2004/2005

FINANCIAL REPORT

CS Energy Limited & controlled entities
ACN 078 848 745

CONTENTS

DIRECTORS' REPORT

Your directors present their report on the consolidated group consisting of CS Energy Limited and the entities it controlled at the end of, or during, the year ended 30 June 2005.

DIRECTORS

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

Mr SE Lonie (Chairman)
Mr TBI Crommelin (Deputy Chairman)
Mr M Bucknall (appointed 1 July 2005)
Ms TG Handicott (until 30 June 2005 [(1)])
Mr RJ Henricks
Ms S Israel (appointed 1 July 2005)
Ms JA Leaver
Mr TJ O'Dwyer (resigned 1 June 2005)
Mr T White

(1) Reappointment was not sought following expiration of a 3-year term on 30 June 2005

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	2005 $'000	2004 $'000
Profit from ordinary activities after income tax	**36,439**	30,397

DIVIDENDS – CS ENERGY LIMITED

Prior to 30 June 2004, the Board recommended, and the shareholding Ministers approved, a dividend of 95% of consolidated group profit after tax, which equated to a dividend of $28.877 million for the 2003/04 year. This amount was subsequently paid on 31 December 2004. On 28 April 2005, the Board recommended, and the shareholding Ministers subsequently approved, a dividend of 80% of consolidated group profit after tax, which equated to a dividend of $29.151 million for the 2004/05 year.

Details of dividends in respect of the current and prior year are as follows:

	2005 $'000	2004 $'000
Final dividend as approved by shareholding Ministers	**29,151**	28,877

REVIEW OF OPERATIONS

The CS Energy Group profit after tax increased by 20% over the previous year.

Although generation was slightly above 2004 levels, the cost of that generation was higher, with volume reductions from the more efficient Callide B plant due to a major outage for a planned overhaul. Swanbank E more than covered this generation shortfall with a 112% increase in volume due to the commencement of the Queensland Government's Gas Electricity Certificate (GEC) Scheme on 1 January 2005.

Additional maintenance was required to address plant performance issues at Callide and Mica Creek, but was more than offset by favourable electricity contracting outcomes, and the addition of over $8m in revenues from the GEC Scheme. The net result of the above factors was a 3% increase on gross profit over the previous year.

Significantly reduced interest costs compared to last year resulted from additional share capital received late in 2003/04.

Other revenues reduced significantly as the 2003/04 year included a number of one-off items relating to outcomes of contractual negotiations and sales of smaller non-core assets.

A significant capital investment program was undertaken, with $228m invested across the group, including an additional $161m toward the construction of the Kogan Creek Power Project, and $56m invested in refurbishments and overhauls of existing generating plant.

Cash flow from operations continued to be strong and supported a substantial part of the group's capital investment program. Additional borrowings of $67m were sourced from the group's debt offset facility to fund the balance of this capital investment 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.

LIKELY DEVELOPMENTS

Information on likely developments in the operations of the consolidated group and the reported results of these operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated group.

DIRECTORS' REPORT

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

At the date of this report, the directors are not aware of any matter or circumstance which has arisen since 30 June 2005 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.

ENVIRONMENTAL REGULATION

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

During the year, the group received four environmental complaints: two at Callide and one at Swanbank about noise, and a multi-issue enquiry at Callide about stack emissions and downstream water quality. The group also reported six minor environmental incidents, and incurred 19 minor exceptions to Swanbank licence water limits.

The group took actions in response to the complaints, incidents and exceptions, all of which have been considered adequate by the EPA. There were no actions taken by the EPA, nor, to the group's knowledge, are there any environmental actions pending against it.

INFORMATION ON DIRECTORS

For information on the company's directors, refer to page 20 and 21 of the annual report.

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

Details of directors and executives' emoluments for the financial year are provided in note 30 of the financial report.

INDEMNIFICATION AND INSURANCE OF OFFICERS

CS Energy Limited indemnifies each officer of the company and its controlled entities for all liabilities to another party other than the company and its controlled entities that may arise in connection with the performance of the officer's duties, except where the liability arises out of conduct involving a lack of good faith.

During the financial year, CS Energy Limited paid a premium of $101,691 (2004 $54,877) to insure all officers of the company and its controlled entities including directors and secretaries and the general managers of each of the divisions of the consolidated group.

The liabilities insured include the costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated group.

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

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

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

Mr SE Lonie
Chairman

Ms JA Leaver
Director

Brisbane
8 September 2005

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Ordinary activities				
Revenue from sale of electricity	**456,229**	444,314	**289,408**	267,935
Cost of sales	**(333,638)**	(325,629)	**(225,679)**	(216,070)
Gross profit	**122,591**	118,685	**63,729**	51,865
Other revenue (note 3)	**18,019**	30,883	**35,784**	116,201
Other expenses (note 4)	**(70,318)**	(69,231)	**(51,870)**	(50,158)
Borrowing costs (note 4)	**(20,463)**	(39,472)	**(21,723)**	(36,120)
Profit from ordinary activities before income tax	**49,829**	40,865	**25,920**	81,788
Income tax (expense) benefit (note 5)	**(13,390)**	(10,468)	**(3,854)**	641
Profit from ordinary activities after income tax	**36,439**	30,397	**22,066**	82,429

The above statement of financial performance should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Consolidated		Parent	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
Current assets				
Cash assets (note 6)	**2,272**	4,328	**850**	1,684
Receivables (note 7)	**63,248**	59,853	**52,759**	49,765
Inventories (note 8)	**27,238**	22,437	**19,380**	16,220
Other (note 9)	**46,978**	12,351	**46,907**	12,289
Total current assets	**139,736**	98,969	**119,896**	79,958
Non-current assets				
Receivables (note 10)	**–**	–	**574,879**	445,398
Investments accounted for using the equity method (note 11)	**1**	1	**–**	–
Other financial assets (note 12)	**–**	987	**51,815**	53,366
Deferred gas exploration and evaluation costs (note 13)	**12,685**	8,047	**12,685**	8,047
Property, plant and equipment (note 14)	**1,588,449**	1,429,269	**776,191**	757,366
Deferred tax assets (note 15)	**48,327**	35,838	**48,327**	35,838
Other (note 16)	**50,837**	47,347	**146,909**	136,703
Total non-current assets	**1,700,299**	1,521,489	**1,610,806**	1,436,718
Total assets	**1,840,035**	1,620,458	**1,730,702**	1,516,676
Current liabilities				
Payables (note 17)	**89,797**	44,929	**78,153**	33,507
Interest bearing liabilities (note 18)	**56,986**	12,045	**45,265**	–
Provisions (note 19)	**35,979**	35,226	**35,068**	34,369
Other (note 20)	**2,284**	1,261	**2,284**	1,261
Total current liabilities	**185,046**	93,461	**160,770**	69,137
Non-current liabilities				
Payables (note 21)	**27,271**	18,646	**35,270**	28,787
Interest bearing liabilities (note 22)	**464,065**	371,931	**365,601**	261,746
Deferred tax liabilities (note 23)	**245,944**	220,067	**245,944**	220,067
Provisions (note 24)	**39,744**	38,275	**33,027**	32,363
Other (note 25)	**–**	7,401	**–**	7,401
Total non-current liabilities	**777,024**	656,320	**679,842**	550,364
Total liabilities	**962,070**	749,781	**840,612**	619,501
Net assets	**877,965**	870,677	**890,090**	897,175
Shareholders' equity				
Parent equity interest				
Contributed equity (note 26)	**822,504**	822,504	**822,504**	822,504
Retained profits (note 27)	**55,461**	48,173	**67,586**	74,671
Total shareholders' equity	**877,965**	870,677	**890,090**	897,175

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Cash flows from operating activities				
Receipts in the course of operations	**522,032**	494,479	**354,328**	300,923
Payments in the course of operations	**(365,961)**	(318,275)	**(263,619)**	(205,681)
	156,071	176,204	**90,709**	95,242
Interest received	**1,017**	595	**1,017**	517
Borrowing costs	**(25,610)**	(44,841)	**(16,495)**	(35,146)
GST (paid) received	**(18,157)**	(22,436)	**(5,092)**	(9,834)
Net cash inflow provided by operating activities (note 40)	**113,321**	109,522	**70,139**	50,779
Cash flows from investing activities				
Payments for property, plant and equipment	**(227,880)**	(38,400)	**(63,730)**	(24,804)
Loans to related parties	**–**	–	**(223,620)**	(135,452)
Repayments from related parties	**–**	–	**91,829**	163,530
Proceeds from the sale of investments	**9,745**	–	**9,745**	–
Proceeds from sale of property, plant and equipment	**–**	7,996	**–**	7,996
Net cash provided by (used in) investing activities	**(218,135)**	(30,404)	**(185,776)**	11,270
Cash flows from financing activities				
Proceeds from borrowings	**475,440**	133,000	**475,440**	133,000
Repayment of borrowings	**(343,805)**	(433,284)	**(331,760)**	(418,284)
Dividends paid	**(28,877)**	(37,730)	**(28,877)**	(37,730)
Proceeds from issue of shares	**–**	260,000	**–**	260,000
Net cash provided by (used in) financing activities	**102,758**	(78,014)	**114,803**	(63,014)
Net increase (decrease) in cash held	**(2,056)**	1,104	**(834)**	(965)
Cash at the beginning of the financial year	**4,328**	3,224	**1,684**	2,649
Cash at the end of the financial year (note 6)	**2,272**	4,328	**850**	1,684

Financing arrangements (note 22)
Non-cash financing and investing activities (note 41)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), the *Government Owned Corporations Act 1993 (Qld)* and related regulations and the *Corporations Act 2001*.

