

# **Statement of Corporate Intent 2015/2016**

## **For public release**

**31 May 2015**

Prepared by the Directors and Management  
of CS Energy Ltd (ABN 54 078 848 745)  
for shareholding Ministers

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## Glossary of acronyms

AIA	Alternative Individual Agreement	KPI	Key Performance Indicator
DEHP	Department of Environment and Heritage Protection	LREC	Large-scale Renewable Energy Certificate
DEWS	Department of Energy and Water Supply	LTIFR	Lost Time Injury Frequency Rate
EA	Enterprise Agreement	LTTPA	Long Term Power Purchasing Agreement
E&IR Plan	Employment and Industrial Relations Plan	MHL	Maximum Hedge Limit
EMT	Executive Management Team	MW	megawatts
FTE	Full time equivalent	MWh	Megawatt hours
FWA	Fair Work Australia	QTC	Queensland Treasury Corporation
GW	Gigawatts	QTT	Queensland Treasury and Trade (formerly OGOC)
GWh	Gigawatt hours	SCI	Statement of Corporate Intent
IPPA	Interconnection and Power Pooling Agreement	SREC	Small-scale Renewable Energy Certificate
		TCRFR	Total Case Recordable Frequency Rate

## Performance Agreement

### Directors' Statement and Agreement of Shareholding Ministers

This Statement of Corporate Intent and all attachments, for 2015/2016, are presented in accordance with Chapter 3, Part 8 of the *Government Owned Corporations Act 1993 (GOC Act)*.

In accordance with Chapter 1, Part 3, Section 7 of the GOC Act, the Statement of Corporate Intent represents a formal performance agreement between the Board of CS Energy Limited (**CS Energy**) and its shareholding Ministers with respect to the financial and non-financial performance targets specified for the financial year. The Statement of Corporate Intent also represents an acknowledgment of, and agreement to major activities, objectives, undertakings, policies, investments and borrowings of CS Energy for 2015/2016.

This Statement of Corporate Intent is consistent with CS Energy's 2015/2016 – 2019/2020 Corporate Plan submitted to, and agreed to by shareholding Ministers in accordance with Chapter 3, Part 7 of the GOC Act.

In signing the document, the Board of CS Energy undertakes to ensure that the document, and all reports to shareholding Ministers, are prepared with accuracy and timeliness.

In signing this document, CS Energy's Board undertakes to achieve the targets proposed in the Statement of Corporate Intent for 2015/2016.

Major changes to key assumptions and outcomes detailed in this Statement of Corporate Intent, which come to the Board's attention during the year, will be brought to the attention of shareholding Ministers. Any modifications to this Statement of Corporate Intent will be dealt with in accordance with the GOC Act.

This Statement of Corporate Intent is signed by the Chair on behalf of all the Directors in accordance with a unanimous decision of the Board of CS Energy.

Mr R Rolfe  
Chairman  
CS Energy Ltd

Date:

.....  
Shareholding Minister

Date:

.....  
Shareholding Minister

Date:

# CS Energy

## Mission

CS Energy's mission is to drive business improvement safely, efficiently and responsibly to maximise value today for our shareholder and create opportunities for tomorrow.

This Statement of Corporate Intent (**SCI**) outlines the key initiatives CS Energy is undertaking to deliver on its commitment of returning the business to profitability by building on the foundation of a high performance culture and strong leadership, with a key focus on the safety of our employees and contractors.

## Business

CS Energy Limited (**CS Energy**) is a Government Owned Corporation established under the *Government Owned Corporations Act 1993 (Qld)* (**GOC Act**), as a merchant generator by the Queensland Government in 1997, following a restructure of the Queensland electricity industry. CS Energy's business includes the generation and sale of electricity, including trading electricity in the National Electricity Market (**NEM**) under the *Electricity Act 1994*. CS Energy also holds a Queensland electricity retail licence.

CS Energy owns and operates the Callide B, Kogan Creek and Wivenhoe power stations and operates the Callide C Power Station, in which it holds a 50% interest. CS Energy is a party to the Interconnection and Power Pooling Agreement (**IPPA**) which entitles it to trade the output of Gladstone Power Station in excess of the requirements of the Boyne Aluminium Smelter.

CS Energy also owns the Kogan Creek Mine, and the undeveloped Glen Wilga and Haystack Road coal resources near Chinchilla.

Overview of CS Energy's portfolio of assets:



### Power generation

- 1 Callide Power Station (1,630 MW)\*
- 2 Kogan Creek Power Station (750 MW)
- 3 Wivenhoe Power Station (500 MW)

### 4 Trading rights

Gladstone Power Station (1,680 MW)

### 5 Coal assets

Kogan Creek Mine (MDL 335 – 400 Mt)  
Glen Wilga (MDL 382 – undeveloped)  
Haystack Road (MDL 383 – undeveloped)

\*The 810 MW Callide C Power Station is a 50 per cent joint venture with InterGen. Callide Power Station includes the 120 MW Callide A Power Station which is currently in storage.

The main operating companies within CS Energy are:

- CS Energy Ltd;
- Callide Energy Pty Ltd;
- Aberdare Collieries Pty Ltd (Kogan Creek Mine);
- CS Energy Kogan Creek Pty Ltd;
- CS Kogan (Australia) Pty Ltd;
- Kogan Creek Power Station Pty Ltd;
- CS Energy Oxyfuel Pty Ltd; and
- Manzillo Insurance (PCC) Ltd – Cell EnMach, which is CS Energy's insurance captive.

## Executive Summary

CS Energy's 2015/2016 Statement of Corporate Intent (**SCI**) and Corporate Plan (**CP**) focus on the continued process of rebuilding and fundamentally transforming CS Energy into a profitable, commercially viable and sustainable business that delivers value to its shareholder.

CS Energy's board and management team have embarked on a journey over the last two years to improve the core business by focussing on a commercial and operational turnaround of the company. The forecast results for 2014/2015 reflect the strong trend of improvement in CS Energy's performance across all aspects of the business, from the safety results (TCRFR has reduced from 8.1 in 2013/2014 to a forecast 2.4 at the end of 2014/2015), through to the Underlying EBITDA performance which is expected to exceed the 2013/2014 result by \$138.2 million.

The financial forecasts also reflect a reduction in projected debt draw downs of \$155.7 million over the five year forecast period compared with last year's SCI and CP, reflecting prudent commercial decision making and cash flow management which has also resulted in a reduction of capital spend of \$56 million in 2014/2015 compared with the original SCI budget for 2014/2015.

CS Energy's scorecard for 2015/2016 reflects the challenges and opportunities facing the business, but also provides a focus on the corporate objectives and key measures necessary to return the business to profitability over time through continued cost control and value based decision-making.

CATEGORY	MEASURE	2015/2016
Safety	TCRFR	<3
Environment	Significant Environmental Incidents	0
Plant performance	Availability	80.2%
Profitability	Underlying EBITDA	\$144.5m
Cash flow	Free Cash Flow	(\$27.1m)
Shareholder Value	Return on Capital Employed	3.8%

## Shareholders Expectations

As part of its Fiscal Strategy and Debt Action Plan (Fiscal Strategy), the Government raised its intention to drive savings in the electricity GOCs through merging the three network businesses into a single network business, and the two generation businesses into a single generation business, subject to a final structure being agreed with the ACCC.

While no decisions regarding future structures of the businesses have been made, the Government has commenced work to identify efficiency and synergy gains which may be achieved through merging the businesses, along with developing organisational structures which will support the achievement of those gains, while managing any competition issues.

CS Energy will continue to assist and work with Government throughout this process through the provision of information and the identification of potential efficiency and synergy savings.

## Key challenges and performance objectives

The electricity market remains challenging in terms of:

- continued downward trend in electricity consumption and maximum demand;
- continued oversupply of generation capacity including increased penetration of solar PV and subsidised investment driven from the Renewable Energy Target Scheme; and
- continued uncertainty surrounding future carbon and renewable policies.

Market conditions in Queensland are however expected to improve over the 2015/2016 year when the liquefied natural gas (**LNG**) plants on Curtis Island progressively commence operation and drive an increase in demand in Queensland of approximately 6.8TWh by 2016/2017 (AEMO National Electricity Forecasting Report 2014), with contract market prices reflecting this expectation.

CS Energy continues to face a number of internal legacy business challenges which significantly impact the performance of the company. Whilst CS Energy continues to see improvements in its performance, four critical commercial issues continue to erode the company's core operating performance, namely:

- Anglo American's (**Anglo**) operational performance under its Coal Supply Agreements at the Callide Power Station (Callide coal);
- the onerous contract in relation to the Gladstone Interconnection and Power Pooling Agreement;
- the Kogan Creek Solar Boost Project; and
- CS Energy's high debt level and associated interest expense.

CS Energy has not returned a dividend to shareholders since 2008/2009 due to ongoing external market challenges as well as internal business issues, with impacts from the generator restructure only exacerbating the problem.

CS Energy's new board and management team were progressively appointed during 2012 and 2013, and have since focused on a commercial and operational turnaround of the business. The results in 2013/2014 and 2014/2015 demonstrate the strong trend of improvement, thus providing evidence of successful management intervention in difficult conditions.

CS Energy's longer term ambition is to broaden its business capability beyond generation through the delivery of value based solutions from fuel sourcing to energy efficiencies. Whilst CS Energy continues to evaluate opportunities to ensure it is competitively positioned, it acknowledges that it needs to continue to build upon the foundations established in 2013/2014 and 2014/2015. This means the key focus remains safety, culture, values and leadership, and continued delivery on the operational and commercial focus, which in 2014/2015 helped drive the significant improvement in CS Energy's performance.

