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directors' report

30 June 2006

The directors present their report on Stanwell Corporation Limited (parent entity) and the entities it controlled (referred to hereafter as the Group) at the end of, or during, the year ended 30 June 2006.

DIRECTORS

The Board comprises non-executive directors who have a diversity of business experience as well as community responsibilities. The names, qualifications and experience of directors in office during the financial year and until the date of this report are shown under the heading 'Board of Directors' of the annual report.

DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Group during the financial year are set out earlier in the 'Corporate Governance' section of this annual report.

COMPANY SECRETARY

The company secretary is Mr M O'Rourke (BCom, LLB, G Dip App Fin and G Dip App Coy Sec Prac). Mr O'Rourke was appointed to the position of company secretary in 2002 and before his appointment held the position of legal counsel for three years. Before joining the corporation, he worked as a solicitor with a major legal practice.

PRINCIPAL ACTIVITY

The principal activity of the Group during the financial year was to generate energy for sale as electricity to customers within Australia.

There were no significant changes in the nature of the activities of the Group during the year.

GROUP STRUCTURE

During the financial year ended 30 June 2006, the Emu Downs Wind Farm Project in Western Australia reached financial close. An integral part of the project was securing project financing and finalising the structure of the project with the joint venturer, Griffin Windfarm Holdings Pty Ltd.

To implement the required joint venture ownership structure, Stanwell Corporation Limited incorporated four subsidiaries as follows:

- Wind Portfolio Pty Ltd,
- EDWF Holdings 1 Pty Ltd,
- EDWF Holdings 2 Pty Ltd (subsequently sold to Griffin Windfarm Holdings Pty Ltd on 22 December 2005), and
- EDWF Manager Pty Ltd (subsequently sold 50% share to Griffin Windfarm Holdings Pty Ltd on 22 December 2005).

Further, on 30 March 2006, ZeroGen Pty Ltd was incorporated as a wholly owned subsidiary of Stanwell Corporation Limited to undertake Project ZeroGen (formally known as Project Stanwell). On 24 July 2006 a framework agreement was executed between the parent entity, ZeroGen Pty Ltd and Shell Development (Australia) Pty Ltd (Shell). The framework agreement enables ZeroGen Pty Ltd to access the expertise of the Shell Group and provides Shell with the opportunity to take an equity interest in ZeroGen Pty Ltd when the project is further developed. The ownership structure of Project ZeroGen is currently being finalised with the Queensland Government.

REVIEW AND RESULTS OF OPERATIONS

A full review of the operations of the Group during the financial year, and the results of these operations, is set out under the heading 'Business Performance' of the annual report.

The comparative results and earnings per share for the financial year ended 30 June 2005 have been restated as required on adoption of Australian equivalents of International Financial Reporting Standards (AIFRS). Changes from the previously reported numbers are explained fully in the financial statements section of the annual report.



directors' report

30 June 2006

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
RESULTS				
Operating profit after income tax equivalent – \$'000	72,889	29,180	75,771	29,180
EARNINGS PER SHARE				
Basic earnings per share – cents	7.44	2.98	7.74	2.98

There were no items of an extraordinary nature.

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group has potential exposures as a result of changes in foreign exchange rates, interest rates and electricity commodity prices. Credit, liquidity and cash flow risks also can arise from its operations. The Board has confirmed policies and/or procedures in each of these areas to manage the exposures and risks. The Board requires regular confirmation of adherence to these policies and procedures.

It is the policy of the Group to use derivative financial instruments to hedge cash flows subject to electricity commodity price risks. Derivative financial instruments are not held for speculative purposes. Exposures, including related derivative hedges, are reported to the Board on a monthly basis.

To ensure approved capital expenditure is not subject to material variation due to movements in foreign currencies, forward foreign exchange contracts are entered into to match known future foreign currency payments.

The Group has a strict credit policy for all customers trading on credit terms. It has a range of measures for determining counterparty credit worthiness relying on a risk adjusted assessment principally based on the counterparty's credit rating determined by a recognised rating agency. Where appropriate, acceptable credit support is also obtained.

Financing facilities and operating cash flows are managed to ensure that the Group is not exposed to any adverse liquidity risks. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business.

DIVIDENDS

Dividends paid or declared by the company in accordance with the *Government Owned Corporations Act 1993*, since the end of the previous financial year were:

TYPE	CENTS PER SHARE	TOTAL AMOUNT	DATE OF PAYMENT
		\$'000	
As proposed and provided for in last year's report:			
Final – Ordinary shares	2.41	23,564	31 December 2005
In respect of the current financial year:			
Approved final – Ordinary shares	6.19	60,617	31 December 2006

directors' report

30 June 2006

STATE OF AFFAIRS

The Board did not receive any directions/notifications from Shareholding Ministers during the financial year ended 30 June 2006.

