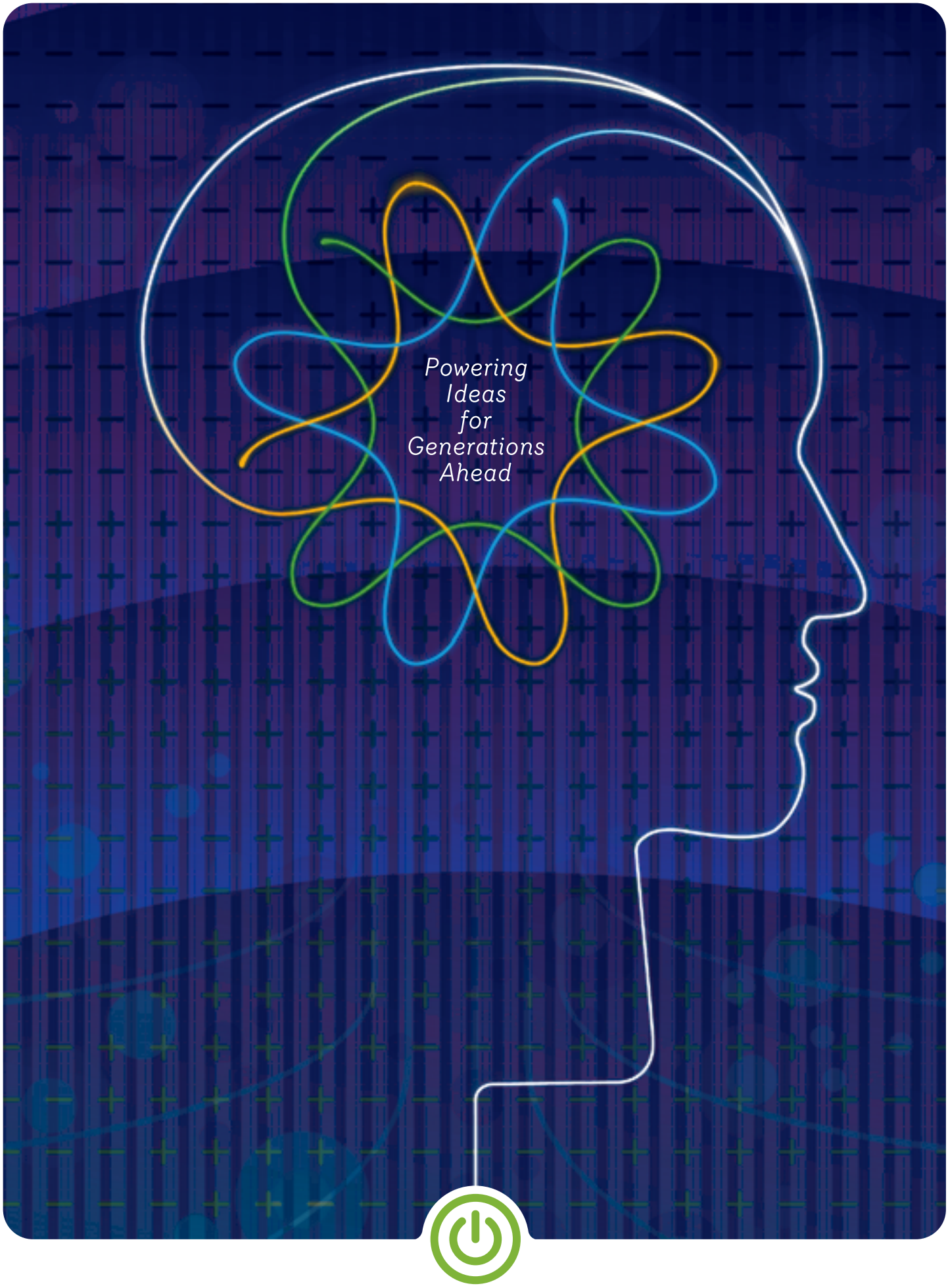

cs energy

ANNUAL REPORT 2008/2009

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Scope and purpose of the Annual Report

The Annual Report is written to provide information to CS Energy Limited's (CS Energy's) stakeholders including Ministerial shareholders, customers, community, partners, unions, industry, employees, suppliers, special interest groups and the media. This is the twelfth annual report for CS Energy.

The Annual Report is also available online at www.csenergy.com.au, or by contacting (07) 3222 9333.

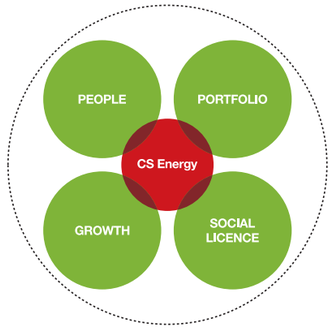
Where you see this symbol further information is available on CS Energy's website www.csenergy.com.au.

Feedback on this report is welcome and can be sent via email to energyinfo@csenergy.com.au or by mail to the Chief Executive, CS Energy Ltd, GPO Box 769, Queensland 4001.

What drives CS Energy?

CS Energy is a Queensland Government-owned electricity generator, providing about 30 per cent of the state's electricity using a mix of coal, natural gas, coal seam methane and landfill gas.

CS Energy is part of an industry-wide movement to tackle the major issues facing the energy sector today. As a major provider of electricity in Australia, CS Energy looks to do business smarter, cleaner and more efficiently and to visibly report the progress towards the Company's goals through this Annual Report in four key areas – People, Portfolio, Growth and Social Licence.



Highlights 2008/2009

Generated 17,974 gigawatt hours of electricity and achieved electricity sales of $781 million page 11

Recorded a $93.8 million net profit after tax, up $34 million from previous year page 10

Continued mid-life refit of Callide B, and spent $153.6 million on overhauls across Swanbank, Callide and Mica Creek power stations page 28

Commenced site works for Callide Oxyfuel Project, a demonstration of carbon capture and storage on a commercial scale page 39

Implemented drug, alcohol and fatigue management at all sites page 24

Undertook the Company's first Corporate Social Responsibility Audit to benchmark its business practices and how it balances its social, environmental and economic goals page 53

Launched new Workplace Giving program, *Generosity*, and raised over $120,000 for charity page 55

Lost time injury frequency rate			Total energy sent out (GWh)			Profit after tax ($000)		
3.36	3.30	5	13,996	15,426	16,675	43,300	59,007	93.816
06/07	07/08	08/09	06/07	07/08	08/09	06/07	07/08	08/09
Employee numbers			Reliability (%)			Return on productive assets (%)		
559	588	673	95.5	91.8	90.8	3.7	5.3	8.1
06/07	07/08	08/09	06/07	07/08	08/09	06/07	07/08	08/09
Staff turnover (%)			Greenhouse intensity (tCO_2e/GWhso)			Qld average pool price ($/MWh)		
9.7	12.8	7	829	834.4	845.5	52.14	52.34	34.02
06/07	07/08	08/09	06/07	07/08	08/09	06/07	07/08	08/09
Apprentices, trainees and graduates			Significant environmental incidents[1]			Gearing (%) [2]		
47	52	63	0	0	1	51.82	47.1	44.7
06/07	07/08	08/09	06/07	07/08	08/09	06/07	07/08	08/09

[1] For more information see page 50 and for definition see Glossary, page 120. [2] For more information see note 12 of the Financial Statements on page 89.

CS Energy's profile

CS Energy is a Queensland Government-owned electricity generator with more than 670 employees, four power stations and a generating capacity of 3,210 megawatts.

CS Energy supplies approximately 30 per cent of Queensland's electricity requirement, using a fuel mix of black coal, natural gas, coal seam methane and landfill gas. CS Energy operates a diverse portfolio of operating plant, able to supply base, intermediate and peak load, both on and off the national electricity grid.

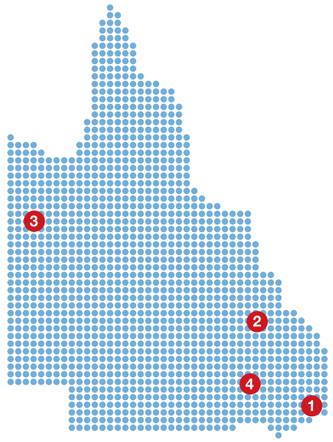
The Company's operating sites are:

- Swanbank Power Station, near Ipswich in south east Queensland;
- Callide Power Station, near Biloela in central Queensland;
- Mica Creek Power Station, near Mount Isa in north west Queensland; and
- Kogan Creek Power Station, near Chinchilla in south west Queensland.

CS Energy's stakeholders

CS Energy has many stakeholders, which include all individuals and groups who are affected by, or who have an interest in, the Company's operations. Through the Company's shareholding Ministers CS Energy is ultimately responsible to the people of Queensland, as well as:

- Current and future employees;
- Contractors;
- Customers;
- The local communities in which it operates;
- Unions;
- Suppliers;
- Special interest groups;
- Relevant authorities; and
- Current and prospective business partners.



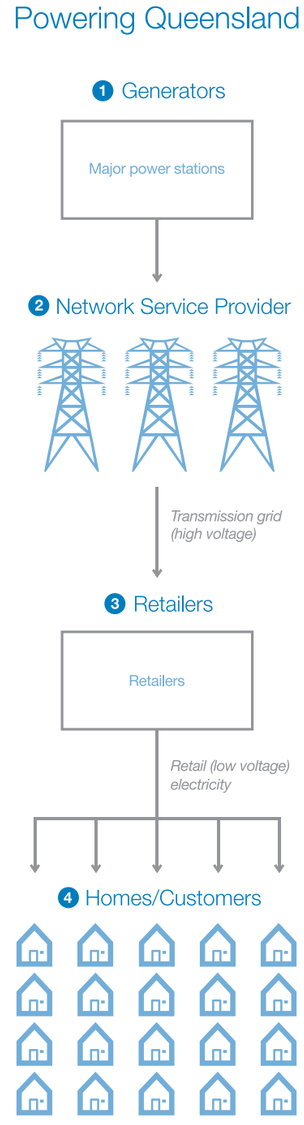
Location Key

1. Swanbank Power Station, Ipswich
2. Callide Power Station, Biloela
3. Mica Creek Power Station, Mount Isa
4. Kogan Creek Power Station, Chinchilla

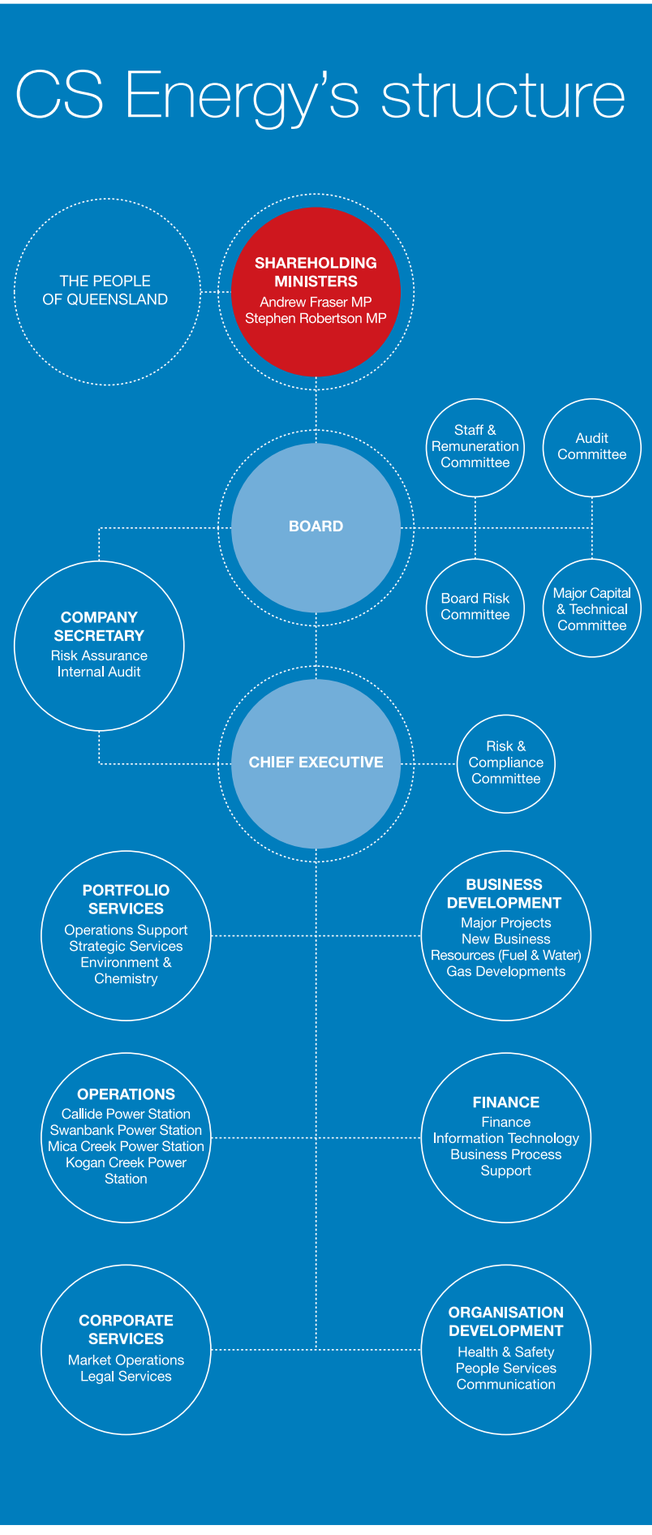
PLANT		FUEL	TOTAL CAPACITY (MW)	CS ENERGY OWNED CAPACITY (MW)
IN OPERATION				
Swanbank	Swanbank B	Coal-fired	480	480
	Swanbank E	Gas-fired[1]	385	385
Callide	Callide A[2]	Coal-fired	120	120
	Callide B	Coal-fired	700	700
	Callide C[3]	Coal-fired	900	450
Mica Creek	Mica Creek A (Units 1, 2, 3, 4)	Gas-fired	132	132
	Mica Creek A (Units 5, 6, 7)	Gas-fired[1]	103	103
	Mica Creek B	Gas-fired	35	35
	Mica Creek C	Gas-fired[1]	55	55
Kogan Creek	Kogan Creek A	Coal-fired	750	750
TOTAL CAPACITY			3,660	3,210

1 Combined cycle.
2 Callide A is in storage for future use in the Callide Oxyfuel Project.
3 Callide C is owned in a 50 per cent joint venture with InterGen.

Powering Queensland



CS Energy's structure



Performance against measures 2008/2009

Last year, the CS Energy Annual Report 2007/2008 introduced a new corporate scorecard, with four key measurement areas – People, Portfolio, Growth and Social Licence.

Against these measures, specific goals and strategies provide a balance between enhancing current business operations and profitability, and sustainable growth initiatives needed to take the Company into the future.

KEY OBJECTIVE	KEY TARGETS 2008/2009	TARGET MET?	KEY INITIATIVES 2008/2009	INITIATIVE ACHIEVED?	FURTHER INFORMATION
PEOPLE					
Continually improve safety performance	Zero lost time injuries	✗ *Nine LTIs recorded*	Implement Generations Ahead safety program	✓	Launched 'Stay on top of your game' strategic communication safety program to target cultural change. See page 22.
			Implement Alcohol and Other Drugs initiative	✓	Alcohol and Other Drugs management implemented at all sites. See page 23.
			Manage fatigue & stress	✓	Introduced fatigue management procedure and training at sites. See page 23.
Enable a high performance culture	*Generating Insight*[1] initiatives approved and implemented	✓ *Sessions held with 83 leaders and 79 teams*	Review leadership program	✓	*Generating Insight*[1] feedback sessions finalised. New *Teamworks*[2] program developed and implemented. See page 18–19.
Develop the Company's people	Implement new learning and development program	✓ *Centralised framework and team introduced*	Embed learning and development strategy	✓	Centralised team of eight specialists recruited and strategy implemented. See page 20.
			Implement attraction and retention strategy	✓	Introduced specific policies to target remote site retention. See page 18.
PORTFOLIO					
Maintain market-driven plant performance	Plant availability and financial targets met	✗ *Availability target not met due to unplanned plant outages* ✓ *Net profit of $93m – budget $85.6m*	Implement *Value Plus*[3] initiative	✓	*Value Plus*[3] project completed. See page 28.
			Develop consistent engineering and operations systems across portfolio	✓	Callide B dual outage successfully completed. See page 32.
			Whole-of-life asset planning and optimisation	✓	Asset management project established and commenced as part of *Value Plus*[3]. See page 28.
			Progress Callide B mid-life refit project	✓	Project more than 70 per cent complete. See page 32.
Continually improve environmental performance	Zero reportable environmental incidents	✗ *8 incidents recorded*	Maintain ISO14001 at all sites.	✓	Four existing environmental management systems recertified to ISO14001. See page 50.
	Implement carbon strategy	✓	Develop carbon trading capability	→	Project plan developed to prepare for the auction, trading and acquittal of Carbon Permits under the Carbon Pollution Reduction Scheme (CPRS). See page 47 .
GROWTH					
Match funding to growth strategy	Maintain acceptable gearing level	✓	Implement partnering strategy	→	Continuing to explore partnering options. See page 7.
Invest in low-emission plant and reduce carbon intensity	Approval of Swanbank F and Mica Creek projects	✗ *Projects delayed*	Source gas suppliers for new projects	✗	Metgasco reserves proven but extraction uneconomic. See page 42. Mica Creek gas supply beyond 2013 limited by LNG projects. See page 9.
	CS Energy is prepared for the implementation of the CPRS	✓ *CPRS delayed*	Participate in carbon market development	→	CS Energy participating in market and regulation development through direct representation and indirect representation through industry bodies. See page 47.
Contribute to low-emission technology development	Refurbish Callide A4 boiler in preparation for Oxyfuel retrofit	✓	Lead Oxyfuel demonstration project at Callide A	✓	Launched Oxyfuel project in November 2008. Refurbishment project finalised April 2009. See page 39.
SOCIAL LICENCE					
Be a responsible corporate citizen	Establish baseline corporate social responsibility measure	✓	Conduct stakeholder benchmarking study	✓	Corporate Social Responsibility benchmarking study conducted across all sites in January 2009. See page 48.
			Initiate new corporate branding strategy	→	New website and publication design in development. See page 48.
Secure employee support for the Company's strategy and values	Engage in staff strategy development process	✓	Implement updated employee engagement strategy	✓	*Generating Insight*[1] employee feedback and improvement program enhanced following feedback during 2008/2009. See page 18.
			Review internal communication on business strategy and planning	✓	New 2009–2014 Strategic Plan published and distributed to all staff. See page 18.
Ensure the Company's business meets stakeholder expectations	Ensure 100% compliance with government policies and guidelines	✓	Communicate clearly and honestly with its stakeholders	✓	Schedules met for Quarterly reports, 2007/2008 Annual Report, Statement of Corporate Intent. See pages 60 and 63.

1 *Generating Insight* is CS Energy's employee engagement and continual improvement process.
2 *Teamworks* is CS Energy's leadership development and teamwork program.
3 *Value Plus* is an operational review undertaken in 2008/2009 to examine asset management and business processes across the portfolio.

✓ TARGET ACHIEVED → CONTINUING TO PROGRESS TOWARDS TARGET ✗ TARGET NOT MET

Chairman's review

CS Energy recorded a reasonable financial result for 2008/2009, with a profit of $93 million, which is 60% above the 2007/2008 result.

However, the underlying operational performance of the Company was below expectation for the year. The Company's core business areas of safety and plant reliability need significant improvement and there are also major external challenges to be addressed in the near future.

Looking forward, the Company will focus on improving its current operations and continue the development of new technologies that will reduce the environmental impact of its business.

The Company's safety performance has been of particular concern. A comprehensive review of the Company's safety systems during the year revealed that CS Energy's safety processes are robust and mature, yet the Company recorded its highest ever lost time injury result during 2008/2009, particularly in the performance of the Company's key contractors. In response, CS Energy will begin targeting specific lead indicators to embed the required safety behaviours throughout its operations, including its contractors.

Reliability across the portfolio was also well below budget for the 2008/2009 financial year, which resulted in lower than budget revenue and increased costs, as the Company worked to rectify plant issues.

The Board and management are already implementing a series of initiatives to deliver improvements in these critical areas of the business, being improved safety behaviour, reduced planned and unplanned outage factors and reduced unit production costs at all sites.

The Directors and management of CS Energy also undertook a review of the Company's strategic plan during 2008/2009, and developed a new blueprint for the next five years and beyond, detailed in the 2009-2014 Strategic Plan.

This document establishes the foundation for CS Energy to become a different Company in the future and sets out actions that will enable the Company to:

By 2020:

- Have installed generation capacity in excess of 4,000 megawatts (MW);
- Have 500 MW of renewable generation in the portfolio; and
- Be carbon neutral in its internal energy consumption.

By 2030:

- Achieve a generation portfolio greenhouse emission intensity of less than 400 kilograms of carbon dioxide for each megawatt hour sent out.

"The Company will focus on improving its current operations and continuing the development of new technologies"

The Company is also facing a challenging market, with two major retailers, supported by a range of gas fired peaking plant, now in a strong position in comparison to a larger number of generators, with excess capacity. The Company expects market prices to remain depressed for the foreseeable future. The Company's strategic response to this market structure is to consider its position as a retailer, to gain leverage in this market.

CS Energy has the most diversified portfolio of plant in the National Electricity Market, and has historically pursued a strategy of supporting the development of Queensland's coal seam gas market to underpin investment in gas-fired generation.

An important component of CS Energy's Strategic Plan is its carbon plan, which draws together activities to ensure compliance with the new National Generation and Energy Reporting legislation, the Company's plans to achieve carbon neutral workplaces by 2020, its support and sponsorship for low emission and renewable technology development and its work on carbon offsets.

CS Energy's commitment in this area is evident through its ongoing investment in the Callide Oxyfuel Project, which will provide the platform to enable to Company to retrofit some of its current plant with a viable carbon capture technology.

In addition, CS Energy also established an important relationship with Greening Australia, which is researching the carbon offset potential of revegetation of marginal farmland as native forest. Research results are due in the first quarter of 2009/2010 and a decision on the next steps for the joint venture will be made by the end of the calendar year, to enable the Company to assess the feasibility of biosequestration as an important carbon mitigation strategy.

In addition, the Company is exploring a range of alternative technologies, including stand-alone and integrated solar technologies, offsets through algae farms and other carbon capture options to address its carbon responsibilities.

The Company has no major capital expenditure plans in the next year, but will need to pursue new equity capital once the need for any new capital expenditure is identified and proved feasible.

Any business is only as good as its people and I would like to thank all the staff at CS Energy for their significant effort again this year.

I would also like to thank my fellow Directors for their support and hard work during the year.

During the year, the Company said farewell to two long standing members of the Board, Tim Crommelin and Tony White, who have been committed and dedicated Directors for the past ten years. In their place, we welcomed Russel Kempnich and Tracy Dare, who filled the Board positions from October 2008.

In conclusion, CS Energy remains committed to continuing to pursue the delivery of a reliable and sustainable supply of electricity to support the ongoing development of the Queensland economy and community and meet its many obligations to its shareholders and stakeholders in delivering this outcome.

Stephen Lonie
B Com, MBA, CA, F Fin, FIMCA, FAICD
Chairman

Chief Executive's review

The 2008/2009 financial year was busy and challenging, both internally and externally.

Fundamental changes are occurring in the energy market, and the Company's response is contained in the 2009-2014 Strategic Plan, which was finalised in early 2009. In the first half of the year, considerable effort went into developing the Plan and communicating its contents widely throughout the Company. In the latter half of the year, attention turned to implementation.

The Company is focussed on three critical success factors identified in this plan: improving operational performance, carbon readiness and growth.

Operational Performance

The foundation of a successful CS Energy business is to generate electricity safely, reliably and economically.

Safety

Zero harm is the only acceptable outcome for safety and this is the target each and every employee strives for.

Safety performance in 2008/2009 was disappointing. CS Energy recorded nine lost time injuries during the year, five in the first six months and another three by the end of March 2009, prompting a comprehensive review of safety systems and processes. This review concluded that processes and procedures are essentially sound but significant behavioural change is required.

A range of safety behaviour initiatives commenced during the latter part of the year, resulting in an immediate decline in safety incidents. The challenge for 2009/2010 is to continue to improve safety performance and integrate this outcome with other operational improvements. Drawing together actions on behaviour, culture, plant knowledge and skills will ensure safety performance is of the highest order and remains the first priority of the business.

Reliability and Cost Management

During 2008/2009, a Company-wide initiative to identify operational improvement opportunities, Value Plus, was completed and, as a result, three programs of work were initiated:

- An asset management project, to reduce the level of unplanned outages to below 2%;
- An overhaul management project, to reduce the time and cost of overhauls by 20% through the full application of the 'In Full On Time' overhaul management process; and

- A cost management project, to reduce the unit production cost at each station to top quartile performance levels.

Delivering these projects will be the focus of the Company's activity during 2009/2010 and beyond.

A number of major projects were undertaken across the portfolio during 2008/2009.

At Callide Power Station, the $200 million B Station mid life refurbishment progressed well and a change in operating regime was instigated at C Station, which minimises overload operations and has improved boiler reliability.

At Swanbank, major outages were carried out at both B and E stations, and engineering work necessary to extend the life of B Station was identified.

At Kogan Creek A Power Station, a number of issues affected the first full year of operation, requiring remedial work. The knowledge gained during this year has assisted with plans to refine coal and ash handling systems during the plant's first major overhaul in August 2010.

"Carbon will be the defining issue for the industry through the next decade"

At Mica Creek Power Station, a significant overhaul was completed on one of the A station units and major work on a second unit commenced in June 2009.

Carbon Readiness

Carbon will be a defining issue for the industry through the next decade. Being ready to participate in the carbon market and adapting the business to a low carbon economy are demanding challenges that must be met if the business is to prosper.

Work to put in place the required policies, procedures, systems and processes has been going on throughout 2008/2009 and will continue into the next financial year.

In addition, evaluations have been completed at each site to identify carbon footprint reductions and efficiency improvements. These plans will be progressively implemented as each becomes economically feasible.

Work on the Callide Oxyfuel Project advanced significantly during the year, reflecting the culmination of many years of hard work. This joint venture project is the first commercial scale retrofit application of this technology and, if successful, could make a major contribution to reducing emissions from coal-fired power stations to near zero.

The Callide A Power Station unit to be converted to oxy-firing has been successfully refurbished and conversion works will begin with construction of the oxygen and carbon dioxide compression plants commencing during 2009/2010.

Growth

The Strategic Plan describes CS Energy in 2030; an electricity generator, continuing to support the economy of Queensland but at half the carbon intensity of the current operations.

To meet this challenging carbon reduction target, growth plans are necessarily focussed on low emission options, including clean coal and renewable technologies and high efficiency gas turbines.

The capability to retrofit existing coal stations as well as build new low emission coal plant is being advanced by the Callide Oxyfuel demonstration project.

A detailed evaluation of a range of renewable technologies, including wind, solar thermal, geothermal and biofuels, was completed during the year and a number of development opportunities are being progressed.

There have been fundamental changes in the gas market in Queensland through the consolidation of ownership and the introduction of major international companies into the local market. Liquid natural gas developments and vertical integration of gas companies into electricity generation have affected both price and availability of supplies for gas-fired generation.

These issues are affecting the development of our second gas-fired unit at Swanbank, Swanbank F, and our proposed renewal of the Mica Creek Power Station.

Plans for Mica Creek Power Station have also been impacted by a joint Queensland Government and Queensland Resources Council review into electricity supply to the Mount Isa region. The review resulted in a 12 month competitive process to determine the preferred electricity supply solution for the region and CS Energy will participate in this process.

The support of our stakeholders is essential to these growth plans and, to this end, we undertook a major audit of our corporate social responsibility activity this year. We have developed a comprehensive strategy in response to these findings and have committed to increased transparency in our operations and reporting.

The 2008/2009 financial year was among the busiest on record for CS Energy and I would like to thank all our staff for their efforts this year and their continued support as we grow and face the challenges of the future.

David Brown
C.Eng BSc (Hons)
Chief Executive

Corporate performance
Financial performance

CS Energy returned a profit after tax for 2008/2009 of $93.8 million, up 60 per cent on the 2007/2008 result. Consequently, it also returned an above-budget dividend for shareholders which, at $75 million, is also 60 per cent higher than last year's dividend.

Record sent out generation, reflecting the first full year of operation for Kogan Creek A Power Station, together with a strong performance from our electricity hedging activity offset the 35 per cent fall in average pool price for electricity experienced during the year.

Despite reaching its highest-ever level, generation for the year was below budget, with reliability for the portfolio one per cent below the 2007/2008 result and almost four per cent below budget.

Revenue was affected by a $10 million reduction in income from Gas Energy Certificates (GECs), the price of which fell by almost half during the year. As the largest producer of GECs in Queensland, this fall had a significant impact on revenue for CS Energy.

Net profit after tax was also affected by a series of accounting adjustments relating to projects, capital works and derivative contracts.

Continuing uncertainty regarding customer plans beyond 2013 has necessitated a $29.7 million impairment write-down for Mica Creek Power Station.

Similarly, rising operating costs and uncertainty surrounding the long-term impact of the Federal Government's Carbon Pollution Reduction Scheme (CPRS) have limited CS Energy's ability to carry forward on-going capital expenditure on Swanbank B. The Company continues to explore the best option for this plant but, at 30 June 2009, with no firm decision to extend the life of the plant beyond 2011, an additional $9 million impairment write-down was required.

CS Energy is in a joint venture with Metgasco Ltd, exploring the potential for gas supply from northern New South Wales. While gas reserves have been proven, a commercially successful production technique to extract gas at an economic price for electricity generation remains to be developed. Other fuel sources and generation alternatives are now being considered to meet electricity market opportunities and, given the shift in investment priorities, CS Energy decided to write down its $12.1 million investment in this project.

These write-downs were balanced by non-operational gains in contracts and derivatives as the impact of the CPRS was factored into updated accounting valuations in these areas.

In August 2007, the Collinsville Power Purchase Agreement was transferred from Enertrade to CS Energy. In reading this report, note the obligations of this agreement are included in the financial results. CS Energy's operational results, such as safety, reliability and greenhouse intensity, exclude Collinsville as CS Energy does not operate this plant.