CS Energy's corporate objectives support our commitment of returning the business to a profitable and sustainable entity which provides a profit and returns value to its shareholder. The objectives can be summarised under four key areas:

1. Build a strong foundation for success;
2. Resolve key legacy business issues;
3. Maximise value today; and
4. Create opportunities for tomorrow.



## 1. Build a strong foundation for success

**Objective:** Build the foundation (safety, culture, values and leadership) for a high performance culture that will enable us to address current and future challenges.

### Health and Safety

CS Energy has chosen to use the health and safety of its people as the primary driver to transform culture within the business. CS Energy will continue to drive health and safety leadership and process safety to capitalise on the momentum already gained. CS Energy's objective is to build world-class safety by targeting the conventional, dependent and avoidant culture, and building accountability through line leadership while driving the Zero harm philosophy. To achieve this, the business will focus on development in the areas outlined below.

#### Visible FELT Safety Leadership

CS Energy has dramatically improved its safety performance in the last two years, as evidenced by the lag indicators of Lost Time Injury Frequency Rate (**LTIFR**) and Total Case Recordable Frequency Rate (**TCRFR**). However this improvement has been delivered through a heavy 'directive' leadership approach which is not sustainable. A more sustainable and predictable safety culture requires strong buy-in from the whole workforce.

Cultural change is taking place as evidenced by employees holding others to account for their safety performance and this progress needs to be extended by line leaders influencing direct reports and colleagues across the business to build 'independent' behaviours.

#### Zero Harm

Zero harm philosophy will continue to underpin CS Energy's strategic direction in providing a healthy, safe environment for all workers where injuries and illness are minimised year on year. CS Energy will strive to achieve zero harm by promoting the following:

- A reporting culture: incidents and hazards are dealt with in such a manner that encourages continuous reporting, learning, communication and improvement;
- A just culture: employees and contractors innately know boundaries in which they can operate; and
- A learning culture: one that processes information conscientiously and applies changes accordingly to minimise repeat incidents.

#### Exposure Reduction through Risk Thinking and Risk Awareness

Internal analysis indicates that most of CS Energy's significant incidents could have been prevented by following the CS Energy "Life Saver Rules" and completing effective risk assessments at the task level. In response, CS Energy is implementing strategies to improve capability in the following areas:

- Risk thinking and risk awareness amongst frontline leaders;
- Coaching models and learning methodologies to improve communication and outputs;
- Management and reduction of risk exposure at all levels; and
- Introduction of processes to streamline risk assessments.

#### Process Safety and Governance

CS Energy will continue to comply with legislative requirements and process safety protocols to ensure risks are understood and managed proactively. Key areas of focus in 2015/2016 will include



continuous improvement of Health & Safety processes and governance, mapping of key documents and tools and completion of all statutory and process safety mechanisms.

## Environment

CS Energy will maintain a strong focus on its environmental, legal, and social licence by operating in an environmentally responsible manner. The Environmental Management Systems in place at each site are consistent with the International Standard ISO 14001, and provide the basis for environmental risk management across the business. Audits of the Systems identify opportunities for continual improvement, with the goal of no Significant Environmental Incidents.

Comprehensive environmental monitoring and measurement schedules are in place at each power station, providing data to ensure that compliance limits are met, and that any exceedances are promptly reported to regulatory authorities. Compliance obligations from environmental approvals are closely managed.

## People

### Leadership and Culture

CS Energy will continue to focus on building a high performance culture that supports the company's business objectives during 2015/2016 by continuing to embed, monitor and reinforce the systems introduced in 2014/2015. In order to change the culture, a significant investment of effort to lift the capability of leadership in the business has been made. While the results of this investment will take time to embed, it is the foundation for any other change that the organisation wishes to undertake. In 2014/2015, despite significant improvement in leadership capability across all layers of the business, further improvement is still required at the front line supervisor level in operations. This work will continue with the same energy and commitment in 2015/2016.

As leadership capability is central to the development of CS Energy's desired culture, leadership talent assessment and succession planning will be a key focus area in 2015/2016.

To further support the development of a constructive and high performance culture, CS Energy will integrate the outcomes of the Organisational Effectiveness Inventory (OEI - Employee Survey), conducted in late 2014/2015 into Enterprise, Divisional and Individual planning processes. Progress against agreed action plans will be measured in 2015/2016 by a follow up survey.

## 2. Resolve key legacy business issues

**Objective:** Resolve the key challenges that affect our business performance.

CS Energy continues to seek resolution to a number of legacy business issues, mentioned previously, that are having a significant impact on the performance of the company and dilute improvements made to the company's core operating performance.

To prepare this SCI, it was necessary to develop a number of assumptions around these challenges. In most cases, it is difficult to predict, with any degree of precision, their outcome and timing. The more important of these assumptions related to the following:

- coal deliveries to the Callide Power Station;
- the expected run profiles of Callide B and Callide C units, due to coal delivery uncertainties; and
- optimised dispatch profile of Gladstone Power Station (**GPS**).

Differences between these assumptions and actual outcomes may significantly affect CS Energy's performance outcomes for the 2015/2016 financial year.

## Callide Coal

Coal is supplied to the Callide B and Callide C power stations under two separate Coal Supply Agreements (**CSAs**) from the adjacent Callide Mine, which is owned and operated by Anglo. Anglo has contracted with CS Energy and the Callide C Joint Venture to supply coal to the Callide B and Callide C Power Stations until 2031.

The CSAs include five year option extension terms exercisable by CS Energy. The current term expires in August 2016 with the negotiation relating to the next extension period expiring 12 months prior to this. An action to occur within the 2015/2016 period is the extension of the five year term for both the Callide B and Callide C CSAs. CS Energy will negotiate all terms and conditions of the CSAs with Anglo as part of the extension process, and holds an expectation of extending the terms of the CSAs, although this may be on different terms and conditions those currently in the CSAs. It should be noted Callide B and Callide C have no other economic source of coal available to them other than the Callide Mine and hence are reliant upon the extension of the CSAs to continue operations.

The resolution of Callide Coal will continue to remain the key focus of the Board and Management in 2015/2016, having commenced legal proceedings in 2013, while pursuing parallel commercial negotiations. CS Energy will continue to seek a commercial resolution which provides greater certainty of coal deliveries to the power stations and preserves shareholder value and optionality.

## Onerous Contract in relation to the Gladstone Power Station (GPS)

CS Energy controls the dispatch profile for the **GPS** to support the operations of the Boyne Smelter Load (**BSL**) of 810MW, and trades residual energy generated (up to 509MW) into the electricity market. The contractual arrangements are onerous for CS Energy, because of the high fixed capacity payments and comparably high marginal costs associated with running the plant compared with pool revenue received from dispatch of the GPS. The onerous contract value stated on CS Energy's balance sheet as at 30 June 2014 was \$388.6 million. In 2015/2016, CS Energy will continue to assess the options available to minimise the impact of the onerous contract in relation to the GPS.

In 2014/2015, CS Energy worked with Pacific Aluminium (**PacAl**) to investigate opportunities to reduce the cost of electricity from the GPS to the BSL under the Gladstone Interconnection & Power Pooling Agreement (**IPPA**). CS Energy will continue to evaluate opportunities within its current portfolio to optimise the price offering.

CS Energy is aware of the importance of the continued viability and operation of the BSL to the State economy; however, it is also mindful that any proposed solution must protect the value of CS Energy's investments.

## Kogan Creek Solar Boost

The Kogan Creek Solar Boost Project continues to experience a number of significant technical, commercial and financial issues which have materially increased the risk and cost in what was already a marginal project. The project, which commenced construction in July 2011 with an original targeted completion date of May 2013, if completed will not deliver an economic return to CS Energy.

Over the past 18 months, CS Energy has been considering available options for the project and been actively negotiating with the solar field contractor, AREVA. As currently configured, the continuation of the project with AREVA will result in material cost overruns and exposes the Kogan Creek Power Station to uncertain technical issues with material consequences if they were to arise. AREVA's parent company has also announced its withdrawal from the solar business globally, making delivery of the project untenable, as the technology on which the project relies is unlikely to be supported post completion. The Project in its current form also has a materially negative net

present value for AREVA. Even if a path forward were identified that addresses the technology issues and ensuing risks to Kogan Creek Power Station, it would still be in excess of 15 months from contractor mobilisation before the project could be completed.

In the absence of a viable alternative, the CS Energy Board has determined that the material technical, commercial and financial issues which have materially increased the risk and cost of the project support the termination of the contract with AREVA.

### High Debt Levels and Associated Interest Expense

With a gearing ratio above 75%, CS Energy's financial performance continues to be impacted by the interest burden associated with a high debt position. There has been a fundamental imbalance between CS Energy's debt level and its underlying generation capacity since the Genco Restructure on 1 July 2011. The burden of servicing high interest payments, in conjunction with the impact of the other material commercial issues detailed previously, further contributes to CS Energy's inability to return to profit.

CS Energy continues to identify opportunities to improve its cash management through prudent commercial decisions and only investing in value adding projects. CS Energy is focussed on no further long-term debt draw downs and through active cash flow management over the next two years, is aiming to be in a position to reduce debt levels and therefore interest costs from 2016/2017.

