greenhouse gas emissions from the use of coal in electricity generation.

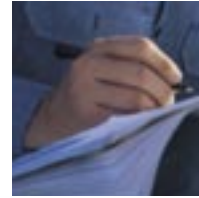
Under this plan, CS Energy is working with Australian and Japanese research organisations and boiler manufacturer IHI to determine the feasibility of oxy-firing coal fuelled boilers, a potentially more efficient combustion technology capable of supporting carbon sequestration projects. The two year project will investigate the feasibility of converting Callide A station to oxy-firing and is due for completion in April 2006.

CS Energy's partnership with the Griffith University's Eco-Centre continued during 2003/2004, with the appointment of Dr Jim Ness to the position of CS Energy Research Fellow. Dr Ness is working on the potential for blending bio-mass, such as green waste, with coal to fuel CS Energy's power stations.

CS Energy is a member of the Queensland Sustainable Energy Industry Development Group, which aims to facilitate the introduction of sustainable technologies, and a contributor to the Queensland Centre for Low Emission Technologies.

During the year, CS Energy supported targeted environmental academic projects. The first, at Swanbank, supervised a student project on the site ash dam, examining plant species which have naturally colonised the dam and strategies for promoting vegetation cover.

Swanbank also provided the operational setting for the second project, undertaken through the Griffith University 'Engineering Industry Program'. During a three and a half month industry experience placement, based primarily in the Brisbane office, a student reviewed opportunities and strategies for implementing cleaner production throughout the Company. ■



“assets

A PORTFOLIO APPROACH TO MANAGING ITS ASSETS HAS RESULTED IN A 10 PERCENT REDUCTION IN THE GREENHOUSE INTENSITY OF CS ENERGY'S BUSINESS SINCE 1997. ”

RIGHT. OPERATED IN CONJUNCTION WITH THIESS SERVICES,
THE SWANBANK COMMUNITY REFERENCE GROUP COMPRISES
LOCAL COMMUNITY, COUNCIL AND MEDIA REPRESENTATIVES.

THE GROUP CELEBRATED ITS THIRD YEAR IN 2003/2004.

RESPECT

[Listening

BY DR DAVID MOY, CHAIR OF SWANBANK COMMUNITY REFERENCE GROUP

SUCCESS IN BUSINESS NO LONGER RELIES SOLELY ON A COMPANY'S RELATIONSHIP WITH ITS CUSTOMERS. INCREASINGLY, COMMUNITIES, STAFF, ELECTED REPRESENTATIVES AND SHAREHOLDERS, AMONG OTHER GROUPS, ARE INFLUENCING THE FUTURE OF BUSINESSES, AND THE CORPORATE WORLD IS RESPONDING BY COMMUNICATING MORE WITH ITS STAKEHOLDERS.

OFTEN, HOWEVER, THIS COMMUNICATION COMES FROM THE COMPANY TO THE OUTSIDE WORLD, AND NOT IN THE OTHER DIRECTION. ACCORDING TO DR DAVID MOY, CHAIR OF THE SWANBANK COMMUNITY REFERENCE GROUP, EFFECTIVE CORPORATE COMMUNICATION HAS TO BE TWO WAY AND FOCUSED ON CLOSING THE LOOP. ➡

A group of approximately ten people, including men and women of various ages, are gathered outside a single-story building with a light-colored metal roof and dark grey siding. The building has large windows and a glass door. To the right of the building, a sign reads "Welcome to Liberty Place" with a cartoon illustration of a person. The people are dressed in a mix of casual and business-casual attire. In the foreground, there are several large, light-colored rocks on a grassy area. The sky is blue with scattered white clouds.

to our
neighbours]



Sustainable industry increasingly requires direct engagement with the community for success. This engagement can take a number of forms. However, the 'Focused Partnership' approach adopted by the CS Energy – Thiess Services joint venture operation at Swanbank is a national leader. What's more—it is working at Swanbank.