The report is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS (AIFRS), and the Urgent Issues Group has issued abstracts corresponding to International Accounting Standards Board (IASB) interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the year ending 30 June 2006. Information about how the transition to AIFRS is being managed, and the key differences in accounting policies that are expected to arise, is set out in note 43.

(a) Principles of consolidation

The consolidated accounts incorporate the assets and liabilities of all entities controlled by CS Energy Limited as at 30 June 2005 and the results of all controlled entities for the year then ended. CS Energy Limited and its controlled entities together are referred to in this financial report as the consolidated group. The effects of all transactions between entities in the consolidated group are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the profits or losses of associates is recognised as revenue in the consolidated statement of financial performance, and its share of movements in reserves is recognised in consolidated reserves. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

(b) 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.

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax or future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

Tax consolidation legislation

CS Energy Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as at 1 July 2002.

As a consequence, CS Energy Limited, as the head entity in the tax-consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in the group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under a tax sharing and tax funding agreement with the tax-consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense (revenue).

The deferred tax balances recognised by the parent entity in relation to wholly-owned entities joining the tax-consolidated group are measured based on their carrying amounts at the level of the tax-consolidated group before the implementation of the tax consolidation regime.

(c) Revenue recognition

Revenue from the sale of electricity is recognised as the electricity generated is traded in the pool market or in the period that the electricity is generated pursuant to a contract, as applicable. The net result of electricity derivatives, relating to electricity traded in the pool market, is recognised in the period to which the contract relates. Revenue from plant under construction is included within the capital cost of that plant.

Pool market revenue is based on spot prices calculated by NEMMCO trading systems. NEMMCO is the operator of the National Electricity Market (NEM). Revenue from the sale of professional services is recognised on an accrual basis. Revenue for fixed price and payment schedule assignments is accrued using the percentage completion method.

Revenue from the sale of the Queensland Government's gas electricity certificate (GEC) scheme is recognised on an accruals basis as the generation giving rise to the GEC is dispatched into the NEM.

(d) Acquisitions of assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions. Items acquired with a cost of $500 or lower are immediately expensed at the date of purchase. All other asset purchases are capitalised and depreciated where appropriate.

(e) Receivables

All trade debtors are recognised at the amounts receivable, as they are due for settlement no more than 45 days from the date of recognition. Collectibility of trade debtors is reviewed on an ongoing basis and where considered appropriate adequate provision is made for doubtful debts. Debts which are known to be uncollectible are written off.

(f) Inventories

Inventories comprise fuel and stores, 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.

(g) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the undiscounted net cash inflows arising from its continued use and subsequent disposal. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount writedown occurs.

(h) Revaluation of non-current assets

All non-current assets are measured at cost subsequent to initial recognition.

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

The cost of non-current assets constructed by the consolidated group includes the cost of all materials in construction, direct labour on the project, commissioning costs and borrowing costs during construction.

Borrowing costs included in the cost of non-current assets are the costs that would have been avoided if the expenditure on the construction of the assets had not been made. Borrowing costs incurred while active construction is interrupted for extended periods are recognised as expenses.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings, which, during the year, was 6.45% (2004–6.5%).

(j) Overhauls, maintenance and repairs

Costs incurred on the overhaul of power station generation plant are capitalised to the extent that the economic benefits attributable to the capitalised costs are derived in future periods. Maintenance, repair costs and minor renewals are charged as expenses when incurred.

(k) Development costs

Costs incurred in acquiring an interest in and furthering the development and construction of generation and coal assets, which will ultimately form part of the cost of the asset, are carried in property, plant and equipment under the category of development costs (note 14).

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

(l) Depreciation of property, plant and equipment

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over its expected useful life to the consolidated group. Estimates of the remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are in the following ranges:

Power stations	6–32 years
Capitalised overhauls	2–4 years
Buildings	10–40 years
Other property, plant and equipment	3–5 years

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

(m) Rehabilitation and closure costs

Provision is made for the estimated rehabilitation and closure costs at the end of the producing lives of the power station on an undiscounted basis. Costs are provided for over the lives of those assets and are estimated based on current prices. Changes in estimates are recognised in the statement of financial performance over the remaining lives of the assets.

(n) Investments

Interests in listed and unlisted securities, other than controlled entities, are brought to account at cost and dividend income is recognised in the accounts when receivable. At balance date, investments in listed entities are recorded at the lower of cost and market value. Controlled entities and investment in associates are accounted for in the consolidated financial statements as set out in note 1(a). Interests in joint ventures are accounted for as set out in note 1(p).

(o) Research and development expenditure
Expenditure on research and development is written off against earnings as incurred, except that, when a project reaches the stage where such expenditure is considered capable of being recovered through development or sale, all subsequent expenditures are capitalised and amortised over the period in which the related benefits are expected to be realised.

(p) Joint ventures

(i) Joint venture operations The consolidated group's proportionate interests in the assets, liabilities, revenues and expenses of joint venture operations are incorporated in the financial statements under the appropriate headings.

(ii) Joint venture entities The consolidated group's interests in joint venture entities are accounted for using the equity method whereby its share of profits or losses of joint venture entities is recognised as 'share of net profits of joint venture entities' within the statement of financial performance and its share of movements in reserves is recognised in consolidated reserves in the statement of financial position.

Details of the joint ventures are set out in note 38.

(q) 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.

(r) Interest bearing liabilities
Loans are carried at their principal amounts, which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(s) Deferred gas exploration, evaluation and development costs
Costs arising from the exploration and evaluation of an area of interest are carried forward as an asset when rights to tenure of the area of interest are current and provided one of the following tests is 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.

(t) Derivative financial instruments
The consolidated group enters into swaps, options and futures contracts for the sale of electricity. These types of derivative financial instruments are not recognised in the financial statements at inception.

For swaps and options, the net amount receivable or payable under the contracts is brought to account once the electricity to which the contracts relate has been traded in the NEM. The amount recognised is accounted for as a component of sales revenue during the period. When an option is not exercised, the premium is recognised upon expiry of the option.

For futures contracts yet to commence, variation margin payments or receipts that arise from market changes in the value of the contract are booked as deferred losses or gains in the statement of financial position. Following commencement of the contract, any gain or loss (including deferred gains or losses) is recognised as a component of sales revenue at the time the electricity to which the contracts relate is traded in the NEM.

(u) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, annual leave and vested sick leave are measured at their nominal amounts based on remuneration rates, which are expected to be paid when the liability is settled.

(ii) Long service leave The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised, and is measured, at the present value of expected future payments to be made in respect of services provided by employees at balance date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation The present value of accrued benefits is based on expected future payments, which arise from membership of the fund to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates attaching, as at the reporting date, to national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows. The amount charged to the statement of financial performance in respect of superannuation represents the contributions made by the consolidated group to the superannuation fund.

(v) Foreign currency translation

(i) Transactions Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date, amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year, except as stated in note 1(v)(ii).

(ii) Specific commitments Hedging is undertaken in order to minimise possible adverse financial effects of movements in exchange rates. Gains or costs arising upon entry into a hedging transaction intended to hedge the purchase or sale of goods or services, together with subsequent exchange gains or losses resulting from those transactions, are deferred in the statement of financial position from the inception of the hedging transaction up to the date of the purchase or sale and included in the measurement of the purchase or sale. The net amounts receivable or payable under the hedging transaction are also recorded in the statement of financial position. Any gains or losses arising on the hedging transaction after the recognition of the hedged purchase or sale are included in the statement of financial performance.

(w) Goods and services tax

Revenues, expenses and assets are recognised net of any applicable goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables balances include GST, with the exception of accrued revenue and accrued expenses where no tax invoice has been issued or received. The net amount of GST payable to or receivable from the ATO is included in the statement of financial position. Cash flows are included on a gross basis in the statement of cash flows.

(x) Dividends

Provision is made for the amount of any dividend declared, determined or recommended by the directors on or before the end of the financial year but not distributed at balance date.

(y) Cash

For the purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(z) 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, to the nearest dollar.

2 SEGMENT INFORMATION

Business segments

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

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and the segment reporting accounting standard AASB1005 *Segment Reporting*.