## 3. Maximise value today

**Objective:** Drive improvement in our core business to maximise value today and establish a sustainable business for the future.

CS Energy's initiatives for 2015/2016 are based on addressing the key issues outlined above and maximising value from the business. Particular focus is being placed on the areas of:

- Increasing productivity and agility;
- Optimising our current asset portfolio;
- Protecting and growing the gross margin; and
- Ensuring commercial rigour is maximised in all decision making processes.

### **Increasing productivity and agility**

#### Workforce strategy

In 2015/2016 CS Energy will continue to uplift leadership capability and performance of its people to deliver on CS Energy's business objectives. Targeted recruitment of key leadership roles continues to be a focus to ensure CS Energy has the right balance of technical and leadership capabilities for maximising business outcomes and driving cultural change.

The development of a Workforce Strategy is a key initiative delivered in 2014/2015 that will be built upon in 2015/2016. The workforce strategy aims to assess the current workforce profile and identify the capabilities needed to execute business strategy now and in the future.

#### Industrial Relations

CS Energy's Employment and Industrial Relations Plan ("**Plan**") has been developed to support the company in driving business improvement safely, efficiently and responsibly, to maximise value today and create opportunities for the future.

Fundamental to the Plan is CS Energy's commitment to building a high-performance, constructive workplace culture. It is achieving this change by consistently communicating its leadership expectations, grounded in behaviours which are reflective of this culture.

The Plan provides for an aligned approach to employee relations across the company based on a constructive, high performance culture that leverages value from local bargaining at each key site.

This approach balances shareholder objectives, employee input and the organisation's commitments to:

- safety, driven by genuine care and concern for people and the environment;
- accepting accountability and acting with integrity; and
- creating and sustaining value for our owners through operational excellence, being productive, and exercising sound commercial judgement.

### **Optimising our current asset portfolio**

CS Energy's power stations are well placed in the merit order and have unique characteristics, such as a fast ramp rate capability, and as such, have the potential to provide significant value to its shareholders. With reliable fuel sources in place, given the plants' places in the merit order, high levels of availability should be expected.

The need to manage the Callide coal supply issue has resulted in a combination of flexible asset management matched with an effective trading strategy which have resulted in optimised financial results under an otherwise difficult situation.

Plant performance underpins CS Energy's financial strategy, provides an opportunity to increase revenue, and is integral to transforming the organisation into a profitable, commercially viable and sustainable business. The adopted asset management strategy focuses on three key actions:

- Continue to reduce costs, where appropriate, via opportunities arising from a reduction in generation;
- Further develop and implement, where appropriate, asset solutions to rapidly respond to any opportunities a changed energy market may offer; and
- Deliver the asset management program to remediate the Kogan Creek Power Station turbine issues, and capture revenue opportunities.

The adopted asset management strategy will be delivered by:

- Aligning the preventative maintenance program with reduced major overhaul scopes;
- Aligning asset availability with forecast trading positions to maximise capital efficiency;
- Strengthening the capital project development, approval and review process as part of building on the major overhaul cost savings delivered by the Integrated Service Agreements (ISA);
- Adopting a risk based approach to the deferral of capital expenditure, and where possible, reducing the scope of works associated with the Callide and Wivenhoe overhauls, without risking long term viability of the plant; and
- Where appropriate, completing opportunistic maintenance during reserve shut downs to support reduced scopes of work during major overhauls, and lower the overall cost outcome.

The key asset performance metrics focus on the capacity, availability and reliability of the portfolio's plant, and have been developed on the basis of a generation plan which has potential for change due to market and fuel issues. The strategy focuses on providing robust asset engineering solutions that provide asset flexibility while managing plant risk.

## Protect and grow gross margin

CS Energy has a diversified portfolio of assets with the fastest ramp rate capability in the Queensland generation market.

The market during 2014/2015 was characterised largely by low demand levels which was partially offset by decisions to withdraw generation from the market. Market conditions are expected to improve over the 2015/2016 year when the LNG plants on Curtis Island progressively commence operation and drive an increase in demand in Queensland of approximately 6.8TWh by 2016/2017 (AEMO National Electricity Forecasting Report 2014). Contract market prices are reflecting this expectation.

The ability for CS Energy to capture all opportunities to create value in the long term remains dependent on long term improvements in fuel availability in relation to Callide coal. CS Energy is undertaking a number of actions to resolve Callide coal.

Other factors that will continue to affect the 2015/2016 pool and contracting strategy include:

- The changing consumption profile of consumers;
- Seasonal weather outcomes.

## Drive commercial returns

### Shareholder Return

CS Energy has embarked on a journey over the last two years to improve the core business, focussing on the foundations of cost reform and setting strategies in place that result in improved returns and reduced risk. Underlying EBITDA is one measure of the success of this journey towards profitability.

An objective of the reform journey is to position CS Energy to confidently repeat a minimum underlying EBITDA over the five year forecast period. The targeted underlying EBITDA needs to be sufficient to support the capital program, interest costs and result in no further long-term borrowings.

CS Energy's full year 2014/2015 underlying EBITDA was originally budgeted at \$105.8 million. CS Energy has been able to increase its expectations for 2014/2015 to an underlying EBITDA result of \$155.9 million (which will exceed the 2013/2014 result by \$138.2 million). This increase is as a result of contracting strategies, greater than assumed coal deliveries at Callide, improved plant reliability and a more disciplined commercial execution. The forecast 2014/2015 underlying EBITDA result has also been buoyed by improved market conditions during the summer trading period.

CS Energy is forecasting an underlying EBITDA result for 2015/2016 of \$144.5 million which is marginally lower than the expected result for 2014/2015. This is due to the major overhaul being undertaken at Kogan Creek Power Station from April 2016.

An important longer term measure on CS Energy's scorecard is Return on Capital Employed (**ROCE**) which is a key measure of shareholder value. CS Energy will continue to focus only on value adding investments, be they operational or capital projects. CS Energy's objectives remain at a minimum to be able to service its interest and capital investment costs and then deliver returns to shareholders through dividends and tax equivalent payments.

### Optimal costs / value based decisions

Consistent with improving profitability, a strong focus on cost and value based decisions, particularly in the area of asset management, continues to be the cornerstone in the reform journey.

An active program to strengthen accountability and improve cost discipline across the organisation has now been in place for several years. Other key ingredients of the reform journey include better

alignment of expenditure with organisational objectives, implementing processes to optimise cost/benefit evaluations, strategic procurement, improved work management practices and the variabilisation of costs where possible.

Management's focus on cost control is being executed in the context of ensuring that all decisions are value based, i.e. all expenditure generates a positive return to the organisation and our shareholders.

#### Kogan Creek Mine Strategy

The Kogan Creek Power Station currently sources its coal from the Kogan Creek Mine under a mining contract with Golding Contractors Pty Ltd (**Golding**) which will expire in November 2017.

CS Energy will assess the options available for the mining of coal from Kogan Creek Mine upon expiry of the Golding contract. This will include the development and execution of an agreed strategy from first principles and an examination of structuring options (owning versus contracting), life of mine plan options, environmental considerations and anticipated future pricing. CS Energy will seek to retain maximum flexibility to allow for export, future generation and other coal sales.

Execution of a new mining contract needs to allow the continued delivery of low cost coal to the power station within an acceptable risk framework.

#### **4. Create opportunities for tomorrow**

**Objective:** Take advantage of opportunities in a changing market.

#### Positioning CS Energy for Growth

The long term outlook for large scale merchant generation is weak due to changing market conditions and emerging trends, such as distributed generation. In order to anticipate and respond to disruptive changes in the market, CS Energy will consider options that provide for a broadening of its portfolio. These options include:

- Ownership or access to a range of diverse and competitive fuel sources at the right location to support low cost generation;
- Growing existing retail and channel partner activities to alternate segments and markets; and
- Partnerships in the provision of innovative energy products and solutions to customers to enable cost control through monitoring usage, time of use consumption and providing access to enabling technology e.g. battery storage.



## CS Energy scorecard

CS Energy's scorecard reflects the challenges and opportunities facing the business, and provides a focus on the corporate objectives and key measures necessary to return the business to profitability over time. CS Energy's performance measures assume continued impact from Anglo's operational performance under its CSAs, reduced plant availability from the Kogan Creek Power Station due to the major overhaul in April 2016 and continued cost control and value based decision-making.

CATEGORY	MEASURE	2015/2016
Safety	TCRFR	<3
Environment	Significant Environmental Incidents	0
Plant performance	Availability	80.2%
Profitability	Underlying EBITDA	\$144.5m
Cash flow	Free Cash Flow	(\$27.1m)
Shareholder Value	Return on Capital Employed	3.8%

## Sensitivity Analysis

CS Energy's business performance, and subsequently financial performance, is significantly impacted by various assumptions, including pool price, plant availability and Callide coal deliveries. Analyses of gross margin sensitivities are performed in order to better understand the potential uncertainty associated with the forecast financial results.



## Key performance metrics

In accordance with Section 119(3) of the *Government Owned Corporations Act 1993* (GOC Act), the Board of CS Energy undertakes that the financial and non-financial targets and the financial statements will form the basis for assessment of quarterly outcomes reported to shareholding Ministers.

Definitions for the financial and non-financial SCI targets are provided in Attachment 1 and are consistent with the key performance indicator definitions included in the quarterly reporting templates submitted by CS Energy to shareholding Ministers.

The financial results outlined in this SCI do not take into account the potential impacts of year-end adjustments on the fair value of assets or liabilities.