The operational climate was not as bright about three years ago when the Swanbank Community Reference Group (CRG) was born. Community outrage and EPA concerns were causing significant problems for the companies and adversely affecting unique, environmentally useful development opportunities—specifically the direct transfer of landfill methane gas to the Swanbank Power Station for energy generation.

The establishment phase of the CRG took four, very well advertised and attended open forum meetings with the local community. At the end of this time sufficient community concerns had been addressed, and sufficient confidence in the process and people directly involved had been established, to achieve the second phase of the project—an elected working group/committee. The involvement of the Ipswich City Council (ICC) and Queensland EPA in these early meetings was essential—as was the direct involvement of senior management from Thiess Services and CS Energy. Clear, long-term commitment by Industry to work with all key 'interested and affected parties' was essential.

At the fourth forum, the local community elected four representatives to the CRG Committee. A representative from each of the Redbank Plains Primary and Bremer High Schools and the local media further extended the community representation and communication channels. ICC provided two nominees; EPA one; and one each from the industry partners. Industry provided a very efficient and helpful secretary for the Committee—a critical role. Somewhat uniquely at the time, a paid, independent Chairman was engaged to facilitate the open forum and committee meetings.

Initially, the Open Fora were held quarterly and committee meetings monthly. Over time this has reduced to six monthly Open Fora—still well attended and therefore important—and bimonthly committee meetings. Elected representatives stand down at the December Open Forum but may stand for re-election. This ensures the community continues to have responsibility for ensuring they are well represented.

Time has seen very effective partnerships established and undeniable progress achieved. Trust, openness and a transparent commitment to improvement is matched by residual concerns, continued questioning and examination of industry's activities. The Chair's role is to ensure everyone is treated equally and gets a fair hearing. The strong commitment and partnerships developed within the CRG team are reflected in its Mission as developed by the community members: 'Achieving a beneficial relationship for the people, environment and economy of the Swanbank area.'

Congratulations to all participants. I am thankful for the opportunity to participate as the Chair—while being accepted—and trusted—as an equal member of the team. ■

DR DAVID MOY, CHAIRMAN, SWANBANK CRG

FOCUSED ON SAFETY. CS Energy's health and safety philosophy is communicated through its Work Safe Home Safe program. Simply, CS Energy considers that safety is not a workplace behaviour, it is an attitude that should be evident in every activity, at home and at work. A safe workplace reflects team spirit, just as taking care at home reflects care for our families. Mica Creek Power Station celebrated 17 months without a lost time injury at the end of June 2004, and continues to set the standard for safety at CS Energy.

Overall, however, the Company was disappointed with its safety performance for the year and emphasis will again be placed on improving this result for 2004/2005.

CS Energy has a range of tools and programs in place to reinforce safe work practices. During 2003/2004, the Company introduced the most comprehensive plant isolation process in the electricity industry, combining both physical locks and a paper based tagging and documentation system.

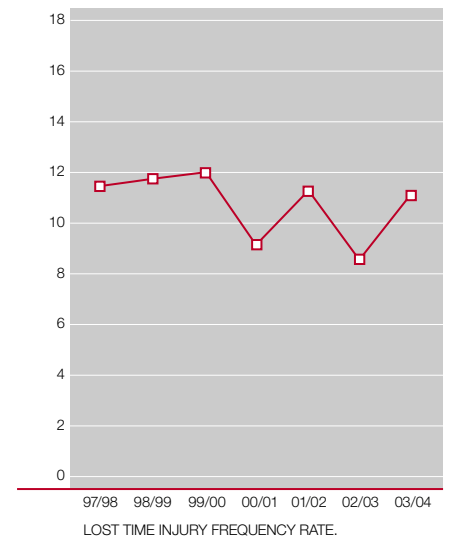
Safety Observations are being introduced at all sites, a process which involves a third party observing a team at work and discussing hazards identified and actions taken to manage risks. Observations are based on a simple, five point safety checklist and can be undertaken by peers, supervisors or managers who are responsible for safety leadership in the workplace.