	Consolidated		Parent	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
3 REVENUE				
Total revenue from ordinary activities	**474,248**	475,197	**325,192**	384,136
Revenue from operating activities				
Revenue from the sale of electricity	**456,229**	444,314	**289,408**	267,935
Operation, maintenance and services fees	**7,425**	7,872	**14,851**	67,460
	463,654	452,186	**304,259**	335,395
Revenue from outside the operating activities				
Interest received/receivable	**1,037**	1,668	**11,487**	8,064
Dividends received/receivable	**–**	–	**–**	15,000
Other	**9,557**	21,343	**9,446**	25,677
	10,594	23,011	**20,933**	48,741

4 PROFIT FROM ORDINARY ACTIVITIES

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Other expenses from ordinary activities				
Distribution costs	**13,399**	16,931	**5,128**	5,241
Administration costs	**56,919**	52,300	**46,742**	41,332
Write down of investment in controlled entity to recoverable amount (note 12)	**–**	–	**–**	3,585
	70,318	69,231	**51,870**	50,158
Profit from ordinary activities before income tax is arrived at after charging the following specific items:				
Borrowing costs				
Interest paid or payable	**30,536**	45,946	**21,723**	36,120
Less: amount capitalised	**(10,073)**	(6,474)	**–**	–
Borrowing costs expensed	**20,463**	39,472	**21,723**	36,120
Depreciation (1)				
Depreciation included in cost of sales	**68,391**	73,625	**43,760**	47,011
Depreciation included in administration costs	**748**	2,856	**203**	2,228
Total depreciation	**69,139**	76,481	**43,963**	49,239
Amortisation				
Capitalised overhauls included in cost of sales	**15,129**	13,126	**10,765**	9,036
Inventories				
Write down of inventories to net realisable value	**806**	1,179	**411**	1,042
Bad and doubtful debts				
Doubtful debts expense	**–**	860	**–**	–
Provisions				
Employee benefits	**4,174**	2,845	**3,120**	2,321
Other	**1,781**	1,852	**1,137**	1,169
Total provisions	**5,955**	4,697	**4,257**	3,490
Rental expense relating to operating lease				
Minimum lease payments	**607**	643	**545**	643

(1) Change in accounting estimate – depreciation

In 2005, the directors reassessed the estimated useful life of the Callide C power station and the net effect was a decrease in depreciation expense for the year of $1.9 million.

	Consolidated		Parent	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000

5 INCOME TAX

Tax attributable to profit from ordinary activities

The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the profit from ordinary activities. The differences are reconciled as follows:

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Profit from ordinary activities before income tax	**49,829**	40,865	**25,920**	81,788
Income tax calculated at 30%	**14,949**	12,260	**7,776**	24,536
Tax effect of permanent differences				
Non-deductible depreciation on buildings	**106**	103	**92**	92
Non-assessable recovery	**(300)**	–	**(300)**	–
Intercompany charges	**–**	–	**(2,347)**	–
Sundry items	**(465)**	(1,941)	**(467)**	(20,765)
Rebatable dividends	**–**	–	**–**	(4,500)
Income tax expense/(benefit) adjusted for permanent differences	**14,290**	10,422	**4,754**	(637)
Under/(over) provision in previous year	**(900)**	46	**(900)**	(4)
Income tax expense/(benefit) attributable to profit from ordinary activities	**13,390**	10,468	**3,854**	(641)

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 on implementation of the legislation is set out in note 1(b).

The wholly-owned entities have fully compensated CS Energy Limited for deferred tax liabilities assumed by CS Energy Limited on the date of the implementation of the legislation and have been fully compensated for any deferred tax assets transferred to CS Energy Limited.

The entities have also entered into a tax sharing and funding agreement. Under the terms of this agreement, the wholly-owned entities reimburse CS Energy Limited for any current income tax payable by CS Energy Limited arising in respect of their activities, plus adjustments for permanent and timing differences. The tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entities in the case of a default by CS Energy Limited.

	Consolidated		Parent	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
6 CURRENT ASSETS – CASH ASSETS				
Cash at bank and on hand	**1,973**	3,075	**551**	431
Deposits at call – Queensland Treasury Corporation (QTC)	**299**	1,253	**299**	1,253
	2,272	4,328	**850**	1,684

The above figures agree to cash at the end of the financial year as shown in the statement of cash flows.

Deposits at call
The deposits at call are bearing floating interest rates between 5.4% and 6.1% (2004: 4.9% and 5.7%).

	Consolidated		Parent	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
7 CURRENT ASSETS – RECEIVABLES				
Trade debtors	**35,666**	40,396	**25,471**	22,836
Other debtors	**27,582**	19,457	**27,288**	26,929
	63,248	59,853	**52,759**	49,765
Loan to associated entity (note 37)	**–**	2,774	**–**	2,774
Less: provision for impairment	**–**	(2,774)	**–**	(2,774)
	–	–	**–**	–
	63,248	59,853	**52,759**	49,765
8 CURRENT ASSETS – INVENTORIES				
Fuel and Stores – at cost	**27,988**	23,187	**20,130**	16,970
– less: provision for obsolescence	**(750)**	(750)	**(750)**	(750)
	27,238	22,437	**19,380**	16,220
9 CURRENT ASSETS – OTHER				
Prepayments	**8,172**	6,265	**8,101**	6,203
Deferred foreign exchange costs (note 29)	**36,225**	5,428	**36,225**	5,428
Deferred losses on electricity futures (note 29)	**2,581**	658	**2,581**	658
	46,978	12,351	**46,907**	12,289
10 NON-CURRENT ASSETS – RECEIVABLES				
Loans to related parties	**–**	–	**574,879**	445,398
11 NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD				
Investments in associates (note 37)	**–**	–	**–**	–
Interests in joint venture entities (note 38)	**1**	1	**–**	–
	1	1	**–**	–

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent, subject to application of a recoverable amounts test (note 37).

Interests in joint venture entities are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by a controlled entity (note 38).

	Consolidated		Parent	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000

12 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Investments in controlled entities (note 36) – at cost	**–**	–	**51,815**	51,815
Investments in controlled entities (note 36) – at recoverable amount	**–**	–	**–**	564
Investments in other corporations – at cost	**–**	1,632	**–**	1,632
Less: provision for impairment	**–**	(645)	**–**	(645)
	–	987	**–**	987
	–	987	**51,815**	53,366

13 NON-CURRENT ASSETS – DEFERRED GAS EXPLORATION AND EVALUATION COSTS

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Gas exploration and evaluation costs	**12,685**	8,047	**12,685**	8,047

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

14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Power stations – at cost	**1,667,114**	1,643,211	**990,261**	969,700
Less: accumulated depreciation	**(439,805)**	(371,589)	**(292,896)**	(249,214)
Total power stations	**1,227,309**	1,271,622	**697,365**	720,486
Capitalised overhauls – at cost	**113,590**	85,815	**89,209**	65,137
Less: accumulated amortisation	**(84,386)**	(69,257)	**(68,418)**	(57,653)
Total capitalised overhauls	**29,204**	16,558	**20,791**	7,484
Other property, plant and equipment – at cost	**52,092**	51,229	**43,171**	41,760
Less: accumulated depreciation	**(31,047)**	(30,212)	**(27,740)**	(26,558)
Total other property, plant and equipment	**21,045**	21,017	**15,431**	15,202
Capital work in progress – at cost	**307,259**	116,943	**42,604**	14,194
Development costs – at cost	**3,632**	3,129	**–**	–
Total property, plant and equipment	**1,588,449**	1,429,269	**776,191**	757,366

	Consolidated		Parent	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below:				
Power stations				
Carrying amount at start of year	**1,271,622**	1,339,252	**720,486**	766,425
Additions/transfers	**24,459**	18,241	**20,639**	12,583
Disposals	**(406)**	(12,246)	**–**	(11,511)
Provision for depreciation	**(68,366)**	(73,625)	**(43,760)**	(47,011)
Carrying amount at end of year	**1,227,309**	1,271,622	**697,365**	720,486
Capitalised overhauls				
Carrying amount at start of year	**16,558**	17,594	**7,484**	11,775
Additions/transfers	**27,776**	12,240	**24,072**	4,745
Disposals	**–**	(150)	**–**	–
Provision for amortisation	**(15,130)**	(13,126)	**(10,765)**	(9,036)
Carrying amount at end of year	**29,204**	16,558	**20,791**	7,484
Other property, plant and equipment				
Carrying amount at start of year	**21,017**	22,104	**15,202**	16,173
Additions	**2,108**	2,517	**1,740**	1,579
Disposals	**(33)**	(748)	**(9)**	(322)
Provision for depreciation	**(2,047)**	(2,856)	**(1,502)**	(2,228)
Carrying amount at end of year	**21,045**	21,017	**15,431**	15,202
Capital work in progress				
Carrying amount at start of year	**116,943**	13,803	**14,194**	10,029
Additions/transfers in	**204,298**	107,555	**40,067**	8,072
Transfers out	**(13,982)**	(4,415)	**(11,657)**	(3,907)
Carrying amount at end of year	**307,259**	116,943	**42,604**	14,194
Development costs				
Carrying amount at start of year	**3,129**	92,612	**–**	–
Additions	**503**	10,453	**–**	–
Transfers out	**–**	(99,936)	**–**	–
Carrying amount at end of year	**3,632**	3,129	**–**	–

15 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	2005	2004	**2005**	2004
Future income tax benefit attributable to:				
Tax losses	**32,461**	22,204	**32,461**	22,204
Other timing differences	**15,866**	13,634	**15,866**	13,634
	48,327	35,838	**48,327**	35,838