### Financial key performance indicators

In accordance with the above corporate and operational objectives, the Board of CS Energy undertakes to achieve or better the following performance targets in 2015/2016. The key risks in achieving these performance targets are:

1. Potential revenue variability due to the volatility of pool price assumptions;
2. The continued coal delivery uncertainty to the Callide Power Station from Anglo and resolution of matters which are subject to litigation in relation to the Coal Supply Agreement with Anglo; and
3. Capital investment and plant availability and reliability.

Quarter 2015/16				Financial Targets	2013/14 Actual	2014/15 Budget	2014/15 Est. Act	2015/16 Budget
Sept	Dec	Mar	Jun					
33.3	39.7	64.5	7.1	Underlying EBITDA (\$M)	17.7	105.8	155.9	144.5
(9.4)	13.5	38.7	(20.2)	EBIT (\$M) <sup>1</sup>	(36.6)	37.1	25.6	22.7
(17.2)	(1.3)	16.5	(24.7)	NPAT (\$M) <sup>1</sup>	(59.9)	(18.6)	(26.7)	(26.7)
2.8	5.2	14.5	(7.9)	Return on Capital Employed (%)	(6.3)	1.6	4.9	3.8
(3.7)	(0.3)	3.6	(5.4)	Return on total assets (%)	(1.9)	(1.1)	(1.3)	(1.4)
(27.6)	(2.1)	27.3	(41.8)	Return on equity (%) <sup>2</sup>	(18.9)	(7.0)	(9.7)	(11.0)
77.2	77.6	76.5	78.4	Debt/debt + equity (%) <sup>2</sup>	73.7	77.9	75.8	78.4
(2.5)	3.5	10.2	(5.4)	Interest Cover (EBIT / Net Interest)	(0.6)	0.6	0.4	0.4

1. In this table, EBIT and NPAT have been adjusted to exclude mark to market amounts, with the calculations of other related metrics being amended accordingly.
2. The hedging reserve has been excluded in calculating equity related metrics

## Non-financial performance targets

The Board of CS Energy undertakes to achieve the following non-financial performance targets in 2015/2016.

Sept	Quarter 2015/16 Dec	Mar	Jun	Non-Financial Targets	2013/14 Actual	2014/15 Budget	2014/15 Est. Act	2015/16 Budget
<b>Production</b>								
<b>Energy sent out (GWh sent out)</b>								
741	894	1,129	1,060	Callide B	2,522	2,926	3,645	3,824
494	485	525	427	Callide C	1,468	1,570	2,449	1,931
1,535	1,721	1,704	1,693	Gladstone	6,379	7,853	6,592	6,653
1,326	1,306	1,306	505	Kogan Creek	4,821	5,047	5,080	4,443
0	0	0	0	Wivenhoe <sup>1</sup>	13	4	9	1
4,096	4,406	4,664	3,685	CS Energy sent out	15,203	17,399	17,775	16,852
<b>Availability (%)</b>								
58.9	67.6	85.6	85.6	Callide B <sup>2</sup>	77.0	84.5	76.2	74.4
90.1	85.2	90.1	90.1	Callide C	76.5	92.5	81.7	88.9
89.1	89.1	89.1	34.3	Kogan Creek <sup>3</sup>	81.8	87.2	87.6	75.5
60.6	97.9	97.9	97.9	Wivenhoe <sup>4</sup>	89.5	80.6	81.7	88.4
74.2	83.9	90.1	72.7	CS Energy weighted average	81.1	85.9	81.9	80.2
<b>Reliability (%)</b>								
90.9	88.5	87.9	87.9	Callide B	85.4	93.5	85.1	88.8
92.2	92.6	92.2	92.2	Callide C	93.7	95.1	88.8	92.3
92.2	92.2	92.2	97.0	Kogan Creek	93.5	90.8	92.4	93.4
99.5	99.0	99.0	99.0	Wivenhoe <sup>3</sup>	99.6	99.2	98.8	99.1
93.4	92.6	92.4	93.9	CS Energy weighted average	92.4	94.2	91.0	93.1
<b>Unplanned outage factor (%)</b>								
10.7	13.3	14.4	14.4	Callide B	23.0	7.9	15.9	13.2
9.9	9.4	9.9	9.9	Callide C	8.5	6.2	13.8	9.8
10.9	10.9	10.9	4.2	Kogan Creek	6.7	12.8	12.4	9.2
1.3	2.1	2.1	2.1	Wivenhoe <sup>4</sup>	6.1	1.7	1.5	1.9
8.6	9.5	9.9	7.8	CS Energy weighted average	11.7	7.8	11.4	8.9

Sept	Quarter 2015/16 Dec	Mar	Jun	Non-Financial Targets	2013/14 Actual	2014/15 Budget	2014/15 Est. Act	2015/16 Budget
<b>People</b>								
424.6	424.0	423.0	423.0	Net FTE staff numbers <sup>5,6</sup>	414.0	428.0	399.8	425.8
211.6	211.6	210.6	210.6	Callide <sup>7</sup>	198.0	186.6	194.6	211.6
89.0	89.0	89.0	89.0	Kogan Creek	77.0	75.0	75.0	88.0
12.0	12.0	12.0	12.0	Wivenhoe	12.0	12.0	12.0	12.0
112.0	111.4	111.4	111.4	Corporate Office	127.0	154.4	118.2	114.2
<b>Environment</b>								
0	0	0	0	EP Act Enforcement Action <sup>8</sup>	0	0	0	0
<b>Safety</b>								
2.0	2.0	2.0	2.0	Lost time injury frequency rate (LTIFR) <sup>9</sup>	4.0	2.0	1.6	2.0
3.0	3.0	3.0	3.0	Total case recordable frequency rate (TCRFR) <sup>9</sup>	8.1	3.0	2.4	3.0
45.0	45.0	45.0	45.0	All injury frequency rate (AIFR) <sup>9</sup>	56.5	30.0	29.6	45.0

- Generation is shown on a gross sent out basis as this is more reflective of the performance of the power station.
- The decrease in plant availability from the previous year for Callide B Power Station reflects a higher planned outage rate and a higher assumed unplanned outage rate for Unit B1 in 2015/16 due to a minimal but targeted maintenance program being carried out until a resolution to the Callide fuel supply issues is reached.
- The decrease in plant availability from the previous year for Kogan Creek Power Station reflects a higher planned outage rate due to the major overhaul being undertaken from April 2016.
- The forced outage factor of Wivenhoe Power Station is based upon the equivalent forced outage factor for pumped storage in the NERC standard derived from a sample of 115 similar stations.
- Does not include contractors or externally employed apprentices and trainees.
- The 2014/15 estimated actuals for FTEs exclude vacant positions and allocations to each site are based on location.
- Callide A FTE (17 FTE at 30/06/2014) are excluded from workforce numbers in 2013/14 as they were included in the Joint Venture Oxyfuel project. The remaining Callide A workforce (1 FTE as at 30 June 2015) are included in 2014/2015 estimated actuals.
- The number of enforcement actions taken against the Corporation or its officers under the *Environmental Protection Act 1994*, including penalty infringement notices, environmental protection orders, restraint orders or convictions of offences.
- Figure is a 12 month rolling figure of all CS Energy controlled sites and excludes the monitored sites of Kogan Creek Solar Boost Project and Kogan Creek Mine site.

## Assumptions

CS Energy's undertaking to achieve its performance outcomes is predicated upon the key assumptions in the table below.

Key Assumptions	2013/14 Actual	2014/15 Budget	2014/15 Est. Act	2015/16 Budget
<b>Economic indices</b>				
CPI <sup>1</sup>	n/a	2.6	2.6	1.9
Wages growth (%)	EBA	EBA	EBA	EBA
Long term interest rate (%) <sup>2</sup>	7.9	7.5	7.8	7.5
Dividend payout ratio (%) <sup>3</sup>	80	80	80	80
Carbon cost (\$/tonne) <sup>4</sup>	24.15	0.00	0.00	0.00
<b>National Electricity Market</b>				
Time-weighted average pool price (\$/MWh) <sup>4</sup>	59.09		52.88	

1. Reflects advice provided from Queensland Treasury Corporation using Bloomberg inflation SWAP curves.

2. Reflects advice from Queensland Treasury Corporation (book rate, administration fee and competitive neutrality fee).

3. CS Energy is forecasting to make an adjusted consolidated loss in 2015/2016 therefore it will not be recommending to pay a dividend for the financial year ending 30 June 2016.

4. All dollars are in nominal terms.

## Other relevant assumptions

### Market and revenue

- Demand Forecast - 2014 AEMO National Electricity Forecasting Report, P50 Medium Economic Growth Scenario;
- Renewable Energy Target (**RET**) – a scheme remains in place with a target of 20% of actual energy, or 27TWh; and
- No carbon liability is assumed.

### Other

- The revenue escalation factor and non-labour costs have been escalated at 100% of CPI;
- Average interest rate of 7.5% assumed for drawn debt balances in 2015/2016. No long-term debt drawdown forecast in 2015/2016;
- No further equity injection is received and no dividend payments are made in 2015/2016; and
- Given the forecast loss position, no forecast tax equivalents payments are forecast to be made in 2015/2016.