A Safety Contact system has also been introduced which records workplace discussions on safety issues, encouraging information sharing across the organisation.

Both Callide and Mica Creek power stations had their safety systems audited by health and safety specialists Semf Pty Ltd during 2003/2004, and Swanbank Power Station will be audited during 2004/2005. These audits found that both sites have sound procedures and systems.

Despite this activity, CS Energy's lost time injury frequency rate for 2003/2004 was 11.33, up from 8.4 in 2002/2003. Of these injuries, 50 percent were low severity muscle strain, particularly back related injuries. In response, CS Energy is reviewing its manual handling processes and developing a targeted training program for implementation during 2004/2005. ■

Work safe home safe



safety

CS ENERGY CONSIDERS THAT SAFETY IS NOT A WORKPLACE BEHAVIOUR, IT IS AN ATTITUDE THAT SHOULD BE EVIDENT IN EVERY ACTIVITY, AT HOME AND AT WORK.

RIGHT: MICA CREEK POWER STATION OPERATOR, RUSSELL GOODWIN, RODE FROM MOUNT ISA TO LORNE HILL NATIONAL PARK TO RAISE MONEY FOR THE SCHOOL OF THE AIR.



Social responsibility

CS ENERGY'S EMPLOYEES AND their families are spread across the state, contributing to the economic, social and cultural life of four of Queensland's regional communities. The Company's sponsorship and community support activity is focused on these communities that host our operations.

Community activity during 2003/2004 targeted further development of communication channels between CS Energy and our local communities, with a particular emphasis on delivering opportunities for young people, and working with neighbours to deliver community resources.

CS Energy's relationship with Opera Queensland was extended during the year. The *Moving Opera!* program was delivered to high school students in Mount Isa and Ipswich, following a successful pilot in Biloela last year. The partnership will take this five day, intensive performance workshop to Chinchilla during 2004/2005.

Staff at Swanbank Power Station were so inspired by the *Moving Opera!* project that they formed a choir during the year. Assisted by Opera Queensland, the group practised in their own time and performed in a concert with students who undertook the Opera workshop.

CS Energy works in partnership with school communities at all our sites, facilitating school tours of the Company's power stations for both primary and senior students, and encouraging employees to visit schools and talk about all aspects of the Company's operations. In conjunction with CSIRO, the Company developed the Bright Sparx Science Show, which travelled to Mount Isa during September 2003.

At Callide, staff contributed both time and money to an upgrade of playground facilities at Coinda Kindergarten to accommodate special needs children.

As a major employer in these communities, CS Energy takes an active role in supporting local economic development. At Biloela, for example, the Callide Power Station Manager sits on Enterprise Biloela and the Dawson Valley Development Association, and holds regular updates on station activity for the local business community. ■

'regional
EMPLOYEES AND THEIR FAMILIES ARE SPREAD ACROSS THE STATE, CONTRIBUTING TO THE ECONOMIC, SOCIAL AND CULTURAL LIFE OF FOUR OF QUEENSLAND'S REGIONAL COMMUNITIES.

TOP LEFT. CS ENERGY'S LEADERSHIP DEVELOPMENT PROGRAM BRINGS TOGETHER (L-R) HR OFFICER, DENISE SLATER, LEARNING AND DEVELOPMENT MANAGER, TANYA GRIFFITHS AND OHS MANAGER, FRANK WELCH. .

RIGHT. DAMIEN VONHOFF IS ONE OF 17 APPRENTICES EMPLOYED BY CS ENERGY THROUGH GROUP TRAINING ORGANISATIONS.

BOTTOM LEFT. DANIELLE GILLAM IS IN HER FIRST YEAR OF AN INFORMATION TECHNOLOGY TRAINEESHIP AT MICA CREEK POWER STATION.

CONTINUALLY CHALLENGING. CS Energy employs around 500 people at five sites across Queensland. Swanbank, Callide and Mica Creek power stations are supported by a corporate office in Brisbane, which also hosts the Kogan Creek Power Project office.