16 NON-CURRENT ASSETS – OTHER

	2005	2004	**2005**	2004
Prepayments	**23,566**	21,300	**23,566**	21,300
Deferred foreign exchange costs (note 29)	**27,271**	26,047	**27,271**	26,047
Tax-related receivable	**–**	–	**96,072**	89,356
	50,837	47,347	**146,909**	136,703

	Consolidated		Parent	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
17 CURRENT LIABILITIES – PAYABLES				
Trade creditors	**38,059**	27,899	**26,415**	16,477
Other creditors	**51,738**	17,030	**51,738**	17,030
	89,797	44,929	**78,153**	33,507
18 CURRENT LIABILITIES – INTEREST BEARING LIABILITIES				
Loans from Queensland Treasury Corporation (QTC) (note 22)	**56,986**	12,045	**45,265**	–
19 CURRENT LIABILITIES – PROVISIONS				
Dividends (note 28)	**29,151**	28,877	**29,151**	28,877
Employee benefits	**6,828**	6,349	**5,917**	5,492
	35,979	35,226	**35,068**	34,369
20 CURRENT LIABILITIES – OTHER				
Deferred revenue	**2,284**	–	**2,284**	–
Deferred foreign exchange gains (note 29)	**–**	1,261	**–**	1,261
	2,284	1,261	**2,284**	1,261
21 NON-CURRENT LIABILITIES – PAYABLES				
Other creditors	**27,271**	18,646	**27,271**	18,646
Tax-related payable	**–**	–	**7,999**	10,141
	27,271	18,646	**35,270**	28,787

	Consolidated		Parent	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000

22 NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

Loans from Queensland Treasury Corporation (QTC)	**464,065**	371,931	**365,601**	261,746

As part of CS Energy Limited's debt management, net non-current borrowings from QTC include an at call debt-offset facility with funds available at 30 June 2005 of $260,106,877 (2004 – $355,836,753).

Financing arrangements
Access was available at balance date to the following lines of credit:

Total facilities				
QTC facilities (1)	**700,708**	692,583	**700,708**	692,583
QTC facilities (2)	**110,185**	122,230	**–**	–
Bank loan facilities	**1,000**	1,000	**1,000**	1,000
	811,893	815,813	**701,708**	693,583
Used at balance date				
QTC facilities (1)	**410,866**	261,746	**410,866**	261,746
QTC facilities (2)	**110,185**	122,230	**–**	–
Bank loan facilities	**–**	–	**–**	–
	521,051	383,976	**410,866**	261,746
Unused at balance date				
QTC facilities (1)	**289,842**	430,837	**289,842**	430,837
QTC facilities (2)	**–**	–	**–**	–
Bank loan facilities	**1,000**	1,000	**1,000**	1,000
	290,842	431,837	**290,842**	431,837

(1) Unrestricted access available.

(2) These facilities include the North West Energy Pty Ltd Facility Agreement. CS Energy Mica Creek Pty Ltd financed its purchase of the Mica Creek Power Station, 70 MW expansion and the station's conversion to gas, which took place in 1998, with a limited recourse debt facility provided by QTC. QTC had limited recourse to CS Energy Limited for the funds used for the original purchase and 70 MW expansion. The Facility Agreement is currently subject to a limited waiver agreement, which while operative, has the effect of allowing QTC full recourse to CS Energy Limited for the funds provided.

23 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

Provision for deferred income tax	**245,944**	220,067	**245,944**	220,067

	Consolidated		Parent	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000

24 NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Employee benefits – leave provisions	**13,652**	13,316	**10,964**	10,789
Site rehabilitation	**26,092**	24,959	**22,063**	21,574
	39,744	38,275	**33,027**	32,363

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

Reconciliation of movements in site rehabilitation and dividend provisions

	Site rehabilitation $'000	Dividends $'000	Total $'000
Consolidated – 2005			
Carrying amount at start of year	**24,959**	**28,877**	**53,836**
Additional provisions recognised	**1,781**	**29,151**	**30,932**
Payments/other sacrifices of economic benefits	**(648)**	**(28,877)**	**(29,525)**
Reductions from re-measurement	**–**	**–**	**–**
Carrying amount at end of year	**26,092**	**29,151**	**55,243**
Parent entity – 2005			
Carrying amount at start of year	**21,574**	**28,877**	**50,451**
Additional provisions recognised	**1,137**	**29,151**	**30,288**
Payments/other sacrifices of economic benefits	**(648)**	**(28,877)**	**(29,525)**
Reductions from re-measurement	**–**	**–**	**–**
Carrying amount at end of year	**22,063**	**29,151**	**51,214**

25 NON-CURRENT LIABILITIES – OTHER

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Deferred foreign exchange gains (note 29)	**–**	7,401	**–**	7,401

26 CONTRIBUTED EQUITY

	Parent 2005 $'000	Parent 2004 $'000
Share capital		
A class shares – fully paid	**4**	4
B class shares – fully paid	**822,503,917**	822,503,917
	822,503,921	822,503,921

In the prior year, an additional $260 million of B class shares were issued to shareholding Ministers.

	Consolidated		Parent	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
27 RETAINED PROFITS				
Retained profits at the beginning of the financial year	**48,173**	46,653	**74,671**	21,119
Net profit attributable to members of CS Energy Limited	**36,439**	30,397	**22,066**	82,429
Dividends provided for or paid	**(29,151)**	(28,877)	**(29,151)**	(28,877)
Retained profits at the end of the financial year	**55,461**	48,173	**67,586**	74,671
28 DIVIDENDS				
Final dividend provided for (1)	**29,151**	28,877	**29,151**	28,877

(1) Pursuant to the Queensland Treasurer's Tax Equivalents Manual, CS Energy Limited is not required to maintain a franking account.

29 FINANCIAL INSTRUMENTS

(a) Derivative financial instruments

CS Energy Limited is a party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in wholesale electricity prices and foreign currency exchange rates. The majority of the electricity derivative financial instrument hedges are electricity swaps, contracted with counterparties that are also Queensland Government Owned Corporations.

Over-the-counter contracts

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

Calculations of CS Energy Limited's total exposure under these instruments have not been provided as it is considered that the market for future electricity prices, upon which the exposure is based, lacks sufficient depth and liquidity to provide a reliable basis for the calculation of the exposure.

Exchange traded futures contracts

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

Forward exchange contracts

CS Energy Limited has entered into forward exchange contracts to purchase Euros, Swiss Francs and US Dollars, as a hedge against the anticipated purchase of generation plant and spare parts sourced mainly from Europe and the United States of America. These contract maturities are timed to match payments under the supply contracts.

Outstanding Forward Exchange Contracts At Balance Date

	Sell Australian dollars		Average exchange rate	
	2005	2004	**2005**	2004
	$'000	$'000		
Buy Swiss Francs				
Maturity in 0–6 months	**38,072**	5,733	**0.8384**	0.8627
Maturity in 6–12 months	**–**	17,478	**–**	0.8276
Buy Euros				
Maturity in 0–6 months	**95,098**	19,640	**0.5475**	0.5475
Maturity in 6–12 months	**86,828**	51,120	**0.5475**	0.5487
Maturity in 12–18 months	**70,290**	95,098	**0.5475**	0.5475
Maturity in 18–24 months	**53,751**	86,828	**0.5475**	0.5475
Maturity in 24–30 months	**37,212**	70,290	**0.5475**	0.5475
Maturity in 30–36 months	**–**	53,751	**–**	0.5475
Maturity in 36–42 months	**–**	37,212	**–**	0.5475
Buy United States Dollars				
Maturity in 0–6 months	**24,877**	5,138	**0.6595**	0.6595
Maturity in 6–12 months	**22,714**	12,979	**0.6595**	0.6595
Maturity in 12–18 months	**18,387**	24,877	**0.6595**	0.6595
Maturity in 18–24 months	**14,061**	22,714	**0.6595**	0.6595
Maturity in 24–30 months	**9,735**	18,387	**0.6595**	0.6595
Maturity in 30–36 months	**–**	14,061	**–**	0.6595
Maturity in 36–42 months	**–**	9,735	**–**	0.6595

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

Amounts receivable and payable on open contracts are included in other assets and other creditors respectively. The following gains, losses and costs have been deferred at 30 June 2005:

	2005	2004
	$'000	$'000
Unrealised gains	**–**	8,662
Total gains	**–**	8,662
Unrealised losses	**(36,687)**	–
Costs of contracts	**(26,809)**	(31,475)
Total losses and costs	**(63,496)**	(31,475)
Net losses (losses, gains and costs)	**(63,496)**	(22,813)

(b) Credit risk exposures

For financial instruments not recognised on the statement of financial position, credit risk arises from the potential failure of counterparties to meet their financial obligations under their respective contracts. A material exposure arises from OTC swap contracts and the consolidated group is exposed to loss in the event that counterparties fail to settle the contracted amount. In order to mitigate any potential credit related losses, CS Energy Limited has a policy of only dealing with counterparties with investment-grade credit ratings, or where investment-grade credit support is provided. The majority of counterparties are currently Government Owned Corporations.