## Financial statements

### Group profit and loss, balance sheet and cash flow

#### Statement of Income Group (Consolidated)

Sep \$M	Quarter 2015/16 Dec \$M	Mar \$M	Jun \$M		2013/14 Actual \$M	2014/15 Budget \$M	2014/15 Est Act \$M	2015/16 Budget \$M
117.2	127.4	152.9	88.3	Sales of electricity	558.3	456.6	503.4	485.8
33.3	39.7	64.5	7.1	<b>Underlying EBITDA</b>	17.7	105.8	155.9	144.5
1.7	1.7	1.7	1.7	Gladstone onerous contract unwind	34.1	24.5	15.6	6.7
(1.4)	(1.4)	(1.4)	(1.3)	Rehabilitation provision	(5.0)	(4.6)	(7.5)	(5.5)
(0.6)	(0.4)	(0.0)	0.0	Oxyfuel Project	(2.1)	(0.8)	(2.6)	(1.0)
(16.4)	0.0	0.0	0.0	Other accounting adjustments	-	-	(32.5)	(16.4)
16.6	39.6	64.7	7.4	<b>EBITDA (excluding Mark to Market)</b>	44.7	124.9	129.0	128.3
(26.0)	(26.0)	(26.0)	(27.6)	Depreciation and amortisation	(86.8)	(87.8)	(103.3)	(105.6)
(9.4)	13.5	38.7	(20.2)	<b>Earnings Before Interest and Tax (excluding Mark to Market)</b>	(42.1)	37.1	25.6	22.7
(3.4)	(5.4)	(2.7)	(1.2)	Mark to Market	5.4	0.0	(4.7)	(12.7)
(15.2)	(15.3)	(15.1)	(15.1)	Interest expense (net)	(56.3)	(63.6)	(63.8)	(60.8)
8.4	2.2	(6.3)	10.9	Income tax (expense)/benefit	33.1	7.9	12.9	15.2
(19.6)	(5.0)	14.6	(25.5)	<b>Profit/(Loss) After Tax</b>	(59.9)	(18.6)	(30.0)	(35.6)

#### Transactions with Owners as Owners

	2013/14 Actual \$M	2014/15 Budget \$M	2014/15 Est Act \$M	2015/16 Budget \$M
Equity injections	0	0	0	0
Equity withdrawals	0	0	0	0
Dividends provided	0	0	0	0
Current TEPs expense	0	0	0	0

**Statement of Financial Position  
Group (Consolidated)**

Quarter 2015/16					2013/14	2014/15	2014/15	2015/16
Sep	Dec	Mar	Jun		Actual	Budget	Est Act	Budget
\$M	\$M	\$m	\$m		\$M	\$M	\$M	\$M
(16.3)	(18.5)	22.3	(10.9)	<b>Current Assets</b>				
48.9	56.6	61.3	45.5	Cash	42.4	23.8	16.1	(10.9)
35.1	23.0	23.0	23.0	Receivables	104.5	52.8	48.8	45.5
85.8	85.8	78.4	78.5	Derivative financial instruments	37.2	0.0	47.8	23.0
				Inventories	76.8	86.5	84.8	78.5
<b>153.5</b>	<b>146.8</b>	<b>185.1</b>	<b>136.0</b>	<b>Total current assets</b>	<b>260.9</b>	<b>163.1</b>	<b>197.5</b>	<b>136.0</b>
				<b>Non-current assets</b>				
31.4	30.6	22.1	17.6	Derivative financial instruments	53.0	0.0	31.4	17.6
1,322.4	1,316.5	1,302.5	1,313.9	Property, plant & equipment	1,450.9	1,174.8	1,319.6	1,313.9
321.5	323.0	326.7	347.9	Deferred tax asset	319.8	374.0	315.6	347.9
10.8	10.8	10.8	10.8	Retirement benefit assets	10.8	3.7	10.8	10.8
<b>1,686.1</b>	<b>1,681.0</b>	<b>1,662.1</b>	<b>1,690.2</b>	<b>Total non-current assets</b>	<b>1,834.5</b>	<b>1,552.5</b>	<b>1,677.5</b>	<b>1,690.2</b>
<b>1,839.7</b>	<b>1,827.8</b>	<b>1,847.2</b>	<b>1,826.3</b>	<b>Total assets</b>	<b>2,095.4</b>	<b>1,715.5</b>	<b>1,875.0</b>	<b>1,826.3</b>
				<b>Current liabilities</b>				
53.8	55.5	56.4	53.8	Payables	157.4	77.3	57.6	53.8
36.3	30.4	30.4	30.4	Derivative financial instruments	23.5	12.4	39.0	30.4
23.7	23.7	23.7	32.4	Provisions	73.6	16.3	23.7	32.4
<b>113.9</b>	<b>109.6</b>	<b>110.5</b>	<b>116.6</b>	<b>Total current liabilities</b>	<b>254.5</b>	<b>106.1</b>	<b>120.4</b>	<b>116.6</b>
				<b>Non-current liabilities</b>				
0.0	0.0	0.0	0.0	Payables	2.2	61.5	0.0	0.0
30.2	30.2	8.5	0.0	Derivative financial instruments	32.6	7.9	30.2	0.0
812.1	812.1	812.1	812.1	Borrowings	812.1	899.0	812.1	812.1
494.8	494.5	494.2	485.8	Provisions	458.6	179.7	495.0	485.8
178.8	179.2	185.5	193.5	Deferred tax liability	180.4	212.6	178.8	193.5
0.0	0.0	0.0	0.0	Other liabilities	40.1	0.0	0.0	0.0
<b>1,515.8</b>	<b>1,516.0</b>	<b>1,500.3</b>	<b>1,491.4</b>	<b>Total non-current liabilities</b>	<b>1,526.0</b>	<b>1,360.7</b>	<b>1,516.1</b>	<b>1,491.4</b>
<b>1,629.7</b>	<b>1,625.6</b>	<b>1,610.8</b>	<b>1,608.0</b>	<b>Total liabilities</b>	<b>1,780.5</b>	<b>1,466.8</b>	<b>1,636.4</b>	<b>1,608.0</b>
<b>209.9</b>	<b>202.2</b>	<b>236.4</b>	<b>218.3</b>	<b>Net assets</b>	<b>314.9</b>	<b>248.8</b>	<b>238.6</b>	<b>218.3</b>
				<b>Shareholders' equity</b>				
1,114.4	1,114.4	1,114.4	1,114.4	Share capital	1,114.4	1,114.4	1,114.4	1,114.4
(29.6)	(32.2)	(12.7)	(5.2)	Hedging reserve	25.8	(6.2)	(20.5)	(5.2)
(874.9)	(879.9)	(865.3)	(890.9)	Retained earnings	(825.3)	(859.5)	(855.3)	(890.9)
<b>209.9</b>	<b>202.2</b>	<b>236.4</b>	<b>218.3</b>	<b>Total shareholders' equity</b>	<b>314.9</b>	<b>248.8</b>	<b>238.6</b>	<b>218.3</b>

## Statement of Cash Flows Group (Consolidated)

Quarter 2015/16					2013/14	2014/15	2014/15	2015/16
Sep \$M	Dec \$M	Mar \$M	Jun \$M		Actual \$M	Budget \$M	Est. Act \$M	Budget \$M
142.7	144.9	174.3	127.1	<b>Cash flows from operating activities</b>	703.8	586.4	651.3	589.0
(130.8)	(111.7)	(106.2)	(106.1)	Receipts from customers	(682.1)	(509.5)	(564.6)	(454.8)
(15.7)	(15.2)	(15.3)	(15.2)	Payments to suppliers and employees	(58.1)	(60.8)	(62.3)	(61.4)
0.0	0.0	0.0	0.0	Net borrowing costs paid	0.0	0.0	0.0	0.0
				Tax equivalent payments				
<b>(3.8)</b>	<b>18.0</b>	<b>52.8</b>	<b>5.8</b>	<b>Net cash provided by operating activities</b>	<b>(36.4)</b>	<b>16.0</b>	<b>24.4</b>	<b>72.8</b>
				<b>Cash flows from investing activities</b>				
(28.7)	(20.2)	(11.9)	(39.1)	Payments for property, plant & equipment <sup>1</sup>	(74.1)	(100.5)	(50.7)	(99.9)
<b>(28.7)</b>	<b>(20.2)</b>	<b>(11.9)</b>	<b>(39.1)</b>	<b>Net cash provided by/(used in) investing activities</b>	<b>(74.1)</b>	<b>(100.5)</b>	<b>(50.7)</b>	<b>(99.9)</b>
				<b>Cash flows from financing activities</b>				
0.0	0.0	0.0	0.0	Proceeds / (repayments) from borrowings	0.0	86.9	0.0	0.0
0.0	0.0	0.0	0.0	Dividends paid	0.0	0.0	0.0	0.0
<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>Net cash provided by/(used in) financing activities</b>	<b>0.0</b>	<b>86.9</b>	<b>0.0</b>	<b>0.0</b>
(32.4)	(2.2)	40.9	(33.3)	<b>Net increase/(decrease) in cash held</b>	(110.6)	2.4	(26.3)	(27.1)
16.1	(16.3)	(18.5)	22.3	Cash at the beginning of the financial year	153.0	21.4	42.5	16.1
<b>(16.3)</b>	<b>(18.5)</b>	<b>22.3</b>	<b>(10.9)</b>	<b>Cash at the end of the financial year</b>	<b>42.4</b>	<b>23.8</b>	<b>16.2</b>	<b>(10.9)</b>

1. Excludes capitalised interest

## Capital expenditure (including overhauls)

Description	2015/2016 Budget \$M	Status
Callide B Power Station	7.9	In progress
Callide C Power Station	1.2	In progress
Kogan Creek Power Station <sup>1</sup>	16.0	In progress
Wivenhoe Power Station	0.7	In progress
Corporate	2.7	In progress
<b>Total sustaining capital expenditure</b>	<b>28.5</b>	
Overhauls – Callide B Power Station	23.9	Awaiting approval
Overhauls – Callide C Power Station	0.9	In progress
Overhauls – Kogan Creek Power Station	39.0	Awaiting approval
Overhauls – Wivenhoe Power Station	7.6	In progress
<b>Total overhaul expenditure</b>	<b>71.4</b>	
<b>Total capital expenditure</b>	<b>99.9</b>	

1. Includes capital expenditure on Kogan Creek Mine.

## Compliance with GOC legislation and requirements

As part of its performance agreement with shareholding Ministers, the Board provides the following additional undertakings.