CS Energy's human resources group supports the Company's aim to attract and retain the best people through providing a professionally challenging, rewarding environment.

The appointment of a Training and Development Manager during 2003/2004 reflected a Board commitment to ensuring CS Energy has the right skills in the right positions, at the right time. A review of the Company's succession planning during the year resulted in the creation of leadership and graduate development programs, and corporate staff are working with sites to produce skills development plans that meet the needs of each workplace.

Operations at Callide and Swanbank Power Stations were restructured from 1 July 2003, to reflect the Company's focus on balancing market-driven plant performance with longer term portfolio strategy.

In essence, these changes separate responsibility for day to day generation from the management and maintenance of the assets, allowing each area to focus its efforts and maximise its effectiveness.

The way the organisation works together is a key component of CS Energy's success. During 2003/2004, in line with a commitment to engendering positive working relationships, CS Energy reviewed its grievance procedures to involve front line staff more directly in the resolution of issues. The Company's EEO policies were also revised and, with their relaunch, all staff were given training on CS Energy's expectations regarding appropriate workplace behaviour.

At an operational level, CS Energy's SAP-based human resource management system was upgraded during the year, which resulted in improved reporting providing managers and employees with real time access to human resource data. The intranet tools have also been upgraded to improve communication with staff, and the payroll system upgraded to provide greater functionality through the Employee Self Service system. ■

Supporting our people



STEPHEN
LONIE

TIMOTHY
CROMMELIN

TONY
WHITE

TERRY
O'DWYER

TERESA
HANDICOTT

JULIE
LEAVER

BOB
HENRICKS



Directors

STEPHEN LONIE

B Com, MBA, CA, ASIA, FIMCA, FAICD

Chairman. Stephen is an independent management consultant and company director, after over 30 years with the major accounting and consultancy firm KPMG.

He is also Chairman of the Jellinbah Resources Group, a central Queensland coal producer; a Director of Charter Pacific Limited and Voxson Limited; and a member of the Brisbane City Council Holding Entity Advisory Board.

Chairmanships. CS Energy's Major Capital Committee.

Memberships. CS Energy's Audit Committee and Staff and Remuneration Committee.

TIMOTHY CROMMELIN

B Com, ASIA, FAICD

Deputy Chairman. Tim Crommelin is Chairman Stockbroking of ABN Amro Morgans Limited, a Member Corporation of the Australian Stock Exchange. Tim brings more than 35 years experience in investment, marketing, stockbroking and capital raising to the board. He holds a commerce degree from the University of Queensland.

His directorships include Australian National University Superannuation Investment Fund, Australian Cancer Research Foundation, OPCOM Limited, Brisbane Grammar School, Abney Hotels Limited and the Queensland Museum Foundation.

TONY WHITE

Dip Mech Eng, FIE Aust, Aus IMM, FAIM

Tony White is a technical consultant for Itochu Australia Ltd and a Director of Community and Corporate Financial Services Pty Ltd and the Queensland Coal and Oil Shale Superannuation Fund.

He is also Chairman of Copperform Holdings Pty Ltd and was Chairman of CS Energy subsidiary, Sigma Process Solutions, until its acquisition by Alstom Power Australia in March 2003. Mr White has extensive experience in the resources sector, having previously been Executive General Manager, Coal, Copper and Metals Processing with Mount Isa Mines Limited, where he was able to combine his engineering experience with business development and financial management.

Memberships. CS Energy's Staff and Remuneration Committee and Major Capital Committee.



TERRY O'DWYER

B Com, Dip Adv Acc, FAICD

Terry O'Dwyer has extensive experience in risk management, auditing and corporate governance.

Currently Chairman of chartered accounting firm BDO Kendalls, BreakFree Limited and Brumby's Bakeries Ltd, he is also a Director of Bendigo Bank Limited, Queensland Theatre Company Limited and Metal Storm Limited.