The results of the Group for the financial year ended 30 June 2006 were significantly enhanced through the arrangements that are in place regarding revenue sharing of coal exports from the Curragh coal mine. This is reflected in the increase in the profit after tax result for the year. It is anticipated that the coal revenue sharing benefits will continue for the next financial year but are then dependent on international coal prices.

Further to the decision taken during the financial year ended 30 June 2005 to pursue divestment options for the Rocky Point Cogeneration Plant, the Board approved the sale of the asset through a formal tender process. The asset was sold on 2 June 2006 and resulted in a net loss on disposal of \$1.2 million.

As a result of the adoption of AIFRS, an impairment issue was identified in relation to the Windy Hill Wind Farm. The asset impairment arose as a result of additional sustaining capital requirements and the review of the operations and maintenance regime on site. The impairment loss amounts to \$6.1 million and has been allocated to retained profits and the current year income statement as is permitted under the transitional arrangements of AIFRS.

Construction commenced on the Emu Downs Wind Farm Project during the year. This project is a joint venture operation with a Western Australia based group. The 80 MW project is being constructed at a cost of approximately \$194.0 million and comprises 48 turbines (each with 1.65 MW generating capacity), a substation, interconnection to the main 132 kV grid, an administration/stores building, and a network of access roads. The site is located 180 kilometres north of Perth. A syndication of banks is providing limited recourse project funding of approximately \$136.0 million. At 30 June 2006, the Group had drawn down \$48.7 million of its available project financing of \$68.0 million.

Research activities on Project ZeroGen have continued during the year. A test drilling program commenced towards the end of the financial year in Central Queensland.

This is a critical component of the feasibility study as it will evaluate the geology of the area to safely store carbon dioxide in deep saline aquifers. The total amount spent on the project as at 30 June 2006 was \$7.8 million and has been charged to the income statement as research and development.

On 26 April 2006, the Queensland State Government announced a number of measures for the reform and restructuring of the Queensland energy retail industry. As part of this reform process, the Government proposes to sell Sun Retail (the renamed Energex Retail) and the competitive parts of Ergon Energy Retail. The Group is continuing to monitor the sale process and will address implications appropriately.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Group that occurred during the financial year not otherwise disclosed in this report or the financial statements set out on pages 94 to 145.

ENVIRONMENTAL REGULATION

The Group's operations are subject to significant environmental regulations under both Commonwealth and State legislation in relation to its generating of electricity. Refer to comments under the heading 'Environmental Performance' of this annual report.

EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen, in the interval between the end of the financial year and the date of this report and not disclosed in this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the company, the results of those operations or the state of affairs of the company, in future financial years.

LIKELY DEVELOPMENTS

An outline of future developments in the Group's operations is submitted in the 'Chairman's Statement' and the 'Chief Executive Officer's Review' of this annual report. Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.



directors' report

30 June 2006

DIRECTORS' AND SENIOR EXECUTIVES' COMPENSATION

The Human Resources and Workplace Health and Safety Committee is responsible for making recommendations to the Board on the compensation policies and packages applicable to the senior executives of the Group. The compensation policies and packages are subject to State Government guidelines that may be issued from time to time.

Senior executives may receive an 'at risk' payment based on the achievement of specific goals related to the performance of the Group (including operational results). Directors do not receive any performance related compensation.

Details of the remuneration of the directors and key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Stanwell Corporation Limited and the Group are set out in the following table.

Details of compensation policies are disclosed in Note 30 to the financial statements.

KEY MANAGEMENT PERSONNEL

NAME	SHORT-TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS	TOTAL
	Salary and fees	Non-monetary	Termination	Superannuation	
	\$'000	\$'000	\$'000	\$'000	\$'000
DIRECTORS					
E Nosworthy (Chairman) ¹	66	-	-	6	72
S Campbell ¹	28	-	-	2	30
B Kelly (Chairman Human Resources and Workplace Health and Safety Committee)	29	-	-	3	32
B Morris (Chairman Audit and Risk Management Committee)	29	-	-	3	32
M Palmer ¹	28	-	-	-	28
K Shillington ¹	28	-	-	2	30
M Williamson	28	-	-	2	30
OTHER KEY MANAGEMENT PERSONNEL					
Chief Executive Officer ²	352	12	-	49	413
Chief Financial Officer ²	201	11	-	21	233
General Manager Asset Management and Technical Services	194	12	-	19	225
General Manager Business Expansion ²	188	8	26	19	241
General Manager Business Services ²	171	3	-	14	188
General Manager Marketing and Trading ²	209	20	91	19	339
General Manager Operations and Maintenance Services	203	6	-	26	235

This table provides disclosure in respect of employees who formed the group of key management personnel during the reporting period. Executives may also earn performance based 'at risk' incentive bonuses which are not shown in this table.