### Prudential financial information

The Board will ensure CS Energy takes full responsibility to ensure that prudent financial practices are applied both within the corporation and within its subsidiaries (whether fully controlled or otherwise). Without limiting the obligations imposed on the Board and the Chief Executive by the GOC Act and, where applicable, the *Corporations Act 2001*, this includes a commitment to:

- Abide by the *Code of Practice for Government Owned Corporations' Financial Arrangements* (Code of Practice), as issued by the Queensland Government; and
- Establish, maintain and implement appropriate financial risk management practices and policies and as specified in the Code of Practice.

### Capital structure

The Board will prudently manage the financing of the CS Energy group. As an integral part of the financing of the Company, overall debt will be managed with Queensland Treasury Corporation (QTC) to ensure that CS Energy maintains the appropriate credit rating or other rating as determined by shareholding Ministers.

### Weighted average cost of capital

The Board will ensure that CS Energy reviews its weighted average cost of capital (WACC) on an annual basis. Details of CS Energy's WACC calculations are provided in Attachment 4.

### Dividend policy and payment

While the dividend process is governed by the *Government Owned Corporations Act 1993* and the *Corporations Act 2001* (Cth), the Board will also ensure that CS Energy's dividend policy takes into account the return its shareholders expect on their investments. CS Energy's policy is to recommend and pay a dividend of 80 per cent (or the percentage otherwise agreed with shareholding Ministers) of CS Energy's adjusted consolidated profit subject to the requirements of Section 254T of the *Corporations Act 2001*.

### Corporate Governance guidelines for Government Owned Corporations

CS Energy has adopted all the recommendations in the *Corporate Governance Guidelines for Government Owned Corporations* (Corporate Governance Guidelines).

### Risk management

The CS Energy Board has ultimate responsibility for ensuring the impacts of all potential internal and external risks of the Company are managed. The Company's risk identification and management process is monitored by the Audit and Risk Committee, which is a subcommittee of the Board and which reports to the Board on a regular basis.

The risk management framework is designed to ensure that all potential financial, operational and other risks are regularly identified, assessed, monitored and reported to the Audit and Risk Committee and the CS Energy Board, as appropriate, along with risk mitigation and management plans that ensure risks are managed within the Board's risk appetite. In particular, potential security risks have been considered and identified and a framework to respond to security threats has been



developed. The CS Energy Board will continually monitor security risks and update the Company's response framework as necessary.

Risk management plans have been incorporated in CS Energy's budgetary and strategic planning processes.

### **Compliance with government policies**

The Board will ensure that the CS Energy Group complies with the relevant government policies and guidelines, in particular, the approval, notification, reporting and other requirements of those policies and guidelines.

### **Sponsorship, advertising, corporate entertainment, and donations**

Consistent with the shareholders expectations, the *Corporate Entertainment and Hospitality Guidelines 2008* and CS Energy's Corporate Entertainment and Hospitality Policy, all non-essential and non-committed sponsorships, advertising, entertainment and donations have been removed from the 2015/2016 budget. Details of the budgeted expenditure are provided in Attachment 3.

### **Employment and Industrial Relations Plan**

An Employment and Industrial Relations (E&IR) Plan meeting the requirements of Section 149 of the GOC Act is included as Attachment 2. The remuneration arrangements for the Directors, the Chief Executive and all Senior Executives of CS Energy are detailed in the E&IR Plan.

### **Community Service Obligations (CSOs)**

CS Energy has no Community Service Obligations as defined by section 112 of the GOC Act.

## Attachment 1 – Definitions

### List of financial and non-financial target definitions

Availability factor (%)	$\frac{[\text{Installed plant capacity (MW)} \times 8760 - \text{MWh losses due to outages}] \times 100\%}{\text{Installed plant capacity (MW)} \times 8760}$
Capacity factor (%)	$\frac{\text{Total annual energy sent out (MWh)} \times 100\%}{\text{Installed plant capacity (MW)} \times 8760}$
Debt/debt + equity	<u>Debt</u> Debt plus equity (excluding hedge reserve)
Equivalent availability (%)	$\frac{[\text{Installed plant capacity (MW)} \times 8760 - \text{MWh losses due to outages}] \times 100\%}{\text{Installed plant capacity (MW)} \times 8760 \text{ hours}}$
Free cash flow	<u>Operating cash flows plus investing cash flows excluding Strategic Capital projects</u>
Interest cover (times)	$\frac{\text{Earnings before interest ,tax (excluding MTM)}}{\text{Interest expense}}$
Labour costs	Total labour costs (base salary plus superannuation and payroll tax). Excludes overtime, bonus payments and other employee on costs. Excludes contractors and externally employed apprentices and trainees.
Lost time injury duration rate (LTIDR)	<u>Lost injury time</u> Number of Injuries
Lost time injury frequency rate (LTIFR)	<u>Number of lost time injuries</u> CS Energy employee and contractor hours (million)
Megawatt hours sent out (MWhso)	Megawatt hour sent out includes generation sent out for Callide B, Callide C, Kogan Creek, and Gladstone TCE generation (excludes Boyne Smelter Load)
NPAT	Net Profit After Tax
Planned outage factor (%)	$\frac{\text{MWh out of service due to planned outage} \times 100\%}{\text{Installed plant capacity (MW)} \times 8760 \text{ hours}}$
Reliability (%)	$\frac{[\text{Installed plant capacity (MW)} \times 8760 - \text{MWh losses due to forced outages only}] \times 100\%}{\text{Installed plant capacity (MW)} \times 8760}$
Return on equity (%)	$\frac{\text{Net Profit After Tax (excluding mark to market movements)}}{\text{Total average equity (excluding hedge reserve)}}$
Return on assets (%)	$\frac{\text{Net Profit After Tax (excluding mark to market movements)}}{\text{Total average assets}}$
Return on Capital Employed (%)	<u>Underlying EBIT</u> Total debt plus equity (excluding hedge reserve)
Site cash cost (\$/MWhso)	Site cash costs include site operating cash costs, including operations and maintenance costs, water and chemicals and support services. These costs do not include fixed interest payments.
Site total cost (\$/MWhso)	Site total costs include site cash costs (above), fixed non-cash costs such as amortisation, depreciation, site rehabilitation and Gladstone onerous contract amortisation. These costs do not include fixed interest payments.
System capacity factor (%)	$\frac{\text{Total annual energy (MWh)} \times 100\%}{\text{Installed plant capacity (MW)} \times 8760 \text{ hours}}$
Total case recordable frequency rate (TCRFR)	$\frac{\text{Lost time injuries} + \text{Medical treatment injuries} \times 1,000,000}{\text{hours worked (over a 12 month period)}}$

TCRFR is a rolling 12 months average which measures the number of lost time injuries (LTI) and medical treatment injuries (MTI) per million hours worked.

Underlying EBITDA      Gross Margin, Site, Corporate & Gladstone cash costs, other revenue and non-routine revenue and expenses. Excludes Gladstone onerous contract unwind, Oxyfuel R&D project costs, rehabilitation provision, depreciation, amortisation and mark to market movements.

Underlying EBIT      Underlying EBITDA less depreciation and amortisation

## Attachment 2 – Employment and Industrial Relations Plan

CS Energy's Employment and Industrial Relations Plan ("Plan") has been developed to support the company in driving business improvement safely, efficiently and responsibly, to maximise value today and create opportunities for the future.

Fundamental to the Plan is CS Energy's commitment to building a high-performance, constructive workplace culture. It is achieving this change by consistently communicating its leadership expectations, grounded in behaviours which are reflective of this culture.

The Plan provides for an aligned approach to employee relations across the company based on a constructive, high performance culture that leverages value from local bargaining at each key site.

This approach balances shareholder objectives, employee input and the organisation's commitments to:

- safety, driven by care and concern for people and the environment;
- accepting accountability and acting with integrity; and
- creating and sustaining value for our owners through operational excellence, being productive, and exercising sound commercial judgement.

### CS Energy Employees and Enterprise Agreements

Consistent with the *Government Owned Corporations - Wages and Industrial Relations Policy 2015*, ("IR Policy") almost all CS Energy employees are covered by collective agreements (executive staff are excluded). The *Fair Work Act 2009 (Cth)* applies to CS Energy employees and the agreement-making process takes place in accordance with this legislation, including good faith bargaining requirements.