Mr O'Dwyer holds fellowships with the Australian Institute of Company Directors, the Institute of Chartered Accountants and the Australian Society of CPAs, and is a registered company auditor.

Chairmanships. CS Energy's Staff and Remuneration Committee.

Memberships. CS Energy's Audit Committee.

TERESA HANDICOTT

LLB (Hons), MAICD

Teresa Handicott is a partner of Corrs Chambers Westgarth where she advises clients on corporate and commercial law, mergers and acquisitions, capital raisings and securities industry law. She is also a principal law lecturer in the Securities Institute of Australia's Diploma Course and a tutor in the Australian Institute of Company Directors course.

She is an associate member of the Australian Competition and Consumers Commission, and a member of the Takeovers Panel. She is also a member of the Queensland Regional Council of the Securities Institute of Australia, a member of the Queensland Law Society, the Law Council of Australia, the Australian Institute of Company Directors and the Australian Corporate Lawyers Association.

Chairmanships. CS Energy's Audit Committee.

JULIE LEAVER

B Com, FCPA, MAICD

An accountant with significant expertise in financial and management accounting, project management, accounting standards and corporate governance, Julie Leaver has held senior roles in both the telecommunications and mining industries. In ten years with Telstra Corporation Limited, her main role was in Melbourne as General Manager – Corporate Accounting where she was responsible for financial reports, annual reports and prospectus for the Telstra Group that were prepared to satisfy both Australian and US Securities and Exchange Commission requirements. Her mining industry experience of fifteen years was with the former MIM Group including five years as financial controller of its Mount Isa Operations.

In addition to these executive roles, Mrs Leaver has served on the Australian Accounting Standards Board, the Mount Isa Water Board, the MIM Employees Health Society and the National Executive of the Group of 100 (an association of senior financial executives from the major companies in Australia).

Memberships. CS Energy's Audit Committee.

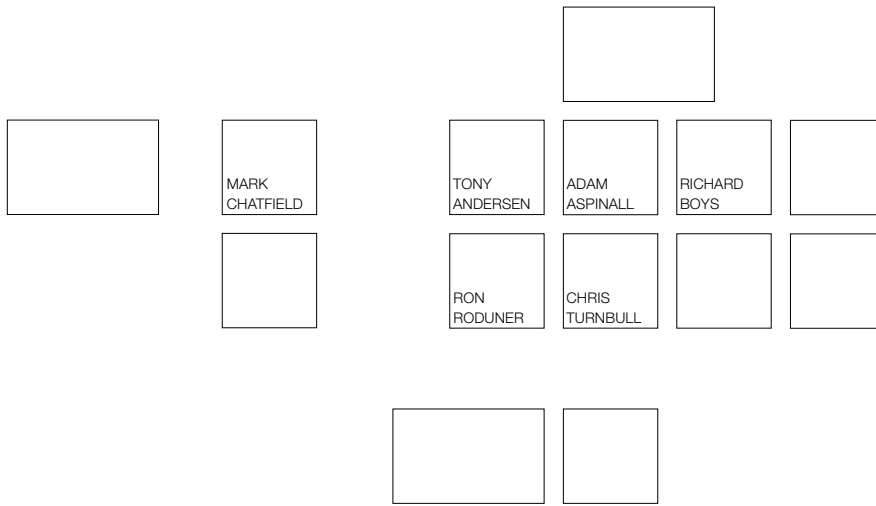
BOB HENRICKS

Bob Henricks brings over 40 years experience in the Queensland electricity industry to the CS Energy board. Mr Henricks has served on the board of AUSTA Electric and chairs the Electricity Supply Industry Superannuation Fund, and two other superannuation funds, Aust Q Pty Ltd and SPEC Q Pty Ltd. He is also chair of Meanderham Pty Ltd, Electro Group Training Qld Ltd and Electro Group Apprentices Qld Pty Ltd.