1. These directors retired from the Stanwell Corporation Limited Board with effect from 30 June 2006. On 1 July 2006 D Byrne was appointed as the Chairman and P Gregg and L Gillespie were appointed as directors.
2. The Chief Executive Officer, General Manager Marketing and Trading and General Manager Business Expansion ceased employment during the year, resulting in these positions being performed by the Chief Financial Officer and General Manager Business Services respectively for part of the year. At all times that the Chief Financial Officer and General Manager Business Services performed these alternate roles, their substantive positions were filled internally by other corporate employees. The above disclosure relates to the total compensation provided by Stanwell Corporation Limited during the year in respect of each position.

directors' report

30 June 2006

DIRECTORS' INTERESTS

The directors have no interest in any shares of the Group as all shares are held for the benefit of the State of Queensland, by Ministers of the Crown.

RISK MANAGEMENT

The Group, in carrying out its business, maintains a risk management philosophy that appropriately:

- protects the wellbeing of the Group's workforce, the wider community in which it operates and its physical environment; and
- manages threats that could adversely affect the Group's ability to meet its corporate objectives, its growth in shareholder value and its stewardship of company assets.

The Group's Board and management focus on the business environment, investment and other high level business risks.

Business environment risks

Board approved policies and procedures have been implemented for risks associated with operating in the electricity market. The Board determines the upper limit of electricity generation that will be hedged by way of approved financial instruments. Contracts are established with counterparties in accordance with the Board approved counterparty credit risk policy.

The established legal compliance program is a control framework which ensures that employees remain aware of their responsibilities with respect to State and Commonwealth legislation applying to the Group.

Operational risks

Operational risks embrace all of the risks arising in day-to-day operations, some of which may be site specific. Business managers and asset management teams actively participate in the identification, analysis and management processes for all operating risks. The objective is to ensure that operational risks are managed on a priority basis through operational controls and where appropriate, to mitigate or eliminate exposures through capital investment and finance residual risks through insurance or other means.

Decision making risks

Strategic risks include project, transaction, planning and organisation risks relating to the building of the Group's future business capability. The Group's Capital Investment System is designed to ensure that discrete projects or acquisitions will be assessed on the basis of an extensive analysis of project specific risk and, where appropriate, the utilisation of third party assurance of the processes, systems, models and risk allocation.



directors' report

30 June 2006

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

Article 17 of Stanwell Corporation Limited's Constitution provides that every person who is or has been an officer of the company is indemnified by the company against a liability for costs and expenses incurred by that person as an officer in defending any proceedings in which a judgement has been given in favour of that person or where the Court has granted relief. This indemnity excludes actions arising from conduct involving a lack of good faith or improper use of position.

The directors, company secretary and executive officers (current and former) receive benefit of this indemnity.

Insurance premiums

During the financial year, the Group has paid an insurance premium for an insurance policy for the benefit of the directors and officers. The insurance premium relates to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

ROUNDING OFF

The company is of a kind referred to in ASIC Class Order 98/0100 dated 10 July 1998 and in accordance with that class order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 147.

Dated at Brisbane this 30th day of August 2006.

Signed in accordance with a resolution of the directors:

D Byrne
Chairman

B Morris
Director and Audit and Risk Management
Committee Chairman



income statements

for the year ended 30 June 2006

		CONSOLIDATED		PARENT ENTITY	
	NOTES	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue	4	424,193	371,429	424,736	371,429
Other income	5	339	1,354	-	1,354
Expenses excluding borrowing costs	6	(308,327)	(319,246)	(304,528)	(319,246)
Borrowing costs	7	(12,363)	(14,804)	(12,358)	(14,804)
Profit before income tax equivalent expense		103,842	38,733	107,850	38,733
Income tax equivalent expense	9(a)	(30,953)	(9,553)	(32,079)	(9,553)
Profit after income tax equivalent expense		72,889	29,180	75,771	29,180
Basic earnings per share		\$0.0744	\$0.0298	\$0.0774	\$0.0298

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 98 to 145.