The company is presently party to four enterprise agreements, each negotiated at site level with relevant union representatives and then approved by employees. A total of 415 employees are covered by enterprise agreements. The unions party to our agreements are the Construction, Forestry, Mining and Energy Union (CFMEU), Electrical Trades Union Branch (ETU) of the Communications, Electrical and Plumbing Union, Australian Services Union (ASU), the Australian Manufacturing Workers Union (AMWU) and Professionals Australia, (formerly the Association of Professional Engineers, Scientists and Managers Australia). Further details of the agreements are set out in the following table:

	Scope	Reference	Expiry
CS Energy Ltd Corporate Office Enterprise Agreement 2012	Employees of CS Energy Ltd at Corporate Office	AG2012/8251	30 June 2015
CS Energy Ltd Callide Power Station Certified Agreement 2011	Employees of CS Energy Ltd at Callide Power Station	AG2012/1484	12 June 2014
CS Energy Ltd Wivenhoe Power Station Enterprise Agreement 2012	Employees of CS Energy at Wivenhoe Power Station	AG2012/8642	29 July 2015
Kogan Creek Power Station Enterprise Agreement 2014	Employees employed in the classifications within the Agreement	AG2014/1760	31 March 2017

Each enterprise agreement is tailored to the different technologies, characteristics of the workforce and workplace of each site.

In 2014 CS Energy completed negotiations for a new enterprise agreement with unions and employees at its Kogan Creek Power Station. This agreement was subsequently approved by the Fair Work Commission and commenced operation in August 2014. A detailed implementation plan

was developed and communicated to employees via intranet.

In the next 12 months CS Energy will complete negotiations with relevant unions for replacement enterprise agreements for the Callide Power Station, the Wivenhoe Power Station Enterprise and CS Energy's Corporate office in Brisbane. Negotiations at Callide Power Station formally commenced in 2014 and the parties expect to reach an 'in principle' agreement in 2014/2015.

Each agreement is to be negotiated in accordance with the IR Policy or any other policies as advised by shareholding Ministers.

CS Energy's negotiation strategy and planning for new agreements is consistent with the Productivity Initiative Principles set out in the IR Policy and associated communications, with any agreed pay increases to be limited to a maximum of 3% per annum, a proportion of which is to be funded by quantifiable productivity initiatives agreed to by unions and supported by employees. If organisational restructuring is agreed as a means to improve productivity, then the company intends to manage any possible redundancies in accordance with the relevant agreement provisions and IR policies. CS Energy's proposed productivity initiatives will continue to align with its business direction, and costed and forecast to ensure that the committed savings will be achieved for each agreement.

Comprehensive communications plans will be implemented to ensure the provision of timely and factual information is disseminated to employees regarding productivity proposals and negotiation outcomes. Preparations for these negotiations also typically include risk assessments, mitigation planning and contingency planning in preparation for possible industrial action. Detailed communication plans to maintain shareholder awareness of the progress of negotiations are also established.

## Remuneration arrangements

### Chief and Senior Executives

Remuneration details for the Chief and Senior Executives for 2014/2015 are provided in the following table. These arrangements are reviewed annually in accordance with company procedure and Government policy. Performance payments are capped at 15 per cent of Total Fixed Remuneration for the Chief and Senior Executives.

The base salaries shown below are those applicable as at 31 January 2015.

CEO / Senior Executives	Base salary <sup>1</sup>	Employer Superannuation contributions <sup>2</sup>	Motor Vehicle <sup>3</sup>	Car park <sup>4</sup>	Total fixed remuneration <sup>5</sup>	Other non-personal benefits	Performance payment made
Chief Executive Officer Martin Moore	\$734,592	\$18,783	Nil	Nil	\$753,375	Nil	Nil
Executive General Manager Energy Markets (Acting) David Warman	\$320,366	\$30,435	Nil	Nil	\$350,801	Nil	Nil (for acting EGM Energy Markets)
Executive General Manager Operations Mark Moran	\$423,144	\$33,000	Nil	Nil	\$456,144	Nil	\$16,448
CFO (Acting) Scott Turner (nominal role EGM Energy Markets)	\$390,944	\$25,000	Nil	Nil	\$415,944	Nil	\$14,715 (for EGM Energy Markets)
Executive General Manager Strategy and Commercial Owen Sela	\$382,550	\$25,000	Nil	Nil	\$407,550	Nil	\$6,582

CEO / Senior Executives	Base salary <sup>1</sup>	Employer Superannuation contributions <sup>2</sup>	Motor Vehicle <sup>3</sup>	Car park <sup>4</sup>	Total fixed remuneration <sup>5</sup>	Other non-personal benefits	Performance payment made
Executive General Counsel and Company Secretary Andrew Varvari	\$356,990	\$25,000	Nil	Nil	\$381,990	Nil	\$14,280
Executive General Manager People and Safety Tom Wiltshire	\$347,032	\$32,968			\$380,000		

1. Includes salary sacrifice items.

2. Employer Contributions to superannuation (other than by salary sacrifice).

3. A motor vehicle is provided in accordance with the Queensland Government's SES Policy.

4. A car park is provided and a nominal allowance is paid and then deducted as a salary sacrifice amount.

5. Total Fixed Remuneration sum of base salary and employer superannuation contributions.

Senior Executives are required to develop Key Performance Indicators (“KPIs”) that are directly linked to the key performance objectives of the business. The Senior Executives are accountable for the delivery of one or more of the key performance objectives, which form the basis of the KPIs contained in the Statement of Corporate Intent. All employees, including Senior Executives, participate in a performance review process, which includes a rating scale to determine the individual component of the KPIs for the bonus process. The Company's bonus process comprises corporate and individual KPIs, both of which are linked to the key performance objectives. The company has set a specific profit target that must be met before any payment of KPI-based bonus amounts is possible.

## Employment conditions

General conditions of employment are provided in the various enterprise agreements made under the *Fair Work Act 2009 (Cth)* and CS Energy human resources policies and procedures. Rates of pay, including productivity payments, are included in enterprise agreements and all purpose allowances, where applicable (e.g. power house allowance, disability allowances, etc) are incorporated in all-up rates within those industrial instruments. The *Electrical Power Industry Award 2010* is the Modern Award applying to the power generation industry and enterprise arrangements leave CS Energy employees better-off-overall when compared to this award. Employment conditions are also governed by the *Government Owned Corporations Act 1993* and Regulations, the *Electricity Act 1994* and *Regulation of 2006* and the *Fair Work Act 2009*.

As required by the *Fair Work Act 2009 (Cth)* each enterprise agreement contains a flexibility provision, allowing the company and employees to put in place individual arrangements provided that the employee is not disadvantaged compared to the collective agreement. These flexibility arrangements include “Alternative Individual Agreements” (“AIAs”) and are offered where roles require special skills or employment flexibility, to ensure that CS Energy can attract and retain quality employees to compete effectively in the electricity market. An employee is free to move from AIA arrangements back to enterprise agreement conditions simply by giving notice of the change to CS Energy.

As at 31 January 2015 57.6% (239 employees) of employees are engaged directly on enterprise agreement terms and conditions and 42.4% (176 employees) work under an AIA as provided by their site's enterprise agreement.

## Type of employment and workforce planning

### Workforce planning

The focus of CS Energy's Strategic Workforce Planning is the delivery of appropriate organisational capability aimed at ensuring that the right people are in the right roles at the right time. CS Energy is presently implementing the renowned “70:20:10” approach to adult learning, which emphasises

the value of experiential learning in tandem with coaching/mentoring and course-work. This approach is particularly suited to ensuring that the company retains the knowledge of older workers who may be contemplating retirement by encouraging knowledge sharing and mentoring. By developing a broadly-skilled, experienced and knowledgeable workforce, CS Energy will minimise the effect of employee attrition and ensure it has the appropriate business capabilities to deliver positive shareholder outcomes.

## Types of employment

Employment category	30 June 2015 Est. Act.	30 June 2016	30 June 2017	30 June 2018	30 June 2019
Permanent full time <sup>1</sup>	409	407	402	400	399
Permanent part time (FTE)	6.8	7.4	7.2	6.7	6.2
Other contract	0	0	0	0	0
Senior Executive contract	6	7	7	7	7
Apprentices (in house)	4	2	2	2	2
Trainees (in house)	0	0	0	0	0
Casual employees (FTE)	2.2	2.4	2.6	2.6	2.6
<b>Total directly employed workforce<sup>2</sup></b>	<b>428</b>	<b>425.8</b>	<b>420.8</b>	<b>418.3</b>	<b>416.8</b>
Apprentices (Group)	16	16	16	16	16
Trainees (Group)	3	3	3	3	3
Contractor employees (trade/technical)	-	-	-	-	-
Contractor employees (professional / administrative / clerical)	11.5	11.5	11.5	11.5	11.5
Labour hire (trade/technical - FTE)	See note below	n/a	n/a	n/a	n/a
Labour hire (professional / administrative / clerical)	See note below	n/a	n/a	n/a	n/a
s457 Temporary Visa <sup>3</sup>	3	3	3	3	3
<b>Total workforce</b>	<b>458.5</b>	<b>456.3</b>	<b>451.3</b>	<b>448.8</b>	<b>447.3</b>

1. Includes temporary employees and S457 visas.

2. Total directly employed workforce figures correspond to the Workforce Plan.

3. Included in Permanent Full Time figure.

CS Energy has used contractors and labour hire from time to time for a variety of reasons, including the need to address short term, ad hoc labour requirements or to deliver a short-term, high intensity project. The company is presently reviewing its use of contractors in order to ensure its alignment with paragraph 7.3 of the IR Policy.

## Workplace health and safety

### Performance

Health and Safety performance targets are listed below.