For financial assets recognised on the statement of financial position, the credit risk is generally the carrying amount, net of any provisions for doubtful debts. In relation to recognised financial assets, CS Energy Limited has a concentration of credit exposure in the NEM, operated by NEMMCO. The NEM operates with strict prudential guidelines that minimise the potential for credit related losses.

(c) Interest rate exposures

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

Interest rate exposures

		Fixed interest maturing in:				
	Floating interest rate $'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
2005						
Financial assets						
Cash and deposits [1] (note 6)	**2,272**	**–**	**–**	**–**	**–**	**2,272**
Receivables (note 7, 10)	**–**	**–**	**–**	**–**	**63,248**	**63,248**
	2,272	**–**	**–**	**–**	**63,248**	**65,520**
Weighted average interest rate	**5.64%**					
Financial liabilities						
Loans from QTC (note 18, 22)	**205,359**	**11,721**	**142,848**	**161,123**	**–**	**521,051**
Payables (note 17, 21)	**–**	**–**	**–**	**–**	**117,068**	**117,068**
	205,359	**11,721**	**142,848**	**161,123**	**117,068**	**638,119**
Weighted average interest rate	**5.56%**	**6.76%**	**6.76%**	**6.76%**		
Net financial liabilities	**(203,079)**	**(11,721)**	**(142,848)**	**(161,123)**	**(53,828)**	**(572,599)**
2004						
Financial assets						
Cash and deposits [1] (note 6)	4,328	–	–	–	–	4,328
Receivables (note 7, 10)	–	–	–	–	59,853	59,853
	4,328	–	–	–	59,853	64,181
Weighted average interest rate	5.29%					
Financial liabilities						
Loans from QTC (note 18, 22)	78,707	12,045	77,300	215,924	–	383,976
Payables (note 17, 21)	–	–	–	–	63,575	63,575
	78,707	12,045	77,300	215,924	63,575	447,551
Weighted average interest rate	5.63%	6.83%	6.83%	6.83%		
Net financial liabilities	(74,379)	(12,045)	(77,300)	(215,924)	(3,722)	(383,370)

(1) As all investments/loans held for less than one year are on a floating rate basis, they are all included under the 'Floating interest rate' category.

(d) Net fair value of financial assets and liabilities

(i) **On-balance sheet** The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated group approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. Other monetary financial assets and liabilities that will mature prior to 30 June 2006 have not been discounted.

(ii) **Off-balance sheet** The parent entity and the controlled entities have potential financial liabilities, which may arise from certain contingencies. Due to the remote probability of a future sacrifice of economic benefits and the inherent uncertainty regarding the settlement amount of these contingent liabilities, it has not been possible to assign a fair value.

The carrying amounts and net fair values of financial assets and liabilities at balance dates are:

On-balance sheet financial instruments

	Consolidated		Consolidated	
	Carrying Amount	Net fair value	Carrying Amount	Net fair value
	2005	2005	2004	2004
	$'000	$'000	$'000	$'000
Financial assets				
Cash and deposits	**2,272**	**2,272**	4,328	4,328
Receivables	**63,248**	**63,248**	59,853	59,853
	65,520	**65,520**	64,181	64,181
Financial liabilities				
Loans from QTC	**521,051**	**531,308**	383,976	388,720
Payables	**117,068**	**117,068**	63,575	63,575
	638,119	**648,376**	447,551	452,295

30 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Directors

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

Non-executive Chairman

SE Lonie

Non-executive directors

TBI Crommelin
TG Handicott (until 30 June 2005 (1))
RJ Henricks
JA Leaver
TJ O'Dwyer (resigned 1 June 2005)
T White

(1) Reappointment was not sought following expiration of a 3-year term on 30 June 2005

Principles used to determine the nature and amount of remuneration

Director remuneration is determined periodically by the shareholding Ministers.

Superannuation

Directors receiving personal payments are also entitled to superannuation contributions.

Relationship between remuneration and entity's performance

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

Remuneration

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

Specified director remuneration

	Primary	Post Employment	
	Cash salary and fees	Superannuation	Total
	$	$	$
SE Lonie			
2005	**64,705**	**5,834**	**70,539**
2004	55,350	4,982	60,332
TBI Crommelin			
2005	**23,200**	**–**	**23,200**
2004	20,000	–	20,000
TG Handicott			
2005	**26,970**	**2,427**	**29,397**
2004	24,000	–	24,000
RJ Henricks			
2005	**26,680**	**2,788**	**29,468**
2004	22,823	2,070	24,893
JA Leaver			
2005	**27,550**	**2,794**	**30,344**
2004	22,823	2,070	24,893
TJ O'Dwyer			
2005	**28,710**	**–**	**28,710**
2004	26,792	–	26,792
T White			
2005	**30,160**	**–**	**30,160**
2004	26,000	–	26,000
Total			
2005	**227,975**	**13,843**	**241,818**
2004	197,788	9,122	206,910

Other transactions with directors and director-related entities

A director, Mr SE Lonie, is an independent consultant who provided consulting services in relation to practice management to McCullough Robertson, Solicitors. McCullough Roberston provided legal services to the consolidated group. Mr Lonie is also a former partner of KPMG. KPMG provided accounting services to the consolidated group.

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

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

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

All of the above 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. The majority of employees of CS Energy Limited are entitled to benefits from this fund. Payments made to the fund in the year are disclosed in note 34.

Other transactions with directors and director-related entities

		Consolidated		Parent	
		2005	2004	**2005**	2004
		$	$	**$**	$
Legal fees:	Corrs Chambers Westgarth	**42,558**	120,849	**42,558**	120,849
	McCullough Robertson	**47,946**	46,111	**47,946**	45,634
		90,504	166,960	**90,504**	166,483
Accounting fees:	BDO Kendalls	**33,658**	25,125	**33,658**	25,125
	KPMG	**66,265**	70,784	**66,265**	70,784
		99,923	95,909	**99,923**	95,909
Other:	The Brisbane Club	**4,447**	4,852	**4,447**	4,852

(b) Executives

The following six positions have the greatest authority for the strategic direction and management of the consolidated entity ('specified executives'), all of whom were employed by CS Energy Limited during the financial year:

Chief Executive Officer
Chief Financial Officer
General Manager Operations
General Manager Major Projects
General Manager Production
General Manager Corporate Services

Principles used to determine the nature and amount of remuneration

Executives receive a base salary (incorporating cash, allowances and non-monetary benefits), superannuation and a performance payment. Executive remuneration is established by using external independent quantitative benchmarks to compare the position requirements with similar positions across a broad cross section of the labour market. The performance payment is up to a maximum of 15% of base salary. Executive remuneration (and any change to executive remuneration) requires approval of the Board in consultation with the shareholding Ministers.

Relationship between remuneration and entity's performance

The base remuneration for executives is designed to attract and retain executives with the calibre necessary to ensure the organisation's success. The performance payment is conditional upon attainment of specified and measurable performance outcomes compared to Key Performance Indicators (KPIs). The KPIs are directly related to measures the Board considers being indicators of good corporate performance.

Service contracts

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

The remuneration and other terms of employment for the Chief Executive Officer are specified in an employment agreement. Annual adjustments to the remuneration are approved by the shareholding Ministers. The agreement provides a total remuneration package that enables the Chief Executive Officer to package a range of benefits including a motor vehicle and superannuation. The key elements of the employment agreement are as follows:

- Employment term – 5 years expiring 16 August 2009.
- Total remuneration for the year ended 30 June 2005 of $289,030, to be reviewed annually.
- Payment of a termination benefit on early termination, other than for gross misconduct, equal to 50% of the total remuneration package excluding bonus for the balance of the term after the termination date.
- Payment of a severance payment of 3 months remuneration if the employment contract is not renewed upon serving the full term of the contract.
- Should the position become redundant, a payment of a severance amount equivalent to 3 weeks remuneration per completed year of service in addition to a separation payment of 13 weeks remuneration to a cap of 75 weeks remuneration.

All senior executives other than the Chief Executive Officer are employed under contracts that are not fixed term. Remuneration adjustments are subject to the same process as for the Chief Executive Officer.

Impact of remuneration contracts on future periods

No specific contract terms of any executive affect remuneration of future periods, other than annual adjustments based on cost of living and general labour market escalation.

Performance related bonuses

The Board determines executive performance payments, in each July, immediately after the financial year to which the performance payment relates. Payment is made once the shareholding Ministers have been consulted with respect to the payments.

The quantum of each executive's performance payment is based on predetermined performance criteria taking into account a blend of three areas:

- Overall company performance.
- Performance by the division which the executive leads.
- The executive's personal contribution to the overall company result as determined by the Board.

Performance criteria include specific relevant measures in the following broad key result areas:

- Safety.
- Plant reliability.
- Financial returns.
- Environmental performance.
- Project delivery.

There have been no changes to the terms and conditions of employment of executives over the past financial year, and no current proposal to change the terms and conditions in the foreseeable future.