balance sheets

as at 30 June 2006

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
ASSETS					
Current assets					
Cash and cash equivalents	11	16,142	11,268	13,746	11,268
Trade and other receivables	12	55,176	39,256	55,595	39,256
Inventories	13	18,286	17,735	18,286	17,735
Derivative financial instruments	14	6,607	-	6,527	-
		96,211	68,259	94,154	68,259
Non-current assets held for sale	15	-	7,500	-	7,500
Total current assets		96,211	75,759	94,154	75,759
Non-current assets					
Property, plant and equipment	16	1,468,403	1,427,139	1,415,723	1,427,139
Intangible assets	17	5,598	5,099	5,598	5,099
Deferred tax assets	9(d)	89,641	123,981	88,414	123,981
Derivative financial instruments	14	23,918	-	23,170	-
Other non-current assets	18	3,835	3,856	3,835	3,856
Retirement benefit plan obligations	23(b)	5,184	-	5,184	-
Total non-current assets		1,596,579	1,560,075	1,541,924	1,560,075
Total assets		1,692,790	1,635,834	1,636,078	1,635,834
LIABILITIES					
Current liabilities					
Trade and other payables	19	35,136	23,542	29,616	23,542
Borrowings	20	5,965	-	259	-
Provisions	21	65,578	30,120	65,578	30,120
Derivative financial instruments	14	14,212	-	14,212	-
Other current liabilities	22	31	58	26	58
Total current liabilities		120,922	53,720	109,691	53,720
Non-current liabilities					
Borrowings	20	165,951	206,021	118,517	206,021
Deferred tax liabilities	9(e)	369,334	366,967	368,984	366,967
Provisions	21	10,014	9,095	10,014	9,095
Derivative financial instruments	14	866	-	866	-
Retirement benefit plan obligations	23(b)	-	26	-	26
Total non-current liabilities		546,165	582,109	498,381	582,109
Total liabilities		667,087	635,829	608,072	635,829
Net assets		1,025,703	1,000,005	1,028,006	1,000,005
EQUITY					
Contributed equity	24	979,048	979,048	979,048	979,048
Reserves	25	9,913	-	9,334	-
Retained profits	26	36,742	20,957	39,624	20,957
Total equity		1,025,703	1,000,005	1,028,006	1,000,005

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 98 to 145.



statements of changes in equity

for the year ended 30 June 2006

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Total equity at the beginning of the financial year as previously stated		1,015,930	1,010,039	1,015,930	1,010,039
Adjustments on adoption of AIFRS net of tax:					
• Property, plant and equipment – overhauls	3	(10,813)	(10,813)	(10,813)	(10,813)
• Property, plant and equipment – impairment	3	(3,731)	(2,740)	(3,731)	(2,740)
• Provision for rehabilitation and decommissioning	3	(2,101)	(1,783)	(2,101)	(1,783)
• Retirement benefit obligations	3	(18)	944	(18)	944
Adjustments for changes in accounting policies net of tax:					
• Revenue recognition – coal revenue sharing arrangements	2	738	-	738	-
Total equity at the beginning of the financial year as restated		1,000,005	995,647	1,000,005	995,647
Adjustments on adoption of AASB 132 and AASB 139 to reserves	25	(4,834)	-	(4,834)	-
Tax on adjustments on adoption of AASB 132 and AASB 139 to reserves	25	1,450	-	1,450	-
Actuarial gains/(losses) on defined benefit plans	23	5,018	(1,797)	5,018	(1,797)
Tax on actuarial (gains)/losses taken directly to equity	26	(1,505)	539	(1,505)	539
Changes in the fair value of cash flow hedges	25	18,996	-	18,168	-
Tax on movement in derivative assets	25	(5,699)	-	(5,450)	-
Net income recognised directly in equity		13,426	(1,258)	12,847	(1,258)
Profit for the year		72,889	29,180	75,771	29,180
Total recognised income and expense for the year		86,315	27,922	88,618	27,922
Total equity before dividends		1,086,320	1,023,569	1,088,623	1,023,569
Dividends provided for	10	(60,617)	(23,564)	(60,617)	(23,564)
Total equity at the end of the financial year		1,025,703	1,000,005	1,028,006	1,000,005

The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 98 to 145.