Performance targets	2013/14 Target	2013/2014 Actual	2014/15 Target	2014/2015 Est. Act	2015/16 Target
Lost time injury frequency rate (LTIFR)	<5	4.0	<2	1.6	<2
Total case recordable frequency rate (TCRFR)	<8	8.1	<3	2.4	<3

Being safe is a core value at CS Energy. Tracking LTIFR and TCRFR lagging indicator targets is a measure of success in this area of the business. These lagging indicators, as well as other leading indicators, will continue to be used to understand our cultural application towards health and safety at any one time. They also assist in identifying the effectiveness of the safety management system and associated processes that underpin culture and leadership initiatives leading to reduced exposure to hazards over the next twelve months.



## Equal Employment Opportunity (EEO) and anti-discrimination

CS Energy is committed to the creation and maintenance of an environment where all employees are able to contribute and operate to their full capacity and be recognised accordingly. CS Energy aims, through education strategies, to provide a workplace that is free from unlawful discrimination, sexual harassment, bullying, victimisation and vilification. All employees have access to the *CS Energy Procedure for Equal Employment Opportunity (EEO) and Appropriate Workplace Behaviour* and the *Fair Treatment and Grievance Resolution System Procedure*.

The *Recruitment and Selection Guidelines Procedure* provides direction for all CS Energy recruitment and selection activities to be based on using fair, open and transparent processes to select the best person for the job within an efficient and effective process. These documents are available on the intranet or in hard copy from the Human Resources team, and are included in the induction process.

In accordance with Section 31 of the *Public Service Act 2008*, CS Energy reports EEO statistical data to the Public Service Commission on an annual basis. CS Energy submitted a report in July 2014. The next report is due in July 2015.

## Joint Venture projects

CS Energy (through its wholly owned subsidiary, Callide Energy Pty Ltd) remains in joint venture with InterGen Power (Callide) Pty Ltd at Callide C Power Station. Operations and maintenance services for Callide C Power Station are provided by CS Energy under a contract to the joint venture entity. CS Energy employees and some contractors are undertaking work for the joint venture. Relevant CS Energy employees are covered by the CS Energy Ltd Callide Power Station Certified Agreement 2011.

## Management of the relationship between GOCs and unions

CS Energy as a matter of course consults with its employees and their union representatives regarding matters affecting employees. Enterprise agreements set out the parties' consultative obligations, particularly in respect of workplace change. More formal consultative forums include site consultative committees and the Peak Consultative Committee which comprises CS Energy senior management and senior union representatives.

## Redundancy provisions

Consistent with the IR Policy's approach to employment security, CS Energy's collective agreements provide that redundancy could occur as a last resort, and prioritise redeployment, retraining and relocation in preference to retrenchment. Severance payments include three weeks pay for every year of service, to a maximum of 75 weeks, plus an early separation payment of 13 weeks, pro-rata long service leave and a re-training and outplacement support costing \$1,000 - \$2,000 per employee, depending on the site.

## Job security

Three of the four current CS Energy enterprise agreements do not contemplate involuntary redundancies. The *Kogan Creek Power Plant Enterprise Agreement 2014* is the only agreement that recognises involuntary redundancy, in circumstances where all other employment options including redeployment, retraining and transfers have been exhausted.

## Contracting out

CS Energy will comply with Enterprise Agreements, the GOC Wages and IR Policy 2015 and any applicable legislation on the use of contractors.

## Superannuation

In accordance with *Superannuation Guarantee (Administration) Act 1992* CS Energy offers membership of and contributes to a number of approved superannuation funds, as requested by employees. Under CS Energy policy, the Energy Super Fund is the default fund for new defined contribution fund members.

The Energy Super Defined Benefit Fund which closed to new employees in 2002, has an employee contribution rate of five per cent post tax or 5.88 percent pre tax and an employer contribution rate of 4 percent. This rate is reviewed every two years by the Fund Actuary. Presently, 22.7 percent of the CS Energy workforce remains in this plan.

The remainder of the workforce are members of a number of defined contribution funds, with 44.4 percent of the workforce in the Superannuation Guarantee Contribution (SGC) employer fund (currently 9.5 percent contribution) and the remaining 35.9 percent of the workforce are in the contributory defined contribution fund where the employee contribution is five per cent post tax or 5.88 per cent pre tax with CS Energy contributing 10 per cent.

The SCG contribution increased from 9.25 percent to 9.5 percent from 1 July 2014.

## Union Encouragement

CS Energy provides all new employees with a list of union representatives prior to their commencement with the company and makes payroll deductions of union dues available to employees. The company's enterprise agreements include provision for workplace union representatives to be released from normal duties on pay, so that they can provide support to union members during grievance and dispute settling procedures, including attendance at Fair Work Commission proceedings. Employee representatives are provided with paid time off to participate in education activities relevant to their representative roles and may also be granted paid leave to participate in union conferences or management committee meetings where such attendance is a requirement of their office.

## Consultation

Employees, unions and representatives of Queensland Treasury, the Department of Energy and Water Supply (DEWS) and the Office of Fair and Safe Work have been consulted in the preparation of this Employment and Industrial Relations Plan. The consultation process has included provision of draft documents, face to face meetings and written feedback from these stakeholders.

## Attachment 3 – Hospitality

**Table 1: Sponsorship, Advertising, Corporate Entertainment, Donations and Other Activities**  
Details of individual expenditure items<sup>1</sup>

Activity	Description / Benefit	2014/2015 Budget (\$)	2014/2015 Est. Act (\$)	2015/2016 Budget (\$)	Quarter 2015/2016 <sup>2</sup> (\$)			
					Sept	Dec	Mar	Jun
SPONSORSHIP								
Other (total) above \$5,000	Nil	0	0	0	0	0	0	0
Total over \$5,000		0	0	0	0	0	0	0
Other (total) below \$5,000	Small discretionary sponsorships from Brisbane and the Callide and Kogan Creek power stations to raise CS Energy's profile.	0	0	0	0	0	0	0
TOTAL Sponsorships		0	0	0	0	0	0	0
ADVERTISING <sup>3</sup>								
Total over \$5,000		0	0					
Other (total) below \$5,000	Site-based, non-campaign advertising for Chinchilla Community Benefits Trust, grants programs, and advertising tenders.	14,129	13,246	5,000	0	2,500	0	2,500
TOTAL Advertising		14,129	13,246	5,000	0	2,500	0	2,500
CORPORATE ENTERTAINMENT								
Total over \$5,000								
Other (total) below \$5,000	Business development activities to support electricity contracting activities.	2,500	2,500	2,500	500	1,000	500	500
TOTAL Corporate Entertainment		2,500	2,500	2,500	500	1,000	500	500
DONATIONS								
Chinchilla Community Benefits Trust	Trust established by original proponents of Kogan Creek Power Station and taken over by CS Energy on purchase. Contributes to community infrastructure projects.	25,000	25,000	25,000	0	25,000	0	0
Total over \$5,000		25,000	25,000	25,000	0	25,000	0	0
Other (total) below \$5,000	Discretionary donations to community events and activities at Callide.	0	0	0	0	0	0	0
TOTAL Donations		25,000	25,000	25,000	0	25,000	0	0

Activity	Description / Benefit	2014/2015 Budget (\$)	2014/2015 Est. Act (\$)	2015/2016 Budget (\$)	Quarter 2015/2016 <sup>2</sup> (\$)			
					Sept	Dec	Mar	Jun
OTHER								
Total over \$5,000		0						
Other (total) below \$5,000	None	0	0	0	0	0	0	0
TOTAL Other		0						
TOTAL <sup>1</sup>		41,629	40,746	32,500	500	28,500	500	3,000

1. All expenditure is GST exclusive.
2. These figures are not cumulative.
3. Does not include recruitment advertising.

**Table 2: Corporate Entertainment  
Details of Total Budgeted Expenditure under \$5,000<sup>1</sup>**

Activity	2014/2015 Budget (\$)	2014/2015 Est. Act (\$)	2015/2016 Budget (\$)	Quarter 2015/2016 <sup>2</sup> (\$)			
				Sept	Dec	Mar	Jun
Corporate entertainment total							
• Staff functions							
• New business	2,500	2,500	2,500	500	1,000	500	500
• Stakeholder and community engagement							
TOTAL UNDER \$5,000 <sup>1</sup>	2,500	2,500	2,500	500	1,000	500	500

1. All expenditure is GST exclusive.
2. These figures are not cumulative.

## Attachment 4 – Weighted Average Cost of Capital calculation

The 2015/2016 Weighted Average Cost of Capital (WACC) methodology and calculation is based on a review undertaken by Queensland Treasury Corporation in March 2015. The methodology is consistent with Queensland Treasury Guidelines.

$$WACC = [K_d \times (1-T_c) \times D/V] + \{K_e \times [1-T_c / 1-T_c \times (1-\gamma)] \times E/V\}$$

**Where:**

$k_e$	cost of equity = $R_f + B_e (E[R_m] - R_f)$
$\frac{E}{V}$	market value of equity divided by total value
$k_d$	cost of debt = $R_f + DM$
$\gamma$	is gamma (the value of imputation credits)
$(1-t_c)$	1 minus effective tax rate
$\frac{D}{V}$	market value of debt divided by total value
$R_f$	the risk free rate of return – based on government bond rates of an appropriate tenure
$DM$	the debt margin
$E[R_m]$	the expected return on the market portfolio; and
$B_e$	the relative systematic risk of the individual Company's equity.