Remuneration

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

Specified executive remuneration

	Primary		Post Employment	
	Cash salary and fees	Non-monetary benefits	Superannuation	Total
	$	$	$	$
Chief Executive Officer (1)				
2005	**230,800**	**31,636**	**26,594**	**289,030**
2004	178,432	18,107	21,412	217,951
Chief Financial Officer (2)				
2005	**187,971**	**38,000**	**28,053**	**254,024**
2004	211,005	38,000	25,234	274,239
General Manager Production (3)				
2005	**134,932**	**28,500**	**21,082**	**184,514**
2004	172,706	38,000	25,285	235,991
General Manager Major Projects				
2005	**183,369**	**38,000**	**28,556**	**249,925**
2004	176,052	38,000	25,686	239,738
General Manager Operations				
2005	**184,220**	**38,000**	**28,666**	**250,886**
2004	176,873	38,000	25,785	240,658
General Manager Corporate Services				
2005	**160,085**	**38,664**	**25,638**	**224,387**
2004	153,555	38,664	22,987	215,206
Total				
2005	**1,081,377**	**212,800**	**158,589**	**1,452,766**
2004	1,068,623	208,771	146,389	1,423,783

(1) The current Chief Executive Officer commenced employment with CS Energy on 16 August 2004. The previous Chief Executive Officer ceased employment with CS Energy on 23 January 2004.

(2) The cash salary and fees component of remuneration paid/payable to the Chief Financial Officer for 2004 and 2005 includes a component for higher duties allowance following his appointment as Acting Chief Executive Officer for the period 29 December 2003 to 13 August 2004.

(3) The General Manager Production ceased employment with CS Energy on 31 March 2005. As a consequence of ceasing employment, the General Manager Production received a redundancy payment of $359,720 calculated in accordance with the terms of his contract.

Other transactions with executives and executive-related entities

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

Whilst CS Energy Limited is not a disclosing entity and thus not required to comply with the disclosure requirements relating to executive remuneration included in accounting standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, the note has been prepared on the basis of guidelines issued by the Treasurer which are generally in accordance with the requirements of the standard. Senior executives may also earn performance based at risk incentive bonuses, which are not disclosed in this note.

	Consolidated		Parent	
	2005	2004	**2005**	2004
	$	$	**$**	$

31 REMUNERATION OF AUDITORS

Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated group:

	Consolidated 2005 $	Consolidated 2004 $	Parent 2005 $	Parent 2004 $
Auditors of the parent entity				
Parent entity	**140,250**	118,800	**140,250**	118,800
Controlled entities	**10,750**	12,060	**–**	–
	151,000	130,860	**140,250**	118,800

32 CONTINGENT LIABILITIES

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

33 COMMITMENTS FOR EXPENDITURE

Capital commitments
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable as follows:

	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
Not later than one year	**222,640**	207,002	**40,146**	36,175
Later than one year, but not later than five years	**975,788**	1,012,384	**27,710**	71,761
Later than five years	**13,179**	14,011	**–**	–
	1,211,607	1,233,397	**67,856**	107,936

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

	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
Not later than one year	**518**	456	**470**	410
Later than one year, but not later than five years	**2,213**	2,288	**2,079**	2,112
Later than five years	**573**	1,123	**573**	1,123
	3,304	3,867	**3,122**	3,645

	Consolidated		Parent	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000

34 EMPLOYEE BENEFIT LIABILITIES

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Employee benefit liabilities				
Provisions for employee benefits				
Current	**7,678**	7,309	**6,767**	6,452
Non-current	**13,652**	13,316	**10,964**	10,788
Aggregate employee benefit liability	**21,330**	20,625	**17,731**	17,240

	2005	2004	**2005**	2004
Employee numbers				
Employees at reporting date	**461**	467	**380**	392
The amounts for long service leave and superannuation are measured at their present values. The following assumptions were adopted in measuring present values of long service leave:				
Weighted average rates of increase in annual employee benefits to settlement of the liabilities	**3.5%**	3.5%	**3.5%**	3.5%
Weighted average discount rates	**5.85%**	5.85%	**5.85%**	5.85%
Weighted average terms to settlement of the liabilities	**10.0 yrs**	10.0 yrs	**10.0 yrs**	10.0 yrs

Superannuation – defined benefit

A number of employees of the consolidated group are entitled to benefits on retirement, disability or death from the Queensland Electricity Supply Industry (QESI) Superannuation Fund. The defined benefit section of the fund provides lump sum benefits based on years of service and final average salary.

Actuarial assessments of the fund are made at no more than three-yearly intervals, and the last such assessment dated January 2003 was made as at 30 June 2002. The next three-yearly actuarial assessment is expected to be available in January 2006. Information relating to the fund based on the latest actuarial assessment and the financial report of the fund for the year ended 30 June 2002 is set out below.

	2005 **$'000**	2004 $'000	**2005** **$'000**	2004 $'000
Net market value of assets held by the fund to meet future benefit payments	**70,539**	70,539	**70,539**	70,539
Present value of employees' accrued benefits	**67,903**	67,903	**67,903**	67,903
Excess of present value of assets held to meet future benefit payments over employees' accrued benefits	**2,636**	2,636	**2,636**	2,636
Vested benefits	**67,903**	67,903	**67,903**	67,903
Defined benefit superannuation expense	**5,025**	4,316	**4,990**	4,248
Defined contribution superannuation expense	**1,449**	1,131	**381**	289
Total employer superannuation expense	**6,474**	5,447	**5,371**	4,537

The above amounts were measured as at 30 June of each year.

Vested benefits are benefits which are not conditional upon continued membership of the fund (or any factor other than resignation from the fund) and include benefits which members were entitled to receive had they terminated their fund membership as at the reporting date.

The next actuarial assessment is expected to be completed in January 2006.

35 RELATED PARTIES

Directors and specified executives
Disclosures relating to directors and specified executives are set out in note 30.

Wholly owned group
The wholly owned group consists of CS Energy Limited and its wholly owned controlled entities:

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

Ownership interests in these controlled entities are set out in note 36.

Disposal of controlled entities
The following entities were liquidated during the financial year. Final distributions took place prior to 30 June 2005. Final meetings were held on 15 July 2005. The entities are awaiting dissolution.

Delta Solutions Pty Ltd
CEPA (Kogan Creek) Leasing I Pty Ltd
CEPA (Kogan Creek) Leasing II Pty Ltd
CEPA (Kogan Creek) Leasing III Pty Ltd
CEPA (Kogan Creek) Leasing IV Pty Ltd

Disposal of controlled entity – prior year
Mirant Asia-Pacific (Dutch) BV was wound up and ceased to exist on the register of The Chamber of Commerce and Industries for Amsterdam on 24 November 2003.

MAP (Holding) Denmark ApS was wound up and deregistered from the Danish Commerce and Companies Agency on 8 January 2004.

Transactions between CS Energy Limited and wholly owned group members
Transactions between CS Energy Limited and other entities in the wholly owned group during the year ended 30 June 2005 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) The supply of engineering services to CS Energy Limited;
(e) Dividends paid to controlling entity; and
(f) Transactions between CS Energy Limited and its wholly owned controlled entities under the tax sharing agreement described in note 5.

Interest was charged on loans only to the extent that capitalisation was required in accordance with AASB 1036 *Borrowing Costs*. The average interest rate charged in relation to these loans was 6.45% (2004 – 6.5%).

Related Party Transactions and Balances

	Parent	
	2005 $'000	2004 $'000
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly owned group:		
Sale of goods and services	**7,426**	7,331
Interest revenue	**10,470**	6,474
Dividend revenue	**–**	15,000
Aggregate amounts receivable from and payable to entities in the wholly owned group at balance date:		
Current receivables – other debtors	**6,256**	9,174
Tax-related receivable	**104,071**	97,593
Non-current receivable – loans to related parties	**574,879**	488,780
Current payables – other creditors	**–**	4,241
Tax-related payable	**104,071**	97,593
Non-current payables – other creditors	**3,300**	5,800

Controlling entities
The ultimate parent entity in the wholly owned group is CS Energy Limited.

Ownership interests in related parties
Interests held in the following classes of related parties are set out in the following notes:
(a) Controlled entities – note 36;
(b) Associates – note 37; and
(c) Joint ventures – note 38.

