2005/2006 FINANCIAL REPORT

CS Energy Limited & controlled entities
ACN 078 848 745

CONTENTS

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 6 to 12 and in the directors' report on pages 38 to 39, both of which are not part of this financial report. The financial report was authorised for issue by the directors on 13 September 2006. 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 2006.

DIRECTORS

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

Mr SE Lonie (Chairman)
Mr 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: pages 32 and 33 (Company Secretary page 35)
- Meetings held and director attendance: page 29

The above 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	2006 $'000	2005 $'000
Profit from ordinary activites after income tax	**56,468**	40,680

DIVIDENDS – CS ENERGY LIMITED

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

	$'000
Dividend for 2004/05, provided for in previous year, paid on 30 December 2005	29,151
Dividend for 2005/06, provided for in this report, due for payment on 29 December 2006	**40,170**

REVIEW OF OPERATIONS

The CS Energy group profit after tax increased by 39% over the previous year.

Revenue from the sale of electricity improved by 11% over the previous year, despite an overall reduction in the Queensland pool price by 3%, to $28.12 per MWh. This positive outcome was due to:

- Revenues from green energy schemes has more than doubled due to the 2005/06 financial year being the first full year of operation of the Queensland Government's Gas Electricity Certificate (GEC) Scheme, and higher prices for GECs generally;
- Strong contracting outcomes flowing from successful market risk management strategies; and
- Higher levels of production due to fewer requirements for scheduled outages.

Operations and maintenance costs have risen 12% above 2005 levels. Aside from normal escalation, this higher cost reflects an ageing plant portfolio, ongoing operating issues at the Callide C site, and progressive recognition of the costs of recent major overhauls undertaken across all sites, particularly Swanbank E.

The net impact of these items has delivered an earnings before interest and tax and return on productive assets which is at the highest level since 2001/02, when the average Queensland pool price was some 20% higher than it was in 2005/06.

CS Energy's balance sheet has been considerably strengthened following the receipt of an additional $250 million in share capital on 27 June 2006, which has meant that CS Energy's gearing level (debt to debt plus equity) at the end of the financial year was 39%. This gearing level is below the level at the end of the previous financial year of 41% (AIFRS adjusted), despite a continuing demanding capital investment program.

The 2005/06 capital investment program totalled $491 million and included:

- Kogan Creek construction $428 million; and
- Major overhauls $41 million.

Cash flow from operations of $208 million continues to provide a significant source of funds for the group's capital investment program, as well providing a dividend return to shareholders.

Further discussions on the operations of the company can be found in pages 6 to 12 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

At the date of this report, the directors are not aware of any matter or circumstance which has arisen since 30 June 2006 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 a similar level of operational and financial performance to the 2005/06 year for 2006/07. Following the commissioning of CS Energy's new 750MW Kogan Creek Power Station early in the 2007/08 financial year, which will make a significant contribution to meeting long term energy needs in Queensland, it is expected that the market price for electricity may deteriorate in the short term, but will gradually recover as demand growth steadily absorbs the additional supply.

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 announcing the construction of a new recycled water pipeline to provide water for the Swanbank site. The commercial arrangements for the new pipeline have not yet been developed, and accordingly, the financial impact on CS Energy is uncertain for the 2006/07 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, the group received three environmental complaints: one at Callide in relation to noise, one at Swanbank in relation to odour, and a multi-issue enquiry at Callide about stack emissions and water usage. The group also reported eight minor environmental incidents, and incurred five minor exceptions to Swanbank licence water limits.

The group took actions in response to the complaints, incidents 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 87.

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

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

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

Mr SE Lonie
Chairman

Mrs JA Leaver
Director

Brisbane
13 September 2006

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		Parent	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue from continuing operations					
Revenue from the sale of electricity	5	**505,131**	456,229	**347,834**	289,408
Other revenue	5	**22,444**	18,019	**83,940**	35,784
		527,575	474,248	**431,774**	325,192
Other income	6	**9,090**	–	**6,571**	–
Cost of sales		**(370,703)**	(328,211)	**(261,939)**	(219,724)
Other expenses	7	**(63,308)**	(70,318)	**(64,500)**	(51,870)
Finance costs	7	**(21,701)**	(23,139)	**(40,649)**	(23,534)
Profit before income tax		**80,953**	52,580	**71,257**	30,064
Income tax expense	8	**(24,485)**	(11,900)	**(23,638)**	(2,833)
Profit for the period attributable to members of the parent		**56,468**	40,680	**47,619**	27,231

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

BALANCE SHEET
AS AT 30 JUNE 2006

		Consolidated		Parent	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
ASSETS					
Current assets					
Cash and cash equivalents	9	**5,848**	2,272	**5,137**	850
Trade and other receivables	10	**83,046**	110,226	**69,702**	99,666
Inventories	11	**33,615**	27,238	**22,533**	19,380
Derivative financial instruments	12	**10,081**	–	**10,081**	–
Total current assets		**132,590**	139,736	**107,453**	119,896
Non-current assets					
Other receivables	13	**35,046**	63,522	**1,106,979**	633,542
Investments accounted for using the equity method	14	**1**	1	**–**	–
Other financial assets	15	**–**	–	**51,815**	51,815
Property, plant and equipment	16	**1,870,080**	1,471,244	**655,636**	675,179
Deferred tax assets	17	**65,171**	57,753	**57,486**	53,225
Derivative financial instruments	12	**10,433**	–	**10,433**	–
Retirement benefit obligations	25	**7,571**	1,325	**7,571**	1,325
Total non-current assets		**1,988,302**	1,593,845	**1,889,920**	1,415,086
Total assets		**2,120,892**	1,733,581	**1,997,373**	1,534,982
LIABILITIES					
Current liabilities					
Trade and other payables	18	**55,763**	92,081	**43,661**	80,437
Borrowings	19	**48,771**	56,986	**48,771**	45,265
Derivative financial instruments	12	**26,312**	–	**26,312**	–
Provisions	20	**49,874**	35,979	**48,365**	35,068
Total current liabilities		**180,720**	185,046	**167,109**	160,770
Non-current liabilities					
Payables	21	**2,500**	27,271	**–**	32,204
Borrowings	22	**596,451**	464,065	**596,451**	365,601
Derivative financial instruments	12	**23,047**	–	**23,047**	–
Deferred tax liabilities	23	**258,100**	235,405	**118,303**	113,412
Provisions	24	**63,419**	69,802	**51,871**	58,217
Total non-current liabilities		**943,517**	796,543	**789,672**	569,434
Total liabilities		**1,124,237**	981,589	**956,781**	730,204
Net assets		**996,655**	751,992	**1,040,592**	804,778
EQUITY					
Contributed equity	27	**1,072,504**	822,504	**1,072,504**	822,504
Reserves	26	**(8,265)**	–	**(8,265)**	–
Accumulated losses	28	**(67,584)**	(70,512)	**(23,647)**	(17,726)
Total equity		**996,655**	751,992	**1,040,592**	804,778

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 2006

		Consolidated		Parent	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'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	**38,735**	–	**38,735**	–
Actuarial gain/(loss) on the defined benefit plan, net of tax		**3,889**	(2,633)	**3,889**	(2,633)
Net loss recognised directly in equity		**(21,635)**	(2,633)	**(21,635)**	(2,633)
Profit for the year		**56,468**	40,680	**47,619**	27,231
Total recognised income and expense for the year		**34,833**	38,047	**25,984**	24,598

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 2006

		Consolidated		Parent	
	Notes	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		**623,122**	522,032	**453,080**	354,328
Payments to suppliers and employees (inclusive of GST)		**(389,352)**	(365,961)	**(283,977)**	(263,619)
GST (paid)/received		**18,079**	(18,157)	**(8,370)**	(5,092)
		251,849	137,914	**160,773**	85,617
Interest received		**1,039**	1,017	**940**	1,017
Borrowing costs		**(44,618)**	(25,610)	**(33,800)**	(16,495)
Dividends received		**–**	–	**10,000**	–
Net cash inflow provided by operating activities	39	**208, 270**	113,321	**137,873**	70,139
Cash flows from investing activities					
Payments for property, plant and equipment		**(543,845)**	(227,880)	**(58,042)**	(63,730)
Proceeds from sale of property, plant and equipment		**376**	–	**320**	–
Loans to related parties		**–**	–	**(596,151)**	(223,620)
Repayments from related parties		**–**	–	**71,327**	91,829
Proceeds from the sale of investments		**–**	9,745	**–**	9,745
Net cash provided by (used in) investing activities		**(543,469)**	(218,135)	**(582,546)**	(185,776)
Cash flows from financing activities					
Proceeds from borrowings		**1,057,402**	475,440	**1,057,402**	475,440
Repayment of borrowings		**(939,476)**	(343,805)	**(829,291)**	(331,760)
Dividends paid	29	**(29,151)**	(28,877)	**(29,151)**	(28,877)
Proceeds from issue of shares	27	**250,000**	–	**250,000**	–
Net cash provided by (used in) financing activities		**338,775**	102,758	**448,960**	114,803
Net increase (decrease) in cash and cash equivalents		**3,576**	(2,056)	**4,287**	(834)
Cash and cash equivalents at the beginning of the financial year		**2,272**	4,328	**850**	1,684
Cash and cash equivalents at the end of the financial year	9	**5,848**	2,272	**5,137**	850
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 2006

CONTENTS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), 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 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.*

Application of AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards
These financial statements are the first CS Energy Limited financial statements to be prepared in accordance with AIFRS. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of CS Energy Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing CS Energy Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the group's equity and its net income are given in note 42.