Mr Henricks is a director of Qld Private Capital Group Pty Ltd. He chairs the Queensland Electrotechnology Industry Training Council, is past State Secretary and National President of the Electrical Trades Union, and is a member of the (Australian Government) Central Trades Committee, which assesses the qualifications of immigrants

Mr Henricks, who took his apprenticeship at 15, is still a licensed electrician.

Memberships. CS Energy's Major Capital Committee.



Senior Executive team

MARK CHATFIELD

BEng, Grad Dip Bus, MIE Aust

Chief Executive. Mark Chatfield has been in the energy industry for over 30 years. He joined CS Energy in 2004, following a successful career at Western Power Corporation, the principal electricity provider in Western Australia. His most recent position was General Manager Generation and he was responsible for power station operations and maintenance, fuel purchases including coal, gas and oil, and generation asset renewal.

His experience extends to the gas industry, having held a range of gas marketing positions with Ampolex during the early 1990s.

TONY ANDERSEN

BE, MIE(Aust)

General Manager Projects and Technical Services. Tony Andersen has more than 30 years of experience in the Australian energy industry. During this time, he has held a range of senior roles at Tarong, Callide and Swanbank Power Stations, and hydro-electric power stations in Queensland.

As CS Energy's General Manager Projects and Technical Services, Mr Andersen is responsible for developing the Company's asset management strategy and delivering new power station projects. He is also a Director of Callide Energy, Callide Power Management and the Kogan Creek Power Project.

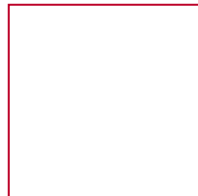
ADAM ASPINALL

BE, MIE (Aust), GAICD

General Manager Production. Adam Aspinall has more than 22 years of experience in the electricity industry in Australia, Japan, Canada and the United Kingdom including roles in areas as diverse as engineering and marketing.

After initial appointments as CS Energy's General Manager Marketing and Strategy, and General Manager Business Development, Mr Aspinall accepted the position of General Manager Production in early 2002. In this position, Mr Aspinall is responsible for the staff and operation of all CS Energy power stations, as well as Health and Safety, Environment and Corporate Procurement.

He is a Director of CS Energy Mica Creek Pty Ltd and CS North West Pty Ltd.



RICHARD BOYS

BCom, MBA, FCIS

Chief Financial Officer. Richard Boys was acting Chief Executive from January 2004 to August 2004. As CS Energy's Chief Financial Officer, he is responsible for the Company's finance, business development, information technology and business systems. He is also a Director of CS Energy subsidiary companies associated with Mica Creek Power Station, Callide Power Project, the Kogan Creek Power Project and Swanbank E Power Station.

Mr Boys has more than two decades of experience in business management and administration roles in the energy and resources sectors. His previous positions at CS Energy included General Manager Corporate Services and Company Secretary. In these roles, he was responsible for human resources, corporate communication, internal auditing, legal affairs and corporate administration.

RON RODUNER

BE (Hons), MIE (Aust), MBA, FAICD

General Manager Trading and Resources. Ron Roduner has more than 22 years of experience in Queensland's electricity industry, and played a key role in the development of the Queensland and National Electricity Markets.

As CS Energy's General Manager Trading, Mr Roduner is responsible for all facets of market operations including market risk management, pool operations, hedging activities, ancillary services, settlements, reporting and market regulation, as well as the acquisition of all fuel and water resources. He is also a Director and joint General Manager of Callide Power Trading.

CHRIS TURNBULL

B Bus

General Manager Corporate Services and Company Secretary. Chris Turnbull has extensive experience as a commercial manager in a wide variety of areas in the Queensland electricity industry. This experience covers more than 23 years.

Mr Turnbull is responsible for corporate human resources and industrial relations, corporate communication and marketing, audit and risk assurance, legal affairs and corporate administration. He is also Company Secretary for CS Energy and its group companies.