36 INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding % 2005	Equity Holding % 2004
CS Energy Mica Creek Pty Ltd	Australia	Ordinary	**100**	100
CS North West Pty Ltd	Australia	Ordinary	**100**	100
Callide Energy Pty Ltd	Australia	Ordinary	**100**	100
CEPA (Kogan Creek) Holding Pty Ltd	Australia	Ordinary	**100**	100
Aberdare Collieries Pty Ltd	Australia	Ordinary	**100**	100
CS Energy Kogan Creek Pty Ltd	Australia	Ordinary	**100**	100
Kogan Creek Power Pty Ltd	Australia	Ordinary	**100**	100
CS Kogan (Australia) Pty Ltd	Australia	Ordinary	**100**	100
Swanbank Energy Pty Ltd	Australia	Ordinary	**100**	100
SE CSE Pty Ltd	Australia	Ordinary	**100**	100
CEPA (Kogan Creek) Leasing I Pty Ltd (1)	Australia	Ordinary	**100**	100
CEPA (Kogan Creek) Leasing II Pty Ltd (1)	Australia	Ordinary	**100**	100
CEPA (Kogan Creek) Leasing III Pty Ltd (1)	Australia	Ordinary	**100**	100
CEPA (Kogan Creek) Leasing IV Pty Ltd (1)	Australia	Ordinary	**100**	100
Delta Solutions Pty Ltd (1)	Australia	Ordinary	**100**	100

(1) These entities were liquidated during the financial year – refer note 35

37 INVESTMENTS IN ASSOCIATES

Name of company	Principal activity	Ownership interest		Consolidated carrying amount		Parent carrying amount	
		2005	2004	**2005**	2004	**2005**	2004
		%	%	**$'000**	$'000	**$'000**	$'000
Linc Energy Ltd	Gas exploration	**–**	33.33	**–**	–	**–**	–
Movements in carrying amounts of investments in associates							
Carrying amount at the beginning of the financial year				**–**	–	**–**	–
Acquired during the year				**–**	–	**–**	–
Disposal during year				**–**	–	**–**	–
Share of loss from ordinary activities after income tax				**–**	–	**–**	–
Amortisation of goodwill				**–**	–	**–**	–
Impairment write down				**–**	–	**–**	–
Carrying amount at end of financial year				**–**	–	**–**	–
Results attributable to associates							
Loss from ordinary activities before income tax				**–**	–		
Income tax benefit (expense)				**–**	–		
Loss from ordinary activities after income tax				**–**	–		
Retained losses attributable to associates at beginning of financial year				**(4,642)**	(4,642)		
Retained losses attributable to associates at end of financial year				**–**	(4,642)		
Reserves attributable to associates							
Asset revaluation reserve							
Balance at beginning of the financial year				**–**	–		
Acquired during the year				**–**	–		
Revaluation reserve decrement				**–**	–		
Balance at end of the financial year				**–**	–		
Share of associate's contingent liabilities				**–**	–		
Share of associate's expenditure commitments				**–**	–		

On 6 August 2004, CS Energy Limited sold its investment and the convertible notes it held in Linc Energy Ltd for $1,000,001. From this date, the company ceased to be an associate of the CS Energy Limited group. The carrying value of the investment and the convertible notes was nil.

38 INTERESTS IN JOINT VENTURES

(a) Joint venture operations

The consolidated group has a 50% participating interest in the Callide Power Project Joint Venture, which is represented by Callide Energy Pty Ltd's interest of 50% in the joint venture (Callide Energy Pty Ltd is a wholly owned subsidiary of CS Energy Limited). IG Power (Callide) Ltd holds the remaining 50% interest.

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

In March 2005, the consolidated group disposed of its 50% participating interest in the Berwyndale South Joint Venture, a gas development joint venture with QGC Ltd.

The consolidated group's share of assets employed in the joint ventures is included in the statement of financial position under the following classifications.

	Consolidated	
	2005	2004
	$'000	$'000
Current assets		
Cash	**1,206**	2,528
Receivables	**296**	1,560
Inventories	**3,266**	2,480
	4,768	6,568
Non-current assets		
Gas exploration and evaluation costs	**12,685**	8,047
Property, plant and equipment	**378,469**	376,959
Share of assets employed in joint ventures	**395,922**	391,574

(b) Joint venture entities

Name of entity	Principal activity	Ownership interest		Carrying amount	
		2005	2004	**2005**	2004
		%	%	**$**	$
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

Joint venture entities

	Consolidated	
	2005	2004
	$'000	$'000
Movements in carrying amount of interests in joint venture entities		
Carrying amount at the beginning of the financial year	**1**	1
New capital invested	**–**	–
Share of profit/(loss) after tax	**–**	–
Carrying amount at the end of the financial year	**1**	1
Share of joint venture entities' assets and liabilities		
Current assets	**1**	1
Non-current assets	**–**	–
Total assets	**1**	1
Current liabilities	**–**	–
Non-current liabilities	**–**	–
Total liabilities	**–**	–
Net assets	**1**	1
Share of joint venture entities' revenues, expenses and results		
Revenues	**–**	–
Expenses	**–**	–
Profit/(loss) from ordinary activities before income tax	**–**	–

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 company.

	Consolidated		Parent	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000

40 RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Profit from ordinary activities after income tax	**36,439**	30,397	**22,066**	82,429
Depreciation and amortisation	**84,268**	89,607	**54,728**	58,275
Write down of investments to recoverable amount	**–**	–	**–**	3,585
Net loss/(gain) on sale of non-current assets	**257**	(2,666)	**257**	(2,666)
Change in operating assets and liabilities				
(Increase) decrease in assets:				
Trade and other debtors	**(3,594)**	(13,982)	**(4,460)**	(80,236)
Inventories	**(4,801)**	(2,452)	**(3,160)**	(1,118)
Future income tax benefit	**(12,489)**	(8,928)	**(14,055)**	(8,351)
Prepayments	**(3,512)**	(3,309)	**(3,504)**	(3,405)
(Decrease) increase in liabilities:				
Accounts payable, employee benefits and other provisions	**(9,124)**	1,425	**(896)**	(5,443)
Provision for deferred income tax	**25,877**	19,430	**19,163**	7,709
Net cash provided by operating activities	**113,321**	109,522	**70,139**	50,779

	Consolidated		Parent	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
41 NON-CASH FINANCING AND INVESTING ACTIVITIES				
Accrued capital work in progress	**28,143**	–	**28,143**	–

42 EMPLOYEE PERFORMANCE PAYMENTS

Performance payments to employees of the consolidated group payable in respect of the relevant financial year:

Financial year	Aggregate performance payments $	Total salary and wages earned by employees receiving a performance payment $	Number of employees receiving a performance payment
2005	**1,057,216**	**46,621,586**	**454**
2004	1,374,023	46,887,830	459

The following categories of employees are eligible for at-risk performance incentive payments:

- Chief Executive Officer;
- Senior executives;
- Contract employees; and
- Employees whose terms and conditions are outlined in certified agreements.

43 INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Australian Financial Reporting Council (FRC) has determined that Australian entities reporting under the *Corporations Act 2001* must prepare their financial statements under International Financial Reporting Standards (IFRS) as adopted by the Australian Accounting Standards Board (referred to as Australian Equivalents to IFRS (AIFRS)) from financial years commencing on or after 1 January 2005. This requirement will involve CS Energy Limited completing a first time set of financial statements under AIFRS for the financial year ended 30 June 2006.

Comparatives will also be remeasured under AIFRS and restated for the financial year ending 30 June 2005, with an opening statement of financial position prepared as at 1 July 2004, being the date of transition to AIFRS.

A project has been established, and is monitored by the Audit Committee, to manage the convergence to AIFRS and ensure the group is prepared to report for the first time under AIFRS in accordance with these dates.

Currently, the major areas of focus for the AIFRS Project are issues associated with adoption of:

- AASB 132 – *Financial Instruments: Disclosure and Presentation*;
- AASB 139 – *Financial Instruments: Recognition and Measurement*;
- AASB 119 – *Employee Benefits*;
- AASB 112 – *Income Taxes*;
- AASB 116 – *Property, Plant and Equipment*;
- AASB 136 – *Impairment of Assets*; and
- AASB 137 – *Provisions, Contingent Liabilities and Contingent Assets*

Adoption of AIFRS will result in changes to group accounting policies, procedures and financial reporting systems.

No estimates are currently available for the impacts on the financial report for the year ended 30 June 2005, had it been prepared using AIFRS. Major changes identified to date that will be required to the consolidated group's existing accounting policies and financial report impacts on transition to AIFRS which are known or can be reliably estimated are set out below. No material impacts are expected in relation to the statement of cash flows.

(i) Income tax

Current approach

Deferred tax balances are determined using the income statement method where items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss. Current and deferred taxes cannot be recognised directly in equity under the current standard.

AIFRS requirements

Under AASB 112 *Income Taxes*, deferred tax balances will be determined using the balance sheet method, which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

With the new calculation method, temporary differences associated with the tax cost base of the Kogan Creek development will be required to be recognised on transition at 1 July 2004. This adjustment is expected to result in a decrease to retained earnings of $24m, and a corresponding increase in deferred tax balances.

(ii) Impairment of assets

Current approach

The basis for assessing impairment under the current standard is performed at the lowest level of aggregation of non-current assets having a similar nature or function, as adopted in the financial report for disclosure, using undiscounted cash flows.

AIFRS requirements

Under AASB 136 *Impairment of Assets*, the test for the recoverable amount of assets will be performed at the cash generating unit level and will require the future cash flows used in the value of the recoverable amount test calculations to be discounted using a risk adjusted discount rate.

Based on an initial application of the recoverable amounts test, an impairment of the Swanbank E Power Station of approximately $88m at 30 June 2005 ($90m at 30 June 2004) has been identified. On transition this adjustment will have the effect of reducing retained earnings and values of property, plant and equipment. The retained earnings adjustment will be reduced by an adjustment to deferred tax liabilities for 30% of the impairment amount. Subsequently, depreciation expense on the impaired asset will be reduced. No further changes to asset values are anticipated.