Early adoption of standards
The group has elected to apply the following standards to the annual reporting period beginning 1 July 2005:

- AASB 119 *Employee Benefits* (issued in Dec 2004).
- AASB 2005 1 *Amendments to Australian Accounting Standard* (Cash flow hedge accounting of forecast intragroup transactions—issued May 2005).
- AASB 2005 4 *Amendments to Australian Accounting Standards* [AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038] (Fair value option—issued June 2005).

This election includes applying the standards to the comparatives in accordance with AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards.

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.

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 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 2006 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 when the impairment is considered permanent in nature. The recoverable amount is the asset's value in use. 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 at the amounts receivable, as they are due for settlement no more than 45 days from the date of recognition. 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 current financial year.

(l) Investments and other financial assets

From 1 July 2004 to 30 June 2005 The group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Adjustments on transition date: 1 July 2005 The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 is that loans and receivables are measured at amortised cost using the effective interest method.

(m) Derivatives

From 1 July 2004 to 30 June 2005 The group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

The following sets out how derivatives were accounted for under previous AGAAP.

(i) Electricity derivatives

The net amount receivable or payable under electricity swap and option agreements were progressively brought to account over the period to settlement once the electricity to which the contracts relate had been traded in the National Electricity Market. The amount recognised was accounted for as an adjustment to revenue from the sale of electricity during the period and included in other debtors or other creditors at each reporting date.

Option premiums were brought to account over the period of the option. When an option was not exercised, the premium was recognised upon expiry of the option. Where an electricity swap was terminated early and the underlying hedged transaction was:

(a) Still expected to occur as designated, the gains or losses arising on the swap upon its early termination continued to be deferred and were progressively brought to account over the period during which the hedged transactions were recognised; and

(b) No longer expected to occur as designated, the gains or losses arising on the swap upon its early termination were recognised in the income statement at the date of termination.

(ii) Forward foreign exchange contracts

Gains or costs arising from entering into a contract intended to hedge the purchase or sale of goods or services, together with the subsequent exchange gains or losses resulting from re-measurement of those contracts by reference to movements in spot rates were deferred in the balance sheet from the inception of the hedging transaction up to the date of the purchase or sale and included in the measurement of the purchase or sale.

Early termination of forward foreign exchange contracts were accounted for on a basis consistent with electricity swaps (refer to previous page). For both electricity swaps and foreign exchange contracts, if the hedged transaction was not expected to occur as originally designated, or if the hedge was no longer expected to be effective, any previously deferred gains or losses were recognised as revenue or expense immediately. Early termination of forward foreign exchange contracts was accounted for on a basis consistent with electricity swaps (refer to previous page).

Adjustments on transition date: 1 July 2005 The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005), changes in the carrying amounts of derivatives were taken to retained earnings or reserves, depending on whether the criteria for hedge accounting were satisfied at the transition date.

For further information concerning the adjustments on transition date reference should be made to:

- Derivative financial instruments – note 12;
- Reserves and accumulated losses – note 26 and note 28; and
- Explanation of transition to AIFRS – note 42 discloses the adjustment to each line item in the financial statements on transition date.

From 1 July 2005 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 through profit or loss.

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) 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	4–30 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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'.

(s) 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.

(t) 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.

(u) Borrowing costs

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

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year of 6.45% (2005–6.45%).

(v) 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.

(w) 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.

(x) 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 plans. The defined benefit plan provides lump sum benefits based on years of service and final average salary. The defined contribution plans 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.

(y) 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.

(z) 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.

(aa) 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.

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 3 months to 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, which is not material in size, 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 JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the 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 announcing the construction of a new recycled water pipeline to provide water for the Swanbank site. The commercial arrangements for the new pipeline have not yet been developed, and accordingly the financial impact on the group is uncertain.

For the purpose of these accounts and the assessment of asset impairment, no change has been assumed to current water supply arrangements, as there is no reliable data on which to make a different assumption. Materially different commercial arrangements for water could potentially result in further impairment of the Swanbank B and E assets.

(ii) Electricity financial instruments measured at fair value

For electricity financial instruments not traded in an active market the group uses internal valuation models to value these financial instruments. 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 Queensland, Australia.

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

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

5 REVENUE

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
From continuing operations				
Sales revenue				
Revenue from the sale of electricity	**505,131**	456,229	**347,834**	289,408
Other revenue				
Interest received/receivable	**727**	1,037	**31,663**	11,487
Dividends received/receivable	**–**	–	**10,000**	–
Operation, maintenance & services fees	**20,496**	7,425	**41,177**	14,851
Other	**1,221**	9,557	**1,100**	9,446
	22,444	18,019	**83,940**	35,784
	527,575	474,248	**431,774**	325,192

6 OTHER INCOME

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Net gain on disposal of property, plant and equipment	**374**	–	**319**	–
Net gain on derivatives not qualifying as hedges	**6,252**	–	**6,252**	–
Other	**2,464**	–	**–**	–
	9,090	–	**6,571**	–

7 EXPENSES

Profit before income tax includes the following specific expenses:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Other expenses from ordinary activities				
Distribution costs	**13,182**	13,399	**5,067**	5,128
Administration costs	**50,126**	56,919	**59,433**	46,742
	63,308	70,318	**64,500**	51,870
Depreciation				
Depreciation included in cost of sales (1)	**64,982**	68,391	**41,278**	43,760
Depreciation included in administration costs	**1,117**	748	**649**	203
Total depreciation	**66,099**	69,139	**41,927**	43,963
Amortisation				
Capitalised overhauls included in cost of sales	**19,327**	15,129	**13,169**	10,765
Finance costs				
Interest and finance charges paid/payable	**49,449**	30,536	**38,631**	21,723
Less: amount capitalised	**(30,723)**	(10,073)	**–**	–
Discount amortised (2)	**2,975**	2,676	**2,018**	1,811
Finance costs expensed	**21,701**	23,139	**40,649**	23,534
Rental expense relating to operating leases				
Minimum lease payments	**1,007**	607	**977**	545
Defined contribution superannuation expense	**1,732**	1,449	**943**	381

(1) Change in accounting estimate—in 2005, the directors reassessed the estimated useful life of the Callide C power station and the net effect was a decrease in depreciation expense for the year of $1.9 million.
(2) Discount amortised relates to the provision for rehabilitation and closure costs (refer note 1(r)).