RIGHT. RISK MANAGEMENT AND CORPORATE COMPLIANCE ARE CENTRAL TO CS ENERGY'S BUSINESS ACTIVITIES.

RISK AND ASSURANCE OFFICER, REBECCA BUDD, IS PART OF AN INTERNAL AUDIT TEAM THAT OVERSAW 20 AUDIT REVIEWS DURING 2003/2004.



Checks and balances

SHAREHOLDERS. CS Energy has two shareholders with voting rights: the Queensland Deputy Premier, Treasurer and Minister for Sport; and the Minister for Energy. The Company has three non-voting shareholders: the Minister for Employment, Training and Industrial Relations; the Minister for State Development and Innovation; and the Minister for Education and the Arts.

THE BOARD. CS Energy has seven independent, non-executive Directors who were appointed by the Governor in Council of the State of Queensland. Biographical details of current Directors are provided on pages 30 and 31. There were no changes to Board membership during 2003/2004, although Directors Lonie, Henricks, Leaver and O'Dwyer were not formally reappointed by shareholding Ministers until 3 July 2003.

The function of the Board is described fully in CS Energy's Corporate Governance Policy. Under this policy and its related charter, and the *Government Owned Corporations Act 1993*, the Board is responsible for:

- The Company's commercial policy and management;
- Ensuring that, as far as possible, the Company acts in accordance with its Statement of Corporate Intent (SCI) and meets the objectives set out in that document;
- Accounting to the Company's shareholders for its performance as required by the *Corporations Act 2001*, the *Government Owned Corporations Act 1993* and other applicable laws; and
- Ensuring that the Company performs its functions in a proper, effective and efficient manner.

MEETINGS AND COMMITTEES OF THE

BOARD. The CS Energy Board holds regular monthly meetings and additional meetings, as required, to manage particular issues. In addition, briefing sessions are held on topical issues such as environmental performance, plant management strategies, and market trading activities.

In line with Company policy, CS Energy provides individual Directors with access to independent professional advice on matters relevant to their Director's duties.

Three Board committees operated this year to assist the Board in particular areas.

AUDIT COMMITTEE. The Audit Committee consists of Teresa Handicott (Chair), Stephen Lonie, Julie Leaver and Terry O'Dwyer. This Committee assists the Board in fulfilling its responsibility for financial reporting practices, accounting policies and the management of internal controls and risks of the Company.

STAFF AND REMUNERATION

COMMITTEE. The Staff and Remuneration Committee consists of Terry O'Dwyer (Chair), Stephen Lonie and Tony White. This Committee advises on remuneration policies and practices. The Committee makes specific recommendations to the Board on remuneration packages and other terms of employment for the Chief Executive and executive management team.

The Committee also reviews executive remuneration and other terms of employment each year against agreed performance targets. Targets are based on relevant comparative information and independent expert advice, where appropriate.

All CS Energy employees subject to Enterprise Agreements (EAs) or Alternative Individual Agreements (AIAs) are entitled to annual performance payments based on specific targets. There are approximately 380 employees entitled to such payments under EAs and a further 88 employees entitled to payments under AIAs.

For information on fees and salaries for CS Energy's Directors and Executives, see Note 30 of the Financial Report in this document.

MAJOR CAPITAL COMMITTEE. The Major Capital Committee consists of Stephen Lonie (Chair), Bob Henricks and Tony White. This Committee meets monthly to review progress on major projects referred to it by the Board, and to provide strategic guidance on technical and commercial issues to the Board and management.

MEETING ATTENDANCE. Each Director attended the following Board and committee meetings during the year:

Director	Board				Committees					
	Monthly		Special		Audit		Staff and Remuneration		Major Capital	
	A	B	A	B	A	B	A	B	A	B
Stephen Lonie	11	11	1	0	5	5	5	2	11	11
Tim Crommelin	11	10	1	1	—	—	—	—	—	—
Teresa Handicott	11	11	1	1	5	5	—	—	—	—
Bob Henricks	11	11	1	1	—	—	—	—	11	11
Julie Leaver	11	11	1	0	5	5	—	—	—	—
Terry O'Dwyer	11	8	1	1	5	3	5	5	—	—
Tony White	11	9	1	1	—	—	5	3	11	9

Column A: Number of meetings held while a member

Column B: Number of meetings attended

No Board meeting was held in January 2004.