(iii) Employee benefits

Current approach

Under the current standard, the cost of providing future benefits to employees is based on actual contributions payable to the superannuation plan during the period. For the defined benefit fund, a liability is only recognised when the value of plan assets is less than the value of accrued benefits. Movements in the carrying value of plan assets and liabilities are not recognised in the statement of financial performance.

AIFRS requirements

Under AASB 119 *Employee Benefits*, the cost of providing future benefits to employees under defined benefit plans is recognised over the period during which employees provide the services.

An asset or liability will also need to be recognised in the statement of financial position in relation to the defined benefit plan, being the net of the defined benefit obligation and the fair value of the assets. All defined benefit plan costs (other than actuarial gains or losses which will be recognised directly through retained earnings) will be recognised in the statement of financial performance.

On transition to AIFRS, an amount of $4.5m before tax, being the excess of the market value of plan assets over the present value of plan liabilities, is expected to be recognised as an asset with a corresponding increase to retained earnings.

(iv) Financial instruments

Current approach

Derivatives are not recognised in the statement of financial position and changes in the fair value of financial instruments are not recognised in the statement of financial performance or statement of financial position.

AIFRS requirements

Under AASB 139 *Financial Instruments: Recognition and Measurement*, all financial assets and liabilities, including derivatives, will be recognised in the statement of financial position.

This approach means that all financial instruments including swaps, forward rate agreements, options and futures contracts will be recognised in the statement of financial position at inception or transition.

For instruments which are designated as hedges and which can be demonstrated to have been effective, CS Energy intends to adopt hedge accounting whereby the gains and losses on these instruments will go directly to equity. Where instruments do not meet the criteria for hedge accounting, gains and losses on those instruments will be recognised in the statement of financial performance.

CS Energy Limited will apply the exemption provided in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* which permits entities to not apply the requirements of AASB 139 *Financial Instruments: Recognition and Measurement* until 1 July 2005. Accordingly, there will be no adjustment to the balance sheet or retained earnings as at 1 July 2004. It is expected that there will be a material adjustment to retained earnings and a corresponding adjustment to net assets on 1 July 2005 to recognise the initial fair value of all existing derivatives, however the amount of the adjustment has not yet been ascertained.

(v) Rehabilitation

Current approach

Provision is made for the estimated rehabilitation and closure costs at the end of the producing life of the power station, over the life of the power station, on a straight line undiscounted basis. Changes in estimates are recognised in the statement of financial performance over the remaining lives of the assets.

AIFRS requirements

Under AASB 116 *Property, Plant and Equipment* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, the provision for rehabilitation is established on acquisition or construction of the asset on a discounted basis.

This approach means that at the time of acquisition or construction of an asset, the present value of the estimated future rehabilitation obligation is recognised as a liability, and a corresponding additional cost is added to the carrying value of the asset. The present value is calculated using a pre-tax discount rate. The asset is depreciated and the discount is unwound over the useful life of the asset with both amounts recognised in the statement of financial performance.

On transition to AIFRS, rehabilitation obligations on existing assets with an estimated present value of $32.0m at 1 July 2004 are expected to be recognised. The corresponding asset costs are expected to be recognised from date of acquisition or construction of the asset, then depreciated to 1 July 2004. The written down asset value impact is estimated at $9.1m. The difference between the liability and the written down asset value at 1 July 2004 will be recognised against retained earnings. The resulting estimated $22.9m retained earnings adjustment will be reduced by an adjustment to deferred tax liabilities for 30% of this amount.

Items (i) to (v) should not be regarded as an exhaustive list of changes in accounting policies that will result from the transition to AIFRS, as not all implications have been fully analysed, and some decisions have not been made where choices of accounting policies are available.

The quantification of the estimated impacts arising from AIFRS represent the best estimate based on available information at the date of the financial report. These estimates were determined after applying the group's proposed policies developed for adopting the requirements of AIFRS to expected AIFRS standards and interpretations. It is possible the policies, standards, interpretations or estimates may change before the issuance of CS Energy's first AIFRS financial report. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB.

The table below provides a summary of the estimated transitional adjustments (other than for items not yet determined, including adjustments not yet determined noted in 43 (iv)) from Australian Generally Accepted Accounting Practice (AGAAP) to AIFRS for the consolidated group as at 1 July 2004.

Summary of transitional adjustments for the consolidated group at 1 July 2004

	$'000
Total equity under AGAAP	870,677
Impairment of assets (note 43 (ii))	(90,000)
Employee benefits (note 43 (iii))	4,537
Rehabilitation (note 43 (v))	(22,899)
Tax impact of above adjustments	32,509
Deferred tax balances (note 43 (i))	(24,137)
Estimated total transitional adjustments	(99,990)
Estimated total equity under AIFRS	770,687

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2005

In the directors' opinion

(a) The financial statements and notes set out on pages 26 to 57 are in accordance with the *Corporations Act 2001*, including:

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

   (ii) Giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

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

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

Mr SE Lonie	**Ms JA Leaver**	Brisbane
Chairman	Director	8 September 2005

AUDITOR'S INDEPENDENCE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2005

To the Directors of CS Energy Limited

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

Independence Declaration
As lead auditor for the audit of CS Energy Limited for the year ended 30 June 2005, 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.

JF Welsh, FCPA
Acting Director of Audit
Queensland Audit Office
(As Delegate of the Auditor-General of Queensland)

Brisbane
6 September 2005

INDEPENDENT AUDIT REPORT
FOR THE YEAR ENDED 30 JUNE 2005

Matters relating to the electronic presentation of the audited financial report

The audit report relates to the financial report of CS Energy Ltd for the financial year ended 30 June 2005 included on CS Energy Ltd's web site. The Directors are responsible for the integrity of CS Energy Ltd's web site. The audit report refers only to the financial report identified below and does not include a review of the integrity of this web site or provide an opinion on any other information, which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from CS Energy Ltd, to confirm the information included in the audited financial report presented on this web site.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

To the Members of CS Energy Limited

SCOPE

The financial report
The financial report of CS Energy Limited consists of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial report, and the directors' declaration for both CS Energy Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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

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

Audit procedures included:

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

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

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

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

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

No events have occurred that would require any changes to the audit independence declaration previously provided to the Directors on 6 September 2005.

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

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

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
(ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

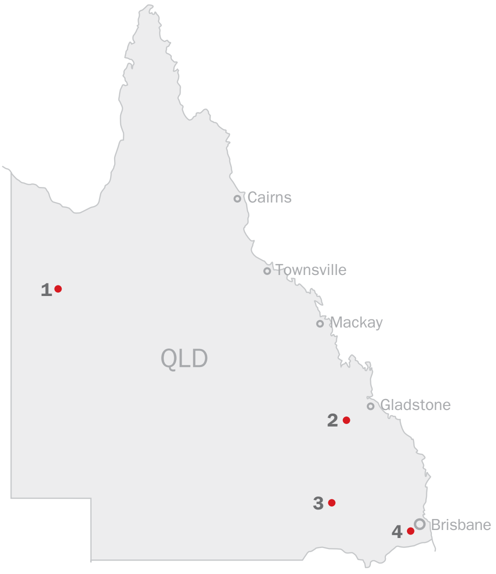
JF Welsh, FCPA
Acting Director of Audit
Queensland Audit Office
(As Delegate of the Auditor-General of Queensland)

Brisbane
9 September 2005

GLOSSARY

Term	Definition
CCSD	Cooperative Research Centre for Coal in Sustainable Development
CRG	Community Reference Group
EPC	Engineer Procure Construct contract
GEC	Queensland Gas Electricity Certificate scheme
ISO 14001	International Standard for Environment Management Systems
Lost time injury	A lost time injury is an occurrence that results in time lost from work of one shift or more, not including the shift in which the injury occurred.
LTIFR	Lost Time Injury Frequency Rate
PAT	Profit after tax
Pool price	The variable market price for electricity
QGC	Queensland Gas Company
QNI	Queensland – New South Wales interconnector
RBP	Roma to Brisbane Pipeline
TWA pool price	Time weighted average pool price
ROPA	Return on productive assets = earnings before interest and tax x 100% divided by average total assets minus average work in progress.

CS ENERGY LOCATIONS



Key

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

Design Minale Bryce Design Strategy **Photography** Nadine Shaw Photography, Stefan Jannides Photography, pg 8 **Print** Fine Print

Plant	Fuel	Total capacity (MW)	CS Energy owned capacity (MW)
In Operation			
Swanbank			
Swanbank B	Coal-fired	480	480
Swanbank E	Gas-fired	385	385
Callide			
Callide A [1]	Coal-fired	120	120
Callide B	Coal-fired	700	700
Callide C	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	103	103
Mica Creek B	Gas-fired	35	35
Mica Creek C	Gas-fired	55	55
Under Construction			
Kogan Creek Power Project			
Kogan Creek [2]	Coal-fired	750	750
Total capacity		**3,660**	**3,210**

1 Callide A was placed in storage in December 2001
2 Kogan Creek Power Project is due for commissioning in August 2007

CORPORATE OFFICE AND REGISTERED OFFICE

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OPERATIONS

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Mount Isa QLD 4825
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