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
8 INCOME TAX EXPENSE					
(a) Income tax expense					
Current tax		**3,979**	(10,689)	**18,657**	(8,815)
Deferred tax		**20,445**	25,692	**2,828**	14,751
Under (over) provided in prior years		**61**	(3,103)	**2,153**	(3,103)
		24,485	11,900	**23,638**	2,833
Income tax expense is attributable to:					
Profit from continuing operations		**24,485**	11,900	**23,638**	2,833
Aggregate income tax expense		**24,485**	11,900	**23,638**	2,833
Deferred income tax (revenue) expense included in income tax expense comprises:					
Decrease (increase) in deferred tax assets	17	**(582)**	768	**(397)**	(508)
(Decrease) increase in deferred tax liabilities	23	**21,027**	24,924	**3,225**	15,259
		20,445	25,692	**2,828**	14,751
(b) Numerical reconciliation of income tax expense to prima facie tax payable					
Profit from continuing operations before income tax expense		**80,953**	52,580	**71,257**	30,064
Tax at the Australian tax rate of 30% (2005–30%)		**24,286**	15,773	**21,377**	9,019
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:					
Entertainment		**24**	20	**22**	19
Inter-company charges		**–**	–	**–**	(2,347)
Non-assessable recovery		**–**	(300)	**–**	(300)
Investment income from tax consolidated entities		**–**	(449)	**–**	(449)
Industry restructure fee		**58**	–	**58**	–
Sundry items		**56**	(41)	**28**	(6)
		24,424	15,003	**21,485**	5,936
Under (over) provision in prior years		**61**	(3,103)	**2,153**	(3,103)
Income tax expense		**24,485**	11,900	**23,638**	2,833
(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	28	**–**	–	**–**	–
Net deferred tax – debited (credited) directly to equity	26, 28	**18,391**	(863)	**18,391**	(863)
		18,391	(863)	**18,391**	(863)
(d) Tax losses					
Unused Australian capital tax losses for which no deferred tax asset has been recognised		**80,110**	80,257	**80,110**	80,257
Potential tax benefit @ 30%		**24,033**	24,077	**24,033**	24,077

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	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	**5,848**	1,973	**5,137**	551
Deposits at call – Queensland Treasury Corporation (QTC)	**–**	299	**–**	299
	5,848	2,272	**5,137**	850
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				
Trade receivables	**36,147**	35,666	**29,177**	25,471
Other receivables	**35,306**	27,582	**29,114**	27,288
Prepayments	**11,593**	8,172	**11,411**	8,101
Deferred foreign exchange losses	**–**	36,225	**–**	36,225
Deferred futures losses	**–**	2,581	**–**	2,581
	83,046	110,226	**69,702**	99,666
Effective interest rates and credit risk Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in the non-current receivables note (note 13).				
11 CURRENT ASSETS – INVENTORIES				
Fuel and stores – at net realisable value	**34,365**	27,988	**23,283**	20,130
– provision for obsolescence	**(750)**	(750)	**(750)**	(750)
	33,615	27,238	**22,533**	19,380

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
12 DERIVATIVE FINANCIAL INSTRUMENTS				
Current assets				
Electricity derivative contracts – cash flow hedges	7,334		7,334	
Electricity derivative contracts – do not qualify for hedge accounting	2,747	–	2,747	–
Total current derivative financial instrument assets	10,081	–	10,081	–
Non-current assets				
Electricity derivative contracts – cash flow hedges	9,688	–	9,688	–
Electricity derivative contracts – do not qualify for hedge accounting	745	–	745	–
Total non-current derivative financial instrument assets	10,433	–	10,433	–
Current liabilities				
Forward foreign exchange contracts –cash flow hedges	10,094	–	10,094	–
Electricity derivative contracts – cash flow hedges	10,248		10,248	
Electricity derivative contracts – do not qualify for hedge accounting	5,970	–	5,970	–
Total current derivative financial instrument liabilities	26,312	–	26,312	–
Non-current liabilities				
Forward foreign exchange contracts – cash flow hedges	2,371	–	2,371	–
Electricity derivative contracts – cash flow hedges	5,815		5,815	
Electricity derivative contracts – do not qualify for hedge accounting	14,861	–	14,861	–
Total non-current derivative financial instrument liabilities	23,047	–	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, contracted with counterparties that are also Queensland Government Owned Corporations.

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	
	2006 $'000	2005 $'000	2006 $	2005 $
Buy Swiss Francs				
Maturity in 0–6 months	–	38,072	–	0.8384
Buy Euros				
Maturity in 0–6 months	**70,290**	95,098	**0.5475**	0.5475
Maturity in 6–12 months	**53,751**	86,828	**0.5475**	0.5475
Maturity in 12–18 months	**37,212**	70,290	**0.5475**	0.5475
Maturity in 18–24 months	–	53,751	–	0.5475
Maturity in 24–30 months	–	37,212	–	0.5475
Buy United States Dollars				
Maturity in 0–6 months	**18,387**	24,877	**0.6595**	0.6595
Maturity in 6–12 months	**14,061**	22,714	**0.6595**	0.6595
Maturity in 12–18 months	**9,735**	18,387	**0.6595**	0.6595
Maturity in 18–24 months	–	14,061	–	0.6595
Maturity in 24–30 months	–	9,735	–	0.6595

As these contracts are hedging anticipated future purchases, any unrealised gains and losses on the contracts, together with the cost of the contracts, are deferred and will be recognised in the measurement of the underlying transaction provided the underlying transaction is still expected to occur as originally designated. Included in the amounts deferred are any gains and losses on hedging contracts terminated prior to maturity where the related hedged transaction is still expected to occur as designated. The following gains, losses and costs were deferred at 30 June 2005:

	2005 $'000
Net Gains	
Unrealised losses	(36,687)
Costs of contracts	(26,809)
Total losses and costs	(63,496)
Net losses (losses, gains and costs)	(63,496)

Transition to AASB 132 and AASB 139

The group has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

At the date of transition to these standards—a decrease in net assets of $64,261,000 was recorded on adoption of AASB 132 and 139 representing the recording of cashflow hedges of $91,801,000 as derivative financial instrument liabilities with a related deferred tax asset of $27,540,000 for both the group and the parent.

(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. Approximately 60% to 70% of counterparties, by value, are Queensland Government Owned Corporations.

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.

(c) Interest rate exposures

The consolidated group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in note 22. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated group intends to hold fixed rate assets and liabilities to maturity.

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

13 NON-CURRENT ASSETS – OTHER RECEIVABLES

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Prepayments	**20,702**	23,566	**20,702**	23,566
Deferred foreign exchange costs	**–**	27,271	**–**	27,271
Gas exploration and evaluation costs	**14,344**	12,685	**14,344**	12,685
Loans to related parties	**–**	–	**1,071,933**	570,020
	35,046	63,522	**1,106,979**	633,542

Further information relating to loans to related parties is set out in note 36. CS Energy Limited has entered into gas development joint ventures to secure fuel supplies for its Swanbank E power station (refer note 38).

(a) Interest rate risk

The group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

		Fixed interest maturing in:							
	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	Non-interest bearing $'000	Total $'000
2006									
Trade receivables	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**36,147**	**36,147**
Other receivables	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**35,306**	**35,306**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**71,453**	**71,453**
Weighted average interest rate	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2005									
Trade receivables	–	–	–	–	–	–	–	35,666	35,666
Other receivables	–	–	–	–	–	–	–	27,582	27,582
	–	–	–	–	–	–	–	63,248	63,248
Weighted average interest rate	–	–	–	–	–	–	–	–	–

(b) Credit risk

Refer to note 2 and 12(b) for more information on credit risk and the management of credit risk by the group.

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

14 NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	2006 $'000	2005 $'000	2006 $'000	2005 $'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 the parent (note 38).

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

15 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

Shares in subsidiaries (note 37)	**–**	–	**51,815**	51,815

16 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Power stations $'000	Capitalised overhauls $'000	Other $'000	Work in progress $'000	Development costs $'000	Total $'000
CONSOLIDATED						
At 1 July 2004						
Cost or fair value	1,504,593	143,466	51,452	117,886	3,129	1,820,526
Accumulated depreciation	(359,160)	(121,775)	(30,283)	–	–	(511,218)
Net book amount	1,145,433	21,691	21,169	117,886	3,129	1,309,308
Movements for the year ended 30 June 2005						
Opening net book amount	1,145,433	21,691	21,169	117,886	3,129	1,309,308
Additions	20,068	22,705	1,810	203,611	502	248,696
Transfers	10,262	3,817	172	(14,251)	–	–
Disposals	–	–	(11)	–	–	(11)
Depreciation charge	(67,561)	(17,106)	(2,082)	–	–	(86,749)
Closing net book amount	1,108,202	31,107	21,058	307,246	3,631	1,471,244
At 30 June 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**

	Power stations $'000	Capitalised overhauls $'000	Other $'000	Work in progress $'000	Total $'000
PARENT					
At 1 July 2004					
Cost or fair value	854,659	96,155	41,760	14,196	1,006,770
Accumulated depreciation	(241,277)	(86,510)	(26,558)	–	(354,345)
Net book amount	613,382	9,645	15,202	14,196	652,425
Movements for the year ended 30 June 2005					
Opening net book amount	613,382	9,645	15,202	14,196	652,425
Additions	18,053	19,104	1,569	40,066	78,792
Transfers	7,750	3,736	172	(11,658)	–
Disposals	–	–	(9)	–	(9)
Depreciation charge	(43,760)	(10,765)	(1,504)	–	(56,029)
Closing net book amount	595,425	21,720	15,430	42,604	675,179
At 30 June 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**