CS Energy's capital program for the year was worth over $153 million with major projects undertaken at all stations. See pages 28–33 for more details.

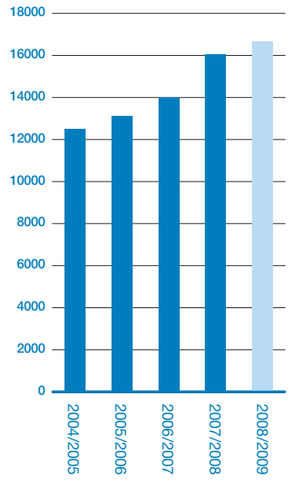
CS Energy has retained its AA- credit rating from independent agency Fitch Ratings.

FINANCIAL HIGHLIGHTS

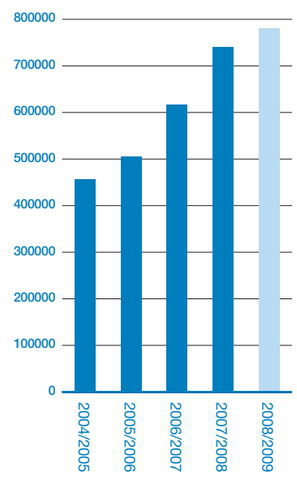
		2008/2009	2007/2008	2006/2007	2005/2006	2004/2005
Profit after tax	$000	93,816	59,007	43,300	56,468	40,680
Return on productive assets (ROPA)	%	8.1	5.3	3.7	7.3	5.2
Gearing[1]	%	44.7	47.1	51.8	39.3	40.9
Assets	$M	2,534	2,896	3,262	2,121	1,734
Time-weighted average pool price	$/MWh	34.02	52.34	52.14	28.12	28.99
Green energy products	$000	17,303	29,443	34,226	23,024	11,133
Total electricity sales	$000	781,349	739,924	616,349	505,131	456,229
Costs (excluding finance costs)	$000	755,525	699,781	562,648	434,011	398,529
Dividends payable	$000	75,053	47,206	34,640	40,170	29,151
Capital investment in power stations	$000	153,666	280,248	373,163	490,795	248,696

1. For more information see Note 12 of the Financial Statements on page 89.

Energy Sent Out (GWhr)



Sales revenue ($000)



Corporate performance
Market performance

Performance in the NEM

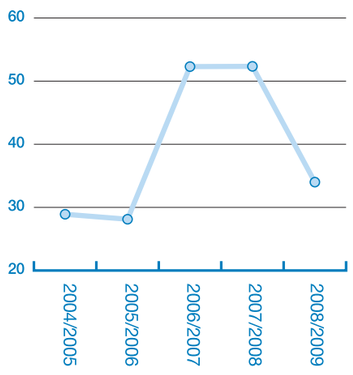
CS Energy sells electricity into the National Electricity Market (NEM) through the spot market, where prices are calculated every five minutes and trades are settled half hourly. It also trades in the contract markets where it enters into financial contracts that lock in a fixed price for electricity.

Pool price

Although the NEM is a national market, it is configured in regions and CS Energy's revenue is tied to prices in the Queensland region.

The time-weighted average pool price for Queensland in 2008/2009 was $34.02/MWh, a significant $18.32/MWh below the 2007/2008 average. This 35 per cent fall was the result of a series of changes in market conditions during the year.

Queensland time-weighted average pool price ($/MWh)



Most significantly, the easing of the drought in south east Queensland and the completion of the Western Corridor Recycled Water Pipeline saw water allocations fully restored for generators in the region, increasing available electricity supply.

In addition, a mild summer in 2008/2009 resulted in a lower peak demand for the year, and significantly less market volatility, which was reflected in lower, shorter peaks in market price.

Finally, new plant brought increased capacity to the Queensland region which increased competition and had a dampening effect on prices.

Contracts market

The introduction of the Carbon Pollution Reduction Scheme (CPRS) has had a significant impact on the contract market. Participants have displayed an increasing reluctance to contract beyond the date scheduled for the introduction of the CPRS. Uncertainty regarding the shape and form of the scheme makes it difficult to accurately predict its impact on future prices and this year's delay to the start date has further reduced market confidence.

This high degree of uncertainty is expected to continue limiting market liquidity while the details of the scheme remain unresolved. The Market Operations team continues to work to ensure that the organisation is prepared for the auction, trading and acquittal of Carbon Permits under the CPRS which is scheduled to be implemented in July 2011. A project plan is in place and significant progress has been made in establishing supporting data systems.

Green premiums

CS Energy participates in a range of greenhouse intensity reduction schemes.

The ReOrganic project, which co-fires landfill gas with coal in Swanbank B (for more information see page 42), is eligible for carbon offset certificates under the New South Wales Greenhouse Gas Abatement Certificate Scheme (NGACS).

Gas-fired generation from Swanbank E is eligible for the Queensland Government's Gas Electricity Certificates under the 13 per cent Gas scheme. The certifiers of this scheme deem that between three per cent (peak) and seven per cent (offpeak) of the generation from Swanbank E is delivered to New South Wales, due to the plant's proximity to the state border.

While generation cannot be allocated certificates from both the New South Wales and the Queensland government schemes, this situation means that output deemed to be delivered to New South Wales is also certifiable under the NGACS program.

The NGAC scheme is designed to encourage generation that reduces the average greenhouse intensity of the electricity market. As a result, all plant that generates at below the New South Wales generation portfolio average of 954 tonnes of carbon dioxide per gigawatt hour sent out (tCO_2/GWhso) is eligible.

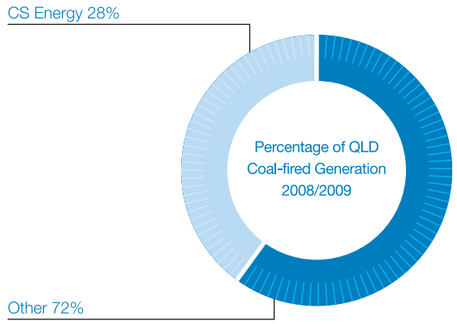
Kogan Creek A Power Station is highly efficient and the scheme has independently audited its average intensity for 2008/2009 at 901 tCO_2/GWhso, below the New South Wales average of 954 tCO_2/GWhso, so this station is also able to generate marketable NGACS certificates.

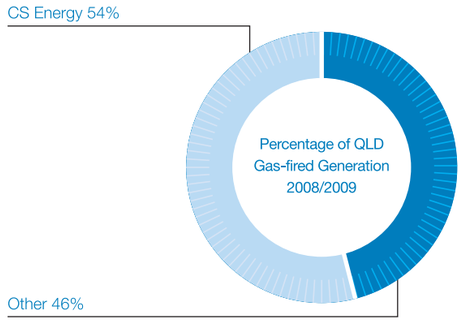
Off-grid activities

CS Energy also owns and operates the Mica Creek Power Station in Mount Isa, which is not connected to the NEM. Mica Creek is the main large-scale electricity generator in this region and supports the communities of Mount Isa and Cloncurry, as well as local mining and industrial operations.

Mica Creek Power Station recorded system reliability of 99.96 per cent for the year, which means that there were essentially no interruptions to supply other than one trip caused by two lightning strikes to the transmission lines. For more information on this event, see page 33 of this report.

Mica Creek Power Station comprises ten small-scale units, some of which are almost 50 years old. CS Energy has plans in place to renew some capacity at the station. Those plans rely on firm offtake contracts with customers in order to obtain project finance. For more information on these plans see page 43 of this report.





Award-winning safety idea

Operator Dennis Cleary won the inaugural CS Energy Chairman's Safe Move Award for an idea that increases electrical safety around our power stations.

Dennis created a device that isolates 415 volt circuit breakers whilst still maintaining access to the switch gear for electrical tests, meaning a safer working environment and less time and hassle for staff.

'Instead of locking the circuit breaker door, staff can lock the shaft of the breaker with this new device and close the circuit breaker door,' Dennis said.

'This means officers-in-charge still have access to the switch gear to perform electrical tests.'

Dennis said he hoped his win would inspire other staff to think about ways of improving their workplaces.

'I feel a great sense of satisfaction in being recognised by CS Energy with this award,' Dennis said.

CS Energy's people

Progress 2008/2009

- Completed feedback sessions with 83 leaders and 79 teams as part of the *Generating Insight* employee engagement process.
- Initiated an improved leadership development program, *Teamworks*.
- Introduced incentives and benefits for remote area-based employees as part of an attraction and retention strategy.
- Successfully negotiated new Workplace Agreements at Swanbank, Callide and Mica Creek power stations.

CS Energy's people are the key to its future. To succeed it must attract and retain the best employees and continuously build their skill base, it must develop its leaders and work together to keep all employees safe.

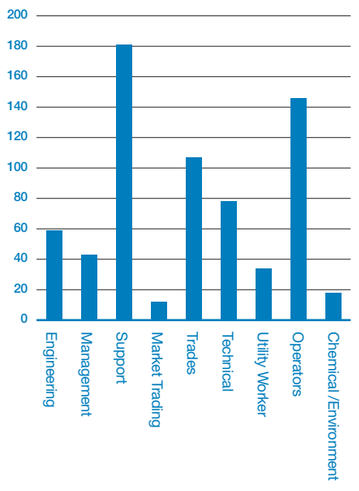
CS Energy, Queensland's largest electricity generator, employs more than 670 people across five sites:

- Swanbank Power Station in south east Queensland;
- Callide Power Station in central Queensland;
- Mica Creek Power Station in north west Queensland;
- Kogan Creek Power Station in south west Queensland; and
- Corporate Office in Brisbane.

The Company is continually improving its human resource policies, procedures and processes. During 2008/2009 it focused on the retention of staff through the introduction of benefits for remote area-based employees. The Company also improved the way it assists its employees to relocate between sites through the introduction of more efficient and consistent relocation and secondment procedures.

An on-line exit interview system was implemented in 2008/2009, designed to provide it with more reliable information from departing employees. This information can be used to help identify areas for improvement in the business, particularly in relation to teamwork, leadership, retention and working conditions.

Occupational profile of the Company's workforce



During 2008/2009, CS Energy started mapping human resource processes across five sites to identify opportunities to improve its systems and ensure consistency across the human resource function at all sites.

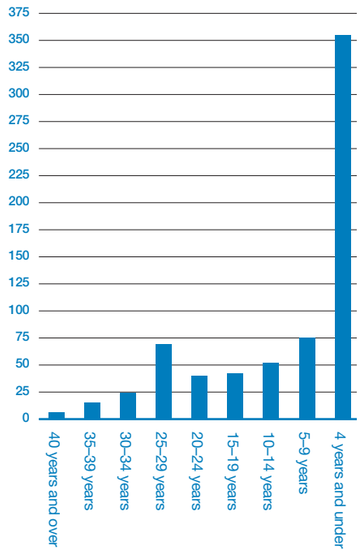
Workforce profile

At 30 June 2009, CS Energy employed 673 people in a variety of occupations and professions, including engineering and sciences, technical and trades, contract administration, project management, legal, workplace health and safety, finance, information technology, procurement and human resources.

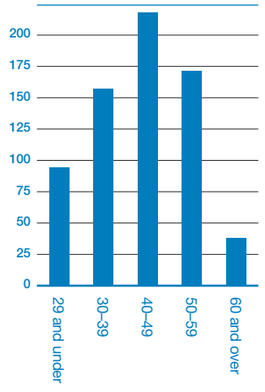
During the year the Company recruited 114 permanent employees, and accepted 44 resignations. Total staff turnover for the year was seven per cent, a significant decrease from 12.8 per cent last year, and reflecting slower turnover across the industry as activity in the resources sector contracted.

With 31 per cent of its workforce over 50 years of age, effective workforce planning is essential to managing its aging workforce and its long-term business success. In 2008/2009 CS Energy revised its workforce planning process. The details of how it is planning for the future, and the changes made to its workforce planning process, can be found on page 19 of this report.

Employee length of service (years)



Age profile of the Company's workforce



Valuing diversity

CS Energy aims to keep its workplace free from unlawful discrimination and harassment. It expects that all people are treated with respect and all managers value the diversity within its teams. CS Energy's Equal Employment Opportunity (EEO) policy is available on the website.

In 2008/2009, CS Energy continued to embed its new EEO Plan, introduced in 2007/2008. The first stage of the EEO plan was compulsory online refresher training for all employees. As at 30 June 2009, 78 per cent of employees had completed this training, and the Company will continue to work towards 100 per cent completion in 2009/2010.

Just over 14 per cent of its workforce is female, with the number of women in technical and trade roles remaining relatively stable each year. CS Energy employs a diverse range of men and women of varying ages, including a number of people from non-English-speaking backgrounds, Aboriginal or Torres Strait Islanders and people with disabilities.

DIVERSITY PROFILE

EEO GROUPS*	No. of employees at 30 June 2008	No. of employees at 30 June 2009	% change
Females	72	96	33
Non-English-speaking background	26	21	-20
People with a disability	18	10	-44
Aboriginal and Torres Strait Islander (ATSI)	7	16	128
TOTAL	**123**	**144**	**17**

2008/2009 DIVERSITY GROUPS BY PROFESSION*

	Managers & Admin	Professionals	Associated professionals	Tradespersons	Clerical	Labourers	TOTAL
Female	24	29	19	5	18	1	**96**
Non-English speaking background	1	11	3	5	1	0	**21**
People with a disability	0	3	3	9	1	0	**16**
Aboriginal and Torres Strait Islander (ATSI)	0	1	1	5	2	1	**10**

*Some people chose not to respond to the EEO survey questions: non-English-speaking background (89 non-respondents to this category); disability (97); ATSI (99).

CS Energy's people (continued)

Attraction and retention

While the Company's turnover has decreased this year, it is still focused on attracting and retaining suitably skilled employees, particularly in the remote and regional areas that host more than 50 per cent of its staff. Competition for skilled employees remains strong as activity in Queensland's gas industry continues to grow, particularly around Chinchilla and Gladstone. As the world economy recovers, CS Energy expects to continue to compete against major mining and industrial operations for skilled staff.

During 2008/2009 its attraction and retention strategy, comprising specific policies to strengthen remote site retention, was implemented. These policies include a range of incentives to support staff in remote areas, including holiday travel support and study assistance for employee dependants.

Industrial relations

A total of 62 per cent of its employees are employed under Enterprise Bargaining Agreements (EBAs), with the remainder employed under Alternative Individual Agreements or other contracts. Each of its five sites has a separate EBA, and this year it reached agreement with relevant unions on the terms for new agreements at the Mica Creek, Callide and Swanbank power stations. The Corporate Office Workplace Agreement expired on 30 June 2009, and CS Energy is currently negotiating the terms of a new agreement.

During 2007/2008, the Company established an Industrial Relations Working Party, comprising CS Energy and union representatives, to help it improve its industrial relationships and processes. This group is supported by an external facilitator and, during 2008/2009, completed a review on the effectiveness of its relationships. The study found that relationships and processes across the Company were essentially sound but recommended further consultation with staff. To this end, CS Energy has established a site consultative committee for its Kogan Creek Power Station and is working though existing committees at its other sites to strengthen two-way communication with staff representatives.

CS Energy is also part of an electricity industry working party to provide input to the Australian Industrial Relations Commission (AIRC) on the Award Modernisation process. Following an AIRC full bench hearing in June 2009, the creation of a Modern Award for the electricity distribution and supply industry is expected in September 2009.

Employee engagement

The cornerstone of CS Energy's organisational development activity is its employee engagement process, *Generating Insight*. This is a four-stage process of continual improvement that allows the Company to identify issues impacting team effectiveness, work with teams to develop improvement plans, implement these plans within a supportive framework, and review the success of these actions.

The process begins with a comprehensive staff survey, which is carried out approximately every 18 months.

Over 74 per cent of employees participated in the first survey in early 2008, and the feedback was quite clear – it needed to strengthen its leadership, improve the effectiveness of teams and communicate its business strategy.

During 2008/2009 CS Energy conducted feedback sessions with 83 leaders and 79 teams across the Company to facilitate the development of improvement plans. It has also created the *Teamworks* program, which focuses on practical tools to help further improve the performance of both leaders and teams. In response to the feedback on its business strategy communication, CS Energy produced its first five-year strategic plan brochure and distributed it to all staff. This document sets the framework for its divisional plans for 2009/2010 and beyond.

In early 2009/2010 CS Energy will commence the second round of *Generating Insight* with a staff survey in July 2009.

Developing a teamwork culture

CS Energy's Leadership Principles program was reviewed in 2007/2008, and as a result it has introduced a new, enhanced development program, *Teamworks.*

This program was initiated in response to the review, but developed to address shortcomings in the previous program, which were identified by staff through the *Generating Insight* process. These issues included the need for a greater focus on teamwork, supportive leadership and role clarity.

Teamworks builds on the previous Leadership Principles program, and provides practical tools and resources for more supportive leadership and effective teamwork in the organisation. The program comprises one- and two-day workshops and will be progressively delivered across all sites during the 2009/2010 financial year.

Improving induction processes

In March 2009, it initiated a new Employee Onboarding Project to review our induction processes. The objective of this project is to facilitate the connection of prospective employees with CS Energy from early in the recruitment process, and transition them into their role, their team and the organisation.

Planning for the future

During 2008/2009 the Company strengthened its workforce planning processes to improve support to managers and encourage them to consider a range of impacts, including workforce statistics and succession planning requirements, when making staffing decisions.

This work included:

- New workforce planning guidelines for managers;
- Providing human resource statistics for each division; and
- Updating documentation on critical positions and the functional succession planning for each area.

CS Energy implemented two major people systems during 2008/2009, which will assist with planning for the future. The first of these systems, the Manager-one-Removed (MoR) system, gives staff the opportunity to discuss their career paths and aspirations with their supervisor's manager. This provides employees with personalised, long-term career planning and promotes the development and maintenance of trusting relationships, in line with its cultural philosophy. MoR discussions occur annually and provide important insights for each manager to assist with succession planning and building an individual's capabilities.

The second system implemented during 2008/2009 was Critical Position/ Functional Succession Planning. This system provides a framework for leaders to identify positions, and associated skills, critical to the Company. It also indicates the current internal capacity for progression to critical positions. Identifying and developing succession plans for these positions helps to support its business continuity and growth.

Looking forward 2009/2010

- Negotiate new Enterprise Agreement for Corporate Office by August 2009.
- Commence second round of *Generating Insight* employee engagement process in July 2009.
- Deliver the *Teamworks* program to all sites.
- Further develop its approach to workforce planning and the retention of critical staff.

Learning and development

Progress 2008/2009

- Commenced the first Emerging Supervisor Program in October 2008.
- Commenced the third round of Supervisor Development training in January 2009.
- Continued the Power Generation Skills Development Program, with the third intake of students in January 2009.
- Launched the Company's on-line learning program in January 2009.

Industry demand for talented, skilled employees remains high and CS Energy continues to face a skills shortage. By creating opportunities for its people to develop their capabilities, and focusing on an integrated learning and development strategy, CS Energy aims to get the right people with the right skills in the right jobs.

The opening of CS Energy's centralised Learning and Development Centre at Swanbank in June 2008 has allowed it to focus its learning and development initiatives for the whole Company in an operational setting. During 2008/2009, the Company recruited a new Learning and Development team of eight specialist advisors, who are based in the centre. A new Learning and Development strategy has also been implemented. This strategy maps out a consistent approach to shaping employee development plans and recording training, as well as coordinated management of all its training, training records and employee qualifications.

In 2008/2009, CS Energy extended its training to incorporate on-line courses using a new e-learning tool and it rolled out the first on-line statutory training course, EEO training, in early 2009. It has also transferred a number of business system training courses to this on-line environment this year.

Professional development

The Company's Supervisor Development Program continued throughout the year, with the second round graduating in November 2008, and the third intake commencing in January 2009. This program, delivered by an external registered training organisation, was developed using CS Energy-specific content and graduates attain a Certificate IV in Business (Frontline Management) on completion.

In October 2008, CS Energy started an Emerging Supervisor Program in response to the demand for places in the Supervisor Development Program. This four-day workshop is designed for staff who are in 'step-up' or acting supervisor roles, or who aspire to become a supervisor in the future. On completion of the workshop, graduates attain two units towards the full Certificate IV in Business (Frontline Management). The Company is initiating the second round of this program in September 2009, and currently has more than 30 enrolments in the program.

Together with Tarong Energy and Stanwell Corporation, CS Energy and three Queensland universities have developed an industry-specific post-graduate university program for engineers and para-professionals to help address the skills shortage in the industry. Launched in early 2007, the Power Generation Skills Development Program is offered through The University of Queensland, Queensland University of Technology and Central Queensland University. The course is specifically targeted to provide industry with an increased pool of staff and other professional development opportunities. The course entered its third year in 2008/2009 and, as at 30 June 2009, CS Energy had 12 staff participating, more than double its enrolment in previous years.

Developing the next generation

This year, 11 graduates participated in CS Energy's Graduate Professional Development program, which is designed to give graduates a forum for networking and peer support as they transition into the business environment. Workshops are held annually for graduates to share their experiences, and a graduate website encourages participants to keep connected.

CS Energy employs most of its apprentices and trainees through group training organisations. At 30 June 2009, the Company had 42 group training apprentices and trainees, and 10 employees who are completing in-house apprenticeships or traineeships as part of their development plans for their roles.

Two of its Callide apprentices, Shannon Horsey and Patricia Milios, were recognised at the Gladstone Area Group Apprentices annual awards, taking out the Apprentice of the Year and Trainee of the Year categories respectively. Patricia Milios also received an Outstanding Achievement Award for her Frontline Management traineeship.

CS Energy is also an industry sponsor of the Power Engineering Alliance (PEA) program, which provides bursaries to students undertaking degree-level studies in areas of engineering relevant to the power industry. During the year, PEA bursary recipients from The University of Queensland and Queensland University of Technology completed vacation placements at CS Energy sites.

Looking forward 2009/2010

- Integrate all electronic employee training records into one centralised system.
- Standardise statutory and legal compliance training across CS Energy.
- Build individual development plans to capture core skills and qualifications for all positions.
- Transfer all health and safety inductions on-line across all sites.
- Establish an operations and maintenance training framework to improve development of employees in these areas.

Final year Central Queensland University Mechanical Engineering student, Daniel Barwick, will spend seven months working at Kogan Creek Power Station while completing his thesis.

Health and safety

Progress 2008/2009

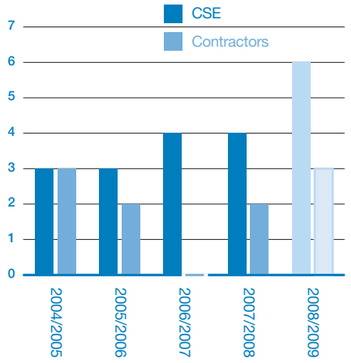
- Implemented drug, alcohol and fatigue management at all sites.
- Launched Chairman's Safety Awards.
- Commenced new safety communication initiative to target cultural change.
- Established and trained Emergency Response Teams at Mica Creek and Kogan Creek power stations.

The Company is committed to continually improving its safety performance. Its goal is zero lost time injuries, and it is focusing on behavioural change to support a culture of personal responsibility for safety.

CS Energy's Occupational Health and Safety Management System (OHSMS) underpins its commitment to continuous safety improvement by providing a uniform approach to safety at all sites. The system comprises corporate policies, procedures, audits and health and safety manuals. OHSMS and its safety policies and procedures can be found on CS Energy's website.

A key element of the OHSMS is the Permit to Work (PTW) system, which is used to coordinate and control the isolation of live electrical plant at all power stations. During 2008/2009 CS Energy reviewed its (PTW) system to ensure consistency across all sites. The review identified that there is universal support for the system as a safe, auditable and mature process but found that some support systems could be enhanced. Recommendations included improvements to training on specific PTW tasks, improved plant familiarisation for new staff and contractors and updates to drawings and plant numbering.
CS Energy's PTW procedures are available at the suppliers section of its website.

Number of lost time injuries



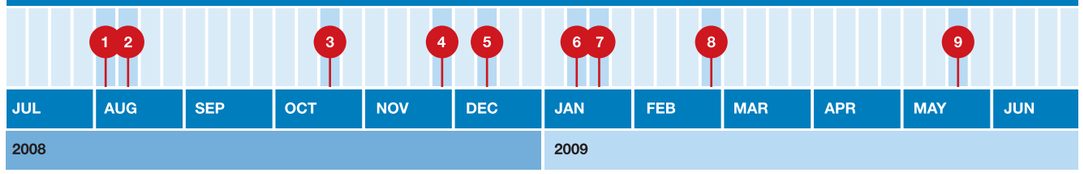
Safety Performance

CS Energy's safety performance for the 2008/2009 financial year was disappointing, with nine lost time injuries, up from six in the previous year, which translated into a lost time injury frequency rate of five in 2008/2009, compared to 3.3 in the previous year. This result includes both staff and contractors at CS Energy's five sites. For the definition of a lost time injury, and lost time injury frequency rate, see the Glossary and Abbreviations table on the back page.

The Company remains committed to a goal of zero lost time injuries. A communication campaign to improve safety culture has been implemented as part of a range of measures in response to this year's unsatisfactory result. This campaign, titled *Stay on top of your game*, is designed to break safety down into the basics: working as a team, taking responsibility, and not letting your mates down.

As well as tracking lag indicators of its safety performance, which record events that have already occurred, such as lost time injuries, CS Energy is also focusing on lead indicators to measure the strength of controls and systems. This process includes examining near-miss situations and analysing their root cause, to determine the influencing factors in these situations. In 2009/2010 CS Energy will upgrade its safety reporting database so it can analyse these factors and identify trends.

LOST TIME INJURIES TIMELINE 2008/2009



DETAILS OF LOST TIME INJURIES FOR 2008/2009

DATE	SITE	INJURY, ACTION PLAN/RESPONSE
1 07.08.08	**CALLIDE B**	**INJURY** Hernia sustained when shifting furniture. **ACTION PLAN/RESPONSE** Toolbox talks on safe lifting.
2 15.08.08	**MICA CREEK** (Contractor)	**INJURY** Wire brush filaments lodged in thigh. **ACTION PLAN/RESPONSE** Wire buffing wheel not appropriate for task. All similar brands removed from site. Approved buffing wheel replaced as a stock item.
3 23.10.08	**KOGAN CREEK** (Contractor)	**INJURY** Hose pipe under pressure, fitting dislodged, damaging face. **ACTION PLAN/RESPONSE** Hose fitting removed as it was non-compliant. Compliant fitting installed and task was risk assessed before work recommenced.
4 29.11.08	**MICA CREEK**	**INJURY** Fingertip lost when an air register bar being used as support during an inspection activated and pinched the hand. **ACTION PLAN/RESPONSE** Painted the air register bars yellow and black to identify it as a hazard.
5 08.12.08	**SWANBANK**	**INJURY** Lower back strain while lifting and shifting scaffold. **ACTION PLAN/RESPONSE** Toolbox talks on safe lifting. Manual handling training organised for the work team.
6 16.01.09	**CALLIDE B**	**INJURY** Harnessed and working approximately seven metres above ground, an employee bent over whilst climbing over pipes and experienced lower back strain. **ACTION PLAN/RESPONSE** A second lanyard is now added to the harness for staff doing this work, to ease movement. A Site wide manual handling training course was added to the Callide annual training plan.
7 22.01.09	**CALLIDE B**	**INJURY** Finger caught on handrail while dislodging clinker blockage on the chute diverter. **ACTION PLAN/RESPONSE** Chute redesign to allow larger clinker to travel through. Eliminates task and pinch point hazards.
8 25.02.09	**MICA CREEK**	**INJURY** Right shoulder fracture after tripping and falling on a concrete step. **ACTION PLAN/RESPONSE** Handrails installed on the northern face of the stair. Entry and exit changed to control fall hazard.
9 17.05.09	**CALLIDE** (Contractor)	**INJURY** Strained muscles whilst installing door panels. **ACTION PLAN/RESPONSE** Risk assessment of task undertaken and additional mechanical assistance was implemented as a control measure.

Health and safety (continued)

Chairman's Safety Awards

In July 2008, the CS Energy Chairman, Stephen Lonie, launched an awards program to recognise staff who are implementing health and safety innovations in the workplace. The awards include quarterly Safe Move Awards and an annual Generations Ahead Award for the most outstanding safety initiative.

Callide Operators Dennis Cleary and Jeff Austin won the first two Safe Move Awards this year. Dennis Cleary was awarded the first quarterly award for an isolation device he created for 415 volt circuit breakers, which provides a secure locking device that also saves time when working on this plant. In the second quarter, Jeff Austin was recognised for a solution he developed to overcome hot dust and ash leaking out of a grit bin, mitigating the risk of burns and dust inhalation. Both winners received $1,000 cash prize and a trophy, and are in the running to win the inaugural annual Generations Ahead Award.

Fit for Duty

CS Energy's Fit for Duty Policy ensures everyone in its workplace can perform their duties without posing unacceptable risks to the health and safety of themselves or others. A copy of the Company's Fit for Duty Policy is on its website.

A major milestone was achieved under this policy in 2008/2009 with the implementation of an Alcohol and Other Drugs Management program across all sites. The policies and procedures for the management of alcohol and other drugs were developed in consultation with state unions, site delegates, relevant Queensland Government agencies and the other Queensland Government-owned generators.

CS Energy developed a comprehensive education program that was delivered to all staff during a three-month trial of the new procedures. Implementation began with a pilot of the three-month trial at Kogan Creek Power Station in March 2009 and, by 30 June 2009, the procedure was in place at three of CS Energy's five sites. The trial periods at the other two sites will conclude during the first quarter of the new financial year and, by 30 September 2009, the system will be fully operational.

CS Energy continued to focus on fatigue management this year, also under its Fit for Duty Policy. Using the existing Cardax security system, the Company is now able to monitor the time contractors and staff spend on its worksites, allowing it to proactively manage fatigue associated with extended work hours. This system is complemented by training to help staff and contractors manage fatigue, particularly during overhauls and shift work.