RISK MANAGEMENT. The Board maintains overall responsibility for risk management to ensure compliance with corporate policies, procedures and legal obligations.

The Board has adopted a risk management and legal compliance system to manage CS Energy's exposure to risk. The system requires senior managers to identify and quantify risks in their areas of responsibility and influence. Risk plans are compiled and monitored for those areas deemed to have high and significant risks.

The Board has approved principles and policies to manage the financial risks associated with exposures to electricity prices, interest rates and foreign currencies. These policies include pre-set limits for hedging transactions, require senior management approval of hedging instruments, and prohibit speculative transactions. The policies specify who can authorise transactions and provide for an appropriate segregation of duties among those who conduct such transactions.

REPORTING. CS Energy has established reporting systems and processes to ensure that the Board is accountable to its shareholding Ministers. These systems and processes are set out in the following paragraphs.

Corporate Plan. CS Energy produces an annual Corporate Plan for submission to its shareholding Ministers. The Corporate Plan outlines the Company's key strategies, objectives and performance measures for the next five years, together with corresponding performance measures. The plan also outlines the industry and economic outlook, and considers potential impacts on CS Energy.

Statement of Corporate Intent (SCI). CS Energy produces an annual SCI, outlining goals and objectives for the next financial year. The SCI is approved by the Company's shareholding Ministers. A summary of the 2003/2004 SCI is provided on page 37.

Quarterly Reports. Quarterly reports are sent to shareholding Ministers to inform them of the Company's progress against agreed performance measures and targets as outlined in the SCI.

Annual Report. CS Energy's Annual Report meets statutory reporting requirements for government owned corporations, and provides commentary on the Company's performance, key initiatives and future activities.

FEES FOR DIRECTORS. All Directors are reimbursed for reasonable expenses incurred while conducting business on behalf of CS Energy. For information on fees paid to CS Energy's Directors, see Note 30 of the Financial Report in this document.

AUDIT. CS Energy's external auditor is the Auditor-General of Queensland. The Company also employs a full-time internal audit function to oversee this activity and make recommendations to the Board through the Audit Committee.

DIRECTIONS AND NOTIFICATIONS. CS Energy received no directions or notifications from its shareholding Ministers during the year. ■

'plans
RISK PLANS ARE COMPILED AND MONITORED FOR THOSE
AREAS DEEMED TO HAVE HIGH AND SIGNIFICANT RISKS.'

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 the Company and its shareholding Ministers and includes details of the Company's mission, vision, objectives, activities, capital structure and dividend policy. It also includes details of any major new undertakings and borrowings, and an outline of key accounting and management policies and procedures.

2003/2004 SUMMARY. CS Energy's 2003/2004 SCI provides information on three key business objectives:

- Achieve profitability in a challenging market;
- Further develop CS Energy's people as the Company's most valuable resource; and
- Strategically position CS Energy for the future.

The SCI establishes financial and other performance targets for these business areas as well as CS Energy's risk management policies for asset management, accounting, purchasing, capital structure and dividends. The SCI also details the policies and procedures adopted for prudent management of financial and business risks, including the adoption of a business risk management plan and a risk profile.

No community service obligations were identified for CS Energy during the 2003/2004 financial year.

The SCI provides information on the Board sub-committees and a performance monitoring framework including:

- Annual reporting;
- Quarterly reporting; and
- Key performance indicators.

The Company's Employment and Industrial Relations Plan is also included in the SCI, and covers:

- Work environment (health and safety, and equal employment opportunity);
- Employee development (training and development); and
- Employment arrangements (remuneration, superannuation and redundancy). ■

Statement of corporate intent