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

17 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Accruals	**574**	490	**574**	488
Provisions	**7,791**	7,466	**6,109**	5,665
Provisions for rehabilitation	**15,257**	16,868	**12,301**	14,198
Prepayments	**375**	341	**375**	341
Derivatives not qualifying as hedges	**(1,876)**	–	**(1,876)**	–
Other	**2,554**	339	**2,507**	284
Tax losses	**29,572**	32,249	**26,572**	32,249
	54,247	57,753	**46,562**	53,225
Amounts recognised directly in equity				
Derivative financial instruments	**10,924**	–	**10,924**	–
	10,924	–	**10,924**	–
Deferred tax assets	**65,171**	57,753	**57,486**	53,225
Set-off of deferred tax liabilities of parent pursuant to set-off provisions	**–**	–	**–**	–
Net deferred tax assets	**65,171**	57,753	**57,486**	53,225
Movements:				
Opening balance at 1 July	**57,753**	47,938	**53,225**	42,134
Change on adoption of AASB 132 and AASB 139	**27,540**	–	**27,540**	–
Credited/(charged) to the income statement	**582**	(768)	**397**	508
Acquisition/(utilisation) of tax losses	**(3,981)**	10,583	**(6,980)**	10,583
Credited/(charged) to equity	**(16,723)**	–	**(16,696)**	–
Closing balance at 30 June	**65,171**	57,753	**57,486**	53,225
Deferred tax assets to be recovered after more than 12 months	**61,669**	56,584	**54,030**	52,113
Deferred tax assets to be recovered within 12 months	**3,502**	1,169	**3,456**	1,112
	65,171	57,753	**57,486**	53,225

18 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Trade payables	**19,572**	38,059	**7,470**	26,415
Other payables	**34,827**	51,738	**34,827**	51,738
Deferred revenue	**1,364**	2,284	**1,364**	2,284
	55,763	92,081	**43,661**	80,437

19 CURRENT LIABILITIES – BORROWINGS

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Loans from QTC (note 22)	**48,771**	56,986	**48,771**	45,265

20 CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Dividends	**40,170**	29,151	**40,170**	29,151
Employee benefits	**9,704**	6,828	**8,195**	5,917
	49,874	35,979	**48,365**	35,068

	Dividends $'000
Consolidated – 2006	
Carrying amount at start of year	**29,151**
Additional provisions recognised	**40,170**
Payments	**(29,151)**
Carrying amount at end of year	**40,170**
Parent – 2006	
Carrying amount at start of year	**29,151**
Additional provisions recognised	**40,170**
Payments	**(29,151)**
Carrying amount at end of year	**40,170**

21 NON-CURRENT LIABILITIES – PAYABLES

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Other creditors	**–**	27,271	**–**	32,204
Deferred revenue	**2,500**	–	**–**	–
	2,500	27,271	**–**	32,204

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

22 NON-CURRENT LIABILITIES – BORROWINGS

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Loans from QTC	**596,451**	464,065	**596,451**	365,601

All loans from the Queensland Treasury Corporation at 30 June 2006 are unsecured.

(a) Financing arrangements

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Total facilities				
QTC facilities (1)	**911,061**	700,708	**911,061**	700,708
QTC facilities (2)	**–**	110,185	**–**	–
Bank loan facilities	**1,000**	1,000	**1,000**	1,000
	912,061	811,893	**912,061**	701,708
Used at balance date				
QTC facilities (1)	**645,222**	410,866	**645,222**	410,866
QTC facilities (2)	**–**	110,185	**–**	–
Bank loan facilities	**–**	–	**–**	–
	645,222	521,051	**645,222**	410,866
Unused at balance date				
QTC facilities (1)	**265,839**	289,842	**265,839**	289,842
QTC facilities (2)	**–**	–	**–**	–
Bank loan facilities	**1,000**	1,000	**1,000**	1,000
	266,839	290,842	**266,839**	290,842

(1) Unrestricted access available.
(2) CS Energy Mica Creek Pty Ltd financed its purchase and expansion of the Mica Creek Power Station with a limited recourse debt facility provided by QTC. This loan facility was repaid in full in June 2006.

(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	Fixed interest rate: 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
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%**	**–**
Future loan commitments	**–**	**–**	**108,821**	**35,043**	**–**	**–**	**–**	**143,864**
2005								
Loans from QTC	205,359	13,221	14,012	55,461	16,311	58,827	157,860	521,051
Weighted average interest rate	5.56%	6.76%	6.76%	6.76%	6.76%	6.76%	6.76%	

	Carrying amount 2006 $'000	Fair value 2006 $'000	Carrying amount 2005 $'000	Fair value 2005 $'000
(c) Fair value				
The carrying amounts and fair values of borrowings at balance date are:				
On-balance sheet				
Non-traded financial liabilities				
Loans from QTC	**645,222**	**634,878**	521,051	531,308

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 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Accounts receivable	**7,336**	6,157	**5,775**	4,288
Inventories	**8,153**	6,636	**5,448**	4,764
Prepayments	**–**	7	**–**	7
Property, plant and equipment	**192,182**	183,555	**98,174**	97,452
Capital work in progress	**42,839**	32,197	**1,316**	–
Investments	**4,303**	3,805	**4,303**	3,805
Defined benefit plan	**208**	–	**208**	–
Unrealised foreign exchange gains/losses	**197**	197	**197**	197
Other	**818**	2,453	**818**	2,501
	256,036	235,007	**116,239**	113,014
Amounts recognised directly in equity				
Defined benefit asset	**2,064**	398	**2,064**	398
	2,064	398	**2,064**	398
Deferred tax liabilities	**258,100**	235,405	**118,303**	113,412
Set-off of deferred tax liabilities of parent pursuant to set-off provisions	**–**	–	**–**	–
Net deferred tax liabilities	**258,100**	235,405	**118,303**	113,412
Movements:				
Opening balance at 1 July	**235,405**	211,344	**113,412**	99,016
Change on adoption of AASB 132 and AASB 139	**–**	–	**–**	–
Charged/(credited) to the income statement	**21,027**	24,924	**3,225**	15,259
Charged/(credited) to equity	**1,668**	(863)	**1,666**	(863)
Closing balance at 30 June	**258,100**	235,405	**118,303**	113,412
Deferred tax liabilities to be settled after more than 12 months	**242,769**	252,213	**106,066**	132,739
Deferred tax liabilities to be settled within 12 months	**15,331**	(16,808)	**12,237**	(19,327)
	258,100	235,405	**118,303**	113,412

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

24 NON-CURRENT LIABILITIES – PROVISIONS

Employee benefits	**12,563**	13,652	**10,869**	10,964
Site rehabilitation	**50,856**	56,150	**41,002**	47,253
	63,419	69,802	**51,871**	58,217

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.

	Consolidated	Parent
	2006 $'000	2006 $'000
Reconciliation of movements in site rehabilitation provision:		
Carrying amount at start of year	**56,150**	**47,253**
Additional provisions recognised	**2,975**	**2,018**
Payments	**(8,269)**	**(8,269)**
Carrying amount at end of year	**50,856**	**41,002**

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

25 RETIREMENT BENEFIT OBLIGATIONS – DEFINED BENEFIT PLAN

(a) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:				
Present value of the defined benefit obligation	**74,829**	70,350	**74,829**	70,350
Fair value of defined benefit plan assets	**(82,400)**	(71,675)	**(82,400)**	(71,675)
	(7,571)	(1,325)	**(7,571)**	(1,325)
Unrecognised actuarial (losses)/gains	**–**	–	**–**	–
Unrecognised past service costs	**–**	–	**–**	–
Net asset in the balance sheet	**(7,571)**	(1,325)	**(7,571)**	(1,325)

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.