Emergency planning

During 2008/2009 the Company established Emergency Response Teams at both the Mica Creek and Kogan Creek power stations. The teams consist of up to nine designated staff at each site, who can be activated as a first response in the case of an emergency or incident on site. Emergency response vehicles and equipment were purchased and training was conducted for team members at the Queensland Combined Emergency Services facility at Whyte Island. The training included fire fighting, rescue and recovery techniques for high-risk industries.

Emergency Response Teams have been in place for several years at Swanbank and Callide power stations, and members undergo regular training and crisis simulation exercises in conjunction with local emergency services.

Asbestos management

Plant at Swanbank, Callide and Mica Creek was built during a time when asbestos was a commonly used material, and asbestos is a risk present in these stations. CS Energy is proactively managing this issue by registering the location and monitoring the status of all asbestos at its sites.

CS Energy removes as much asbestos as possible during overhauls, using strict controls and adhering to guidelines under the *Workplace Health and Safety Act* (1995). This year it developed an Asbestos Management Plan that addresses the amended National Occupational Health and Safety Commissioner's Code of Practice, and commenced associated training for everyone involved in friable and bonded asbestos removal.

CS Energy is concerned for, and committed to helping, people who have suffered disease as a result of asbestos exposure. This year, two common law claims were lodged against CS Energy and other generators. The Company is actively assisting in the completion of legal procedures associated with these claims, and openly providing information about sites to people who have worked at its power stations. CS Energy expects more claims to arise in the future, due to the latent nature of asbestos-related diseases.

Pedestrian and vehicle safety

CS Energy audited pedestrian and vehicle safety across all sites during the year, and, as a result, has improved the consistency of line marking and demarcation on sites. Workshops, roadways and site access paths have been improved, reducing the potential for further traffic incidents.

Arc flash clothing

The Company reviewed the safety clothing used for electrical arc flash hazards during 2008/2009. Arc flash hazards exist when working on switchyards or with high voltage plant and standard safety clothing does not provide sufficient protection. During 2008/2009 CS Energy introduced specifically designed protective clothing for staff working in these situations.

Safety training

CS Energy takes electrical safety seriously and a major focus for its safety training is in this area.

In addition to ongoing training in operational safety matters, safety training during 2008/2009 addressed the increasing number of lost time injuries on site. All staff were trained in hazard identification and risk assessment, and all specialists on sites participated in an Incident Cause Analysis Method (ICAM) course to enhance post-incident investigations. During 2009/2010, all operations supervisors will be trained in the ICAM procedure.

Health and wellbeing

The physical and mental health and wellbeing of employees is vital to the Company's success. It offers a range of programs to promote a healthy lifestyle and to help staff balance their work and personal lives.

This year it introduced a corporate cycling initiative across all sites. At 30 June 2009, 83 people had joined the initiative, which included the provision of free cycling jerseys and safety accessories to all staff who cycle to work, or who are active members of a cycling, or triathlon club.

Through its Employee Assistance Program, staff and their families can access free, independent counselling on work or personal issues. During 2008/2009, its employees sought assistance 1230 times through the program, compared with 763 in the previous year. Regular promotion is undertaken to ensure staff are aware of this service and this will continue during 2009/2010.

The Company provides free health assessments to all executives and staff over 50, and this year 48 took part in this program. CS Energy also provides free influenza vaccinations to all staff each year.

New starters are required to undertake pre-employment medicals, which have proven successful in identifying current and emergent health problems and in developing proactive management plans.

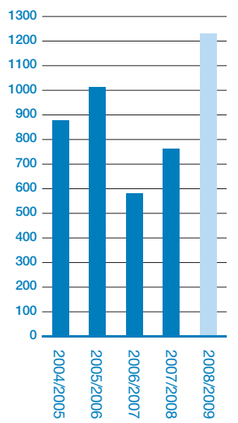
Pandemic response

The 2009 swine flu (H1N109 virus) outbreak was declared a 'public health emergency of international concern' by the World Health Organization. The Company responded by engaging its pandemic response program, which included providing standard preventative controls to employees, establishing a website dedicated to the pandemic response and working closely with government health departments and local medical practitioners in each of its power station regions.

Looking forward 2009/2010

- Introduce fresh themes to the new safety communication campaign targeting cultural change to improve safety performance.
- Target leadership and behavioural improvements to complete safety observations, inspections and contacts.
- Upgrade Health and Safety databases to allow for more strategic analysis of the factors involved in incidents (lead indicators) to identify ways to improve safety performance.
- Provide upgraded safety clothing for staff potentially exposed to electrical arc flash hazards.
- Extend cycling health initiative to include a sponsored walking program.

Number of times staff used Employee Assistance Program



*Until 2008/2009, Mica Creek Power Station engaged a local counselling service. This is the first year data regarding the site's EAP is available.

Swanbank ash builds bridges (and roads)

'We're recycling ash, a by-product from the operation of the Swanbank Power Station, to be used in the $2.5 billion Ipswich Motorway Upgrade Project.

This is a great opportunity to reuse a material, such as fly ash, which would normally have to be stored as a waste.

Our ash is being mixed with crusher dust and cement to make a solid fill underneath the road.

We're supplying Swanbank ash for the Dinmore to Goodna stretch of the upgrade, and in the first two months of the project, more than 1,000 cubic metres of ash was used by the construction team.

It's great to know that our ash will be literally supporting the construction of an eight kilometre, eight-lane motorway, including bridges and interchanges, which is expected to carry more than 120,000 vehicles every day.'

Darryl Myers, Project Officer, Swanbank Power Station

Portfolio performance

Progress 2008/2009

- Completed a $70 million dual overhaul as part of a mid-life refurbishment program at Callide B Power Station.
- Achieved milestone of 64 days of continuous generation at Kogan Creek Power Station.
- Completed Operations and Maintenance training strategy review across all sites.
- Completed *Value Plus*, a company-wide review to identify areas to optimise value and focus spending to achieve greater returns.

CS Energy's business strength lies in its diverse portfolio of operating plant, spread over four locations. Using a mix of coal, natural gas, coal seam methane and landfill gas, it has ten generators supplying electricity to the National Electricity Market, allowing it to remain competitive and flexible in the marketplace. It also supplies energy to the North West Minerals Province which is isolated from the national grid.

CS Energy's portfolio recorded a reliability of 90.8 per cent and sent out 16,675 gigawatt hours in 2008/2009, up 8.1 per cent on the previous year.

A change in operating regime at Callide C Power Station saw an improvement in reliability, but boiler technical issues remain. Performance at Swanbank B Power Station was affected by boiler reheater tube failures. Kogan Creek A Power Station coal and ash systems need some further modifications to achieve required reliability.

Long-term asset management for CS Energy's portfolio is carried out by the Portfolio Services group. Based in Brisbane, the team has expertise in engineering, environment, chemistry and asset and overhaul management. The Brisbane-based team works in partnership with technical staff at the sites.

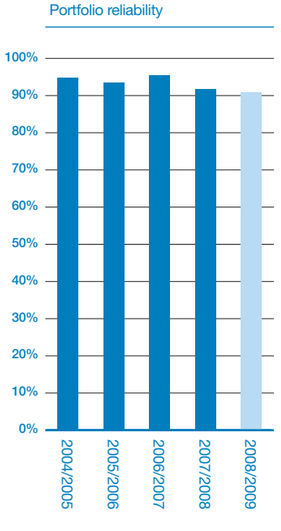
Drawing this expertise together, rather than replicating resources at each of the sites, is a recent development for CS Energy and, during 2008/2009, the team successfully completed its first major challenge, a five-week dual outage at Callide B Power Station. Part of the mid-life refurbishment of the station, the outage was completed on budget.

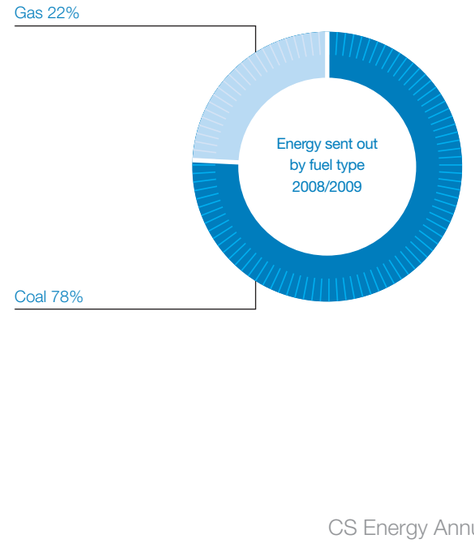
A major operational review, *Value Plus*, was completed during the year, examining the effectiveness of asset management and maintenance processes across the business. Three objectives resulted from the review:

- reducing the portfolio forced outage factor to below 2 per cent;
- reducing the time and cost of overhauls by 20 per cent; and
- reducing the unit cost of production.

Programs of work have been developed and commenced to deliver these outcomes and, during 2009/2010, project teams will work with Operations and Portfolio Services staff to implement strategies across the business.

Brad Jones, Overhaul Co-ordinator and Jody Holland, Overhaul Planner, oversaw a busy overhaul schedule at Mica Creek Power Station during the year.





Kogan Creek A Power Station

The Company's newest generating unit, Kogan Creek Power Station, successfully completed its first full year of operation, generating 4,800 gigawatt hours and achieving 87.5 per cent reliability. In June 2009, the team celebrated a station record of 64 days of continuous generation at full capacity.

Commissioned in 2007, this base load, coal-fired station sets an Australian benchmark for environmental performance and innovative design. Kogan Creek A Power Station is dry-cooled, which means it uses one-tenth of the water of a similar wet-cooled power station. Generating up to 750 megawatts from a single boiler, turbine and generator, it is the largest single-unit generating plant in Australia.

While the station is still experiencing some technical issues with its coal and ash handling systems, the Company expects station reliability to increase as system improvements are progressively implemented and site operational staff become more familiar with the new plant.

The major project currently under way at the station is the design and construction of a new ash pipeline system. The construction tender process will commence in July 2009, and the pipeline is expected to be installed and operating by early 2010.

This system will transport ash from the station to the mine, where it will be encapsulated within mine spoil as part of the mine rehabilitation process. Currently, ash is taken to an interim ash storage area until the construction of the first ash cell at the Kogan Creek Mine is completed.

During 2008/2009, the majority of the construction of the ash cell was completed, with about 2.5 million cubic metres of overburden put in place to form the cell walls.

The station now employs more than 40 staff, as well as 30 maintenance contractors. A new site manager, Ivan Mapp, was appointed in January 2009 and changes to the site's organisational structure were implemented during the year, as operating requirements were more accurately determined.

In the coming year, Kogan Creek A Power Station will prepare for an outage in August 2009, to ensure the unit is reliable through to its next overhaul and, in particular, over the summer period 2009/2010.

The adjacent Kogan Creek Mine operated efficiently during the 2008/2009 year, delivering 2.4 million tonnes of high-quality, low-sulphur black coal to meet the station's demand. The coal is delivered using a four-kilometre conveyor at an average rate of 8,000 tonnes per day. The mine is operated by Golding Contractors and throughout the year, the mine's workforce number remained stable at approximately 52 personnel, and achieved an excellent environmental and safety record.

A focus for the mine team during 2008/2009 was understanding how the coal impacts the station's performance. Work was completed on blending the coal from the coal seams to produce a uniform product to improve handleability, boiler performance and ash volumes. Rehabilitation work also started on the out-of-pit overburden dump, using topsoil reclaimed from pre-mining activities. This topsoil will be seeded with a mixture of grasses in the 2009/2010 year, when weather and soil conditions are favourable.

Looking forward 2009/2010

- Prepare for first major overhaul in August 2010.
- Complete construction and commission the ash disposal system to the mine.
- Manage the scraper chain ash volume to maintain station load factors.

Swanbank Power Station

The aging Swanbank B Power Station is currently the focus of a life extension review, the outcome of which is expected to be presented to the CS Energy Board early in the 2009/2010 financial year. A refurbishment program is being considered and, if economic, would see the station operate beyond the current expected closure date of 2011.

This year, Swanbank B achieved a reliability of 81.4 per cent, which is down on the previous year's result of 94.7 per cent. This outcome was due to flooding as a result of heavy rain in November 2008, combined with age-related equipment failures and technical challenges following the introduction of recycled water at the station.

The station has been operating on recycled water since September 2007, which is piped to site from the Queensland Government's advanced waste water treatment plant at Bundamba. The introduction of recycled water has meant the station stopped taking water from the Wivenhoe Dam, alleviating pressure on the region's main water supply. However, recycled water, combined with other drought management measures, such as increasing the number of times water is recycled in the cooling system, resulted in unforeseen scaling in the condensers. This resulted in unplanned outages to clean the condensers using high-pressure equipment.

Swanbank E continues to operate consistently, recording a reliability result of 96 per cent for 2008/2009, which is an increase from the previous year, due partly to the replacement of defective turbine blades during a major outage in 2007/2008.

In October 2008, the Department of Environment and Resources Management (DERM) approved a Transitional Environmental Program, which included the use of a low-height bund and a dry reclaim stockpile in the Swanbank ash dam area to increase the site's ash storage capacity. It is actively pursuing a number of reuse opportunities for the ash from the station, including the upgrade of the Ipswich Motorway and other local infrastructure projects, to recycle the ash.

In July 2008, Swanbank Power Station was the subject of national media attention when nine Greenpeace protestors cut the perimeter fence and entered the site, and four scaled the Swanbank B station south chimney, staying up the chimney overnight. There was no impact on generation and the protestors were brought down safely under the charge of local police.

Expansion of the Swanbank site, with the proposed development of the gas-fired Swanbank F Power Project, is still under review. While the project team progresses plans for the construction of a new gas turbine on the old Swanbank A site, the Company continues to seek additional gas supplies for both Swanbank E and to underwrite the Swanbank F development. For more information on its gas activities, please see page 42 of this report. Further information about the Swanbank F Power Project is on page 43.

Looking forward 2009/2010

- Complete the business case to extend the life of Swanbank B beyond 2011.
- Proactively seek beneficial uses of recycled ash in various infrastructure projects.
- Finalise gas arrangements for Swanbank E and to underwrite the new gas-fired Swanbank F Power Project.

Callide Power Station

A $200 million mid-life refit program is currently underway at Callide B Power Station, which will see the station's operational life extended to at least 2028.

The five-year upgrade program commenced in October 2007, and major components of the program were completed in June 2009 with the successful dual outage of both B station units – the largest outage on site since B station was constructed in 1988.

More than 500 contractors and up to 100 CS Energy site and corporate staff were involved in the dual overhaul, which resulted in more than 270,000 hours of work on site. The project was the culmination of several years planning as well as extensive off-site design and manufacturing work.

The dual outage enabled work to be carried out on shared plant, as well as the Unit B2 control system, turbine, condenser, generator and boiler.

The Callide B mid-life refit program will finish in 2010, when final work is carried out at Unit B1.

The Callide B Power Station recorded 89.7 per cent reliability for 2008/2009, reflecting the two-month outage and the station's need for these mid-life works.

The Callide C Power Station, which is owned in a joint venture with InterGen, recorded a reliability of 86.5 per cent, slightly up from 81.9 per cent last year. This result is largely due to work undertaken to help rectify ongoing technical issues with the Callide C boilers.

Since commissioning in 2001, Callide C's boiler manufacturer, IHI, maintained responsibility for some boiler components. In 2007/2008, agreement was reached on these latent defect claims and as a consequence, CS Energy and InterGen accepted responsibility for the asset. Since then, action has been taken to help resolve these issues and boost the station's reliability. One of the initiatives implemented this year is to operate the station at its nominal 405 megawatts rather than its maximum capacity of 450 megawatts. The joint venture owners are expecting the station's reliability to improve further under this operating regime.

Callide A Power Station will be a leading demonstration of near-zero emission electricity generation from coal using oxyfuel combustion and geosequestration.

This $206 million project was officially opened in November 2008, with the first work being carried out on the 30 megawatt A4 unit. CS Energy, through the Callide Power Station, is providing the Operations and Maintenance support for the Callide Oxyfuel Project. More information about this significant clean coal project can be found on page 39.

Callide Power Station also welcomed a new site manager during the year, Kevin Harney, who took up his post in August 2008.

Water is a major issue for the Central Queensland region. However the dam levels at the Station's main water supply, Awoonga Dam, remain relatively stable at 55 per cent capacity. Water is piped from Awoonga Dam to the Callide Dam for use by the station and the town. The current Awoonga Dam level represents about three years of water for the station and the town. It continues to monitor these levels and work with local agencies to ensure responsible use of this precious resource.

In conjunction with the local shire council and Queensland Treasury Corporation carbon accounting specialists, the station conducted a carbon footprint of its non-operating buildings. This report contained several recommendations to reduce its footprint, and the station will be carrying out these initiatives in the coming year.

Looking forward 2009/2010

- Finalise extension of the agreement for ongoing coal supply with Anglo Coal.
- Conduct a major overhaul on Unit C3, to further improve Callide C's reliability.
- Complete work on the pyrite extraction from coal mills at Callide C.
- Continue to work with Callide Oxyfuel Project joint venture partners in the next stage of this significant demonstration project.

Mica Creek Power Station

Mica Creek Power Station continues to perform strongly, recording a system reliability figure of 99.9 per cent for 2008/2009, up slightly from the previous year's figure of 99.6 per cent.

The station underwent several planned maintenance outages during the year to ensure the plant continues to supply reliable electricity to the townships of Mount Isa and Cloncurry, and to industrial customers in the North West Minerals Province.

This year, however, the demand for electricity in the region decreased, as global economic conditions affected some of Mica Creek's major industrial customers.

Six weeks of monsoonal rains and flooding in January 2009 and February 2009 also impacted on the station's performance and caused some plant outages and load shedding. Flooding of local rivers isolated the station and caused staffing challenges. The rain brought relief in terms of water supply for the station, as dam levels had fallen to 11 per cent and severe water rationing was being planned.

A major, multiple-unit trip at the Mica Creek Power Station on the afternoon of 24 December 2008 caused blackouts in the townships of Mount Isa and Cloncurry and the loss of supply to some of its industrial customers. This trip was caused by two lightning strikes on the transmission line, which sent a fault through the system, causing two generators to trip. CS Energy personnel were able to restore all tripped units after only a couple of hours.

The Company has identified some structural concrete degradation in A Station, and has sought specialist advice to repair and monitor several areas in the station. This year it spent more than $650,000 to repair high-priority areas and will continue with a planned program of repairs in the coming year.

During 2008/2009, a significant overhaul on A5 saw the replacement and upgrade of major parts in this unit. An inspection outage on C station was also successfully completed, and a major overhaul on A6 commenced in June 2009.

CS Energy is still investigating the redevelopment of Mica Creek, which will both extend the life of the station and increase its efficiency. During 2008/2009, the Queensland Government sponsored an inquiry to determine a least-cost solution for the supply of electricity to the region.

CS Energy supports the review and provided information for analysis, and it anticipates a formal tender process will take place in the coming year to market-test a range of possible options to deliver long-term power to the North West Minerals Province. This decision-making process necessarily delays any decision on the Mica Creek Power Station Renewal Project and, while CS Energy is participating in this process, it continues to pursue alternative gas supplies to improve the overall economics of local generation in Mount Isa.

Looking forward 2009/2010

- Continue the planned program of repair to A station concrete degradation.
- Complete a major inspection of B1 in August 2009.
- Provide development and skill improvement opportunities to retain staff.

Resources

CS Energy uses black coal, natural gas, coal seam methane (CSM) and landfill gas to fuel its power station portfolio.

In the last ten years, CS Energy has increased the proportion of gas-fired generation in its portfolio, and it looks to invest in the latest technology for both coal and gas-fired plant. The Company continues to make its current plant as efficient as possible, and sustain its business growth through low-emission technology and the responsible use of its natural resources.

Water is the other key input in electricity generation and the Company uses recycled water, raw water and town water in its operations. Each site has water management strategies in place to maximise the efficient use of this precious resource and the success of these strategies is gauged through water use intensity, which shows how much water is used per unit of energy sent out.

Using coal to generate electricity creates the by-product fly ash. Normally stored in ash dams, fly ash can also be recycled for use in concrete manufacturing, soil enhancement or as fill. In 2008/2009, around 128,487 tonnes of ash from Callide and Swanbank power stations were sold for beneficial reuse.

Making the most of black coal

Each of CS Energy's three coal-fired power stations uses black coal, supplied through long-term agreements.

Black coal for the Swanbank Power Station is supplied by either truck or rail from the Acland open cut mine, on the Darling Downs, which is owned and operated by New Hope Coal Australia Limited.

Callide Power Station is supplied with black coal by conveyor belt from the adjacent Callide Coalfields under a contract with a subsidiary of Anglo Coal Australia, which owns and operates the Callide Mine.

Coal for Kogan Creek A Power Station is supplied by a four kilometre conveyor belt from the adjacent Kogan Mine, which is owned by the CS Energy group and mined by Golding Contractors under long-term contract. As a contingency, the New Hope mine at Acland is able to deliver limited quantities of coal by truck to Kogan Creek A Power Station, if needed.

Tracking water use across the portfolio

CS Energy measures its water use by looking at total consumption, as well as water use intensity, which shows how many megalitres of water it uses per gigawatt hour of energy sent out (ML/GWhso).

This year its total water consumption was 24,201, a 4.4 per cent decrease on last year's figure of 25,325 megalitres. A full year of operation at Kogan Creek A Power Station was responsible for a slight increase in water usage, however this was balanced by lower generation at Callide B and C power stations due to several months of outages at these sites.

CS Energy's water intensity has also decreased this year, due to the introduction of the dry-cooled Kogan Creek A Power Station. The Company recorded 1.45 ML/GWhso in 2008/2009, a decrease from 1.64 ML/GWhso recorded in 2007/2008.

The majority of water used at the Callide Power Station comes from the Gladstone Area Water Board's Awoonga Dam, and is piped to the Callide Dam to minimise evaporation. The station has an additional minor allocation from the Callide Dam, which also provides the Banana Shire with drinking water. Despite recent rain in Queensland, the Callide Valley remains in drought, and CS Energy is currently investigating opportunities to dry-cool the Callide Plant to help reduce the pressure on water supplies in the region.

Swanbank Power Station continues to source the majority of its water from the Western Corridor Recycled Water Project. The station also has an agreement to supplement this supply with small quantities of water from Berry's Lagoon, when it is available after rain. Water from the Wivenhoe system is no longer needed, releasing over 20,000 megalitres a year back into the Brisbane area water supply.

Kogan Creek Power Station has a dry-cooling system and consumes only 1,500 megalitres of water a year at full load, approximately one-tenth the consumption of a similarly sized conventionally cooled plant. The station's water is supplied from local bores.

Mica Creek Power Station receives water from the Leichhardt supply system and Rifle Creek Dam. The station cycles its cooling water up to 12 times through the power station and provides its effluent water for reuse by Xstrata mining operations. This year, the station supplied 310.2 megalitres of water to the mine, down slightly on last year's figure of 381.5 megalitres, reflecting water conservation measures on site, outages of the steam units and reduced customer demand.

Reusing ash to reduce resource consumption

Ash (fly ash and furnace ash) is a by-product of coal combustion, and can be stored in ash dams or recycled. Fly ash is most commonly recycled and used as a cement replacement in concrete, which has an added benefit of reducing the amount of greenhouse gas associated with this industry.

Recycled ash can also be used in the reclamation of mining voids, as a soil improver, an adsorbent for oil waste removal, or as fill in large civil engineering projects such as highway embankments.

In 2008/2009, CS Energy recycled 128,487 tonnes of ash from the Callide and Swanbank power stations. This is a 20 per cent increase from the amount recycled in 2007/2008. CS Energy currently supplies ash to Cement Australia, Global Cement, Renewed Resources and Transpacific from these stations. At Kogan Creek A Power Station, the Company is currently designing an ash pipeline system which will take the ash from the power station back to the coal mine to fill the mine voids and enable mine rehabilitation.

CS Energy is a member of the Ash Development Association of Australia, which promotes the beneficial use of power station fly ash.

Increasing gas-fired generation

CS Energy has a long-term strategy of reducing its portfolio carbon intensity through fuel diversity. Its expanding gas portfolio, and activities in upstream gas supply, underpin this business objective.

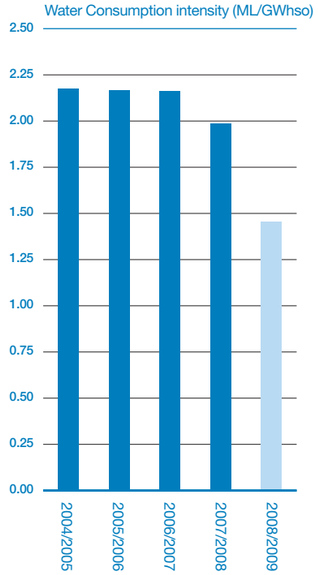
The Company has gas purchase agreements in place to supply existing gas-fired plant at Mica Creek and Swanbank E, but the long-term business strategy depends on securing additional gas for future success.

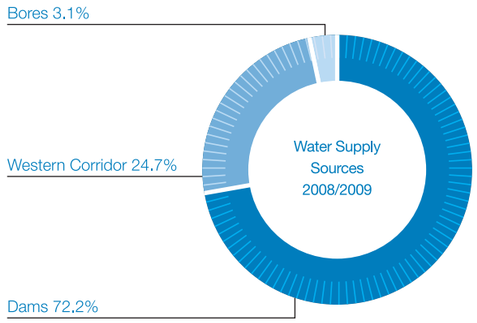
Mica Creek Power Station is fuelled by gas from Santos' south west Queensland fields, via the Carpentaria Pipeline. In south east Queensland, CS Energy sources gas for Swanbank E from Santos' Scotia CSM field, Queensland Gas Company's Berwyndale South CSM field, Mosaic's conventional gas field near Wallumbilla and the CS Energy/Arrow Energy CSM joint venture at Kogan North.

CS Energy's strategy of combining long-term gas agreements with investment positions in natural gas and CSM development fields will provide a diverse mix of supply and reduce supply risk. Gas development work in 2008/2009 focused on:

- Arrow Energy's Kogan North CSM field, near Chinchilla;
- Mosaic Oil's operations in the Surat-Bowen basin;
- Queensland Gas Company's Berwyndale CSM field;
- Santos' Scotia CSM field near Roma; and
- Metgasco's Casino CSM field in northern New South Wales.

For more information on gas developments, see page 42 of this report and the CS Energy website.





Native forests provide carbon hope

A partnership between CS Energy and Greening Australia is set to deliver potentially groundbreaking research into how much carbon native forests can store compared to single-species plantations.

'We are proud to be in partnership with Greening Australia to pioneer this type of research, and believe there are many benefits to planting native forests instead of tree plantations.

Native forests have greater species diversity and are more resilient to environmental and climate impacts than plantations.'

CS Energy's Carbon Strategy Manager Don Woodrow (pictured left)

'The possibilities are exciting - farmers could tap into an additional income source, we could help restore our natural landscapes on a large scale and CS Energy could offset some of its greenhouse gas emissions.

We're conducting research at 410 sites across 12 landscapes – from Queensland to Western Australia – with the findings also assisting us to refine the model used to predict carbon storage potential.'

Greening Australia's Carbon Business Director, Rick Humphries (pictured right)

CS Energy's future

The introduction of a national Carbon Pollution Reduction Scheme (CPRS) in 2011, together with a national Mandatory Renewable Energy Target of 20 per cent renewable energy by 2020, will dramatically reshape the Australian electricity industry over the next 20 years.

The Company aims to be at the forefront of these changes, and has developed long-term business strategies to guide its development into the future. These strategies set a foundation from which it can grow, meet market expectations, and develop a portfolio which:

By 2020:

- Has installed generation capacity in excess of 4,000 megawatts;
- Has 500 megawatts of renewable generation;
- Is carbon neutral in its internal energy consumption; and

By 2030

- Achieves a generation portfolio greenhouse emission intensity of less than 400kgCO_2/MWhso.

The new 2009-2014 Strategic Plan sets the direction for CS Energy's 2009/2010 Business Plan and can be found on its website.

The plan addresses the four critical success factors for CS Energy, people, portfolio, growth and social licence, and addresses the interconnections between these areas.

The Company's growth ambitions require that it is a capable operator of its current portfolio; that its staff are skilled and engaged; that it is a trusted, viable and responsible company; and that it has the capability to integrate new, low emission technology into its portfolio.

The Hon. Martin Ferguson, MP, Federal Minister for Resources, Energy and Tourism, discusses the project with Callide Oxyfuel Project director, Dr Chris Spero.

Emerging technologies for future generations

Progress 2008/2009

- Site works commenced on the Callide Oxyfuel Project in November 2008.
- Completed refurbishment of the Callide A4 boiler, in preparation for retrofit with oxyfuel technology.
- Conducted feasibility studies for three renewable energy projects – two solar and one geothermal.
- Applied for funding for the two solar energy projects at Kogan Creek Power Station.
- Started a biosequestration research project in partnership with Greening Australia.

The drive to develop low-emission generation underpins CS Energy's long-term business strategy. It recognises that it cannot continue to rely on traditional generation methods, and looks to investment and innovation to provide answers to the future energy challenge.

To achieve its business goals, CS Energy aims to lead the commercialisation of low-emission technology for new plant, and fully maximise the efficiency of its existing plant.

While there is still a long way to go, the Company has valuable experience and expertise in using fossil fuels and is developing partnerships that will keep CS Energy 'generations ahead'.

These innovative projects include:

- Using carbon capture and storage in the Callide Oxyfuel Project;
- Combining gas-fired generation with a solar array in a hybrid power station;
- Using solar energy to boost the efficiency of coal-fired plant;
- Building an understanding of how effectively native forest revegetation can offset carbon emissions;
- Using algae to capture and biosequester carbon from coal-fired generation;
- Developing a stand-alone carbon capture and storage power station using oxyfuel technology; and
- Retrofitting a hybrid cooling system at Kogan Creek Power Station to decrease its carbon intensity.

Commercialising low-emission coal

Callide Oxyfuel Project

In November 2008, the Callide Oxyfuel Project was officially launched by the Australian Resources, Energy and Tourism Minister, the Hon. Martin Ferguson, Queensland Mines and Energy Minister the Hon. Geoff Wilson, and the Japanese Vice Minister of Economy, Trade and Industry, Yoshifumi Matsumura.

This $206 million project involves retrofitting a Callide A unit with oxyfuel technology, to enable carbon dioxide to be captured and stored underground and proving it can produce electricity from coal with almost no emissions.

Led by a joint venture partnership of six international companies, the project is a flagship project of the Asia-Pacific Partnership on Clean Development and Climate (APP), and is an important step towards demonstrating practical and adaptable technology to help tackle climate change.

Several major milestones were reached during 2008/2009, including firing up Callide A Unit 4 for the first time in seven years. Originally built in the 1960s, the 30 megawatt unit underwent a major return-to-service overhaul in January 2009 and ran under normal air-firing conditions for two months as part of a key testing and benchmarking phase. Its conversion to oxyfuel combustion will commence during 2009/2010.

Emerging technologies for future generations (continued)

CS Energy secured $50 million in funding from the Australian Government's Low Emissions Technology Demonstration Fund for the project. An additional $10 million was received from the Queensland Government, together with funding from project partners the Australian Coal Association's COAL21 Fund, Xstrata Coal, Schlumberger, IHI Corporation, JPower, Mitsui and the Japanese Government.

The project comprises two key processes:

1. Oxyfuel combustion and carbon dioxide (CO_2) capture at the power station; and
2. The long-term storage of CO_2 underground (geosequestration).

Sub-surface experts Schlumberger have supported the joint venture in assessing areas suitable for geological storage of CO_2. While several deep reservoirs within the Denison Trough formation, 200 kilometres west of Callide, had been identified as potential storage sites, the joint venture partners are considering alternative options for storage, including a partnership with ZeroGen.

Over the next 12 months, more detailed investigations and stakeholder consultation and engagement are proposed, to determine the specific location for the CO_2 storage demonstration, and a decision will be made in mid-2011. For further information on the Callide Oxyfuel Project including project schedules and technical details please visit the project's website at www.callideoxyfuel.com.

Kogan Creek B carbon capture and storage project

CS Energy continues to examine expanding the new Kogan Creek Power Station to include a second generating unit on the site. Design concepts for the proposed Kogan Creek B Power Station include a supercritical, high-efficiency steam cycle unit, dry-cooling and carbon-capture readiness. If the Callide Oxyfuel Project successfully proves oxyfuel technology as a carbon capture option, there will be a pressing need to identify a site to apply the technology at commercial scale.

Investigating integrated renewables

Kogan Creek Integrated Solar Thermal Power Station

The Kogan Creek Integrated Solar Thermal Power Station (KIST) would be a stand-alone, hybrid power station on the Kogan Creek Power Station site. The project combines a solar array with a gas turbine fuelled by coal seam methane (CSM) from adjacent fields, to deliver 230 megawatts to the national electricity grid.

Using standard combined cycle technology, a 120 megawatt gas turbine will be augmented by a 110 megawatt steam turbine. A heat recovery system, which uses waste heat from the gas turbine exhaust to heat water for the steam turbine, will provide 60 megawatts of this energy and solar technology will be used to generate an additional 50 megawatts of electricity through the same steam turbine. The technology is known as Integrated Solar Combined Cycle System, and means it can deliver solar thermal energy more efficiently and at a lower cost than existing stand-alone commercial solar thermal plants.

In February 2009, CS Energy applied for funding through the Australian Government's Renewable Energy Demonstration Program. In the coming year it will progress these proposals and pursue the funding needed to develop this project.

Kogan Creek Solar Boost project

The Company also applied to the Australian Government's Renewable Energy Demonstration Program for funding to install a 23 megawatt solar thermal addition to the Kogan Creek A Power Station. Currently, steam, and therefore energy, is bled from the system to preheat water entering the boiler. The solar thermal system will replace this process, using solar energy for preheating and thereby improving the overall efficiency of the coal-fired system.

Kogan Creek Power Station is ideally situated for solar projects, with an existing power station already connected to the electricity network. Funding grant announcements for both Kogan Creek solar projects are expected in early 2009/2010.

Exploring offsets

Carbon offset project with Greening Australia

In late 2008, the Company formed a partnership with Greening Australia to tackle carbon emissions through the planting of native forests and assess the long-term carbon offsets from biodiverse native forests.

Australia is uniquely placed to take advantage of reforestation to manage a proportion of its carbon reduction target. The project's long-term focus is returning marginal farmland, of which Australia has a large supply, to native forest, while also providing a large-scale emission offset.

The introduction of the Carbon Pollution Reduction Scheme (CPRS) adds an economic benefit to work that Greening Australia has been undertaking for decades. CS Energy and Greening Australia are working together to determine the commercial value of native forest revegetation compared to the cost of other forms of abatement.

Under the partnership, CS Energy will provide approximately one million dollars to fund a carbon yield research and development program. The aim of this research is to determine carbon yields from native, biodiverse forests and therefore determine a cost per tonne of carbon offset.

This first stage of the project is in progress and, if successful, it will investigate a trial planting program during 2009/2010.

Researching new technologies

Using algae to capture carbon

Another innovative, low-emission technology that CS Energy is investigating is the use of algae to remove and biosequester carbon dioxide from the emissions of coal-fired generation. This simple but innovative concept uses native algae species as a sequestration sink for CO_2, in the same way as trees are used. However, it is directly linked to the CO_2 source and the sequestration is more measurable.

In mid-2009, the Company signed an agreement with GreenCell, a Queensland-based algae bioreactor technology company, to run a pilot project at Swanbank B Power Station. Under the agreement, CS Energy will provide a flue gas stream to the project for processing and GreenCell will fund the construction and operation of the plant.

In the coming year CS Energy will progress this partnership and GreenCell has submitted a grant application through the AusIndustry Climate Ready Program, which will help fund the pilot plant project at Swanbank.

Improving existing plant

Kogan Creek hybrid cooling system

Currently, the Kogan Creek A Power Station is dry-cooled and uses just one-tenth of the water a similar-sized wet-cooled station needs. This design is appropriate in the drought-affected western Queensland region and has meant that the station does not put pressure on the local water supplies. However, the dry-cooling system uses large fans, increasing the station's internal electricity consumption and decreasing its overall efficiency.

Over the last couple of years, the region has seen a rapid increase in the levels of coal seam methane (CSM) exploration and production. A by-product of CSM production is large volumes of water, usually with a high salt content and disposed of in evaporation ponds.

The expansion of the CSM industry in the Kogan Creek region may present a unique opportunity to partner with the CSM operators and recycle their unwanted water through the Company's power station, improving the station's efficiency and lowering its greenhouse intensity.

In the coming year CS Energy will progress this initial concept and start to test various water qualities to supplement the dry-cooling at Kogan Creek A Power Station.

Looking forward 2009/2010

- Install oxygen plant and carbon dioxide compression unit adjacent to Callide A4 – the two major components of the Callide Oxyfuel Project.
- Finalise agreement for the geological storage site for the Callide Oxyfuel Project.
- Progress design concepts and funding arrangements for the Kogan Creek solar hybrid and solar boost projects.
- Determine feasibility and funding arrangements for a pilot algae biotechnology system at Swanbank Power Station.
- Review research findings from the Greening Australia research project, and determine feasibility to progress to trial planting.
- Continue to progress design plans for a proposed carbon capture power station at Kogan Creek Power Station site.

Gas activities

Progress 2008/2009

- Conducted a technical feasibility review on the Stratheden joint venture with Metgasco.
- Established a field development agreement with Arrow Energy to increase production from their Kogan North gas field.
- Celebrated seven years of co-firing coal with landfill gas at Swanbank Power Station.
- Revised the strategy for additional gas supply to support Swanbank E and the development of the new Swanbank F Power Project.

ReOrganic Energy

During 2008/2009, CS Energy celebrated seven years of operation at the Swanbank ReOrganic Energy project, which uses landfill gas from the adjacent landfill to co-fire with coal at Swanbank B. Still one of Australia's largest waste-to-energy projects, ReOrganic Energy is a joint project between CS Energy, Thiess Services, Landfill Management Services and New Hope Energy. The gas produces five megawatts of electricity continuously and has reduced greenhouse gas emissions by more than 2,664,000 tonnes of CO_2 since its inception. This is equivalent to taking 90,000 cars off the road.

Stratheden Joint Venture

CS Energy entered into a joint venture agreement (Stratheden Joint Venture) with energy company Metgasco in December 2006 to develop coal seam methane (CSM) fields located near Casino in northern New South Wales. This project was undertaken in parallel with the development of CS Energy's Swanbank F Power Project near Ipswich, and was intended to provide a low cost fuel for this high-efficiency, combined cycle gas-fired power station.

As a result of its $12.1 million investment in the joint venture, CS Energy holds a 15 per cent interest in the CSM within graticular blocks 4, 5 and 1 of PEL 16. During the year, CS Energy placed its participation in field development activities on hold to undertake a review of the resource and objectives of the Swanbank F Project. It was concluded that an economic production technique to extract gas would not be realised within a time frame to suit the Swanbank F Project and that other sourcing and generation options be considered. Further investment in the Stratheden Joint Venture is no longer the preferred investment strategy.

In the coming year, CS Energy will seek to exit the Joint Venture to focus on alternatives.

Kogan North Gas

CS Energy holds a 50 per cent interest in Arrow Energy's Kogan North CSM field PL194. During the year, gas flows from the eastern part of this field did not meet forecasts, and supplementary gas from Arrow's adjacent Daandine field was required to meet agreed supply obligations.

During 2008/2009, a number of additional wells were completed, which should improve production from the field. The Company is working in consultation with Arrow's technical consultants to prepare a five-year development plan and budget for consideration during 2009/2010.

Scotia Gas

More than nine years ago, CS Energy entered into a gas sales agreement with Santos for supply of natural gas from the Scotia field in western Queensland. This gas has been supplying the Swanbank E Power Station since 2002 under a buyer-funded well arrangement.

Queensland Gas Company

CS Energy and Queensland Gas Company (QGC) signed a gas sales agreement in 2006 and, since then, QGC's CSM gas has been supplying the Swanbank E Power Station.

During 2009/2010, QGC will conduct a 'Proof of Production' phase for its liquid natural gas development and, as a result, is likely to have surplus gas available. It has indicated a requirement for up to four terajoules of this gas from August 2009. This gas will top up the supply from the Arrow Energy Kogan North field.

Mosaic Gas

In March 2008, CS Energy signed a Buyer-Funded Operations Agreement with Mosaic Oil to fund four initial wells at its Waggamba field development in south west Queensland. This field is being developed to supply Swanbank E Power Station until 2013.

The first well (Waggamba 4H) was drilled in April 2008 and has been successfully producing gas since that time.

The second well (Waggamba 5H) was drilled in June 2008, but has had difficulties establishing a flow from the reservoir. At the end of the 2008/2009 year, Mosaic was engaged in remedial work to improve the flow. Based upon a successful outcome, a decision to commit to funding for the next well (Waggamba 6H) will be made.

Mica Creek Power Station Renewal Project

CS Energy is investigating options to ensure Mica Creek Power Station continues to support north west Queensland into the future. Initial design work to replace some of the older units with new, high-efficiency plant is complete and it has been working with customers to secure firm, 15-year power purchase agreements, necessary to facilitate funding for the project.

During 2008/2009, the Queensland Government commissioned a review into the energy supply and infrastructure to the North West Minerals Province. This process necessarily delays any decision on the Mica Creek Power Station Renewal Project and, while CS Energy is participating in this process, it continues to pursue alternative gas supplies to improve the overall economics of local generation in Mount Isa.

Swanbank F Power Project

In 2009, CS Energy submitted an application for development approval for a second combined-cycle gas turbine plant at Swanbank Power Station to the Ipswich City Council and the Department of Environment and Resource Management (DERM).

This project is predicated upon secure fuel supply, and it has been working to secure a competitive gas supply for this project. Until it has secured long-term economic gas for this project, CS Energy does not intend to progress the plant procurement and, during 2009/2010, it will continue to source additional gas supplies to underpin both the current gas supply to Swanbank E, as well as resources to fuel Swanbank F.

Looking forward 2009/2010

- Source additional gas supply to provide an economic fuel supply for Swanbank E, and to progress the development of Swanbank F Power Station.
- Work with Arrow Energy to determine long-term gas supply, and negotiate additional gas requirements with QGC, to secure supply for Swanbank E Power Station.

Generosity means a world of sound for Alyssa

CS Energy is helping Mount Isa's Alyssa Smith to access a world of sound and speech, through a workplace giving partnership with the Brisbane-based Hear and Say Centre.

Alyssa was diagnosed with a severe to profound hearing loss when she was 14 months old. She received a cochlear implant and began the Hear and Say Centre's outreach program, via webcam, to help develop her speech and language.

Alyssa graduated from the program in 2008, and started Grade 1 in Mount Isa in the following year.

The Hear and Say Centre was one of six charity partners chosen by CS Energy staff for its workplace giving program, Generosity.

In 2008/2009, CS Energy staff raised more than $120,000 for these organisations, to continue to provide much-needed services to the communities in which we operate.

Earning trust

CS Energy is operating in a rapidly changing environment. As society moves towards greater social and environmental consciousness, the Company's stakeholder expectations continue to grow. It sees its social licence as one of the foundations of a successful future for CS Energy. A social licence is earned, not bought, and it aims to balance its social, environmental, ethical and economic risks to ensure it retains the trust of its stakeholders.

The Company's social licence is built on the trust of its stakeholders – those individuals and groups who are affected by, or have an interest in, its operations, including:

- Current and future employees;
- Contractors;
- Customers;
- Shareholding Ministers and their departments;
- The local communities in which it operates;
- Unions;
- Suppliers;
- Special interest groups;
- Relevant authorities; and
- Current and prospective business partners.

CS Energy's challenge is to transition to a carbon-constrained environment, strengthen its reputation as a socially responsible corporation, and press for constant transparency and honesty in its governance. By listening and responding appropriately to its stakeholders, and responsibly managing its environmental and social risks, it sets the path for future growth and success.

It strives for first-class environmental stewardship across the Company, and is focused on making continuous improvements in its carbon management, sustainability, environmental performance, community, accountability and corporate governance performance.

Kogan Creek Environmental and Industrial Chemist, Ian Richardson, regularly tests water quality as part of an ongoing environmental monitoring programme.

Carbon and sustainability strategy

Progress 2008/2009

- Developed a five-year carbon management plan and project map to underpin strategic decision making.
- Undertook two pilot carbon footprint audits, covering the corporate offices and Callide Power Station main buildings and ancillary services.
- Established framework for carbon reporting under the *National Greenhouse Energy Reporting* (NGER) *Act*.
- Undertook its first Corporate Social Responsibility (CSR) audit to benchmark business practices and help implement an action plan to improve the balance of social, environmental and economic goals.
- Supported Earth Hour across all sites and marked World Environment Day with tree plantings at the Kogan Creek and Callide power stations.

Carbon management

The challenge of responding to climate change is the single biggest issue currently facing the energy industry. As a fossil fuel-fired generator, CS Energy is at the forefront of what is set to become a new era for energy generation.

Through its membership of the National Generators Forum and the Electricity Supply Association of Australia, CS Energy is actively contributing to the development of Australia's carbon market.

Under the *National Greenhouse and Energy Reporting Act 2007* (NGER), it is obliged to report emissions, energy consumption and energy production. This information will form a fundamental part of the federal Carbon Pollution Reduction Scheme (CPRS), which is expected to be introduced in 2011. During 2008/2009, CS Energy modified its existing data collection systems to enable reporting under the NGER scheme. It is scheduled to provide its first report to NGER by 31 October 2009.

CS Energy has also been a member of the Australian Greenhouse Office's Greenhouse Challenge Program since 1997. During this time, even though it has added more than 1,000 megawatts of new plant to its portfolio and increased its generation by 73 per cent, it has reduced its carbon intensity by 17 per cent. By increasing the proportion of gas-fired generation in its portfolio, and investing in highly efficient new plant, it has decreased the amount of carbon generated per unit of electricity, from 933 tonnes of CO_2 equivalent per gigawatt hour (tCO_2/GWh) sent out in 2001/2002 to 845tCO_2e/GWh sent out in 2008/2009.

CS Energy plans to continue reducing its portfolio greenhouse intensity, in line with its long-term business objective of achieving a greenhouse emission intensity of less than 400tCO_2/GWh sent out by 2030. To accomplish this, it will have to further increase the proportion of renewable and gas-fired generation in its portfolio as well as keep its focus on efficiency improvements and the development of low-emission technology, such as oxyfuel, for new and existing coal-fired plant.

The Company's Carbon Management Plan, developed during 2008/2009 details how it will continue to develop the business, both under its long-term carbon intensity objective of 400tCO_2/GWh and the impending introduction of the CPRS in 2011. The Plan details initiatives to improve the efficiency of existing plant, trading strategies to ensure it is equipped for a new carbon market, strategies to progress renewable projects (further details of its solar projects can be found on page 40) and a carbon offset project in conjunction with Greening Australia, which is detailed on page 40.

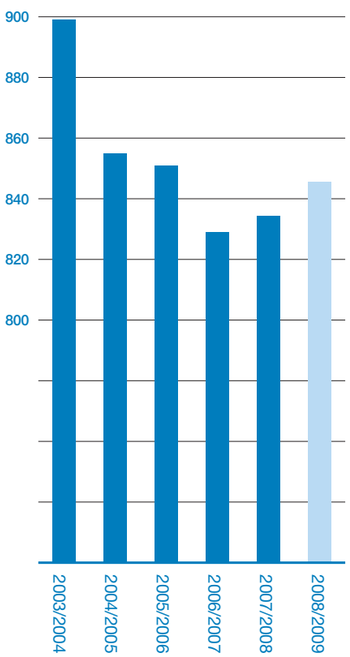
During 2008/2009 CS Energy undertook two pilot carbon footprint audits. These projects will help it better understand its systems and work towards providing relevant and transparent information to its stakeholders.

The first audit was conducted at Callide Power Station, in conjunction with the Queensland Treasury Corporation, to measure the greenhouse gas emissions and energy efficiency of a range of ancillary activities at Callide, including vehicles, rental cars and travel. The audit found that the greenhouse gas emissions from these services totalled 1,044 tonnes of CO_2 equivalent – 58 per cent from electricity use, 26 per cent from vehicles and plant equipment and 16 per cent attributed to airline travel.

Carbon and sustainability strategy (continued)

The second carbon footprint assessment was conducted in June 2009 across the Corporate Offices in Brisbane: Levels 21 and 20 at Central Plaza Two and its office at 82 Eagle Street. This report was prepared by postgraduate students from the University of Queensland, and covered scope one and scope two emissions under the NGER guidelines, including purchased electricity, fugitive emissions from airconditioning, fridges and water coolers and direct fuel usage from fleet cars. This report found that the greenhouse gas emissions from these services totalled 407.78 tonnes of CO_2 equivalent, but do not include airline travel and rental cars as the Callide audit did.

Greenhouse intensity per energy sent out (tCO_2-e/GWh)



In 2009/2010 CS Energy will review the recommendations of these reports and implement an action plan to respond to these audit findings.

Sustainability and corporate responsibility

For CS Energy, sustainability is about efficient and responsible use of resources: minimising its impact on the environment in all stages of the electricity generation process; keeping its employees safe and healthy; improving the lifestyle in the communities where its employees and their families live; and providing its shareholders with a long-term, economically profitable venture.

In 2008, through its involvement with the National Generators Forum, it participated in the development of the Electricity Supply Association's Sustainable Practice Framework. In March 2009, it was a foundation signatory to this Framework, and under this it is obliged to report its sustainability progress against the industry-chosen indicators, which are mapped across the Global Reporting Initiative (GRI) indicators. In the coming year, it plans to produce a Sustainability Review document for the 2008/2009 year, with the aim of setting the systems in place to produce its first Sustainability Report by 2011.

In January 2009, it also undertook its first Corporate Social Responsibility (CSR) audit. This research provided baseline data, benchmarked its business practices against industry standards and helped it develop strategies to better balance its social, environmental and economic goals.

The research was undertaken by an independent consultant and was conducted in two parts; interviews with key stakeholders in each of the four communities in which it operates as well as an independent assessment of its reputation by researchers, using only publicly available information.

While the results revealed pleasing positive relationships with the communities that host its operations, there are also areas that need significant work. Overall, an increase in transparency and greater clarity in articulating the corporate philosophy is required.

A major corporate branding project has been initiated for 2009/2010, including the development of a new website and publication design.

The CSR research also prioritised actions in the coming year, including:

- Increase transparency in its reporting, policies, procedures and operations;
- Focus on a strategic approach to its community contribution and engagement across the portfolio;
- Develop a sustainability assessment process to guide measurement and reporting; and
- Encourage staff involvement in community engagement activities under its workplace giving program, *Generosity*.

In April 2009 the Company joined the Queensland Sustainability Roundtable (SARt), which aims to encourage the sharing of knowledge and lessons learned from experiences and expertise in sustainability practices and processes.

The SARt agenda is determined by members and driven by collective interest and preference. Key areas of focus established for 2008/2009 include:

- Emissions and waste management;
- Cultural change;
- Sustainable planning and design;
- Corporate reporting and benchmarking;
- Input management (water, energy, materials);
- Economic assessment (financial and ecological);
- Innovation;
- Carbon trading schemes; and
- Eco-efficiency.

CS Energy is seeking to establish the principles of sustainability in its procurement activities. During 2008/2009, it worked with other Queensland Government agencies as part of the Sustainable Procurement Electricity Group, to develop a framework to guide sustainable procurement and capabilities.

All CS Energy sites participated in Earth Hour 2009, an initiative that aims to demonstrate the large reduction in electricity consumption that can be achieved when many of us make a small change. For one hour on 28 March 2009, it joined people in 62 countries, turning off all its non-essential lighting and equipment at its four power stations and in the corporate office.

World Environment Day in June 2009 was also an opportunity for CS Energy to consider the global impact it has as a business and to show its motivation as individuals. It celebrated the day by planting trees at Kogan Creek and Callide power stations.

Looking forward 2009/2010

- Develop a carbon emission reduction plan, and efficiency improvement strategies, for each site.
- Register under NGERS Act by 31 August 2009, and provide the first report by 31 October 2009, to publicly report its energy production and energy consumption.
- Establish a sustainability steering group to draw together individual sustainability champions and establish a common corporate approach for the Company.
- Develop a sustainability assessment tool to benchmark and measure its sustainability progress against priority indicators.
- Implement a communication campaign to engage management and staff in ways to reduce its environmental footprint.

Environmental performance

CS Energy strives for the highest levels of environmental stewardship across its operations and carefully monitors and manages each of the inputs and outputs of the electricity generation process. It is committed to always seeking to improve its resource management, water conservation and waste management and to reduce its emissions.

Managing resources

CS Energy has a range of systems in place to minimise its impact on the environment:

- Water management – water use is an essential part of electricity generation and an increasingly scarce resource. The Company has several efficiency initiatives at each station, such as dry cooling, recycling and wastewater treatment. For more information on its water management, please see page 34 of this report.
- Emissions – its power stations emit carbon dioxide, nitrous oxides, sulphur oxides and water vapour as a by-product of combusting fossil fuels. For more information on its carbon emissions, see carbon management on page 47 of this report. CS Energy makes data on other emissions from its operations available to the public through the National Pollutant Inventory website at www.npi.gov.au.
- Fly ash emission control – ash is a result of coal combustion and, at Swanbank, Callide and Kogan Creek power stations, more than 99.9 per cent of the ash produced is collected before it is released into the air through giant vacuum-like cleaners. Some of this recovered fly ash is sold for reuse in cement manufacturing, soil improvement or as fill. At Kogan Creek Power Station the ash will be used in mine rehabilitation. For more information about recycling its ash, see page 35 of this report.
- Flora and fauna – the Company's power stations provide habitats for a variety of wildlife and the evaporation ponds and surrounding buffer zones provide a safe haven for a variety of bird species, koalas, echidnas and kangaroos. It works with local landcare and wildlife groups to protect any flora and fauna on its sites.

Environmental Management System

Each of CS Energy's four operating power stations, and its Corporate Office, operate within an Environmental Management System (EMS). It also has a company-wide Environmental Policy. These systems help it to continually improve its environmental management, understand the impact of its operations on the environment and systematically address risks by developing targets, strategies and action plans to minimise the impact of each site. Its policy and details of its EMS can be found on the website.

All sites except Kogan Creek Power Station are certified to the international standard ISO14001 for Environmental Management Systems. During 2008/2009, CS Energy successfully achieved recertification of the EMS at the Swanbank, Callide and Mica Creek power stations and at the Corporate Office. The new Kogan Creek Power Station developed an initial EMS in advance of operational commencement. However, this has not yet been certified to ISO14001. The Company will apply for certification of the Kogan Creek Power Station system during 2009/2010.

Environmental Performance

CS Energy classes environmental incidents as Internal (category 1 and 2), which means the incident was minor with no off-site impact, and External (category 3 and 4), which must be reported to the Department of Environment and Resource Management (DERM), and may have resulted in off-site impact.

The Company was disappointed that, during the 2008/2009 year, it recorded eight category 3 incidents. Three leaks from the Mica Creek Power Station effluent pipeline, two ash spills at Kogan Creek Power Station and a fuel oil spill at Callide Power Station were reported to DERM. An inspection of the Swanbank ash dam by DERM identified a fugitive dust release to an adjoining property from ash processing activities by a contractor and a floodwater release from Berry's Lagoon at Swanbank (see details on page 52) was the eighth external incident.

Each of these incidents was fully investigated and remedial action identified and implemented.

Six complaints regarding operations were also received during 2008/2009. Four complaints, relating to wind-blown ash or dust, were received at Callide Power Station, one complaint relating to noise from Callide Power Station operations, and one complaint from a neighbouring industry at Swanbank Power Station regarding the flooding of a pit following heavy rainfall. All complaints were investigated and resolved in conjunction with DERM.

Swanbank Power Station has a pH range specified in its water discharge licence conditions. During the year, this pH range was exceeded a number of times due to algae in the settling pond at the discharge location. This was identified as a seasonal issue and the matter was reported to DERM along with the results of investigations.

The Company has Transitional Environmental Programs (TEPs) in place to improve areas where it has identified environmental issues. During the year, it completed work under a Voluntary TEP at Callide Power Station to upgrade the bund around the Bulk Ignition Oil Facility, which was inspected and approved by DERM in February 2009.

It submitted a TEP to DERM for the Swanbank ash dam, which was approved in October 2008. The TEP extends to August 2010 and authorises ash disposal using dry stacking of ash to create additional capacity and use of a new low-height internal bund. See page 31 for further detail on this project.

Following three leaks from the Mica Creek effluent pipeline and a subsequent leak in early July 2009 it has proposed, in conjunction with DERM, work to upgrade the pipeline. To facilitate completion of the works in 2009/2010, it is expected that a Voluntary TEP will be submitted to DERM for approval.

REPORTABLE ENVIRONMENTAL INCIDENTS*

YEAR	Number of Category 3 Incidents	Number of Category 4 Incidents
2004-2005	6	0
2005-2006	8	0
2006-2007	1	0
2007-2008	0	0
2008-2009	8	0

* Incidents classed as category 3 or 4, which are reportable to the Department of Environment and Resource Management.

ENVIRONMENTAL INCIDENTS BY SITE 2008/2009

	Internal (Category 1, 2)	External (Category 3, 4)
Swanbank	11	2
Callide*	57	1
Mica Creek	4	3
Kogan Creek	7	2

* Callide continues to report a high level of internal incidents (72 in 2007/2008). These are mostly minor ash and oil leaks onsite.

Environmental performance (continued)

In April 2009, CS Energy received a Penalty Infringement Notice and a $2,000 fine from DERM for the unauthorised release of water from the Berry's Lagoon Pumping Station which supplies the Swanbank Power Station. The release occurred as floodwater was being emptied from the pump-pit, following the flooding of the Bremer River at Ipswich. Operating procedures have been updated to address the issues raised by DERM and staff have been advised of the changes.

In April 2009, at the request of CS Energy, DERM amended the Swanbank B Development Approval to clarify ash dam modifications, condition assessments and reporting.

In November 2008, the water level of the Kogan Creek ash disposal facility was above the design storage allowance required by the Development Approval. The facility was under the control of the site EPC contractor at the time, and the contractor notified DERM of the excess stored water and options to manage it. In March 2009, responsibility for the area transferred to CS Energy. A water recovery scheme and evaporation sprays have been installed to reduce the volume of stored water and CS Energy has met with DERM to discuss other options for managing the water level.

Looking forward 2009/2010

- Apply for certification of the Kogan Creek A Power Station Environmental Management System to the international standard ISO14001.
- Progress upgrade of the Mica Creek Power Station effluent pipeline.

INPUTS AND OUTPUTS			
INPUTS / OUTPUTS	**2007/2008**	**2008/2009**	**% CHANGE**
Total energy sent out (GWh)	15,426	16,675	7.8
Coal used (Tonnes)	6,123,291	6,796,117	11
Gas and renewable used (TJ)	34,502	35,129	1.8
Gas and renewable electricity generation (% of portfolio)	24.83	22.05	-11.17
Renewable generation (GWh)	30.93	28.92	-6.51
Greenhouse gas equiv produced ($MtCO_2$-e)	12.87	14.01	8.86
Greenhouse gas intensity (tCO_2-e/GWhso)	834.39	845.58	0.53
Water consumption (ML)	25,324	24,201	-4.4%
Ash produced (tonnes)	1,391,951	1,581,248	+ 13.6
Ash sold (tonnes)	106,464	128,487	+20.7

NOTE: The introduction of the coal-fired Kogan Creek Power Station to CS Energy's portfolio has seen increases in total generation, the amount of coal used and the amount of ash produced. It has also seen a decrease in the percentage of gas and renewable generation in the portfolio, and an increase in the total amount of greenhouse gases emitted. However, because of increasing efficiencies across the portfolio, the total greenhouse gas intensity of the portfolio, even with the introduction of Kogan Creek, has remained relatively stable. Because Kogan Creek is dry-cooled, water consumption has decreased.