(b) Categories of plan assets

Cash	**4,038**	5,949	**4,038**	5,949
Equity instruments	**47,875**	43,363	**47,875**	43,363
Debt instruments	**19,034**	12,328	**19,034**	12,328
Property	**8,899**	7,956	**8,899**	7,956
Other assets	**2,554**	2,079	**2,554**	2,079
	82,400	71,675	**82,400**	71,675

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(c) Reconciliations				
Reconciliation of the present value of the defined benefit obligation, which is fully funded:				
Balance at the beginning of the year	**70,350**	59,624	**70,350**	59,624
Current service cost	**4,571**	3,856	**4,571**	3,856
Interest cost	**2,951**	2,924	**2,951**	2,924
Actuarial (gains) and losses	**(464)**	7,790	**(464)**	7,790
Contributions by plan participants	**1,223**	1,220	**1,223**	1,220
Benefits paid	**(3,802)**	(5,064)	**(3,802)**	(5,064)
Balance at the end of the year	**74,829**	70,350	**74,829**	70,350
Reconciliation of the fair value of plan assets:				
Balance at the beginning of the year	**71,675**	63,823	**71,675**	63,823
Expected return on plan assets	**5,034**	4,488	**5,034**	4,488
Actuarial gains and (losses)	**5,090**	4,060	**5,090**	4,060
Contributions by group companies	**4,403**	4,368	**4,403**	4,368
Benefits paid	**(3,802)**	(5,064)	**(3,802)**	(5,064)
Balance at the end of the year	**82,400**	71,675	**82,400**	71,675
(d) Amounts recognised in income statement				
The amounts recognised in the income statement are as follows:				
Current service cost	**4,571**	3,856	**4,571**	3,856
Interest cost	**2,951**	2,924	**2,951**	2,924
Expected return on plan assets	**(5,034)**	(4,488)	**(5,034)**	(4,488)
Total included in employee benefits expense	**2,488**	2,292	**2,488**	2,292
Actual return on plan assets	**10,124**	8,548	**10,124**	8,548
(e) Principal actuarial assumptions				
The principal actuarial assumptions used (expressed as weighted averages) were as follows:				
Discount rate	**4.9%**	4.3%	**4.9%**	4.3%
Expected return on plan assets	**6.5%**	7.0%	**6.5%**	7.0%
Future salary increases	**4.5%**	4.0%	**4.5%**	4.0%

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).

(f) 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 2005.

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 2005, 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 June 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 2007 are $3,092,000 (parent entity: $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.

(g) 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 2005), and a surplus of $8,092,000 was reported.

The surplus, as at 30 June 2005, under AAS 25 differs from the net asset of $7,571,000 recognised in the balance sheet as at 30 June 2006 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.

(h) Historic summary

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

Information for years prior to 2005 is not available.

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

26 RESERVES

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Hedging Reserve – Cash Flow Hedges				
Balance at 1 July	**–**	–	**–**	–
Adjustment on adoption of AASB 132 and 139 (net of tax)	**(47,000)**	–	**(47,000)**	–
Revaluation of forward foreign exchange contracts – gross	**(4,599)**	–	**(4,599)**	–
Revaluation of electricity derivative contracts – gross	**7,180**	–	**7,180**	–
Amounts realised forward foreign exchange contracts – gross	**22,210**	–	**22,210**	–
Amounts realised electricity derivative contracts – gross	**30,546**	–	**30,546**	–
Deferred tax	**(16,602)**	–	**(16,602)**	–
Balance at 30 June	**(8,265)**	–	**(8,265)**	–

	Parent		Parent	
	2006 Shares	2005 Shares	2006 $	2005 $

27 CONTRIBUTED EQUITY

	2006 Shares	2005 Shares	2006 $	2005 $
Share capital				
Ordinary shares – fully paid				
A Class (voting)	**250,000,004**	4	**250,000,004**	4
B Class (non-voting)	**822,503,917**	822,503,917	**822,503,917**	822,503,917
	1,072,503,921	822,503,921	**1,072,503,921**	822,503,921

	No.	Issue Price	$
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
30 June 2006	**1,072,503,921**		**1,072,503,921**

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

28 ACCUMULATED LOSSES

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Balance at 1 July	**(70,512)**	(79,408)	**(17,726)**	(13,173)
Adjustment on adoption of AASB 132 and AASB 139, net of tax	**(17,259)**	–	**(17,259)**	–
Net profit for the year	**56,468**	40,680	**47,619**	27,231
Actuarial gain (loss) on defined benefit plan	**3,889**	(2,633)	**3,889**	(2,633)
Dividends – final dividend provided for	**(40,170)**	(29,151)	**(40,170)**	(29,151)
Balance at 30 June	**(67,584)**	(70,512)	**(23,647)**	(17,726)

29 DIVIDENDS

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Final dividend for the year ended 30 June			**40,170**	29,151

30 TOTAL EQUITY RECONCILIATION

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Total equity at the beginning of the financial year	**751,992**	743,096	**804,778**	809,331
Total recognised income and expense for the year	**34,833**	38,047	**25,984**	24,598
Transactions with equity holders in their capacity as shareholders:				
Contribution of equity, net of transaction costs	**250,000**	–	**250,000**	–
Dividends provided for	**(40,170)**	(29,151)	**(40,170)**	(29,151)
Total equity at the end of the financial year	**996,655**	751,992	**1,040,592**	804,778

31 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Directors

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

Non-executive Chairman
SE Lonie

Non-executive Directors
M Bucknall
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 tables.

Specified director remuneration

	Short-term employee benefits	Post employment	Total
SE Lonie			
2006	**70,128**	**3,334**	**73,462**
2005	64,705	5,834	70,539
TBI Crommelin			
2006	**23,963**	**–**	**23,963**
2005	23,200	–	23,200
M Bucknall			
2006	**27,258**	**2,772**	**30,030**
2005	–	–	–
TG Handicott (1)			
2006	**–**	**–**	**–**
2005	26,970	2,427	29,397
RJ Henricks			
2006	**27,557**	**2,863**	**30,420**
2005	26,680	2,788	29,468
S Israel			
2006	**27,258**	**2,772**	**30,030**
2005	–	–	–
JA Leaver			
2006	**28,756**	**2,971**	**31,727**
2005	27,550	2,794	30,344
TJ O'Dwyer (2)			
2006	**–**	**–**	**–**
2005	28,710	–	28,710
T White			
2006	**32,250**	**–**	**32,250**
2005	30,160	–	30,160
Total			
2006	**237,170**	**14,712**	**251,882**
2005	227,975	13,843	241,818

(1) A director until 30 June 2005
(2) A director until 1 June 2005

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

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

A former director, Mr TJ O'Dwyer, is a director of The Brisbane Club. The Brisbane Club provided goods and services to the consolidated group.

All of these 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		Parent	
		2006 $	2005 $	2006 $	2005 $
Legal fees:	Corrs Chambers Westgarth	**n/a**	42,558	**n/a**	42,558
	McCullough Robertson	**36,702**	47,946	**36,702**	47,946
		36,702	90,504	**36,702**	90,504
Accounting fees:	BDO Kendalls	**12,910**	33,658	**12,910**	33,658
	KPMG	**95,952**	66,265	**95,952**	66,265
		108,862	99,923	**108,862**	99,923
Other:	The Brisbane Club	**n/a**	4,447	**n/a**	4,447

(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 Organisational 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 key elements of the employment agreement for the Chief Executive Officer are as follows:

- Employment term – 5 years expiring 16 August 2009.
- Total remuneration for the year ended 30 June 2006 of $343,665, to be reviewed annually.
- Payment of a termination benefit on early termination, other than for gross misconduct, equal to 50% of the total remuneration package excluding bonus for the balance of the term after the termination date.
- Payment of a severance payment of 3 months remuneration if the employment contract is not renewed upon serving the full term of the contract.
- 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.

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. Subsequent to the end of the financial year, 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 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)			
2006	**312,075**	**31,590**	**343,665**
2005	262,436	26,594	289,030
Chief Financial Officer (2)			
2006	**227,026**	**28,276**	**255,302**
2005	225,971	28,053	254,024
General Manager Production (3)			
2006	**–**	**–**	**–**
2005	163,432	21,082	184,514
General Manager Major Projects			
2006	**231,107**	**28,869**	**259,976**
2005	221,369	28,556	249,925
General Manager Operations			
2006	**231,995**	**28,980**	**260,975**
2005	222,220	28,666	250,886
General Manager New Business (4)			
2006	**44,037**	**4,027**	**48,064**
2005	–	–	–
General Manager Organisational Development (5)			
2006	**236,190**	**4,573**	**240,763**
2005	90,000	–	90,000
General Manager Corporate Services			
2006	**207,468**	**25,916**	**233,384**
2005	198,749	25,638	224,387
Total			
2006	**1,489,898**	**152,231**	**1,642,129**
2005	1,384,177	158,589	1,542,766

(1) Remuneration details for 2005 are in respect of the period 16 August 2004 to 30 June 2005.
(2) Remuneration details for 2005 include a component of higher duties allowance as Acting Chief Executive Officer until 13 August 2004.
(3) Remuneration details for 2005 are in respect of the period 1 July 2004 to 31 March 2005.
(4) The General Manager New Business started with CS Energy Limited on 10 April 2006.
(5) Remuneration details for 2005 are in respect of the period 21 February 2005 to 30 June 2005.