Community

Progress 2008/2009

- Launched the new Workplace Giving program, *Generosity*, with the workforce raising over $120,000 for charity.
- Invested an additional $240,000 in sponsorships and donations in the communities that host the Company's operations.

CS Energy has a range of stakeholders who are affected by, and have an impact upon, its day-to-day operations. It is committed to building lasting and positive relationships with these groups, which include its employees, host communities, government shareholders, unions and suppliers as well as industry peers and regulators.

Stakeholder engagement

In 2008/2009 CS Energy continued its employee survey, *Generating Insight* (for more information see page 18 of this report). It also maintained its program of quarterly staff briefings, giving all CS Energy employees the opportunity to hear updates from, and ask questions of, the executive management team.

CS Energy not only seeks to connect its employees with its business decisions, but also its community investments. The selection of the new workplace giving charity recipients was a collaborative process, with over seven per cent of employees completing the workplace giving survey and providing feedback on the causes they wanted CS Energy to support.

In January 2009 the Company worked towards establishing a baseline corporate social responsibility (CSR) measure through its first CSR audit, to help it better balance its social, environmental and economic goals. For more information about the audit, the results and the actions it is taking in this area, see page 48 of this report.

During the year CS Energy also continued its face-to-face communication with neighbours and local community members to provide project updates as well as identify, manage and reduce the impacts of its operations. At Swanbank, its Community Reference Group (CRG), run jointly with the site neighbour and ReOrganic project partner Thiess Services, provides a channel for ongoing consultation with the Ipswich community. The group held two open forums in 2008/2009.

At Callide, the Company implemented an active consultation program throughout the year, updating the Biloela community on two major site developments: progress on the Callide Oxyfuel Project and the Callide B dual outage mid-life overhaul. The Callide Oxyfuel Project, a world-leading low-emission coal demonstration project at the Callide A Power Station, commenced on-site work in November 2008. To coincide with this major project milestone, the Callide Oxyfuel joint venture partners also held community information sessions, circulated newsletter updates and invited Australian and Japanese government officials, media and local community members to attend a site function and open day. Over 170 stakeholders attended these launch events. For more information on the Callide Oxyfuel Project, see page 39 of this report.

Community (continued)

In Chinchilla and Mount Isa, the Company continues to keep communication lines open between site and community by attending council and business industry meetings. Additionally, at its Kogan Creek Power Station near Chinchilla, it consulted local schools and the University of Southern Queensland in preparation for the launch of a new school energy program.

Community partnerships and investments

As a major employer in all of the communities that host its operations, CS Energy is focused on making positive and ongoing contributions to these communities. This year CS Energy invested more than $240,000 in sponsorships and donations.

Moving Opera!

CS Energy and Opera Queensland have partnered for more than seven years to bring the *Moving Opera!* program to its host communities of Ipswich, Chinchilla, Biloela and Mount Isa. The partnership sees Opera Queensland performers work with local students, introducing them to opera and music theatre skills over five days. The week-long workshop culminates in a performance enabling students to perform for their community and raise funds for their schools' music departments. CS Energy's support enables Opera Queensland to offer *Moving Opera!* free of charge to students in these communities. The program is delivered to its host communities biennially, with Chinchilla and Biloela schools participating this year.

Queensland Theatre Company

In 2009 the Company expanded its support of the arts and its commitment to regional development by partnering with Queensland Theatre Company to bring the production *The School of Arts* to Biloela and Chinchilla in August 2009, as part of the Q150 birthday celebrations.

Energise Electrovale school competition

At Kogan Creek A Power Station, the Company is gearing up to launch its new primary school program for the Western Downs Region, Energise Electrovale. This program aims to help upper primary students understand more about the opportunities and challenges surrounding fossil-fuelled and renewable energy power generation.

Biloela students took part in the *Moving Opera!* program in June 2009.

Boonah Arts Festival

CS Energy's three-year sponsorship of the Boonah Arts Festival finished on a high, with Swanbank staff getting behind the 2008 festival theme, 'footprints', by helping Boonah State High School students create an environmentally friendly stage prop, a solar- and human-powered bicycle light show. It also helped the festival organisers, the Boonah Arts Collective, offset 18.6 tonnes of festival CO_2 emissions by investing in Greening Australia's Breathe Easy program.

Business and industry events

CS Energy continued to support the Chamber of Commerce Business Awards in Mount Isa, Ipswich and Chinchilla. The awards provide an opportunity for the regional business communities to come together and celebrate their achievements. Callide Power Station staff also participated in the Banana Shire Industry Summit and Open Forum in October 2008, which saw key industry leaders discussing current and future activities and needs within the region.

Biloela Comedy and Food Festival and Rockfest

CS Energy continued to support two of the major events on the Biloela calendar: the Comedy and Food Festival, a celebration of food and laughter in Central Queensland, and Rockfest, a showcase of local musical talent. This year, CS Energy and the Rockfest committee are building their partnership and further supporting Biloela musicians by offering local artists professional development workshops run by music industry body QMusic.

Western Games

Mica Creek Power Station partnered with the North Queensland Sports Foundation (NQSF) to launch a new sporting event in Mount Isa, the Western Games. The inaugural multi-sport event was held in July 2009, with the station's support helping to bring Australian cycling gold medallist and Western Games ambassador, Sarah Carrigan, to Mount Isa for the event.

Swanbank's Kristy Denniss and Derek Freeman helped Boonah High School students, Anna Betts and Hamish Seagrave, create a solar- and human-powered bicycle for the 2008 Boonah Arts Festival.

Philanthropy

In July 2008, the Company launched a new workplace giving program, *Generosity*. In its launch year, it exceeded its $100,000 donation goal, raising over $120,000 for several charities. Staff contributions were matched dollar for dollar by the Company.

When Australia was hit by two devastating natural disasters in early 2009, the floods in North Queensland and bushfires in Victoria, the Company's employees rallied behind the affected communities, making donations through the *Generosity* program. CS Energy matched employee contributions and together $38,990 was donated to the Red Cross Victorian Bushfire Appeal and $17,290 to the Premier's Disaster Relief Appeal for flood-affected communities.

In addition to supporting the disaster appeals, the Company's staff provided ongoing support through workplace giving donations to its panel of *Generosity* charities: Angel Flight, Blue Care, The Cancer Council Queensland, Greening Australia, Hannah's House and the Hear and Say Centre.

Community (continued)

The $60,448 in donations have helped:

- the Hear and Say Centre provide six months therapy for a deaf child;
- Angel Flight provide fuel for several missions;
- Blue Care deliver community health care services in the home;
- Hannah's House expand its safe housing service for disadvantaged young women;
- Greening Australia restore native wildlife and plants through revegetation projects; and
- Cancer Council Queensland with cancer research, treatment and patient care programs.

In addition to workplace giving, the Company's employees participated in a range of community fundraising initiatives, including the World's Greatest Shave, Movember, Cycle for Cancer and the Gold Coast Challenge.

CS Energy also showed its support to community initiatives through its site grant programs. At Swanbank, it increased its focus on community investments through the Swanbank Community Reference Group (CRG), where it awarded over $5,000 in grants to local not-for-profit groups along with its CRG partner, Thiess Services.

At Kogan Creek, it awarded $98,000 to Western Downs community groups through the Chinchilla Community Benefits Trust. The trust was established to provide community support during the construction of Kogan Creek Power Station and it continues to be a key focus of the site's community relations commitment. To date, CS Energy has invested $700,000 through the trust for social infrastructure and community service projects in the region.

Mica Creek Power Station continued its support for a Mount Isa aged care facility, the Laura Johnson Home. The power station donated $24,000 to help the home purchase new furniture and upgrade its facilities.

Looking forward 2009/2010

- Establish a pilot employee volunteering program as an extension of the workplace giving program, *Generosity*.
- Extend the Energise Electrovale school program to other CS Energy sites.
- Deliver *Moving Opera!* workshops in 2010 in Ipswich and Mount Isa.

Corporate governance report

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Corporate governance report

CS Energy was established in 1997 under the *Government Owned Corporations Act 1993* (GOC Act) and is incorporated as a public company, subject to Corporations Law. Shares in CS Energy are held by two State Government Ministers on behalf of the people of Queensland. At 30 June 2009 these Ministers were:

- Queensland Treasurer and Minister for Employment and Economic Development, Andrew Fraser MP, and
- Minister for Natural Resources, Mines and Energy and Minister for Trade, Stephen Robertson MP.

Corporate Governance Framework

The corporate governance framework comprises a series of policies, procedures and guidelines to ensure the highest level of ethics, efficiency, and financial and risk management are maintained. This framework provides the transparency and accountability that stakeholders deserve if the Company is to receive their continued support for its growth aspirations.

The Corporate Governance Policy is the cornerstone of this framework, which reflects the objectives outlined by the ASX Corporate Governance Council's principles of Good Corporate Governance and Best Practice Recommendations. The Corporate Governance Policy can be found on the Company's website.

Responsibility for ensuring that good corporate governance is practised rests with the Board.

The Board

CS Energy's Board comprises seven, independent, non-executive directors appointed by the Governor in Council under the GOC Act. The Board is responsible for setting strategic direction, reviewing and approving plans by the Executive Management Team, monitoring corporate performance, managing risk and upholding CS Energy's Code of Conduct, which can be found on the website.

A key responsibility of the Board is reporting to shareholding Ministers on CS Energy's performance against the objectives set out in its annual Statement of Corporate Intent (SCI).

The Board meets monthly, and more frequently if required, to oversee operations. An induction manual is provided to all new Board members to enhance operational and structural knowledge, and ensure they are aware of their governance responsibilities. Site visits and briefings are arranged to ensure Directors maintain the knowledge and skills needed to fulfill their roles.

In September 2008, two long-standing Directors, Tony White and Timothy Crommelin departed the Board, replaced by Tracy Dare and Russell Kempnich. For biographies of current Directors, please refer to pages 64 and 65 of this report, or to the corporate website.

In June 2009, Warren Packer was appointed Company Secretary for CS Energy. Mr Packer has 23 years experience in audit and risk management in the energy industry and is a member of the Australian Institute of Company Directors and the Australian Institute of Company Secretaries.

Chris Turnbull, who previously held this role, was appointed General Manager, Business Development in March 2009.

Board Committees

The Board has established four committees to assist in the management of particular business areas and provide a forum for Directors and the Executive Management Team to discuss more complex business issues. All four committees report to the Board.

Audit Committee

The Audit Committee assists the Board in overseeing the reliability and integrity of financial reporting practices, accounting policies, auditing and external reporting. The committee provides advice to the Board on financial statements, financial systems integrity and business risks. It also ensures that staff comply with all applicable laws, regulations and Company policies and that an adequate, current internal control system is operating for areas such as business, operational, asset and financial risk. The Audit Committee Charter can be found on the website.

The committee oversees development of the Internal Audit Plan and the results of internal audit activities and recommendations. It is also the primary point of reference for CS Energy's external auditor, the Auditor General of Queensland. The committee accepts reports from the Queensland Audit Office and oversees progress on implementing recommendations flowing from Queensland Audit Office reports, on behalf of the Board of Directors.

The committee meets quarterly and its members are Julie Leaver (Chair), Stephen Lonie, Sarah Israel (until 1/3/2009) and Tracy Dare (from 1/11/2008).

Highlights for 2008/2009 include:

- Monitoring improvements to the maintenance and contracting systems and processes;
- Audit, review and comment on the accounting impact of the proposed Carbon Pollution Reduction Scheme; and
- Comment on CS Energy's market operations and information and communication technology governance systems.

Board Risk Committee

As risk management is a core responsibility of the Board, CS Energy has a dedicated Board Risk Committee. This committee oversees risk management systems and ensures compliance with policies, procedures and legal obligations. The Board Risk Committee Charter can be found on the website.

The committee meets quarterly, comprises all Directors and is chaired by Sarah Israel.

Highlights for 2008/2009 include:

- Streamlining risk management systems by replacing three separate risk committees with a new Risk and Compliance Committee;
- Continued monitoring of CS Energy's operations risk activity;
- Providing direction on insurance matters, including the use of CS Energy's captive insurance company "Enmach"; and
- Providing advice on CS Energy's pecuniary risk and conflict of interest matters.

Staff and Remuneration Committee

The Staff and Remuneration Committee provides advice on remuneration policies and practices. It makes recommendations to the Board on negotiation parameters for Enterprise Bargaining Agreements as well as remuneration packages and other terms of employment for the Executive Management Team. The committee ensures employees are fairly remunerated for their work and that the Company always acts in the best interests of its shareholders on remuneration matters. Each year, the committee reviews executive remuneration against agreed performance measures. The Staff and Remuneration Committee Charter can be found on the website.

The committee meets quarterly and its members are Mark Bucknall (Chair), Stephen Lonie and Bob Henricks.

Highlights for 2008/2009 include:

- Review of the impact of the global financial crisis on CS Energy's superannuation contribution regime;
- Completion of the appointment process for the roles of General Manager Corporate Services, General Manager Organisational Development and Company Secretary; and
- Approval of three site Enterprise Bargaining Agreements.

Board Meeting and Board Committee Meeting Attendances for 2008/2009

Name	Board Meetings (11)	Board Risk Committee Meetings (4)	Audit Committe Meetings (4)	Major Capital and Technical Commitee Meetings (11)	Staff and Remuneration Committee Meetings (5)
Stephen Lonie	11	4	3	11	5
Tim Crommelin [1]	2	1	n/a	n/a	n/a
Julie Leaver	11	4	4	n/a	n/a
Bob Henricks	11	4	n/a	11	3 [4]
Tony White [1]	2	1	n/a	1	2
Sarah Israel	10	4	1[3]	n/a	n/a
Mark Bucknall	10	4	n/a	n/a	4
Tracy Dare [2]	6	3	2[4]	n/a	n/a
Russell Kempnich [2]	7	2	n/a	6 (4)	n/a

(1) Term expired 30/09/2008 and did not seek re-appointment.
(2) Term commenced 01/10/2008.
(3) Committee membership ceased 01/03/2009.
(4) Committee membership commenced 01/11/2008.

Corporate governance report (continued)

Major Capital and Technical Committee

The Board Major Capital and Technical Committee plays an important role in overseeing CS Energy's major projects. The committee meets monthly to review progress on major projects and provide technical and commercial advice. Details of the Major Capital and Technical Committee can be found on the website.

The committee's members are Stephen Lonie (Chair), Bob Henricks and Russell Kempnich.

Highlights for 2008/2009 include:

- Ensuring Kogan Creek A Power Station meets its original business case parameters and operates reliably;
- Planning and reviewing CS Energy's approach to new low emission generation projects such as the proposed Kogan Creek B Power Station;
- Overseeing the capital input to the Callide B mid-life refit project; and
- Overseeing CS Energy's operational and contractual commitment to the Callide Oxyfuel Project.

Executive Management Team

The Board appoints CS Energy's Chief Executive and other members of the Executive Management Team after receiving prior written approval from shareholding Ministers. The Chief Executive is accountable to the Board, and is responsible for managing the performance of CS Energy's business and its Executive Management Team.

During the year these appointments were made to the Executive Management Team; Chris Turnbull as General Manager Business Development, Terry Killen as General Manager Trading, and Michael Turner as General Manager Organisation Development.

Reporting

The Board regularly reports to its shareholding Ministers to ensure they are informed about the operations, performance and financial position of the Company. CS Energy produces four key documents to report on its performance:

- **A Corporate Plan** that outlines key strategies, objectives for the next five years and performance indicators. The plan also provides an industry and economic outlook and the potential impact on CS Energy.
- **A Statement of Corporate Intent** (SCI) that outlines goals and objectives for the next financial year. A summary of the 2008/2009 SCI appears on page 63 of this report.
- **Quarterly Reports** of progress against the performance targets and measures in the SCI.
- An **Annual Report** on performance for each financial year, which meets statutory requirements for government-owned corporations and the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

Performance

The performance of the Board is periodically evaluated at a formal workshop facilitated by an independent corporate governance specialist. In July 2008, the recommendations of a Board Performance Review, undertaken during 2007/2008, were reviewed. The review found that corporate governance processes were sound and that the Board operates in a cohesive and effective manner.

During 2008/2009 the Board implemented the following recommendations, provided in the review:

1. Adopted a process of tracking each two-yearly review to ensure that knowledge about steps taken towards improvements are carried through.
2. Implementation of a Directors' industry knowledge package to provide further industry-based professional development for Board members.
3. Provision of several Board strategic planning workshops to further involve the Directors to assist in guiding the Company's strategic direction.

Risk and Assurance

The Board has ultimate responsibility for managing potential risks for CS Energy and ensuring compliance with relevant laws, regulations and policies. The Risk and Assurance function oversees this activity and reports independently to the Board and management. It incorporates internal audit, risk management and insurance oversight.

These functions are responsible for reviewing activities, information and records to ensure that:

- Financial and operational information is reliable;
- Compliance with laws, regulations, policies and procedures occurs;
- Business risks are identified and appropriate management plans are adopted; and
- Procedures are in place to safeguard assets and revenue, and ensure effective use of resources.

CS Energy's risk management framework is designed to ensure all potential financial, operational and other risks are identified, assessed, monitored and reported to the Board.

The Board Risk Committee oversees the risk management framework and responsibilities, as outlined on page 59 of this report. The Board's responsibilities in this area are facilitated by the work of the Risk and Compliance Committee which reports to the Board Risk Committee. The Committee meets monthly to co-ordinate responses to market and operational risks as they arise.

CS Energy's Risk Management Policy provides guidance for the Board and staff on the approach to risk management. Staff are required to conduct all business activities in a manner that complies with the law, and within Board-approved limits of authority.

Climate Change

Climate change has become a principal business risk for the energy sector and, as such, affects CS Energy's financial position, operations and business strategy. This year, the Company has been working towards implementing a carbon management plan and project map, in preparation for the introduction of the Carbon Pollution Reduction Scheme (CPRS) and associated trading scheme.

The introduction of the CPRS in 2011, other regulatory responses of government to climate change, and adverse effects of variable weather will all affect CS Energy's business and future growth. The Company is required, under the National Greenhouse and Energy Reporting Act (Cth) (NGER Act), to extend greenhouse and energy reporting obligations and provide details of climate change risks and responsibilities. During the year a framework for reporting this information was established and the first report is due on 31 October 2009.

Corporate governance report (continued)

Ethical and Responsible Behaviour

CS Energy is committed to conducting all business activities with integrity, honesty and in compliance with relevant laws and standards. Staff and the Board act in accordance with the CS Energy Code of Conduct, which outlines the principles for conducting business in an ethical and responsible manner. The Board has also adopted the Directors' Code of Conduct from the Articles of Association of the Australian Institute of Company Directors.

To ensure compliance and prevent conflicts of interest, the Company has a number of policies and procedures in addition to the Code of Conduct including a Share Trading Policy, Compliance Policy, and a Procedure for Pecuniary Interest, Conflict of Interests and Protected Disclosures.

The Share Trading Policy provides guidance on the legal requirements of the *Corporations Act 2001* with respect to inside information and insider trading. The policy requires officers and directors to not engage in share trading transactions with companies with whom CS Energy has a contractual relationship and where the officer could be in possession of price-sensitive information or be placed in a position of a conflict of interest.

Declaration of conflicts of interest by the Board or executive management is a standing item on the agenda of the monthly Board meetings. Board members and executives are also required to make annual declarations of companies in which they hold shares, or with which they have relationships that have the potential to lead to a conflict of interest. An external, independent check of these declarations against publicly available databases is carried out regularly.

Staff and Directors are encouraged to report any conduct they observe that they believe is a potential breach of CS Energy policies or external regulations or laws. The CS Energy Procedure for Pecuniary Interest, Conflict of Interests and Protected Disclosure outlines the process for responding to these disclosures and confidentiality provisions for the individual making the disclosure.

Release of Information

CS Energy strives to be as open and accountable as possible, while still protecting information that is commercial in confidence. The Company has adopted the Queensland Government's new 'Right to Information' approach for providing the community with greater access to information. This followed the Queensland Government commissioning an independent review of the *Freedom of Information Act 1992*, which led to the replacement of Queensland's Freedom of Information Laws with the *Right to Information Act 2009* and the *Information Privacy Act 2009*.

To comply with the new legislation, CS Energy added a 'publication scheme' to its website, which shows the classes of information available, links to the information and contact details for members of the public wishing to access additional information. Under the new legislation, CS Energy is exempted from releasing commercially sensitive information that could jeopardise its position in the national electricity market.

Information and Advice

Directors can seek independent professional advice on matters before the Board after receiving approval from the Chair. CS Energy bears the cost of this external advice. Directors can also seek professional information from CS Energy employees, subject to approval from the Chief Executive and attendance by a member of the Executive Management Team.

Remuneration

Directors are remunerated at a level determined by the Governor in Council and reimbursed for reasonable expenses incurred while conducting business on behalf of CS Energy.

The Board, in consultation with shareholding Ministers, approves the remuneration levels for the Chief Executive and other members of the Executive Management Team.

Details of remuneration paid to Directors and Executive Management Team members during the year appear in Note 29 of the Financial Statements.

Directions and Notifications

CS Energy received no directions from its shareholding Ministers during the year.

Statement of Corporate Intent

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

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

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

In summary, the 2008/2009 SCI outlines the following key business objectives:

- People:
  CS Energy's staff will have the capability to safely deliver the required business outcomes.
- Portfolio Performance:
  The portfolio of generation plant will provide an optimised level of return within an emerging framework of a carbon-constrained business environment. CS Energy focuses on safe, reliable, efficient and environmentally appropriate solutions to Australia's future energy requirements.
- Growth:
  The development of a low emissions plant technology pathway for coal fired power stations.
- Profile:
  The Company will maintain and enhance its reputation as a responsible, innovative and forward looking organisation that is focused on delivering sustainable power generation solutions to the communities it serves.

Corporate hospitality

CS Energy hosted the following events during 2008/2009

Event	Date	Cost
Kogan Creek Power Station 8,000 hour outage function	15/11/08	$6,613
Christmas function – Callide Power Station	5/12/08	$21,435
Christmas function – Swanbank Power Station	13/12/08	$11,131
Christmas function – Brisbane office	19/12/08	$6,667
Service recognition function	28/2/09	$5,595

Directors' profiles

Stephen Lonie Chair

B Com, MBA, CA, F Fin, FIMCA, FAICD
Director since 1999

Stephen Lonie is an independent management consultant and company director.

His directorships include Grosvenor Australian Investments Limited, Queensland Coal Mining Management Limited, Pioneer Mortgage Services Pty Ltd, Figtree Developments Limited and the Brisbane Grammar School.

Mr Lonie chairs CS Energy's Major Capital and Technical Committee and is a member of the CS Energy Audit Committee, Staff and Remuneration Committee and Board Risk Committee.

Mark Bucknall Director

BA, LLB
Director since 2005

Mark Bucknall is the managing partner of his own legal practice. He came to CS Energy from the Energex Retail Board, where he chaired the Audit Committee and the joint Energex Remuneration Committee. He also served as inaugural chair of the South-East Queensland Regional Electricity Council.

Mr Bucknall's other board appointments include a directorship of Queensland Cruising Yacht Holdings and membership of the Council of the Brisbane North Institute of TAFE.

Awarded a Commonwealth sports achievement award for services to Australian Football, he is an active community member and contributes professional support to community legal centres and sporting organisations.

Mr Bucknall is chair of CS Energy's Staff and Remuneration Committee and is a member of the Board Risk Committee.

Tracy Dare Director

B.Bus (Acct); Grad.Dip.Adv.Acc; AICAA; FAIM, GAICD
Director since 2008

Tracy Dare has extensive experience in commercial and business restructuring, managing large-scale, complex and diverse assignments and in a wide variety of industries.

Ms Dare is the Executive Manager Business Development of RSL Care and prior to this was National Manager of Suncorp Metway's Corporate Banking business. She is also a former partner of KPMG and has 23 years experience in the profession.

Her former appointments include nine years as Commissioner of the Queensland Gaming Commission, and five years as an Advisory Board member of the Brisbane City Council's City Businesses/City Fleet business areas. She is currently a director of the AIM Graduate Studies Institute and a director and Founding member of The Law Opportunity Foundation.

Ms Dare is a member of CS Energy's Audit Committee.

Bob Henricks Director

Queensland Certificate of Competency as Electrical Mechanic (Electrician)
Director since 1999

Bob Henricks brings more than 40 years of experience to the CS Energy Board. Mr Henricks has served on the board of AUSTA Electric and chairs the Electricity Supply Industry Superannuation Fund, and two other superannuation funds. He is also chair of Meanderham Pty Ltd, Electro Group Training Qld Ltd and Electro Group Apprentices Qld Pty Ltd.

Mr Henricks is a director of Qld Private Capital Group Pty Ltd. He chairs the Queensland Electrotechnology Industry Training Council, is past State Secretary and National President of the Electrical Trades Union and is also a member of the (Australian Government) Central Trades Committee. Mr Henricks, who took his apprenticeship at 15, is still a licensed electrician. He is a member of CS Energy's Major Capital and Technical Committee and Board Risk Committee.

Sarah Israel Director

B Bus, FCPA, FAICD
Director since 2005

Sarah Israel has extensive experience in project finance, investment banking and regional development and currently has consulting roles in finance projects in Australia and internationally. Her experience also includes time in the mining and minerals processing and oil and gas industries.

Ms Israel is a Director of Queensland Sugar Limited (QSL), Export Finance and Insurance Corporation (EFIC), Skytrans Airlines, Australian Biodiesel Group and ESI Superannuation. She is Chair of the Audit Committees of QSL, EFIC and Australian Biodiesel, and sits as a member of the Audit Committee of Queensland Transport. She was previously a director of the Queensland Electricity Transmission Corporation (Powerlink). Ms Israel chairs CS Energy's Board Risk Committee and, until 1 March 2009 was a member of CS Energy's Audit Committee.

Russell Kempnich Director

BEng (Mech)
Director since 2008

Russell Kempnich has more than 30 years experience in coal resource evaluation, process plant design, construction and commissioning gained both in Australia and internationally.

A founding partner and non-executive Chairman of Sedgman Limited, Mr Kempnich led the organisation's growth from a consulting and engineering firm to a market leader in coal preparation, design and construction. He was also responsible for the expansion of the company operations internationally.

Mr Kempnich commenced his career in 1977 as an engineer with the Australian Coal Industry Research Laboratories where he was responsible for the coal preparation pilot plant facilities at Maitland, NSW.

Mr Kempnich is a member of CS Energy's Major Capital and Technical Committee.

Julie Leaver Director

B Com, FCPA, MAICD
Director since 1999

Julie Leaver is the CFO and Company Secretary of AMIRA International Group, which develops, brokers and facilitates collaborative research projects in areas including the brown coal industry. Ms Leaver has held senior financial roles in the telecommunications and mining industries with companies listed on the Australian and New York stock exchanges. During her 10 years with Telstra Corporation, Ms Leaver was responsible for preparing the Group's financial statements, annual reports and US prospectus. She was the Telstra Group coordinator of the US prospectus for T2, the second tranche of the sale of the Federal Government's interest in its ownership of Telstra.

Ms Leaver's experience also extends to 15 years with the former Mount Isa Mines Group (MIM), membership of the Australian Accounting Standards Board and project management and corporate governance roles. Ms Leaver chairs CS Energy's Audit Committee and is a member of the Board Risk Committee.

Executive Management Team profiles

David Brown Chief Executive

C.Eng BSc (Hons)

David Brown is a chartered engineer with more than 30 years experience in the energy industry in the United Kingdom and Australia. Mr Brown graduated with first class honours in a Bachelor of Science degree in natural gas engineering from the University of Salford in the UK. He started his career with British Gas plc before joining Southern Electric plc at a time of significant change in the UK power industry.

In Australia, Mr Brown has worked as a consultant to the power industry and later as General Manager of Bell Bay Power Pty Ltd, a Hydro Tasmania subsidiary company. He was appointed as Chief Executive of CS Energy in December 2007, after joining the Company as General Manager Operations.

Richard Boys Chief Financial Officer

BCom, MBA, FCIS

Mr Boys has more than 20 years' experience in business management and administration in the resources and energy sectors.

As Chief Financial Officer, Mr Boys is responsible for finance, information technology and business systems. He is also a director of various CS Energy subsidiary companies associated with Mica Creek Power Station, Callide Power Project, Kogan Creek Power Project and Swanbank E Project.

Gary Campbell General Manager Operations

BE (Elect)

Mr Campbell has more than 30 years in the energy sector in Australia and New Zealand.

He has held positions of Station Manager of New Plymouth and Huntly Power Stations and Chief Executive of Waitaki Power in New Zealand. He was General Manager Operations in the newly corporatised Tarong Energy from 1999.

Mr Campbell joined CS Energy in 2004 as Site Manager at Callide Power Station and was appointed to the General Manager Operations role in April 2008. In his role he is accountable for the overall performance of CS Energy's generation assets at Callide, Swanbank, Kogan Creek and Mica Creek.

Chris Turnbull General Manager Business Development

B Bus MAICD

Mr Turnbull has worked in the energy industry in the areas of business management and administration for more than 20 years. He is Deputy Chair of the Electricity Credit Union and a member of that Board's Audit, Risk, and Staff and Remuneration committees.

Mr Turnbull has also filled the roles of Company Secretary for the CS Energy group of companies and General Manager Corporate Services. He was appointed as General Manager Business Development in 2009 and, in the role, he is responsible for the development of major projects, such as the Kogan Creek Power Project and Callide Oxyfuel Project, new business activities, and the acquisition and management of fuel and water.

John James General Manager Portfolio Services

BE, Grad Dip (Automatic Control), Grad Dip (Management), GAICD

John James has almost 30 years experience in the power generation sector. He has worked at power plants in Australia and overseas, including Gladstone Power Station, Killingholme Power Station in the United Kingdom and most recently, CS Energy's Swanbank Power Station at Ipswich, where he held the position of Site Manager for five years.

As General Manager of the Portfolio Services team, Mr James is responsible for asset management, overhauls, projects and high level technical support to CS Energy's portfolio of plant, as well as the procurement, environment and chemistry functions.

Terry Killen General Manager Corporate Services

B.Ed, MBA, Grad Dip. Mgt, Dip Fin, Dip Prod. Mgt, Dip Tech Analysis, GAICD

Mr Killen has worked in the energy industry since 1986. During this time he has held a number of management roles in information technology, strategic and business planning, HR, procurement and market operations. Prior to joining CS Energy, he held Trading Management roles for Loy Yang Power and Edison Mission Energy in Victoria.

Prior to his appointment as CS Energy's General Manager Corporate Services in May 2009, Mr Killen was Head of Market Operations.

As General Manager Corporate Services, he is responsible for CS Energy's National Electricity Market Operations, Legal Department and Corporate Projects.

An AFMA accredited trader, Mr Killen is also CS Energy Director on the board of Callide Power Trading.

Michael Turner General Manager Organisation Development

HNC Engineering (Mechanical & Production), HNC Electrical Engineering (Power bias), PGrad Dip Mgt (Manchester University)

Mr Turner has over 30 years experience in the energy industry in both Australia and the United Kingdom. A qualified electrical and mechanical engineer, Mr Turner has held various senior management roles over the past 15 years, enhancing his qualifications and experience by working in roles spanning the electricity industry value chain.

Mr Turner also spent six years working for PricewaterhouseCoopers' Energy Utilities division, providing strategic and commercial advice to the Asia Pacific energy industry and most recently spent five years with ENERGEX in senior strategic and network asset management roles.

As General Manager, Organisation Development, Mr Turner is responsible for Human Resources, Industrial Relations, Learning and Development, Health and Safety, Communications and Strategy Implementation. Mr Tuner was appointed in July 2009.

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CS Energy Limited and controlled entities ACN078848745

This financial report covers both CS Energy Limited as an individual entity and the consolidated group 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 group's operations and its principal activities is included in the review of operations and activities on pages 20 to 33 which is not part of this financial report. The financial report was authorised for issue by the Directors on 27 August 2009. The company has the power to amend and reissue the financial report

The 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 2009.

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 M Bucknall;
Ms T Dare (appointed 1 October 2008);
Mr RJ Henricks;
Ms S Israel;
Mr R Kempnich (appointed 1 October 2008);
Ms JA Leaver;
Mr TBI Crommelin (Deputy Chairman) (term expired 30 September 2008); and
Mr T White (term expired 30 September 2008).

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

- Qualifications, experience and special responsibilities – pages 64 to 65 (Company Secretary page 58); and
- Meetings held and Director attendance – page 59.

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

Principal activities

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

	Consolidated results	
	2009 $'000	2008 $'000
Profit from continuing operations after income tax	93,816	59,007

Dividends – CS Energy Limited

Details of dividends paid or declared in respect of the current and prior year:

	$'000
Dividend declared during the year ended 30 June 2008 and paid on 31 December 2008	47,206
Dividend declared during the year ended 30 June 2009 and due for payment on 31 December 2009	75,053

Results of operations

The consolidated group's profit for the year was $93.8 million (2008: $59.0 million). This result was achieved after deducting:

- Finance costs of $87.8 million (2008: $58.9 million); and
- Income tax expense of $33.2 million (2008: $17.7million).

Earnings before finance costs and income tax expense was $214.8 million, representing an increase of $79.3 million or 58.5% on the prior year result of $135.6 million.

This increase was due to growth in revenue from the sale of electricity as well as an increase in other revenue and other income, offset by higher costs from operations and a number of significant one-off adjustments, details of which are set out in the following section.

Review of operations

The consolidated group's total revenue and income increased by $135.0 million or 16.2%, reflecting a rise in total revenue of $55.8 million, or 7.2%, and a rise in other income of $79.2 million, or 123.8%.

The key components of the change in total revenue were mainly attributable to revenue from the sale of electricity arising from:

- An increase in the level of generation from the consolidated group's power station assets, following the first full year of operation of the Kogan Creek A power station; and
- A decrease in average revenue per megawatt due to a 35% decrease in the wholesale price of electricity in Queensland in the current year. The group was able to insulate itself, to a large extent, from the full impact of the pool price decrease, as it took advantage of the stronger forward prices on offer in prior periods in respect of the current financial year.

The increase in other income was due to a reduction in derivative liabilities that do not qualify for hedge accounting, the receipt of Commonwealth government grants pertaining to the Callide Oxyfuel clean coal demonstration plant and a reduction in the value of certain onerous contract obligations following remeasurement at balance date.

The reduction in derivative liabilities that do not qualify for hedge accounting resulted from a decrease in the forward prices for electricity during the financial year, as compared to prices evident during the prior financial year.

The reduction in the value of certain onerous contract obligations was principally attributable to an increase in the expected benefits that will be derived in the future by the consolidated group under the relevant contracts.

The consolidated group's total expenses, before finance costs and income tax expense, increased by $55.7 million or 8.0% for the year. This growth was attributable to:

- Cost of sales – $565.2 million, up by $25.1 million, or 4.7%; and
- Other expenses – $190.3 million, up $30.6 million, or 19.2%.

The increase in cost of sales was principally attributable to the addition of costs associated with the first full year of operation of the Kogan Creek A power station.

The increase in other expenses was attributable to the following:

- A net increase in administration and distribution costs, due largely to additional costs also associated with the first full year of operation of the Kogan Creek A power station, higher market based ancillary services charges, and general overhead increases (33.5 million);
- Impairment write-down on Mica Creek power station ($29.3 million);
- Further impairment write-down on Swanbank B power station ($9.0 million);
- Research and development expenditure on the Callide Oxyfuel clean coal demonstration plant ($20.9 million);
- Write-off of exploration and evaluation expenditure previously capitalised ($12.1 million);
- Offset by a reduction on one-off expenses from the prior year associated with initial recognition and remeasurement of onerous contracts, initial impairment of Swanbank B and loss on disposal of assets ($74.2 million).

The increase in finance costs of $29.0 million was attributable to a full year of interest expense following the cessation of interest capitalisation mid way through the prior financial year.

Net cash inflow provided by operating activities decreased by $102.0 million or 29.4%, which is principally the result of a significant cash inflow in the prior financial year associated with the receivables balance recognised in the 2006/07 financial statements. Excluding the impact of this item, cash from operations was in line with the growth in electricity revenue. This inflow was used in part, to fund completion of the consolidated group's capital overhaul program.

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 reporting date

At the date of this report, the Directors are not aware of any matter or circumstance, which has arisen since 30 June 2009, 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

Regulation in response to climate change is one of the major forces shaping the business environment for power generators in Australia, highlighted by the release of the Commonwealth Government's white paper and draft legislation detailing the proposed Carbon Pollution Reduction Scheme and the National Renewable Energy Target legislation, passed on 20 August 2009. Public policy to constrain carbon emissions, and to encourage investment in renewable energy projects, is now evolving rapidly, so that the power generation sector over the next two decades will produce increasing amounts of energy using low emissions technologies. The consolidated group is currently working within the energy market to manage the transition to a low emissions power generation sector.

To enhance its competitive position, the consolidated group is working on a number of strategies for a transition to a low emissions operation. These initiatives include the Callide Oxyfuel project (demonstrating the viability of oxyfuel coal combustion, carbon dioxide capture and geosequestration to achieve near-zero emissions from coal-fired power generation), assessing other abatement opportunities such as biosequestration, and examining renewable power generation opportunities in Queensland. The consolidated group is also evaluating the expansion of its current portfolio of low emissions intensity plant as well as preparing for trading under the Commonwealth Government's Carbon Pollution Reduction Scheme. It is currently expected that the Carbon Pollution Reduction Scheme will commence in mid 2011.

CS Energy Limited (and controlled entities) Directors' Report
for the year ended 30 June 2009

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, eight environmental matters were reported to or came to the attention of the Department of Environment and Resource Management (DERM). In addition, six complaints were received and investigated in consultation with DERM. Swanbank power station reported a number of minor exceptions to the water discharge pH range specified in its approval.

The group took actions in response to all these issues, all of which have been considered by DERM to be adequate, with the exception of the unauthorised release of water from the Berry's Lagoon Pumping Station which supplies Swanbank power station where DERM took action against the consolidated group by issuing a Penalty Infringement Notice and a $2,000 fine.

To the group's knowledge, there are no further environmental enforcement actions pending against it.

The consolidated group is required to comply with the requirements of the *National Greenhouse and Energy Reporting Act 2007* (the NGER Act). As the controlling corporation, CS Energy Limited has registered under the NGER Act and has established systems and procedures to allow it to submit its first report by the due date of 31 October 2009.

Further information on the consolidated group's environmental performance can be found on pages 46 to 52 of the annual report.

Indemnification and insurance of officers

CS Energy Limited indemnifies each officer of the company and its controlled entities against any costs incurred by the officer in investigating or defending legal proceedings commenced against the officer or which the officer has reason to believe will be commenced against the officer or in responding to or appearing before enquiries or investigations in connection with or as a consequence of the officer acting in any capacity except where the liability arises out of:

(i) The improper use of position or information to gain any profit or advantage or cause detriment to any company;

(ii) Conduct involving a wilful breach of duty in relation to any company; and

(iii) Any criminal, dishonest or fraudulent acts or omissions.

During the financial year, CS Energy Limited maintained a policy 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.

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 118.

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 with a resolution of the Directors.

Mr SE Lonie

Chairman

Mrs JA Leaver

Director

Brisbane

27 August 2009

CS Energy Limited (and controlled entities) Income Statement

for the year ended 30 June 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Revenue from continuing operations					
Revenue from the sale of electricity	5	781,349	739,924	446,447	382,088
Other revenue	5	45,860	31,462	122,162	186,516
		827,209	771,386	568,609	568,604
Other income	6	143,127	63,953	130,232	63,953
Cost of sales		(565,230)	(540,119)	(331,580)	(358,032)
Other expenses	7	(190,295)	(159,662)	(138,593)	(162,350)
Finance costs	7	(87,809)	(58,857)	(86,078)	(85,587)
Profit before income tax		**127,002**	**76,701**	**142,590**	**26,588**
Income tax (expense)/benefit	8	(33,186)	(17,694)	(24,799)	27,164
Profit for the year attributable to members of the parent		**93,816**	**59,007**	**117,791**	**53,752**

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

CS Energy Limited(and controlled entities) Balance Sheet

for the year ended 30 June 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Assets					
Current assets					
Cash and cash equivalents	9	86,908	276,850	77,978	256,382
Trade and other receivables	10	123,767	182,497	93,008	154,934
Inventories	11	112,098	64,498	67,512	31,662
Derivative financial assets	12	48,991	51,726	48,991	51,726
Total current assets		371,764	575,571	287,489	494,704
Non-current assets					
Other receivables	13	12,088	35,643	1,371,908	1,426,936
Investments accounted for using the equity method	14	1	1	-	-
Other non-current assets	15	19,945	30,724	71,760	82,539
Property, plant and equipment	16	2,058,407	2,087,450	608,531	556,989
Deferred tax assets	17	45,091	148,187	31,041	140,941
Derivative financial assets	12	20,482	10,014	20,482	10,014
Retirement benefit assets	23	6,280	8,076	6,280	8,076
Total non-current assets		2,162,294	2,320,095	2,110,002	2,225,495
Total assets		**2,534,058**	**2,895,666**	**2,397,491**	**2,720,199**
Liabilities					
Current liabilities					
Trade and other payables	18	112,050	83,234	88,317	39,009
Current tax liabilities		7,552	-	7,552	-
Derivative financial liabilities	12	33,169	218,181	33,169	218,181
Provisions	19	110,355	87,450	108,231	85,511
Total current liabilities		263,126	388,865	237,269	342,701
Non-current liabilities					
Borrowings	20	824,789	1,085,268	824,789	1,085,268
Derivative financial liabilities	12	21,044	162,950	21,044	162,950
Deferred tax liabilities	21	307,577	306,471	124,749	126,620
Provisions	22	183,227	219,907	162,789	201,874
Total non-current liabilities		1,336,637	1,774,596	1,133,371	1,576,712
Total liabilities		1,599,763	2,163,461	1,370,640	1,919,413
Net assets		**934,295**	**732,205**	**1,026,851**	**800,786**
Equity					
Contributed equity	25	953,115	953,115	953,115	953,115
Reserves	24	19,703	(174,565)	19,703	(174,565)
Retained earnings/(accumulated losses)	26	(38,523)	(46,345)	54,033	22,236
Total equity		**934,295**	**732,205**	**1,026,851**	**800,786**

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

CS Energy Limited (and controlled entities) Statement of Recognised Income and Expense

for the year ended 30 June 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Changes in fair value of cash flow hedges, net of tax	24	194,268	363,377	194,268	363,377
Actuarial gain/(loss) on the defined benefit plan, net of tax		(10,941)	(11,888)	(10,941)	(11,888)
Income and expense recognised directly in equity		183,327	351,489	183,327	351,489
Profit for the year		93,816	59,007	117,791	53,752
Total recognised income and expense for the year attributable to members of the parent		**277,143**	**410,496**	**301,118**	**405,241**

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

CS Energy Limited (and controlled entities) Cash Flow Statement

for the year ended 30 June 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Cash flows from operating activities					
Cash receipts from customers		815,617	908,214	469,690	463,930
Cash payments to suppliers and employees		(523,513)	(506,014)	(336,128)	(400,728)
Cash generated from operations		292,104	402,200	133,562	63,202
Interest received		10,776	4,648	10,776	4,402
Operating borrowing costs paid		(58,207)	(60,205)	(58,207)	(60,205)
Dividends received		-	-	46,609	99,462
Net cash inflow provided by operating activities	37	244,673	346,643	132,740	106,861
Cash flows from investing activities					
Payments for property, plant and equipment		(188,773)	(132,639)	(121,800)	(58,083)
Repayment of loans to related parties		-	-	(47,473)	(22,180)
Repayments of loans from related parties		-	-	91,117	170,113
Payments for gas exploration and evaluation assets		(16,629)	(17,143)	(16,629)	(17,143)
Payments for research and development		(12,854)	-	-	-
Payment for open futures positions		88,000	126,000	88,000	126,000
Net cash provided by (used in) investing activities		(130,256)	(23,782)	(6,785)	198,707
Cash flows from financing activities					
Proceeds from borrowings		-	953,787	-	953,787
Repayment of borrowings		(257,153)	(968,444)	(257,153)	(968,444)
Dividends paid	27	(47,206)	(34,640)	(47,206)	(34,640)
Net cash provided by (used in) financing activities		(304,359)	(49,297)	(304,359)	(49,297)
Net increase (decrease) in cash and cash equivalents		(189,942)	273,564	(178,404)	256,271
Cash and cash equivalents at the beginning of the financial year		276,850	3,286	256,382	111
Cash and cash equivalents at the end of the year	9	**86,908**	**276,850**	**77,978**	**256,382**

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

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1. Summary of significant accounting policies

CS Energy Limited is a company domiciled in Australia. Its registered office and principal place of business is Level 21, Central Plaza Two, 66 Eagle Street, Brisbane, Qld 4000.

The consolidated group is primarily involved in the generation of electricity from coal and gas.

The significant 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. The financial report includes the parent financial statements for CS Energy Limited as an individual entity and the consolidated group consisting of CS Energy Limited and its subsidiaries. Comparative information is reclassified where appropriate to enhance comparability.

(a) Basis of preparation

Statement of compliance

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, the *Government Owned Corporations Act 1993* and related regulations and the *Corporations Act 2001*.

The financial report of the consolidated group and the financial report of the parent comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board (IASB) with the exception of the initial recognition of the liabilities and assets transferred from Enertrade to CS Energy Limited during the year ended 30 June 2008, which was accounted for under AASB Interpretation 1038 *Contributions by Owners made to Wholly-Owned Public Sector Entities*, issued by the Australian Accounting Standards Board, for which there is no international equivalent.

Historical cost convention

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments measured at fair value.

Critical accounting estimates and judgements

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

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of all subsidiaries of CS Energy Limited. CS Energy Limited ('company' or 'parent') 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, so as to obtain benefits from its activities. 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 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 a subsidiary or business.

Accounting policies of subsidiaries have been changed, where necessary to ensure consistency with the policies adopted by the group.

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

(ii) Joint ventures

Jointly controlled assets

The proportionate interests in the assets, liabilities, expenses and income from sale of goods or services of jointly controlled assets have been incorporated in the financial statements of the parent entity and consolidated group under the appropriate headings.

Joint controlled entities

The interest in each jointly controlled 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 35.

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

Dividends receivable from equity accounted jointly controlled entities 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 consolidated group's share of losses in an associate equals or exceeds its interest in the jointly controlled entity, including any other unsecured long term receivables, the consolidated group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the entity.

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

(iii) Transactions eliminated on consolidation

Inter-group transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

(iv) Assets and liabilities received from owners

Where assets and liabilities are transferred from another wholly-owned government entity to the consolidated group, these transfers are recognised in equity as contributions by/distributions to owners. Such assets and liabilities are recognised at the book values of the transferring entity immediately prior to the transfer, based on an election made by the Queensland Government.

Subsequent to initial recognition assets and liabilities are measured in accordance with the requirements of applicable Australian Accounting Standards.

(c) Segment reporting

The consolidated group's primary format for segment reporting is based on business segments. 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. The consolidated group operates in one business segment (refer note 4).

(d) Foreign currency translation

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

Transactions in foreign currencies are translated to the respective functional currencies of the consolidated group's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost on the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on qualifying cash flow hedges, which are recognised directly in equity.

(e) Revenue recognition

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

Electricity sales

Revenue from the sale of electricity is recognised as the electricity generated is dispatched into the National Electricity Market (NEM) or in the period that the electricity generated, which is pursuant to a contract, is transferred to the counterparty. 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. Proceeds from sale of electricity from testing plant under construction are deducted from the construction cost of that plant.

Pool market revenue is based on spot prices calculated by the National Electricity Market Management Company (NEMMCO) trading systems. NEMMCO is the operator of the NEM. On 1 July 2009 the operations of NEMMCO were transitioned to the Australian Energy Market Operator (AEMO).

Gas electricity certificate sales

Revenue from the sale of the Queensland Government's gas electricity certificate (GEC) scheme is recognised when the electricity 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 if not sold under contract, is determined based on observable market prices.

Operation and maintenance service fees

Revenue is earned for the provision of operation and maintenance services performed for other entities. This revenue is recognised on an accrual basis in proportion to the stage of completion of the transaction at the reporting date.

Interest income

Interest income comprises interest income on funds invested and is recognised in the income statement as it accrues using the effective interest method.

(f) Finance costs

Finance costs comprise interest on borrowings and the unwinding of the discount on provisions and are recognised in the income statement using the effective interest method.

(g) 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, at the reporting date. 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 assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by CS Energy Limited only.

(h) Operating lease payments

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. Any lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Any contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(i) Impairment of assets

Non-financial assets

Assets are reviewed and tested at each reporting date for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount when the impairment in considered permanent in nature. The recoverable amount is the higher of the asset's value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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). Impairment losses are recognised in profit or loss. Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(j) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments, other than borrowings are measured as described in note 1(m). Borrowings are measured at amortised cost, using the effective interest method.

A financial instrument is recognised if the consolidated group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated group's contractual rights to the cash flows from the financial assets expire or if the consolidated group transfers the financial assets to another party without retaining control of substantially all risks and rewards of the assets. Financial liabilities are derecognised if the consolidated group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade and other receivables

Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

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.

Borrowings

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.

(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.

(l) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and associated transaction costs are recognised in the income statement when incurred. Derivatives 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. Fair value and changes therein are accounted for as described below.

Cash flow hedges

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 24.

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.

Embedded derivatives

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

Derivatives which do not qualify for hedge accounting

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.

(m) Fair value estimation

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

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

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

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

CS Energy Limited (and controlled entities) Notes to the Financial Statements
for the year ended 30 June 2009

(n) Property, plant and equipment

All property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials and direct labour, and other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the consolidated group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Land is not depreciated. Depreciation on other assets is recognised in the income statement on a straight line method to allocate their net book amount, net of their residual values, over their estimated effective useful lives, as follows:

Power Stations	**2 – 29 years.**
Capitalised overhauls	**2 – 4 years.**
Development costs	**9 – 29 years.**
Buildings	**10 – 40 years.**
Other, property plant and equipment	**1 – 5 years.**

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. 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 and depreciation methods are reviewed at each reporting date, and adjusted if appropriate. When changes are made, adjustments are reflected prospectively in current and future periods only.

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

Property, plant and equipment constructed by the consolidated group

The cost of property, plant and equipment 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.

Capitalised overhauls

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 are charged as expenses to the income statement when incurred.

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 consolidated group's outstanding borrowings during the year (refer note 34).

Development costs

Costs incurred in acquiring an interest in and furthering the development of coal and fuel 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.

(o) Provisions

Provisions 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.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting 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. The unwinding at the discount rate of provisions is recognised in the income statement as finance costs over the period of the obligation.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present

value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on any assets associated with that contract.

Site rehabilitation and closure costs

Provision is made for the estimated site rehabilitation and closure costs at the end of the producing life of each power station on a present value basis. Provision is also made, when an area is disturbed, for the estimated cost of site rehabilitation and closure costs relating to areas disturbed during mining operations up to reporting date but not yet rehabilitated. The present value of these obligations is recognised as a non-current liability with a corresponding asset, which is depreciated over the relevant useful life. The discount is also unwound over the relevant useful life, with the cost recognised in the income statement as 'finance costs'.

Dividends

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

(p) Gas exploration and evaluation assets

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.

(q) Employee benefits

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

Liabilities for wages and salaries, including non-monetary benefits, annual leave and that portion of accumulated sick leave that is payable on termination, are recognised in respect of employees' services up to the reporting date and are measured at undiscounted amounts based on remuneration rates at reporting date, including related on-costs, such as workers' compensation insurance and payroll tax.

(ii) Long service leave

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

(iii) 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. The liability is recognised when the consolidated group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Superannuation funds

All employees of the group are entitled to benefits on retirement, disability or death from the group's defined benefit superannuation plan or defined contribution plan or the superannuation plan that the employee has elected as their preferred superannuation plan.

Defined contribution plan

The consolidated group's defined contribution plan and other superannuation plans chosen by the employee, receive fixed contributions from group companies and the group's legal or constructive obligation is limited to these contributions.

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

Defined benefits plan

The consolidated group's defined benefit plan provides lump sum benefits based on years of service and final average salary. 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 that 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. When the calculation results in a benefit to the consolidated group, the recognised asset is limited to the total of any unrecognised post service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the consolidated group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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 the income statement, 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.

(v) Termination benefits

Termination benefits are recognised as an expense when the consolidated group 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.

(r) 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.

(s) 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.

(t) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the consolidated group will comply with the conditions associated with the grant. Grants that compensate the consolidated group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the consolidated group for the cost of an asset are recognised in the income statement as other income on a systematic basis over the useful life of the asset.

Project costs associated with the grants are recognised as intangible asset or property, plant and equipment only when the recognition criteria of such assets are met.

Government grant income received on behalf of other recipients is not accounted for as income by the consolidated group.

(u) Research and development activities

Expenditure on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, or planning and designing for the production of new or substantially improved products and processes is recognised in profit or loss when incurred.

2. New accounting standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption as at June 2009, but have not been applied in preparing the consolidated financial statements.

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations, the immediate expensing of all transaction costs, measurement of contingent consideration at fair

value at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendors indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard, which becomes mandatory for the consolidated group's 30 June 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the consolidated group's 2010 financial statements.

- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the consolidated group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the consolidated group's Chief Operation Decision Maker in order to assess each segment's performance and to allocate resources to them. The consolidated group has not yet determined the potential effect of the standard.
- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the consolidated group's 30 June 2010 financial statements. The consolidated group has not yet determined the potential effect of the revised standard on the consolidated group's disclosures.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the consolidated group's 30 June 2010 financial statements and will not result in a change in accounting policy for the consolidated group.
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the consolidated group's 30 June 2010 financial statements. The consolidated group has not yet determined the potential effect of the revised standard on the consolidated group's financial report.
- AASB 2008-5 A*mendments to Australian Accounting Standards* arising from the *Annual Improvements Process* and 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments will become mandatory for the consolidated group's 30 June 2010 financial statements. The consolidated group has not yet determined the potential effect of the amendments on the consolidated group's financial report.
- AASB 2008-7 *Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the consolidated group's 30 June 2010 financial statements. The consolidated group has not yet determined the potential effect on the amendments on the consolidated group's financial report.

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 consolidated group and that are considered to be reasonable under the circumstances. Resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and judgements 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 below:

(i) Asset impairment testing

Annually, the consolidated group considers the existence of any impairment indicators, in accordance with the accounting policy stated in note 1(i) where necessary. The recoverable amount of the asset or cash generating unit (CGU) 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:

(a) Discount rate;

(b) Forecast electricity prices;

(c) Forecast prices for fuel (coal and gas);

(d) Plant reliability;

(e) Forecast operating expenditure requirements;

(f) Future regulatory environment; and

(g) Accessibility and pricing of water.

In respect of the future regulatory environment, the Australian Federal Government has proposed introducing a Carbon Pollution Reduction Scheme (CPRS) by 2011. The introduction of the proposed CPRS has the potential to significantly impact the assumptions used to determine the future cash flows generated from the continuing use of the consolidated group's assets for the purpose of value in use calculations used in impairment testing.

As at 30 June 2009, the consolidated group has incorporated in its value in use calculations management's best estimate of the potential impact of the proposed CPRS on the consolidated group's future cash flows, based on what management considers is a reasonable set of assumptions formulated using currently available information. The assumptions are principally in relation to the following areas:

(a) Level of emissions the group is expected to emit;

(b) Abatement opportunities;

(c) Structure of the scheme;

(d) Prices and number of permits required to be purchased;

(e) Impact on costs charged by suppliers;

(f) Ability to pass on the cost of permits via the wholesale electricity price; and

(g) Government assistance.

The consolidated group has not undertaken a sensitivity analysis in relation to the various key assumptions made in relation to the proposed CPRS, given the uncertainty associated with identifying a reasonable possible change. A sensitivity analysis is not required under the relevant accounting standard.

(ii) Electricity derivative contracts measured at fair value (refer note 12)

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

(iii) Onerous contracts (refer to notes 19 and 22)

Power purchase agreement

An onerous provision is recognised for unavoidable costs related to the consolidated group's obligations under a power purchase agreement (refer note 22). Significant estimates made are:

(a) Estimation of the unavoidable costs and related economic benefits to be derived by the consolidated group from the sale of electricity purchased under the contract;

(b) Changes in the wholesale electricity price as a result of the proposed CPRS;

(c) Pass through provisions contained in the agreement; and

(d) Determination of an appropriate discount rate.

Water purchase agreement

An onerous provision is recognised for unavoidable costs related to the consolidated group's obligations under a water purchase agreement (refer note 22). Significant estimates made are:

(a) Estimation of the portion of the allocation that is excess to operating requirements; and

(b) Determination of an appropriate discount rate.

(iv) Rehabilitation and site closure costs provision (refer note 22)

A provision is recognised for the consolidated group's obligation in relation to the rehabilitation and site closure of each power station and mine.

Significant estimates made with respect to this provision are:

(a) Estimation of costs to fulfil the consolidated group's obligations. Such estimated costs may change depending on changing technology and techniques;

(b) Determination of an appropriate discount rate; and

(c) Estimation of the timing of when the rehabilitation will occur.

(v) Defined benefit plan assets (refer note 23)

An asset is recognised for the surplus of defined benefit plan assets over plan obligations. Various actuarial assumptions are used by actuaries, which are discussed in note 23.

4. Segment information

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

Segment information is prepared in conformity with the accounting policies of the consolidated group as disclosed in note 1 and the segment reporting accounting standard, AASB 114 *Segment Reporting*.

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
5. Revenue				
Sales revenue				
Revenue from the sale of electricity	781,349	739,924	446,447	382,088
Other revenue				
Interest income	11,161	4,648	10,776	32,586
Dividends income	-	-	46,609	99,462
Operation and maintenance services fees	27,876	24,350	58,712	52,207
Sale of by-products	1,195	405	1,195	405
Leasing revenue	1,479	36	1,479	36
Other	4,149	2,023	3,391	1,820
	45,860	31,462	122,162	186,516
Total revenue	827,209	771,386	568,609	568,604
6. Other income				
Net gain on disposal of property, plant and equipment	1,377	175	1,377	175
Net gain on fair value of derivatives not qualifying as cash flow hedges	58,937	63,238	58,937	63,238
Other	-	540	-	540
Government grants received	12,895	-	-	-
Onerous contract – remeasurement (1)	69,918	-	69,918	-
	143,127	63,953	130,232	63,953

(1) In the prior financial year, remeasurement of the onerous contract at balance date resulted in an expense (refer note 7).

7. Expenses

Profit before income tax includes the following specific expenses:

Other expenses				
Distribution costs	33,460	20,786	15,759	6,676
Administration costs	85,504	64,728	101,725	82,723
Impairment write-down – generation assets (1)	38,342	31,649	9,042	31,649
Onerous contracts – initial recognition	-	20,631	-	20,631
Onerous contracts – remeasurement	-	19,974	-	19,974
Research and development	20,896	-	-	-
Loss on disposal of assets	26	1,894	-	697
Exploration & evaluation expenditure written off (2)	12,067	-	12,067	-
	190,295	159,662	138,593	162,350
Depreciation & amortisation				
Depreciation included in cost of sales	114,458	98,222	41,712	50,581
Depreciation included in administration costs	4,169	4,694	4,169	4,694
Capitalised overhauls included in cost of sales	25,650	32,861	15,285	21,002
	144,277	135,777	61,166	76,277
Finance costs				
Interest and finance charges	64,225	62,287	64,225	62,287
Less: amount capitalised	-	(28,184)	-	-
Finance costs – rehabilitation provision	5,869	5,768	4,138	4,314
Finance costs – onerous contracts provision	17,715	18,986	17,715	18,986
	87,809	58,857	86,078	85,587

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Rental expense relating to operating leases				
Minimum lease payments	1,300	1,156	1,281	1,065
Employee benefit expenses (refer note 23)				
Defined contribution superannuation expense	4,192	3,130	2,744	1,845

(1) In assessing the recoverable amount of the consolidated group's assets at 30 June 2009, it was determined that the carrying value of the Swanbank B power station exceeded its recoverable amount by $9.042M (2008 – $31.649M). At 30 June 2009 it was also determined that the carrying value of the Mica Creek power station exceeded its recoverable amount by $29.3M (2008: nil). The Directors' resolved to record asset impairment write-downs for these amounts.