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
2005	1,057,216	46,621,586	454
2006	**1,420,751**	**45,813,265**	**464**

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.

33 REMUNERATION OF AUDITORS

	Consolidated		Parent	
	2006 $	2005 $	**2006 $**	2005 $
Remuneration for audit or review of the financial reports of the parent or any entity in the consolidated group:				
Auditors of the parent				
Parent	**146,400**	140,250	**146,400**	140,250
Controlled entities	**9,600**	10,750	**–**	–
	156,000	151,000	**146,400**	140,250

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

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:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Property, plant and equipment				
Not later than one year	**313,799**	222,640	**492**	40,146
Later than one year, but not later than five years	**117,157**	975,788	**30,251**	27,710
Later than five years	**–**	13,179	**–**	–
	430,956	1,211,607	**30,743**	67,856

Lease commitments
Commitments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, payable as follows:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Not later than one year	**642**	518	**595**	470
Later than one year, but not later than five years	**2,487**	2,213	**2,393**	2,079
Later than five years	**–**	573	**–**	573
	3,129	3,304	**2,988**	3,122

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

Wholly owned group
The parent entity within the group is CS Energy Limited. The ultimate controlling party is the State of Queensland. The wholly owned group consists of CS Energy Limited and its wholly owned controlled entities:

- CS Energy Mica Creek Pty Ltd
- CS North West Pty Ltd
- Callide Energy Pty Ltd
- CEPA (Kogan Creek) Holding Pty Ltd
- Aberdare Collieries Pty Ltd
- CS Energy Kogan Creek Pty Ltd
- Kogan Creek Power Pty Ltd
- CS Kogan (Australia) Pty Ltd
- Swanbank Energy Pty Ltd
- SE CSE Pty Ltd

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

Transactions between CS Energy Limited and wholly owned group members
Transactions between CS Energy Limited and other entities in the wholly owned group during the year ended 30 June 2006 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 6.45% (2005 – 6.45%).

	Parent 2006 $'000	Parent 2005 $'000
Related Party Transactions and Balances		
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly owned group:		
Sale of goods and services	**20,681**	7,426
Interest revenue	**31,035**	10,470
Dividend revenue	**10,000**	–
Aggregate amounts receivable from and payable to entities in the wholly owned group at balance date:		
Current receivables – other debtors	**6,981**	6,256
Non-current receivable – loans to related parties	**1,045,298**	562,021
Tax-related payable	**26,635**	7,999
Non-current payables – other creditors	**–**	3,300

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

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Loans To/From Related Parties				
Loans to subsidiaries				
Beginning of the year	**–**	–	**570,020**	446,030
Loans advanced	**–**	–	**703,810**	313,236
Loan repayments received	**–**	–	**(232,620)**	(199,318)
Interest charged	**–**	–	**30,723**	10,072
Interest paid	**–**	–	**–**	–
End of year	**–**	–	**1,071,933**	570,020

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 6.45% (2005 – 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	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Income Statement				
Amounts included in revenue from the sale of electricity and other revenue	**77,175**	51,018	**56,254**	33,744
Amounts included in cost of sales and other expenses	**27,369**	26,169	**13,350**	13,277
Amounts included in finance costs	**49,448**	30,533	**38,630**	21,720
Balance Sheet				
Amounts included in trade and other receivables	**9,074**	9,028	**5,187**	7,561
Amounts included in trade and other payables	**3,868**	2,462	**3,417**	2,096
Amounts included in borrowings	**645,222**	521,051	**645,222**	410,866
Provision for dividend	**40,170**	29,151	**40,170**	29,15

37 INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding % 2006	Equity Holding % 2005
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
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

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

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current assets				
Cash	**469**	1,206	**–**	–
Receivables	**293**	296	**–**	–
Inventories	**5,215**	3,266	**–**	–
	5,977	4,768	**–**	–
Non-current assets				
Gas exploration and evaluation costs	**14,344**	12,685	**–**	–
Property, plant and equipment	**382,740**	378,469	**–**	–
Share of assets employed in joint ventures	**403,061**	395,922	**–**	–

(b) Joint venture entities

Name of entity	Principal activity	Ownership interest		Carrying amount	
		2006 %	2005 %	2006 $	2005 $
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	
	2006 $'000	2005 $'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) from ordinary activities before income tax	**–**	–

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

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

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Profit from ordinary activities after income tax	**56,468**	36,439	**47,619**	22,066
Depreciation and amortisation	**85,426**	84,268	**55,096**	54,728
Fair value adjustment to derivatives	**6,252**	–	**6,252**	–
Net loss/(gain) on sale of non-current assets	**(374)**	257	**(319)**	257
Change in operating assets and liabilities				
(Increase) decrease in assets:				
Trade and other debtors	**26,833**	(3,594)	**5,594**	(4,460)
Inventories	**(6,377)**	(4,801)	**(3,153)**	(3,160)
Future income tax benefit	**(642)**	(12,489)	**(1,044)**	(14,055)
Prepayments	**(1,004)**	(3,512)	**(893)**	(3,504)
(Decrease) increase in liabilities:				
Accounts payable, employee benefits and other provisions	**20,661**	(9,124)	**24,769**	(896)
Provision for deferred income tax	**21,027**	25,877	**3,952**	19,163
Net cash provided by operating activities	**208,270**	113,321	**137,873**	70,139

40 NON-CASH FINANCING AND INVESTING ACTIVITIES

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Accrued property, plant and equipment	**12,373**	28,143	**8,347**	28,143

41 EVENTS OCCURRING AFTER BALANCE DATE

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

42 EXPLANATION OF TRANSITION TO AIFRS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

		Consolidated			Parent		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
ASSETS							
Current assets							
Cash and cash equivalents		4,328	–	4,328	1,684	–	1,684
Trade and other receivables	a	59,853	12,351	72,204	49,765	12,289	62,054
Inventories		22,437	–	22,437	16,220	–	16,220
Other	a	12,351	(12,351)	–	12,289	(12,289)	–
Total current assets		98,969	–	98,969	79,958	–	79,958
Non-current assets							
Receivables		–	43,869	43,869	445,398	46,770	492,168
Investments accounted for using the equity method		1	–	1	–	–	–
Other financial assets		987	–	987	53,366	–	53,366
Deferred gas exploration and evaluation costs		8,047	–	8,047	8,047	–	8,047
Property, plant and equipment	b	1,429,269	(119,961)	1,309,308	757,366	(104,941)	652,425
Deferred tax assets	c	35,838	12,100	47,938	35,838	6,296	42,134
Superannuation plan	d	–	4,199	4,199	–	4,199	4,199
Other	a	47,347	(47,347)	–	136,703	(136,703)	–
Total non-current assets		1,521,489	(107,140)	1,414,349	1,436,718	(184,379)	1,252,339
Total assets		1,620,458	(107,140)	1,513,318	1,516,676	(184,379)	1,332,297
LIABILITIES							
Current liabilities							
Trade and other payables	a	44,929	1,261	46,190	33,507	1,261	34,768
Interest bearing liabilities		12,045	–	12,045	–	–	–
Provisions		35,226	–	35,226	34,369	–	34,369
Other	a	1,261	(1,261)	–	1,261	(1,261)	–
Total current liabilities		93,461	–	93,461	69,137	–	69,137
Non-current liabilities							
Payables	a	18,646	7,401	26,047	28,787	7,401	36,188
Interest bearing liabilities		371,931	–	371,931	261,746	–	261,746
Deferred tax liabilities	c	220,067	(8,723)	211,344	220,067	(121,051)	99,016
Provisions	e	38,275	29,164	67,439	32,363	24,516	56,879
Other	a	7,401	(7,401)	–	7,401	(7,401)	–
Total non-current liabilities		656,320	20,441	676,761	550,364	(96,535)	453,829
Total liabilities		749,781	20,441	770,222	619,501	(96,535)	522,966
Net assets		870,677	(127,581)	743,096	897,175	(87,844)	809,331
EQUITY							
Contributed equity		822,504	–	822,504	822,504	–	822,504
Retained earnings	h	48,173	(127,581)	(79,408)	74,671	(87,844)	(13,173)
Total equity		870,677	(127,581)	743,096	897,175	(87,844)	809,331