(2) Due to uncertainty surrounding the economic extraction of gas from one of CS Energy's gas developments, for potential use in its power stations, the Directors' resolved to not proceed with the next stage of the project and to write-off all exploration and evaluation expenditure previously capitalised for this project.

8. Income tax expense

(a) Income tax expense/(benefit)				
Current tax	12,829	58,014	241	11,696
Adjustments for current tax of prior periods	(23)	(16)	(24)	(16)
Origination and reversal of temporary differences	20,380	(40,304)	24,582	(38,844)
	33,186	17,694	24,799	(27,164)
Deferred income tax (benefit) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 17)	(15,927)	(497)	(22,914)	(1,202)
(Decrease) increase in deferred tax liabilities (note 21)	(4,453)	40,801	(1,522)	40,046
Previously unrecognised tax losses now recouped	-	-	(146)	-
	(20,380)	40,304	(24,582)	38,844
(b) Reconciliation of income tax expense to prima facie tax calculated at Australia statutory rate:				
Profit from continuing operations before income tax expense	127,002	76,701	142,590	26,588
Tax at the Australian tax rate of 30% (2008: 30%)	38,100	23,010	42,777	7,976
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Entertainment	25	27	21	24
Non-taxable dividends	-	-	(13,983)	(29,839)
Non-taxable financial instruments	(4,269)	(5,354)	(4,269)	(5,354)
Sundry items	(647)	27	131	45
	33,209	17,710	24,677	(27,148)
Adjustments for current tax of prior years	(23)	(16)	(24)	(16)
Previously unrecognised tax losses now recouped	-	-	146	-
Income tax expense	33,186	17,694	24,799	(27,164)
(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				
Net deferred tax debited (credited) directly to equity (notes 17 and 21)	78,869	150,637	78,569	150,637
(d) Tax losses				
Unused Australian capital tax losses for which no deferred tax asset has been recognised	86,841	86,841	86,841	86,841
Potential tax benefit @ 30%	26,052	26,052	26,052	26,052

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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
9. Current assets – cash and cash equivalents				
Cash at bank and on hand	9,711	21,854	781	1,386
Deposits at call – Queensland Treasury Corporation (QTC)	77,197	254,996	77,197	254,996
	86,908	276,850	77,978	256,382

Cash at bank and on hand

Cash held with banks is bearing an interest rate of between 2% and 7.25%. (2008: 5.25% and 7.25%).

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

10. Current assets – trade and other receivables				
Trade receivables	54,475	70,607	26,677	42,079
Other receivables	54,706	63,506	52,081	65,096
Prepayments	14,586	27,145	14,250	26,520
Futures margin deposits	-	21,239	-	21,239
	123,767	182,497	93,008	154,934

(a) Trade receivables

The consolidated group has recognised no losses in respect of bad and doubtful trade receivables during the year ended 30 June 2009 (2008: nil). There were also no receivables past their due date.

(b) Other receivables

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

(c) Credit risk

There is concentration of credit risk in relation to trade and other receivables. Refer to note 12(e) for more details on specific concentrations of credit risk and the credit quality.

11. Current assets - inventories				
Fuel and stores	112,098	64,498	67,512	31,662

12. Financial instruments

The consolidated group's activities expose it to a variety of financial risks – commodity price risk, foreign exchange risk, interest rate risk, credit risk, and liquidity risk. The consolidated 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 consolidated group. Risk management is implemented pursuant to policies approved by the Board of Directors.

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Derivative financial instruments				
Current assets				
Forward foreign exchange contracts – cash flow hedges	715	-	715	-
Electricity derivative contracts – cash flow hedges	41,266	38,438	41,266	38,438
Electricity derivative contracts – do not qualify for hedge accounting	7,010	13,288	7,010	13,288
Total current derivative financial instrument assets	48,991	51,726	48,991	51,726
Non-current assets				
Electricity derivative contracts – cash flow hedges	20,229	8,082	20,229	8,082
Electricity derivative contracts – do not qualify for hedge accounting	253	1,932	253	1,932
Total non-current derivative financial instrument assets	20,482	10,014	20,482	10,014
Current liabilities				
Forward foreign exchange contracts – cash flow hedges	1,149	658	1,149	658
Electricity derivative contracts – cash flow hedges	21,477	192,476	21,477	192,476
Electricity derivative contracts – do not qualify for hedge accounting	10,543	25,047	10,543	25,047
Total current derivative financial instrument liabilities	33,169	218,181	33,169	218,181
Non-current liabilities				
Electricity derivative contracts – cash flow hedges	12,810	107,204	12,810	107,204
Electricity derivative contracts – do not qualify for hedge accounting	8,234	55,746	8,234	55,746
Total non-current derivative financial instrument liabilities	21,044	162,950	21,044	162,950

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. The categories of derivative financial instruments are used by the group and discussed below are as follows:

- Over-the-counter (OTC) electricity contracts;
- Exchange traded futures contracts; and
- Forward foreign exchange contracts.

(b) Commodity price risk

The consolidated group is exposed to commodity price risk on electricity, coal and gas arising from the purchase and/or sale of these commodities. The group does not use derivative financial instruments for risk management in relation to purchases of coal and gas, but rather enters into long term fixed price supply agreements.

The consolidated group is exposed to commodity price risk on electricity via 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 electricity price risk. The majority of these types of financial instruments have a time horizon of between 3 months and 3 years.

The consolidated 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 consolidated group also operates an electricity trading book to assist with market liquidity, accessing market information and for trading at a profit. The following derivatives are used in relation to electricity price risk.

Over-the-counter electricity 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 receivables or payables.

Exchange traded electricity 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.

Sensitivity analysis

The following table summarises the increase/(decrease) on both the parent and consolidated group's income statement for the year and on equity, that would result from a 10% increase/decrease in electricity prices. The sensitivity analysis is based on reasonably possible changes, over a financial year, in the electricity price applicable to each financial instrument. All variables other than electricity prices are held constant in the analysis.

	Consolidated		Parent	
	Equity $'000	Income Statement $'000	Equity $'000	Income Statement $'000
30 June 2009				
Electricity price – increase 10%	(64,379)	(17,210)	(64,379)	(17,210)
Electricity price – decrease 10%	64,879	7,437	64,879	7,437
30 June 2008				
Electricity price – increase 10%	(115,429)	(23,092)	(115,429)	(23,092)
Electricity price – decrease 10%	115,401	24,895	115,401	24,895

(c) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions are denominated in non-Australian currency. The consolidated group contracts to acquire new generation plant, spare parts and maintenance services for existing plant, and has been or is exposed to foreign exchange risk arising from currency exposures to the Swiss Franc (CHF), Japanese Yen (JPY), Canadian Dollar (CAD) and US Dollar (USD).

The consolidated group has entered into forward exchange contracts to purchase Swiss Francs, Japanese Yen, Canadian Dollars 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. The 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.

The consolidated group had no unhedged exposure to foreign currency risk at balance date.

Sensitivity analysis

A 10% strengthening of the Australian dollar against the following currencies at 30 June would have increased/(decreased) equity and the income statement by the amounts shown below. This 2009 analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2008.

AUD	Consolidated		Parent	
	Equity $'000	Income Statement $'000	Equity $'000	Income Statement $'000
30 June 2009				
JPY	(193)	-	(193)	-
CHF	(1,714)	-	(1,714)	-
CAD	(45)	-	(45)	-
USD	(56)	-	(56)	-
30 June 2008				
JPY	(404)	-	(404)	-
CHF	(2,407)	-	(2,407)	-

A 10% weakening of the Australian dollar against the following currencies would have increased/(decreased) equity and the income statement by the amounts shown below. This analysis assumes that all other variables remain consent. The analysis was performed on the same basis for 2008.

30 June 2009				
JPY	236	-	236	-
CHF	2,096	-	2,096	-
CAD	54	-	54	-
USD	68	-	68	-
30 June 2008				
JPY	492	-	492	-
CHF	2,925	-	2,925	-

(d) Liquidity risk

The consolidated group is exposed to liquidity risk through the volatility of its cash flows and large capital investment program. The consolidated 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 20. 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.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Consolidated

	Carrying amount $'000	Total contractual cash flows $'000	Less than one year $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000
30 June 2009						
Non-derivative financial liabilities						
Loans from QTC	824,789	1,124,401	60,808	60,655	181,966	820,972
Trade and other payables	112,050	112,050	112,050	-	-	-
Derivative financial liabilities						
Electricity contracts	53,064	55,328	33,042	11,052	6,036	5,198
Forward exchange contracts used	1,149	1,149	1,149	-	-	-
Total	991,052	1,292,928	207,049	71,707	188,002	826,170
Derivative financial assets						
Electricity contracts	68,758	71,776	49,191	16,705	5,880	-
Forward exchange contracts used	715	715	715	-	-	-
	69,473	72,491	49,906	16,705	5,880	-
30 June 2008						
Non-derivative financial liabilities						
Loans from QTC	1,085,268	1,455,574	72,772	73,799	221,400	1,087,603
Trade and other payables	83,234	83,234	83,234	-	-	-
Derivative financial liabilities						
Electricity contracts	380,473	416,059	232,048	96,231	70,584	17,196
Forward exchange contracts used	658	658	658	-	-	-
Total	1,549,633	1,955,525	388,712	170,030	291,984	1,104,799
Derivative financial assets						
Electricity contracts	61,740	65,876	54,555	10,857	464	-

Parent

	Carrying amount $'000	Total contractual cash flows $'000	Less than one year $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
30 June 2009						
Non-derivative financial liabilities						
Loans from QTC	824,789	1,124,401	60,808	60,655	181,966	820,972
Trade and other payables	88,317	88,317	88,317	-	-	-
Derivative financial liabilities						
Electricity contracts	53,064	55,328	33,042	11,052	6,036	5,198
Forward exchange contracts used	1,149	1,149	1,149	-	-	-
Total	967,319	1,269,195	183,316	71,707	188,002	826,170
Derivative financial assets						
Electricity contracts	68,758	71,776	49,191	16,705	5,880	-
Forward exchange contracts used	715	715	715	-	-	-
	69,473	72,491	49,906	16,705	5,880	-
30 June 2008						
Non-derivative financial liabilities						
Loans from QTC	1,085,268	1,455,574	72,772	73,799	221,400	1,087,603
Trade and other payables	39,009	39,009	39,009	-	-	-
Derivative financial liabilities						
Electricity contracts	380,473	416,059	232,048	96,231	70,584	17,196
Forward exchange contracts used	658	658	658	-	-	-
Total	1,505,408	1,911,300	344,487	170,030	291,984	1,104,799
Derivative financial assets						
Electricity contracts	61,740	65,876	54,555	10,857	464	-

The anticipated time at which cash flows from hedges are expected to impact profit or loss is consistent with the maturity profiles for derivative financial assets and liabilities above and on page 92.

(e) 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 amounts. A significant portion of the consolidated group's hedge contracts, and consequent credit risk, are with the two major retailers in the Queensland market. The consolidated group also has a concentration of credit exposure in the National Electricity Market, operated by NEMMCO. On 1 July 2009 the operations of NEMMCO were transitioned to the Australian Energy Market Operator (AEMO). The National Electricity Market operates with strict prudential guidelines that minimise the potential for credit related losses.

To manage credit risk appropriately, the consolidated 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 derivative counterparties are limited to those that are at least investment grade (as determined by recognised providers of credit rating information), or alternatively provide credit enhancement. The consolidated group also uses International Swap and Derivative Association (ISDA) agreements with all derivative counterparties in order to limit exposure to credit risk through the netting of amounts payable to and receivable from individual counterparties. Cash transactions are limited to high quality counterparties.

The carrying amount of the consolidated group's financial assets (as disclosed in notes 9, 10, 12 and 13) represents the maximum credit exposure to credit risk at reporting date.
A summary of the credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings as reflected in the table below:

AUD	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash and cash equivalents				
AAA	-	254,996	-	254,996
AA+ to AA-	86,908	21,854	77,978	1,386
Total	86,908	276,850	77,978	256,382
Trade and other receivables				
AA+ to AA-	34,709	84,206	31,463	82,717
BBB+ to BBB-	13,220	13,804	13,220	13,804
NEMMCO	34,766	53,097	16,575	32,156
Other non-rated	53,160	67,033	1,403,658	1,453,193
Total	135,855	218,140	1,464,916	1,581,870
Derivative financial assets				
AA+ to AA-	42,663	52,726	42,663	52,726
BBB+ to BBB-	26,810	9,014	26,810	9,014
Total	69,473	61,740	69,473	61,740

(f) Interest rate risk

The consolidated group is exposed to changes in interest rates via its borrowings. The consolidated 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 consolidated group's financier, Queensland Treasury Corporation (QTC), provides loan facility arrangements to assist in managing this risk. The consolidated 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 Limited'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.

Sensitivity analysis

(a) Fair value sensitivity for fixed rate instruments

The consolidated group does not account for any fixed rate borrowings at fair value through profit and loss and derivatives are also not used to hedge these borrowings under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect the income statement or equity.

(b) Fair value sensitivity for variable rate instruments

A change of 1% in interest rates at the reporting date would have increased (decreased) equity and income statement by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	Income Statement		Equity	
	1% Increase $'000	1% Decrease $'000	1% Increase $'000	1% Decrease $'000
Variable rate borrowings				
30 June 2009	(1,042)	1,042	(1,042)	1,042
30 June 2008	(1,392)	1,392	(1,392)	1,392

(g) Fair values

The carrying amounts shown in the balance sheet of the consolidated group and the parent, except for Loans from QTC (refer note 20), approximate their fair value.

The fair value of Loans from QTC together with the carrying amount shown in the balance sheet of the consolidated group and parent, is as follows:

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Carrying amount	824,789	1,085,268	824,789	1,085,268
Fair value	851,365	1,055,633	851,365	1,055,633

The fair value of Loans from QTC is inclusive of costs which would be incurred on settlement of a liability.

The fair value 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.

(h) Capital management

The consolidated group's objectives when managing capital are to safeguard the consolidated group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, as well maintain a capital structure aimed at achieving an investment grade credit rating, thereby optimising the consolidated group's cost of capital.

In order to maintain or adjust the capital structure, the consolidated group may apply to the Shareholding Minister for additional equity, or divest itself of some or all of its assets in order to reduce debt or pursue new investment opportunities.

Consistent with other industry participants, the consolidated group monitors capital on the basis of its gearing ratio. This ratio is calculated by dividing net debt by net debt plus equity. Net debt is calculated as total borrowings less cash and cash equivalents. Equity is calculated as 'equity' shown in the balance sheet excluding reserves associated with cash flow hedging activities.

The gearing ratios for the consolidated group at 30 June 2009 and 30 June 2008 were as follows:

	Consolidated		Parent	
	2009	2008	2009	2008
Net debt ($'000)	737,881	808,418		
Adjusted equity ($'000)	914,592	906,770		
Gearing ratio (%)	44.7	47.1		

13. Non current assets – other receivables

Prepayments	10,893	13,336	10,892	13,336
Loans to related parties	-	-	1,359,821	1,391,293
Futures margin deposits	1,195	22,307	1,195	22,307
	12,088	35,643	1,371,908	1,426,936

Further information relating to loans to related parties is set out in note 34.

14. Non current assets investments accounted for using equity method

Interest in jointly controlled entities	1	1	-	-

The interest in the jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by a subsidiary of the consolidated group (note 36).

15. Non current assets – other non-current assets

Financial				
Shares in subsidiaries (note 35)	-	-	51,815	51,815
Other				
Gas exploration, evaluation and development assets	19,945	30,724	19,945	30,724
	19,945	30,724	71,760	82,539

These financial assets are carried at cost.
CS Energy Limited has entered into gas development joint ventures to secure fuel supplies for its power station operations at Swanbank (refer note 36).

Movements in gas exploration, evaluation and development costs				
Opening balance at 1 July	30,724	23,558	30,724	23,558
Additions	3,700	9,288	3,700	9,288
Exploration & evaluation expenditure written off [1]	(12,067)	-	(12,067)	-
Amortisation	(2,412)	(2,122)	(2,412)	(2,122)
Closing balance at 30 June	19,945	30,724	19,945	30,724

(1) Refer note 7

16. Non current assets – property, plant and equipment

Consolidated	Power Stations $'000	Capitalised Overhauls $'000	Other property, plant and equipment $'000	Work in progress $'000	Development costs $'000	Total $'000
At 1 July 2007						
Cost	1,573,164	107,940	59,898	1,026,434	23,530	2,790,966
Accumulated depreciation and impairment losses	(547,380)	(67,356)	(34,044)	-	-	(648,780)
Net book amount	1,025,784	40,584	25,854	1,026,434	23,530	2,142,186
Movements for the year ended 30 June 2008						
Opening net book amount	1,025,784	40,584	25,854	1,026,434	23,530	2,142,186
Additions	140,661	59,448	68,148	11,053	938	280,248
Transfers	849,714	503	1,098	(851,315)	-	-
Disposals	(816)	(1,072)	(5)	(159,949)	(5,601)	(167,443)
Depreciation/impairment charge	(115,257)	(43,507)	(8,283)	-	(494)	(167,541)
Closing net book amount	1,900,086	55,956	86,812	26,223	18,373	2,087,450
At 30 June 2008						
Cost	2,652,880	129,619	126,185	26,223	18,867	2,953,774
Accumulated depreciation and impairment losses	(752,794)	(73,663)	(39,373)	-	(494)	(866,324)
Net book amount	1,900,086	55,956	86,812	26,223	18,373	2,087,450
Movements for the year ended 30 June 2009						
Opening net book amount	1,900,086	55,956	86,812	26,223	18,373	2,087,450
Additions	9,966	19,901	8,396	112,780	2,623	153,666
Transfers	9,797	(2,760)	1,092	(8,129)	-	-
Disposals	-	-	(90)	-	-	(90)
Depreciation/impairment charge	(134,716)	(37,509)	(9,515)	-	(879)	(182,619)
Closing net book amount	1,785,133	35,588	86,695	130,874	20,117	2,058,407
At 30 June 2009						
Cost	2,533,232	140,017	134,305	130,874	21,491	2,959,919
Accumulated depreciation and impairment losses	(748,099)	(104,429)	(47,610)	-	(1,374)	(901,512)
Net book amount	1,785,133	35,588	86,695	130,874	20,117	2,058,407

16. Non current assets – property, plant and equipment (continued)

Parent

	Power Stations $'000	Capitalised Overhauls $'000	Other property, plant and equipment $'000	Work in progress $'000	Development costs $'000	Total $'000
At 1 July 2007						
Cost	911,044	53,964	48,570	17,460	-	1,031,038
Accumulated depreciation and impairment losses	(358,913)	(30,366)	(29,626)	-	-	(418,905)
Net book amount	552,131	23,598	18,944	17,460	-	612,133
Movements for the year ended 30 June 2008						
Opening net book amount	552,131	23,598	18,944	17,460	-	612,133
Additions	9,726	30,983	4,934	7,834	-	53,477
Transfers	(2,204)	962	1,046	196	-	-
Disposals	(691)	-	(5)	-	-	(696)
Depreciation/impairment charge	(70,411)	(31,648)	(5,866)	-	-	(107,925)
Closing net book amount	488,551	23,895	19,053	25,490	-	556,989
At 30 June 2008						
Cost	1,008,504	81,372	52,087	25,490	-	1,167,453
Accumulated depreciation and impairment losses	(519,953)	(57,477)	(33,034)	-	-	(610,464)
Net book amount	488,551	23,895	19,053	25,490	-	556,989
Movements for the year ended 30 June 2009						
Opening net book amount	488,551	23,895	19,053	25,490	-	556,989
Additions	7,134	8,308	4,568	101,789	-	121,799
Transfers	8,521	(27)	724	(9,218)	-	-
Disposals	-	-	(49)	-	-	(49)
Depreciation/impairment charge	(42,857)	(22,565)	(4,786)	-	-	(70,208)
Closing net book amount	461,349	9,611	19,510	118,061	-	608,531
At 30 June 2009						
Cost	914,826	84,342	56,296	118,061	-	1,173,525
Accumulated depreciation and impairment losses	(453,477)	(74,731)	(36,786)	-	-	(564,994)
Net book amount	461,349	9,611	19,510	118,061	-	608,531

Consolidated

	Derivative financial instruments $'000	Provisions $'000	Provision for rehabilitation and other closure costs $'000	Tax losses $'000	Other $'000	Total $'000
At 1 July 2007	264,255	8,218	17,698	62,270	6,796	359,237
Charged/(credited) to the income statement	(13,617)	17,469	2,182	-	(6,531)	(497)
Under provision prior year	-	-	-	183	3,009	3,192
Charged directly to equity	(155,733)	-	-	-	-	(155,733)
Acquisition of tax losses	-	-	-	(58,012)	-	(58,012)
At 30 June 2008	94,905	25,687	19,880	4,441	3,274	148,187
Charged/(credited) to the income statement	(12,709)	(11,386)	2,085	(130)	6,213	(15,927)
Under provision prior year	-	-	-	966	(662)	304
Charged directly to equity	(82,196)	-	-	-	-	(82,196)
Acquisition of tax losses	-	-	-	(5,277)	-	(5,277)
Net deferred tax assets at 30 June 2009	-	14,301	21,965	-	8,825	45,091

17. Non current assets – deferred tax assets

Parent

	Derivative financial instruments $'000	Provisions $'000	Provision for rehabilitation and other closure costs $'000	Tax losses $'000	Other $'000	Total $'000
At 1 July 2007	264,255	6,271	14,225	62,270	6,601	353,622
Charged/(credited) to the income statement	(13,617)	18,191	888	-	(6,664)	(1,202)
Under provision prior year	-	-	-	183	2,083	2,266
Charged directly to equity	(155,733)	-	-	-	-	(155,733)
Acquisition of tax losses	-	-	-	(58,012)	-	(58,012)
At 30 June 2008	94,905	24,462	15,113	4,441	2,020	140,941
Charged/(credited) to the income statement	(12,709)	(11,499)	1,422	(130)	2	(22,914)
Under provision prior year	-	-	-	966	(479)	487
Charged directly to equity	(82,196)	-	-	-	-	(82,196)
Acquisition of tax losses	-	-	-	(5,277)	-	(5,277)
Net deferred tax assets at 30 June 2009	-	12,963	16,535	-	1,543	31,041

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
18. Current liabilities – trade and other payables				
Trade payables	73,095	36,570	49,463	7,745
Other payables	29,892	46,664	29,791	31,264
Futures margin receipts	9,063	-	9,063	-
	112,050	83,234	88,317	39,009
19. Current liabilities – provisions				
Onerous contracts (note 22)	21,024	28,247	21,024	28,247
Dividends	75,053	47,206	75,053	47,206
Employee benefits	14,278	11,997	12,154	10,058
	110,355	87,450	108,231	85,511
Dividends				
Carrying amount at start of year	47,206	34,640	47,206	34,640
Dividends declared	75,053	47,206	75,053	47,206
Dividends paid	(47,206)	(34,640)	(47,206)	(34,640)
Carrying amount at end of year	75,053	47,206	75,053	47,206

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance sheet date. The dividend is expected to be paid on 31 December 2009.

20. Non-current liabilities – borrowings

Loans from QTC	824,789	1,085,268	824,789	1,085,268

All loans from the Queensland Treasury Corporation at 30 June 2009 are unsecured (2008: unsecured).

(a) Financing arrangements

Facility used at balance date				
QTC facilities (1)	824,789	1,085,268	824,789	1,085,268
Bank loan facilities	-	-	-	-
	824,789	1,085,268	824,789	1,085,268
Unused at balance date				
QTC facilities (1)	319,545	319,545	319,545	319,545
QTC facilities (2)	400,000	400,000	400,000	400,000
Bank loan facilities	1,000	1,000	1,000	1,000
	720,545	720,545	720,545	720,545
Total facilities available				
QTC facilities (1)	1,544,334	1,804,813	1,544,334	1,804,813
Bank loan facilities	1,000	1,000	1,000	1,000
	1,545,334	1,805,813	1,545,334	1,805,813

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

21. Non-current liabilities – deferred tax liabilities

Consolidated

	Derivative financial instruments $'000	Trade receivables $'000	Defined benefit asset $'000	Property plant and equipment $'000	Capital work in progress $'000	Other $'000	Total $'000
At 1 July 2007	-	64,071	7,466	202,519	59,764	15,366	349,186
Charged/(credited) to the income statement	-	(47,472)	52	34,267	(35,396)	7,748	(40,801)
Under provision prior year	-	-	-	-	3,180	2	3,182
Charged directly to equity	-	-	(5,096)	-	-	-	(5,096)
At 30 June 2008	-	16,599	2,422	236,786	27,548	23,116	306,471
Charged/(credited) to the income statement	3,516	(5,422)	4,151	(16,044)	645	17,607	4,453
Under provision prior year	-	-	-	9	-	271	280
Charged directly to equity	1,062	-	(4,689)	-	-	-	(3,627)
Net deferred tax liabilities at 30 June 2009	4,578	11,177	1,884	220,751	28,193	40,994	307,577

Parent

	Derivative financial instruments $'000	Trade receivables $'000	Defined benefit asset $'000	Property plant and equipment $'000	Capital work in progress $'000	Other $'000	Total $'000
At 1 July 2007	-	45,070	7,466	104,939	316	13,971	171,762
Charged/(credited) to the income statement	-	(35,421)	52	(6,528)	(227)	2,078	(40,046)
Charged directly to equity	-	-	(5,096)	-	-	-	(5,096)
At 30 June 2008	-	9,649	2,422	98,411	89	16,049	126,620
Charged/(credited) to the income statement	3,516	(4,570)	4,151	(11,037)	(12)	9,474	1,522
Under provision prior year	-	-	-	-	-	234	234
Charged directly to equity	1,062	-	(4,689)	-	-	-	(3,627)
Net deferred tax liabilities at 30 June 2009	4,578	5,079	1,884	87,374	77	25,757	124,749

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
22. Non-current liabilities - provisions				
Employee benefits	13,516	12,735	11,179	10,589
Rehabilitation and site closure costs	73,783	66,264	55,682	50,377
Onerous contracts	95,928	140,908	95,928	140,908
	183,227	219,907	162,789	201,874
Non-current provisions	183,227	219,907	162,789	201,874
Current provisions (refer note 19)	110,355	87,450	108,231	85,511
Total provisions	293,582	307,357	271,020	287,385
Reconciliation of movements in provisions (note 19 and 22):				
Rehabilitation and site closure costs				
Carrying amount at start of year	66,264	58,994	50,377	47,417
Increase in provisions	1,167	4,613	1,167	1,757
Provision used during the year	-	(3,111)	-	(3,111)
Finance costs	6,352	5,768	4,138	4,314
Carrying amount at end of year	73,783	66,264	55,682	50,377
Onerous contracts				
Carrying amount at start of year	169,155	-	169,155	-
Increase in provisions	-	165,388	-	165,388
Change from remeasurement	(41,671)	-	(41,671)	-
Provision used during the year	(28,247)	(15,219)	(28,247)	(15,219)
Finance costs	17,715	18,986	17,715	18,986
Carrying amount at end of year	116,952	169,155	116,952	169,155

Onerous contract provision for power purchase agreement

Pursuant to the passing of regulation *QPTC Restructure – Stage 1* under the *Government Owned Corporations Act 1993*, Enertrade's interest in the long-term power purchase agreement ("PPA") for the Collinsville Power Station (owned and operated by Transfield Services) was transferred to CS Energy Limited on 19 August 2007. The transfer was non-reciprocal. The PPA agreement, which extends to 2016, is an onerous contract as the unavoidable cost of meeting the ongoing obligations under the PPA exceeds the benefits expected to be received.

The provision for onerous contract reflects the least net cost of the PPA, which is the lower of the cost of fulfilling the agreement or the compensation payable as defined in the agreement for early termination.

The extent of the future losses from the PPA will depend on future wholesale pool prices, as well as the need for CS Energy Limited to meet its network support obligations. The future levels of Queensland wholesale pool prices are significantly uncertain. The critical determinants of future pool prices will be the bidding behaviour of participants in the National Electricity Market, load growth, the proposed Carbon Pollution Reduction Scheme, network reliability and the introduction of new generation capacity.

The discount rate used at 30 June 2009 reflects the current market assessments of the time value of money and the risks specific to the obligation.

Onerous contract provision for water purchase agreement

Pursuant to section 360ZDD(1)(b) of the *Water Act 2000 (Qld),* CS Energy became a party to a contract with the South East Queensland Water Grid Manager for the supply of bulk water to the Swanbank power stations. The contract commenced on 1 July 2008 and has an initial term of 10 years.

This contract provides for a maximum allocation of water for use at the Swanbank power stations. Consideration consists of a fixed charge component, and a variable charge component, calculated on a per mega litre basis.

The maximum allocation specified in the contract is in excess of both the current and anticipated future operating requirements of the Swanbank power stations. A provision for an onerous contract has been recognised for that portion of the fixed charge that relates to water currently identified as excess to operating requirements.

The discount rate used at 30 June 2009 reflects the current market assessments of the time value of money and the risks specific to the obligation.

CS Energy Limited (and controlled entities) Notes to the Financial Statements
for the year ended 30 June 2009

Rehabilitation and site closure costs

Refer note 1(o) for details relating to rehabilitation and site closure costs provisions.

23. Retirement benefit obligations – defined benefit plan

(a) Superannuation Plans

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

The following information in notes 23(b) to 23(j) is in respect of the QESI defined benefit plan only.

(b) Balance sheet amounts

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

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Present value of the defined benefit obligation	(82,599)	(76,906)	(82,599)	(76,906)
Fair value of defined benefit plan assets	88,879	84,982	88,879	84,982
Net asset in the balance sheet	6,280	8,076	6,280	8,076

The consolidated group intends to continue to contribute to the defined benefit section of the plan at a rate of 12% of salaries, in line with the actuary's latest recommendations.

(c) Categories of plan assets

The major categories of plan assets are as follows:

Cash	6,222	5,864	6,222	5,864
Equity instruments	37,328	44,276	37,328	44,276
Debt instruments	14,221	16,826	14,221	16,826
Property	13,332	10,453	13,332	10,453
Other assets	17,776	7,563	17,776	7,563
	88,879	84,982	88,879	84,982

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(d) Reconciliations				
Reconciliation of the present value of the defined benefit obligation, which is fully funded:				
Balance at the beginning of the year	76,906	72,573	76,906	72,573
Current service cost	4,014	4,040	4,014	4,040
Interest cost	4,079	3,906	4,079	3,906
Actuarial (gains) and losses recognised in equity	3,517	2,166	3,517	2,166
Contributions by plan participants	1,221	1,223	1,221	1,223
Benefits paid by the plan	(7,138)	(7,002)	(7,138)	(7,002)
Balance at the end of the year	82,599	76,906	82,599	76,906
Reconciliation of the fair value of plan assets:				
Balance at the beginning of the year	84,982	97,455	84,982	97,455
Expected return on plan assets	5,444	6,254	5,444	6,254
Actuarial gains and (losses) recognised in equity	(12,113)	(14,817)	(12,113)	(14,817)
Contributions by group companies into the plan	15,704	3,092	15,704	3,092
Plan assets transferred by trustee	2,000	-	2,000	-
Benefits paid by the plan	(7,138)	(7,002)	(7,138)	(7,002)
Balance at the end of the year	88,879	84,982	88,879	84,982
(e) Amounts recognised in income statement				
The amounts recognised in the income statement are as follows:				
Current service cost	4,014	4,040	4,014	4,040
Interest cost	4,079	3,906	4,079	3,906
Expected return on plan assets	(5,444)	(6,254)	(5,444)	(6,254)
Plan assets transferred by trustee	(2,000)	-	(2,000)	-
Total included in employee benefits expense	649	1,692	649	1,692
Actual return on plan assets	(6,669)	(8,563)	(6,669)	(8,563)
(f) Amounts recognised in statement of recognised income and expense				
Cumulative gain amount at the beginning of year	2,933	19,916	2,933	19,916
Actuarial (loss)/gain recognised in the year	(15,630)	(16,983)	(15,630)	(16,983)
Cumulative loss amount at the end of year	(12,697)	2,933	(12,697)	2,933
(g) Principal actuarial assumptions				
The principal actuarial assumptions used (expressed as weighted averages) are as follows:				
Discount rate	5.5%	5.4%	5.5%	5.4%
Expected return on plan assets	6.0%	6.5%	6.0%	6.5%
Future salary increases	4.5%	4.5%	4.5%	4.5%

The expected rate of return on assets has been based on historical and future expectations of returns for each of the major categories of asset classes, as well as the expected and actual allocation of plan assets to these major categories, which resulted in the selection of a 7.0% rate of return (gross of tax and net of expenses) and a 6.0% rate of return (net of tax and expenses).

(h) Employer contributions

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three yearly intervals, and the last such assessment was undertaken in early 2009, as at 30 June 2008.

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 2008, the payment of employer contributions to the fund of 12% of salaries for employees who are members of the defined benefit section. These contribution rates have been adopted by the consolidated group from 1 July 2009.

Total employer contributions expected to be paid by the consolidated group for the year ending 30 June 2010 are $4,012,000 (prior year $2,991,000) and for the parent: $4,012,000 (prior year $2,991,000).

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) and a salary increase rate of 5% pa together with an age related promotional scale.

(i) Net financial position of plan

In accordance with AAS 25 *Financial Reporting by Superannuation Plans* the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (30 June 2008), and a surplus of $961,000 was reported.

To maintain a funding surplus as at 30 June 2009, given the deterioration in investment returns earned by the plan during the 2008/09 financial year, in line with general industry experience, a lump sum contribution of $12.5M was made in June 2009 by CS Energy Limited, based on actuarial advice.

The surplus as at 30 June 2008 under AAS 25 differs from the net asset of $6,280,000 recognised in the balance sheet as at 30 June 2009 due to the different rules in the relevant accounting standards AAS 25 and AASB 119 *Employee Benefits* and the different measurement dates.

(j) Historic summary

	Consolidated			Parent		
	2009 $'000	2008 $'000	2007 $'000	2009 $'000	2008 $'000	2007 $'000
Defined benefit plan obligation	(111,727)	(75,864)	(75,864)	(111,727)	(75,864)	(75,864)
Fair value of plan assets	112,688	83,956	83,956	112,688	83,956	83,956
Surplus	961	8,092	8,092	961	8,092	8,092

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
24. Reserves				
Hedging reserve – cash flow hedges				
Balance at 1 July	(174,565)	(537,942)	(174,565)	(537,942)
Revaluation of forward foreign exchange contracts – gross	(434)	(658)	(434)	(658)
Revaluation of electricity derivative contracts – gross	224,520	473,288	224,520	473,288
Forward foreign exchange contracts realised, capitalised to property, plant and equipment – gross	658	6,803	658	6,803
Electricity derivative contracts realised as revenue – gross	52,782	39,677	52,782	39,677
Deferred tax	(83,258)	(155,733)	(83,258)	(155,733)
Balance at 30 June	19,703	(174,565)	19,703	(174,565)

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

	Parent		Parent	
	2009 Shares	2008 Shares	2009 $	2008 $
25. Contributed equity				
a) Share capital				
Ordinary shares – fully paid				
A Class (voting)	260,000,004	260,000,004	260,000,004	260,000,004
B Class (non-voting)	822,503,917	822,503,917	822,503,917	822,503,917
	1,082,503,921	1,082,503,921	1,082,503,921	1,082,503,921

The shares are held by the Queensland Treasurer and the Minister for Natural Resources, Mines and Energy and Minister for Trade.

b) Movements in ordinary share capital

	No.	Issue Price	$
Balance at 1 July 2007	1,072,503,921	$1.00	1,072,503,921
Issue of 'A' class share capital	10,000,000	$1.00	10,000,000
Balance at 30 June 2008	1,082,503,921	$1.00	1,082,503,921
Issue of 'A' class share capital	-	-	-
Balance at 30 June 2009	1,082,503,921	$1.00	1,082,503,921

c) Ordinary shares

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

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

d) Other adjustments to contributed equity

During the prior year, certain liabilities and assets were transferred from Enertrade to CS Energy Limited, which constituted an effective net distribution to owners of $129,389,416 recognised in equity. The transfers were made to CS Energy Limited at the book values in Enertrade's most recent financial statements. The net liabilities at the date of transfer constituted mainly an onerous contract provision of $109,564,207 and derivative financial instruments of $20,888,178.

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
26. Accumulated losses/retained earnings				
Balance at 1 July	(46,345)	(46,258)	22,236	27,578
Net profit for the year	93,816	59,007	117,791	53,752
Actuarial gain (loss) on defined benefit plan	(10,941)	(11,888)	(10,941)	(11,888)
Dividends – final dividend provided for	(75,053)	(47,206)	(75,053)	(47,206)
Balance at 30 June	(38,523)	(46,345)	54,033	22,236

	Parent	
	2009 $'000	2008 $'000
27. Dividends		
Final dividend for the year ended 30 June	75,053	47,206

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
28. Total equity reconciliation				
Balance at 1 July	732,205	488,304	800,786	562,140
Total recognised income and expense for the year	277,143	410,496	301,118	405,241
Transactions with equity holders in their capacity as shareholders: Contribution of equity, net of transaction costs (refer note 25)	-	10,000	-	10,000
Reduction in equity (refer note 25)	-	(129,389)	-	(129,389)
Dividends provided for	(75,053)	(47,206)	(75,053)	(47,206)
Balance at 30 June	934,295	732,205	1,026,851	800,786

29. Directors and executives disclosures

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 Queensland Treasurer, which are generally in accordance with the requirements of the standard.

(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;

T Dare (appointed 1 October 2008);

RJ Henricks;

S Israel;

R Kempnich (appointed 1 October 2008);

JA Leaver;

TBI Crommelin (term expired 30 September 2008); and

T White (term expired 30 September 2008).

Principles used to determine the nature and amount of remuneration

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

Superannuation

Directors receiving personal payments are also entitled to superannuation contributions.

Relationship between remuneration and entity's performance

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

Remuneration

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

Specified director remuneration

Consolidated			
Director	Short-term employee benefits $	Post employment benefits $	Total $
SE Lonie			
2009	77,401	-	77,401
2008	74,282	-	74,282
TBI Crommelin [1]			
2009	6,584	-	6,584
2008	25,274	-	25,274
M Bucknall			
2009	31,164	2,805	33,969
2008	29,065	2,616	31,681
T Dare [2]			
2009	22,385	2,015	24,400
2008	-	-	-
RJ Henricks			
2009	32,919	3,397	36,316
2008	29,065	2,999	32,064
S Israel			
2009	30,792	3,206	33,998
2008	29,065	2,966	32,031
R Kempnich [2]			
2009	22,385	2,015	24,400
2008	-	-	-
JA Leaver			
2009	31,603	2,844	34,447
2008	30,329	2,889	33,218
T White [1]			
2009	8,888	800	9,688
2008	34,120	2,303	36,423
Total			
2009	264,121	17,082	281,203
2008	251,200	13,773	264,973

(1) Remuneration details for 2009 are in respect of the period 1 July 2008 to 30 September 2008. (2) Remuneration details for 2009 are in respect of the period 1 October 2008 to 30 June 2009.

Other transactions with directors and director-related entities

A Director, Mr SE Lonie is a former partner of KPMG. A Director, Ms T Dare, is a former partner of KPMG. KPMG provided accounting services to the consolidated group on normal commercial terms and conditions.

A Director, Mr R Kempnich, is Non-Executive Chairman of Sedgman Limited. Sedgman provided engineering services to the consolidated group on normal commercial terms and conditions.

A former Director, Mr TBI Crommelin, was a director of Queensland Gas Company Limited. The Queensland Gas Company Limited supplies gas to CS Energy Limited for use in its Swanbank E power station. The gas supply agreement with Queensland Gas Company Limited was entered into prior to Mr TBI Crommelin becoming a director of that company. All of these goods and services were provided to CS Energy Limited on normal commercial terms and conditions.

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

CS Energy Limited (and controlled entities) Notes to the Financial Statements
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	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Accounting fees: KPMG	164,577	304,146	164,577	304,146
Engineering services: Sedgman	2,530,885	-	2,530,885	-
Gas supply: Queensland Gas Company	3,266,266	11,332,537	3,266,266	11,332,537

Executives

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 unless indicated were employed by CS Energy Limited during the financial year:

Chief Executive Officer;

Chief Financial Officer;

General Manager Operations;

General Manager Business Development;

General Manager Organisation Development;

General Manager Corporate Services; and

General Manager Portfolio Services.

Principles used to determine the nature and amount of remuneration

Executives receive a base salary (incorporating cash, allowances and non-monetary benefits), superannuation, other benefits 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 total fixed remuneration. Executive remuneration (and any change to executive remuneration) requires approval of the Board in accordance with the Government Owned Corporations Governance Arrangements for Chief and Senior Executives.

Relationship between remuneration and entity’s performance

The 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 CS Energy Limited Board of Directors in accordance with the Government Owned Corporations Governance Arrangements for Chief and Senior Executives.

The remuneration and other terms of employment for each executive is specified in individual employment agreements. Annual adjustments to the remuneration are made in accordance with CS Energy Remuneration Policy for Senior Executives as 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 Chief Executive Officer was initially engaged as the General Manager Operations in the form of a fixed term consultancy contract for 1 year, commencing 1 September 2007. On 24 December 2007, he was appointed to the position of Chief Executive Officer. The contractual arrangements for the Chief Executive Officer include the following terms:

- Employment term - 3 years expiring 23 December 2010, with an opportunity for CS Energy Limited to either extend beyond the termination date under the existing agreement or extend beyond the termination date under the terms of a new agreement;
- 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; and
- Payment of a termination benefit on early termination, other than for disciplinary reasons, which is the greater of:
  - The remaining balance of the contract; or
  - A service payment, equal to the greater of 13 weeks salary or two weeks salary per year of continuous service with CS Energy Limited up to a maximum of 52 weeks salary; and a separation payment, equal to the greater of 13 weeks salary or a sum equal to 20% of the residual value of the contract (excluding future bonuses).

The contractual arrangements for the General Manager Organisation Development (resigned on 15 May 2009) included the following terms:

- Employment term – 3 years expiring 16 April 2010, with renewal for a further 2 year term contemplated;
- Remuneration reviewed annually;
- Total remuneration as outlined in the following table;
- Payment of a severance payment of 12 weeks remuneration if the employment contract is not renewed upon serving the full term of the contract; and
- 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 contractual arrangements for the General Manager Portfolio Services (contract commenced 17 December 2007) include the following terms:

- Employment term – 3 years expiring 16 December 2010, with renewal for a further 2 year term contemplated;
- Remuneration reviewed annually;
- Total remuneration as outlined in the following table;
- Payment of a severance payment equivalent to CS Energy Redundancy Policy if the employment contract is not renewed upon serving the full term of the contract; and
- Payment of a termination benefit on early termination, other than for disciplinary reasons, equivalent to CS Energy Redundancy Policy and in addition a separation payment of 20% of the residual value of the contract (excluding future bonuses).

The contractual arrangements for the General Manager Operations (contract commenced 21 April 2008) include the following terms:

- 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 to a maximum of 75 weeks remuneration (in addition to a separation payment of 13 weeks); and
- If the executive is terminated for reasons other than voluntary separation or discipline they are entitled to 26 weeks salary reduced by notice period on termination.

The contractual arrangements for the General Manager Corporate Services (contract commenced 25 May 2009) include the following terms:

- Employment term – open tenure;
- Remuneration reviewed annually;
- Total remuneration as outlined in the following table;
- Termination notice of not less than 3 months written notice by either party; and
- Should the position become redundant, a payment of a severance amount equivalent to 3 weeks remuneration per completed year of service to a maximum of 75 weeks remuneration (in addition to a separation payment of 13 weeks).

The contractual arrangements for the General Manager Business Development (contract commenced 23 March 2009) include the following terms:

- 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; and
- 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.

The contractual arrangements for the Chief Financial Officer (contract commenced 13 December 2002) include the following terms:

- 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; and
- 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.

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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 approves executive performance payments, each year, immediately after the financial year to which the performance payment relates. Scorecards for individual executives are set by the Board.

The "scorecards" have an organisational focus and align with short, medium and long term goals for CS Energy.

Performance indicators have a balance of financial and non-financial outcomes including a focus on operational issues such as productivity, service delivery, safety and compliance with relevant government policies.

Remuneration

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

Consolidated			
Executive	**Short-term employee benefits $**	**Post employment benefits $**	**Total $**
Chief Executive Officer [1]			
2009	469,158	41,740	510,898
2008	329,932	29,993	359,925
Chief Financial Officer			
2009	253,565	20,729	274,294
2008	243,098	19,797	262,895
General Manager Operations [2]			
2009	266,242	23,798	290,040
2008	42,770	3,913	46,683
General Manager Business Development [3]			
2009	267,003	20,805	287,808
2008	300,066	19,648	319,714
General Manager Organisational Development [4]			
2009	252,123	19,929	272,052
2008	211,060	21,018	232,078
General Manager Corporate Services [5]			
2009	22,654	2,265	24,919
2008	246,833	18,203	265,036
General Manager Portfolio Services [6]			
2009	237,379	18,223	255,602
2008	186,912	13,456	200,368
Total			
2009	1,768,124	147,489	1,915,613
2008	1,560,671	126,028	1,686,699

Except as otherwise disclosed below, the above disclosure relates to the total compensation provided by CS Energy Limited in respect of each position.

(1) Remuneration details for 2008 are in respect of the period 3 September 2007 to 30 June 2008. The Chief Executive Officer was initially employed as the General Manager Operations between 3 September 2007 and 20 December 2007.

(2) Remuneration details for 2008 are in respect of the period 21 April 2008 to 30 June 2008.

(3) Remuneration details for 2009 are for the General Manager Business Development from 23 March 2009 to 30 June 2009, and his previous appointment as the General Manager Corporate Services from 1 July 2008 to 22 March 2009. Remuneration details for 2008 are in respect of the period 1 July 2007 to 8 May 2008. As a consequence of ceasing employment on 8 May 2008, the General Manager New Business received a termination payment, calculated in accordance with the terms of his contract.

(4) Remuneration details for 2009 are in respect of the period 1 July 2008 to 15 May 2009.

(5) Remuneration details for 2009 are in respect of the period 25 May 2009 to 30 June 2009.

(6) Remuneration details for 2008 are in respect of the period 1 September 2007 to 30 June 2008.

Senior executives may also earn performance based at risk incentive bonuses, which are not disclosed in this note.

Other transactions with executive and executive-related entities

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

30. 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
2009	3,532,062	71,830,177	645
2008	2,545,604	60,387,543	578

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

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

31. Remuneration of auditors

Remuneration for audit or review of the financial reports of the parent or any entity in the consolidated group:

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Auditors of the parent				
Parent	213,000	171,400	213,000	171,400
Controlled entities	17,000	14,800	-	-
Consolidated group	230,000	186,200	213,000	171,400

32. Commitments for expenditure

Capital Commitments	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable as follows:				
Property, plant and equipment				
Within one year	1,526	40,169	-	37,598
Later than one year, but not later than five years	4,282	19,446	-	18,325
	5,808	59,615	-	55,923

Operating lease commitments – group as lessee	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, payable as follows:				
Not later than one year	1,177	846	1,071	846
Later than one year, but not later than five years	1,044	1,389	1,044	1,389
	2,221	2,235	2,115	2,235

Operating leases

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

CS Energy Limited (and controlled entities) Notes to the Financial Statements
for the year ended 30 June 2009

33. Contingent liabilities

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

34. Related parties

Directors and executives

Disclosures relating to directors and executives are set out in note 29.

Parent entities

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

Investments in controlled entities

Details of investments in controlled entities are set out in note 35.

Transactions with related parties

Transactions between CS Energy Limited and other entities in the wholly-owned consolidated group during the year ended 30 June 2009 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 is charged on loans only to the extent that capitalisation is adopted in accordance with AASB 123 *Borrowing Costs*. There was no interest charged on these loans during 2009 (2008: 6.57%).

Related party transactions and balances

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
The following transactions occurred with related parties				
Sale of goods and services	-	-	28,883	27,857
Interest revenue	-	-	-	28,184
Dividend revenue	-	-	48,609	99,462
	-	-	77,492	155,503
The following balances are outstanding at reporting date in relation to transactions with related parties				
Current receivables – other debtors	-	-	-	2,414
Non-current receivable – loans to related parties	-	-	1,359,821	1,391,293
Tax-related payable	-	-	-	40,939
	-	-	1,359,821	1,434,646
Loans to subsidiaries				
Balance at 1 July	-	-	1,391,293	1,441,119
Loans advanced	-	-	336,193	472,507
Loan repayments received	-	-	(367,665)	(550,517)
Interest charged	-	-	-	28,184
Balance at 30 June	-	-	1,359,821	1,391,293

No impairments have been recognised in relation to any outstanding balances.

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. There was no interest charged on loans during the year (2008 – 6.57%).

Outstanding balances are unsecured and are repayable in cash.

State controlled entities

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

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

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Income statement				
Amounts included in revenue from the sale of electricity and other revenue	36,522	57,366	11,514	18,387
Amounts included in cost of sales and other expenses	37,927	30,036	21,303	15,041
Amounts included in finance costs	89,057	62,285	89,057	62,285
Balance sheet				
Amounts included in trade and other receivables	2,172	1,965	2,172	1,965
Amounts included in trade and other payables	3,357	3,839	2,658	3,018
Amounts included in borrowings	824,789	1,085,268	824,789	1,085,268
Provision for dividend	75,053	47,206	75,053	47,206

Equity distribution to owners

During the prior year certain liabilities and assets were transferred from Enertrade to CS Energy Limited, which constituted a net distribution to owners of $129,389,416 recognised in equity at the date of transfer. The transfers were made at the book values in Enertrade's most recent financial statements. The net liabilities at the date of transfer constituted mainly an onerous contract provision of $109,564,207 and derivative financial instruments at $20,888,178.

35. Investments in controlled entities

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding % 2009	Equity Holding % 2008
CS Energy Mica Creek Pty Ltd	Australia	Ordinary	100	100
CS North West Pty Ltd	Australia	Ordinary	100	100
Callide Energy Pty Ltd	Australia	Ordinary	100	100
Kogan Creek Power Station Pty Ltd	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
CS Energy Oxyfuel Pty Ltd	Australia	Ordinary	100	100
Manzillo Insurance (PCC) Ltd - Cell EnMach	Guernsey	Ordinary	100	100

36. Interests in joint ventures

(a) Jointly controlled assets

The consolidated group has a 50% participating interest in the Callide Power Project Joint Venture, which is represented by Callide Energy Pty Ltd's interest of 50% in the joint venture (Callide Energy Pty Ltd is a wholly-owned subsidiary of CS Energy Limited). IG Power (Callide) Ltd holds the remaining 50% interest.

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

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

The consolidated group has a 75.22% participating interest in the Callide Oxyfuel Project Joint Venture, a project involved in clean coal technology research. Grants are receivable from both government and non-government entities to fund the project on the basis that certain project milestones are met.

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

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets				
Cash	1,242	835	-	-
Receivables	585	696	-	-
Inventories	4,640	5,053	-	-
	6,467	6,584	-	-
Non-current assets				
Gas exploration and evaluation costs	19,945	30,724	-	-
Property, plant and equipment	315,199	308,986	-	-
Share of assets employed in joint ventures	341,611	346,294	-	-

(b) Jointly controlled entities

Name of Entity	Principal Activity	Ownership interest		Carryng amount	
		2009 %	2008 %	2009 $	2008 $
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	
	2009 $'000	2008 $'000
Movements in carrying amount of interests in jointly controlled entities		
Carrying amount at the beginning of the financial year	1	1
Carrying amount at the end of the financial year	1	1
Share of joint venture entities' assets and liabilities		
Current assets	1	1
Total assets	1	1
Total liabilities	-	-
Net assets	1	1
Share of joint venture entities' revenues, expenses and results		
Revenues	-	-
Expenses	-	-
Profit/(loss) before income tax	-	-

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
37. Reconciliation of profit for the year to net cash provided by operating activities				
Profit for the year	93,816	59,007	117,791	53,752
Depreciation and amortisation	156,294	145,373	71,452	84,419
Fair value adjustment to derivatives	(58,937)	(51,618)	(58,937)	(51,619)
Non-cash retirement benefits net income	(1,334)	(177)	(1,334)	(177)
Net loss/(gain) on sale of non-current assets	(1,377)	1,719	(1,377)	522
Impairment write-down	49,542	31,649	20,242	31,649
Onerous contract – initial recognition	-	20,631	-	20,631
Onerous contract – re-measurement	(52,203)	19,974	(52,203)	19,974
Change in operating assets and liabilities				
(Increase) decrease in assets:				
Receivables	(10,511)	141,377	(16,890)	20,746
Inventories	47,600	(29,934)	35,850	(5,033)
Deferred tax asset	14,980	55,317	23,036	56,949
Prepayments	(2,443)	(13,281)	(2,444)	(13,046)
(Decrease) increase in liabilities:				
Accounts payable, employee benefits, borrowings and other provisions	4,793	4,226	(3,968)	(71,859)
Deferred tax liability	4,453	(37,620)	1,522	(40,047)
Net cash provided by operating activities	244,673	346,643	132,740	106,861

38. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- CS Energy Mica Creek Pty Ltd;
- CS North West Pty Ltd;
- Callide Energy Pty Ltd;
- Kogan Creek Power Station 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; and
- CS Energy Oxyfuel Pty Ltd.

Summarised financial information on the aforementioned wholly-owned subsidiaries is presented in the following tables:

2009

Subsidiary Name	Purpose	Total Assets $'000	Total Liabilities $'000	Total Revenue from Ordinary Activities $'000	Profit/(Loss) Before Income Tax $'000
Callide Energy Pty Ltd	Owner of 50% of Callide C power station	329,786	328,152	89,653	13,159
Kogan Creek Power Station Pty Ltd	Owner of Kogan Creek power station	1,031,452	1,064,266	146,133	35,903
Kogan Creek Power Pty Ltd	Provides labour to Kogan Creek power station	7,153	1,389	7,483	-
CS Energy Kogan Creek Pty Ltd	40% owner of Kogan Creek Power Pty Ltd	72,670	36,349	-	-
CS Kogan (Australia) Pty Ltd	60% owner of Kogan Creek Power Pty Ltd	486	-	-	-
Aberdare Collieries Pty Ltd	Owner of coal mine that supplies Kogan Creek power station	94,880	95,566	28,973	90
CS Energy Mica Creek Pty Ltd	Owner of Mica Creek power station	148,826	156,175	99,388	(13,012)
CS North West Pty Ltd	Provides labour to Mica Creek power station	4,619	3,133	11,099	-
CS Energy Oxyfuel Pty Ltd	Holds CS Energy's interest in the Callide Oxyfuel clean coal project	10,840	16,240	287	(7,714)
Swanbank Energy Pty Ltd	Dormant entity	-	-	-	-
SE CSE Pty Ltd	Dormant entity	-	-	-	-

2008

Subsidiary Name	Purpose	Total Assets $'000	Total Liabilities $'000	Total Revenue from Ordinary Activities $'000	Profit/(Loss) Before Income Tax $'000
Callide Energy Pty Ltd	Owner of 50% of Callide C power station	338,275	333,457	123,014	48,806
Kogan Creek Power Station Pty Ltd	Owner of Kogan Creek power station	1,067,823	1,091,660	133,687	75,728
Kogan Creek Power Pty Ltd	Provides labour to Kogan Creek power station	6,741	4,289	6,266	-
CS Energy Kogan Creek Pty Ltd	40% owner of Kogan Creek Power Pty Ltd	72,657	36,336	-	-
CS Kogan (Australia) Pty Ltd	60% owner of Kogan Creek Power Pty Ltd	487	-	-	-
Aberdare Collieries Pty Ltd	Owner of coal mine that supplies Kogan Creek power station	60,116	60,866	-	-
CS Energy Mica Creek Pty Ltd	Owner of Mica Creek power station	179,575	177,856	101,472	24,971
CS North West Pty Ltd	Provides labour to Mica Creek power station	4,559	3,074	10,082	-
CS Energy Oxyfuel Pty Ltd	Holds CS Energy's interest in the Callide Oxyfuel clean coal project	15,400	15,400	-	-
Swanbank Energy Pty Ltd	Dormant entity	-	-	-	-
SE CSE Pty Ltd	Dormant entity	-	-	-	-

39. Events occurring after balance date

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

30 June 2009

In the directors' opinion:

(a) The financial statements and notes set out on pages 72 to 117 are in accordance with the *Corporations Act 2001*, including:

  (i) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

  (ii) Giving a true and fair view of the company's and consolidated group's financial position as at 30 June 2009 and of their performance 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 they become due and payable.

(c) There are reasonable grounds to believe that the Company and the group entities identified in note 38 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

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

Mr SE Lonie
Chairman

Mrs JA Leaver
Director

Brisbane
27 August 2009

To the Directors of CS Energy Ltd

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 Ltd for the year ended 30 June 2009, 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.

CF Dougherty CPA
(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office
Brisbane

To the Members of CS Energy Limited

Report on the financial report

I have audited the accompanying financial report of CS Energy Ltd, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit is prescribed in the Auditor-General Act 2009. This Act, including transitional provisions, came into operation on 1 July 2009 and replaces the previous requirements contained in the Financial Administration and Audit Act 1977.

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

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

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

Independence

The *Auditor-General Act, 2009* promotes the independence of the Auditor General and QAO authorised auditors. The Auditor-General is the auditor of all Queensland government owned corporations and their controlled entities and can only be removed by Parliament.

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

In conducting the audit, the independence requirements of the *Corporations Act 2001* have been complied with. I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of CS Energy Ltd on 27 August 2009 would be in the same terms if provided to the directors, as at the date of this auditor's report.

Auditor's opinion

In my opinion –

the financial report of CS Energy Ltd is in accordance with the *Corporations Act 2001*, including –

(d) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(e) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

CF Dougherty CPA
(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office
Brisbane

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Glossary and abbreviations

Term	Definition
2P	Proven and probable gas reserves (50 per cent chance of being recovered)
3P	Proven, probable and possible gas reserves (10 per cent chance of being recovered)
Availability	A measure of a generator's capacity to achieve full load. This measure takes into account both planned and forced outages
CO2CRC	Cooperative Research Centre for Greenhouse Gas Technologies
CPRS	Carbon Pollution Reduction Scheme, the emissions trading scheme proposed by the Australian Federal Government
Energy sent out	The amount of electricity sent to the grid
Gearing	A financial term that describes the relationship between debt and equity
GEC	Gas Electricity Certificate
GW	Gigawatt (One GW = one thousand megawatts)
GWh	Gigawatt hour (one gigawatt generating for one hour)
Greenhouse intensity per energy sent out (tCO_2e/GWh)	Emissions of CO_2 per gigawatt hour of energy sent out
ISO 14001	International Standard for Environment Management Systems
Lost time injury (LTI)	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
Lost time injury frequency rate (LTIFR)	The number of lost time injuries per million hours worked by employees and contractors (calculated on a 12 month moving average)
ML	Megalitre (One ML = one million litres)
MW	Megawatt (One MW = one million watts)
MWh	Megawatt hour (one megawatt generating for one hour)
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
PAT	Profit after tax
PEL	Petroleum Exploration Licence
PPA	Power Purchase Agreement
Pool price	The variable market price for electricity
REC	Renewable Electricity Certificate
Reliability	A measure of a generator's capacity to achieve full load when plant is not undergoing a planned outage
ROPA	Return on productive assets
SAP	Systems Applications and Products software
SCI	Statement of Corporate Intent
Significant environmental incidents	Incidents which had a significant impact on the environment or resulted in enforcement action by a Regulator
TJ	Terajoule (one TJ = one million megajoules)
Water use intensity	Water use per gigawatt hour of energy sent out to the grid

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