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

		Consolidted			Parent		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
ASSETS							
Current assets							
Cash and cash equivalents		2,272	–	2,272	850	–	850
Trade and other receivables	a	63,248	46,978	110,226	52,759	46,907	99,666
Inventories		27,238	–	27,238	19,380	–	19,380
Other	a	46,978	(46,978)	–	46,907	(46,907)	–
Total current assets		139,736	–	139,736	119,896	–	119,896
Non-current assets							
Other receivables	a	12,685	50,837	63,522	587,564	45,978	633,542
Investments accounted for using the equity method	1	–	1	–	–	–	–
Other financial assets		–	–	–	51,815	–	51,815
Property, plant and equipment	b	1,588,449	(117,205)	1,471,244	776,191	(101,012)	675,179
Deferred tax assets	c	48,327	9,426	57,753	48,327	4,898	53,225
Superannuation plan	d	–	1,325	1,325	–	1,325	1,325
Other	a	50,837	(50,837)	–	146,909	(146,909)	–
Total non-current assets		1,700,299	(106,454)	1,593,845	1,610,806	(195,720)	1,415,086
Total assets		1,840,035	(106,454)	1,733,581	1,730,702	(195,720)	1,534,982
LIABILITIES							
Current liabilities							
Trade and other payables	a	89,797	2,284	92,081	78,153	2,284	80,437
Interest bearing liabilities		56,986	–	56,986	45,265	–	45,265
Provisions		35,979	–	35,979	35,068	–	35,068
Other	a	2,284	(2,284)	–	2,284	(2,284)	–
Total current liabilities		185,046	–	185,046	160,770	–	160,770
Non-current liabilities							
Payables		27,271	–	27,271	35,270	(3,066)	32,204
Borrowings		464,065	–	464,065	365,601	–	365,601
Deferred tax liabilities	c	245,944	(10,539)	235,405	245,944	(132,532)	113,412
Provisions	e	39,744	30,058	69,802	33,027	25,190	58,217
Total non-current liabilities		777,024	19,519	796,543	679,842	(110,408)	569,434
Total liabilities		962,070	19,519	981,589	840,612	(110,408)	730,204
Net assets		877,965	(125,973)	751,992	890,090	(85,312)	804,778
EQUITY							
Contributed equity		822,504	–	822,504	822,504	–	822,504
Retained earnings	h	55,461	(125,973)	(70,512)	67,586	(85,312)	(17,726)
Total equity		877,965	(125,973)	751,992	890,090	(85,312)	804,778

(2) Reconciliation of profit for the year ended 30 June 2005

		Consolidated			Parent		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Revenue from continuing operations							
Revenue from sale of electricity		456,229	–	456,229	289,408	–	289,408
Other revenue		18,019	–	18,019	35,784	–	35,784
		474,248	–	474,248	325,192	–	325,192
Cost of sales	b,d	(333,638)	5,427	(328,211)	(225,679)	5,955	(219,724)
Other expenses		(70,318)	–	(70,318)	(51,870)	–	(51,870)
Finance costs	e	(20,463)	(2,676)	(23,139)	(21,723)	(1,811)	(23,534)
Profit before income tax		49,829	2,751	52,580	25,920	4,144	30,064
Income tax expense		(13,390)	1,490	(11,900)	(3,854)	1,021	(2,833)
Profit for the period		36,439	4,241	40,680	22,066	5,165	27,231

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Balance sheet categorisation under AIFRS

The group has reclassified certain other current and non-current assets and liabilities into trade and other receivables and trade and other payables, current and non-current as appropriate. These adjustments relate to prepayments, deferred foreign exchange gains and losses, deferred exploration and evaluation costs, electricity futures losses and deferred revenue.

(b) Property, plant and equipment

(i) Impairment of assets

Under previous AGAAP impairment was assessed at the lowest level of aggregation of non-current assets having a similar nature or function, as adopted in the financial report for disclosure, using undiscounted cash flows. Under AIFRS, the test for the recoverable amount of assets is performed at the cash-generating unit level with the future cash flows used in the value of the recoverable amount test calculations to be discounted using a risk adjusted discount rate.

The effect of this is:

(a) At 1 July 2004—a decrease in property, plant and equipment (PPE) for the group and parent of $91,600,000. Deferred tax liabilities decreased by $27,480,000.

(b) At 30 June 2005—a decrease in PPE for the group and parent of $87,688,000. Deferred tax liabilities decreased by $26,306,000.

(c) For the year ended 30 June 2005—a decrease in depreciation expense of $3,912,000 for both the group and parent, income tax decreased by $1,174,000.

(ii) Overhauls

AIFRS contains a more prescriptive treatment in relation to the capitalisation of major cyclical expenditure for items such as overhauls, as compared to the previous AGAAP that has resulted in an increase in the amount of overhauls capitalised. The effect of this is:

(a) At 1 July 2004—a decrease in PPE for the group of $35,715,000 and for the parent of $17,779,000. A decrease in deferred tax liabilities of $10,714,000 for the group and $5,334,000 for the parent.

(b) At 30 June 2005—a decrease in PPE for the group of $36,210,000 and for the parent of $17,303,000. A decrease in deferred tax liabilities of $10,863,000 for the group and $5,191,000 for the parent.

(c) For the year ended 30 June 2005—an increase in amortisation expense for the year of $3,214,000 for the group and $1,236,000 for the parent, a decrease in depreciation expense of $2,719,000 for the group and $1,710,000 for the parent and an increase in income tax expense of $149,000 for the group and a decrease of $143,000 for the parent.

(c) Deferred tax assets and liabilities

At 1 July 2004 and at 30 June 2005 the effects on the deferred tax asset of the adoption of AIFRS are as follows (tax rate of 30%):

	1 July 2004		30 June 2005	
	Consolidated $'000	Parent $'000	Consolidated $'000	Parent $'000
Adjustment on adoption of AASB 112	3,351	309	408	72
Rehabilitation	8,749	7,355	9,018	7,557
Adjustments relating to the accounting for the tax consolidation legislation	–	(1,368)	–	(2,731)
Increase in deferred tax asset	12,100	6,296	9,426	4,898

The effects on the deferred tax liability of the adoption of AIFRS are as follows (tax rate of 30%):

	1 July 2004		30 June 2005	
	Consolidated $'000	Parent $'000	Consolidated $'000	Parent $'000
Adjustments on adoption of AASB 112	26,005	(3,375)	24,225	(1,694)
Impairment	(27,480)	(27,480)	(26,306)	(26,306)
Overhauls	(10,714)	(5,334)	(10,863)	(5,191)
Rehabilitation	2,206	1,331	2,008	1,194
Defined benefit plan	1,260	1,260	397	397
Adjustments relating to the accounting for the tax consolidation legislation	–	(87,453)	–	(100,932)
Decrease in deferred tax liability	(8,723)	(121,051)	(10,539)	(132,532)

The majority of the change arising from adoption of AASB 112 relates to the method of acquisition of the Kogan Creek Power Project and a change in treatment of building depreciation that was previously recorded as a permanent timing difference but is now treated as a temporary difference.

Under previous tax consolidation arrangements the parent reflected all the deferred tax assets and liabilities of the group companies. Under revised tax consolidation agreement the parent no longer reflects deferred tax assets and liabilities applicable to other group companies (with the exception of applicable tax losses) and an adjustment has been made to reflect this change.

(d) Defined Benefit Plan

Under previous AGAAP, the cost of providing future benefits to employees was based on actual contributions paid or payable to the defined benefit plan during the period. For the defined benefit plan, a liability was only recognised when the value of plan assets was less than the value of accrued benefits. Movements in the carrying value of plan assets and liabilities were not recognised in the income statement.

Under AIFRS, the cost of providing future benefits to employees under defined benefit plans are recognised over the period during which employees provide the services. An asset or liability is recognised in the balance sheet in relation to the defined benefit plan, being the net of the defined benefit obligation and the fair value of the assets. All defined benefit plan costs (other than actuarial gains or losses which are recognised directly through retained earnings) are recognised in the income statement.

The effect of this is:

(a) At 1 July 2004—for the group and parent an increase in retirement benefit asset of $4,199,000 and an increase in deferred tax liability of $1,260,000.

(b) At 30 June 2005—for the group and parent an increase in retirement benefit asset of $1,325,000 and an increase in deferred tax liability of $397,000.

(c) For the year ended 30 June 2005—a decrease in employee benefit charge of $888,000 and a decrease in income tax expense of $266,000 for both the group and the parent.

(e) Provisions – Rehabilitation

Under previous AGAAP provision was made for the estimated rehabilitation and closure costs at the end of the producing life of the power station, over the life of the power station, on a straight line undiscounted basis. Changes in estimates were recognised in the income statement over the remaining lives of the assets. Under AIFRS the present value of the estimated future rehabilitation obligation is recognised as a liability, and a corresponding additional cost is added to the carrying value of the asset. The present value is calculated using a pre-tax discount rate. The asset is depreciated and the discount is unwound over the useful life of the asset with both amounts recognised in the income statement.

The effect of this is:

(a) At 1 July 2004—an increase in site rehabilitation provision of $29,163,000 and an increase in PPE of $7,353,000 for the group and an increase in site rehabilitation provision of $24,516,000 and an increase in PPE of $4,437,000 for the parent. A net increase in deferred tax asset of $6,543,000 for the group and $6,024,000 for the parent.

(b) At 30 June 2005—an increase in site rehabilitation provision of $30,059,000 and an increase in PPE of $6,694,000 for the group and an increase in site rehabilitation provision of $25,190,000 and an increase in PPE of $3,981,000 for the parent. A net increase in deferred tax asset of $7,010,000 for the group and $6,363,000 for the parent.

(c) For the year ended 30 June 2005—a decrease in rehabilitation expense of $1,122,000 and an increase in finance costs relating to the unwinding of the discount of $2,676,000 for the group. A decrease in rehabilitation expense of $680,000 and an increase in finance costs of $1,811,000 for the parent. A net increase in income tax expense for the group of $466,000 and $339,000 for the parent.

(f) Financial instruments

The consolidated group has elected to apply the exemption from restatement of comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement.* It has therefore continued to apply the previous AGAAP rules to derivatives, financial assets and financial liabilities and also the hedge relationships for the year ended 30 June 2005. The adjustments required for differences between previous AGAAP and AASB 132 and AASB 139 have been determined and recognised at 1 July 2005. See Section 5 of this Note and Note 1 for further details.

(g) Tax consolidation

CS Energy Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2002. Under previous AGAAP, the parent entity recognised current and deferred tax amounts relating to transactions, events and balances of the tax consolidated entities as if those transactions, events and balances were its own.

Under AIFRS, the parent entity only recognises the current tax payable and deferred tax assets arising from unused tax losses and unused tax credits assumed from wholly-owned entities in the tax consolidated group.

h) Retained earnings

The effect on retained earnings of the changes set out on previous pages are as follows:

		1 July 2004		30 June 2005	
	Notes	Consolidated $'000	Parent $'000	Consolidated $'000	Parent $'000
Impairment of assets	b	(91,600)	(91,600)	(87,688)	(87,688)
Income tax	b,d,e	17,345	37,415	19,965	39,565
Retirement benefit obligation	d	4,199	4,199	1,325	1,325
Accounting for overhaul	b	(35,715)	(17,779)	(36,210)	(17,305)
Rehabilitation	e	(21,810)	(20,079)	(23,365)	(21,209)
		(127,581)	(87,844)	(125,973)	(85,312)

(5) Adjustments on transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*

	Consolidated					Parent
	Restated AIFRS 30 June 2005 $'000	1 July 2005 adjustment upon transition to AIFRS $'000	AIFRS $'000	Restated AIFRS 30 June 2005 $'000	1 July 2005 adjustment upon transition to AIFRS $'000	AIFRS $'000
ASSETS						
Current assets						
Cash and cash equivalents	2,272	–	2,272	850	–	850
Trade and other receivables	110,226	–	110,226	99,666	–	99,666
Inventories	27,238	–	27,238	19,380	–	19,380
Total current assets	139,736	–	139,736	119,896	–	119,896
Non-current assets						
Other receivables	63,522	–	63,522	633,542	–	633,542
Investments accounted for using the equity method	1	–	1	–	–	–
Other financial assets	–	–	–	51,815	–	51,815
Property, plant and equipment	1,471,244	–	1,471,244	675,179	–	675,179
Deferred tax assets	57,753	27,540	85,293	53,225	27,540	80,765
Superannuation plan	1,325	–	1,325	1,325	–	1,325
Total non-current assets	1,593,845	27,540	1,621,385	1,415,086	27,540	1,442,626
Total assets	1,733,581	27,540	1,761,121	1,534,982	27,540	1,562,522
LIABILITIES						
Current liabilities						
Trade and other payables	92,081	–	92,081	80,437	–	80,437
Interest bearing liabilities	56,986	–	56,986	45,265	–	45,265
Derivative financial instruments	–	91,801	91,801	–	91,801	91,801
Provisions	35,979	–	35,979	35,068	–	35,068
Total current liabilities	185,046	91,801	276,847	160,770	91,801	252,571
Non-current liabilities						
Payables	27,271	–	27,271	32,204	–	32,204
Borrowings	464,065	–	464,065	365,601	–	365,601
Deferred tax liabilities	235,405	–	235,405	113,412	–	113,412
Provisions	69,802	–	69,802	58,217	–	58,217
Total non-current liabilities	796,543	–	796,543	569,434	–	569,434
Total liabilities	981,589	91,801	1,073,390	730,204	91,801	822,005
Net assets	751,992	(64,261)	687,731	804,778	(64,261)	740,517
EQUITY						
Contributed equity	822,504	–	822,504	822,504	–	822,504
Reserves	–	(47,000)	(47,000)	–	(47,000)	(47,000)
Retained earnings	(70,512)	(17,261)	(87,773)	(17,726)	(17,261)	(34,987)
Total equity	751,992	(64,261)	687,731	804,778	(64,261)	740,517

Refer to notes 1(l) and 1(m) for further information on the transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* on 1 July 2005.

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2006

In the directors' opinion

(a) The financial statements and notes set out on pages 40 to 86 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 2006 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
13 September 2006

AUDITOR'S INDEPENDENCE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2006

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 2006, 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.

PG Shipperley, FCPA
(as Delegate of the Auditor-General of Queensland)
Queensland Audit Office

Brisbane
11 September 2006

INDEPENDENT AUDIT REPORT
FOR THE YEAR ENDED 30 JUNE 2006

To the Members of CS Energy Limited

SCOPE

The financial report
The financial report of CS Energy Limited consists of the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial report, and the directors' declaration for both CS Energy Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

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

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

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

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

The Auditor-General is the auditor of government owned corporations and their controlled entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which powers are to be exercised.

The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

No events have occurred that would require any changes to the audit independence declaration previously provided to the directors on 11 September 2006.

Audit Opinion
In my opinion, the financial report of CS Energy Limited is in accordance with:

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

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

PG Shipperley, FCPA
(as Delegate of the Auditor-General of Queensland)
Queensland Audit Office

Brisbane
13 September 2006

GLOSSARY AND ABBREVIATIONS

Term	Definition
AGL	Australian Gas Light Company
CCSD	Cooperative Research Centre for Coal in Sustainable Development
CO_2 CRC	Cooperative Research Centre for Greenhouse Gas Technologies
CRG	Community Reference Group
Gearing	A financial term that describes the relationship between debt and equity
GEC	Gas Electricity Certificate
GW	Gigawatt
GWh	Gigawatt hour
Greenhouse intensity	Emissions of CO_2 per gigawatt hour sent out
ISO 14001	International Standard for Environment Management Systems
JDA	Joint Development Agreement
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
ML	Megalitre
MW	Megawatt
MWh	Megawatt hour
NEM	National Electricity Market
PAT	Profit after tax
Pool price	The variable market price for electricity
QGC	Queensland Gas Company
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
TJ	TeraJoule
TWA pool price	Time weighted average pool price

Design Minale Bryce Design Strategy **Photography** Nadine Shaw Photography and Ron Cottee Photography **Print** Fine Print

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

cs energy
generations ahead