cash flow statements

for the year ended 30 June 2006

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		407,581	405,199	407,463	405,199
Cash payments in the course of operations		(220,020)	(278,390)	(221,523)	(278,390)
Interest received		909	1,144	928	1,144
Interest costs paid		(11,884)	(14,576)	(11,879)	(14,576)
Net cash inflow from operating activities	29(b)	176,586	113,377	174,989	113,377
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(116,265)	(56,434)	(68,508)	(56,434)
Payments for intangible assets		(3,185)	-	(3,185)	-
Proceeds from disposal of non-current assets		835	7,475	4,946	7,475
Proceeds from disposal of held for sale assets		5,120	-	5,120	-
Proceeds from disposal of business entity		452	-	-	-
Net (payments)/proceeds for exploration and evaluation expenditure		(75)	4,312	(75)	4,312
Net cash outflow from investing activities		(113,118)	(44,647)	(61,702)	(44,647)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		75,156	-	22,941	-
Repayment of borrowings		(110,445)	(28,000)	(110,445)	(28,000)
Dividends paid		(23,564)	(38,691)	(23,564)	(38,691)
Net cash outflow from financing activities		(58,853)	(66,691)	(111,068)	(66,691)
Net increase in cash held		4,615	2,039	2,219	2,039
Cash and cash equivalents at the beginning of the financial year		11,268	9,229	11,268	9,229
Cash and cash equivalents at the end of the financial year	29(a)	15,883	11,268	13,487	11,268

The cash flow statements are to be read in conjunction with the notes to the financial statements set out on pages 98 to 145.



notes to the financial statements

30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial report includes separate financial statements for Stanwell Corporation Limited as an individual entity and the Group consisting of Stanwell Corporation Limited and its subsidiaries.

(A) BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with International Financial Reporting Standards

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes comply with International Financial Reporting Standards.

Application of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

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

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

apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net profit are disclosed in Note 3.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgements are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The estimates and assumptions that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are referred to in the appropriate notes to the financial statements as follows:

- Electricity hedging contracts – Note 14(d).
- Impairment of property, plant and equipment – Note 1(g).
- Rehabilitation and decommissioning – Note 21(c).

(B) PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Stanwell Corporation Limited ("company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. Stanwell Corporation Limited and its subsidiaries together are referred to in this financial report as the Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.



notes to the financial statements

30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date that control is transferred out of the Group. Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of controlled entities are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Stanwell Corporation Limited.

Joint ventures

The proportionate interests in the assets, liabilities, revenue and expenses of a joint venture operation are incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in Note 33.

(C) FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated to Australian currency at the exchange rates prevailing at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange prevailing on that date.

Translation differences relating to amounts payable and receivable in foreign currencies are recognised in the income statement in the financial year in which the exchange rates change, except when deferred in equity as qualifying cash flow hedges.

(D) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of amounts collected on behalf of third parties. Revenue is recognised for the business activities as follows:

- **Electricity:** when the commodity is dispatched into the electricity grid;
- **Coal revenue sharing arrangements:** when coal is exported by the coal supplier;
- **Coal on-sale:** upon delivery of coal;
- **Interest income:** as it accrues; and
- **Other revenue:** when an invoice is issued.

(E) INCOME TAX

The Group is exempt from Commonwealth Government income taxation but subject to the National Tax Equivalent Regime.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

notes to the financial statements

30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The parent entity and its controlled entities have not implemented the tax consolidation legislation.

(F) LEASES

For assets subject to cross border leases, refer Note 35.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other non-current liabilities. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance lease is amortised over the term of the relevant lease, or where it is likely the Group will obtain ownership of the asset, the life of the asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(G) IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they may be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, being cash generating units.

In assessing recoverable amounts of non-current assets the relevant cash flows have been discounted to their present value at a pre tax nominal discount rate.

(H) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(I) TRADE RECEIVABLES

Trade receivables are recognised initially at cost less provision for doubtful debts.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.



notes to the financial statements

30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A provision for doubtful receivables is established when there is objective evidence that it will not be possible to collect all amounts due according to the original term of the receivables. The movement in the provision from year to year is recognised in the income statement.

(J) INVENTORIES

Consumable fuel and stores

Consumable fuel and stores are carried at the lower of their weighted average cost per individual item of inventory and net realisable value. Costs of inventory are determined after deducting associated rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Green energy products

A number of the Group's sites are accredited to create green energy products which can be used to either acquit the mandatory renewable energy liability of the organisation or alternatively can be realised through the market. The green energy products are created through various Federal and State legislation. Green energy products that are available for sale are recognised in the financial statements at fair market value.

(K) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying value will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets are not depreciated or amortised while they are classified as held for sale and are presented separately from other assets in the balance sheet.

(L) DERIVATIVE FINANCIAL INSTRUMENTS

The Group is potentially exposed to commodity price, interest rate and foreign currency fluctuations and enters into economic hedges to manage these risks. The following derivative financial instruments are used to hedge these risks: forward foreign exchange contracts, commodity price and interest rate swaps and commodity cap, collar and floor contracts.

AIFRS have a strict definition of what qualifies as an accounting hedge and in some circumstances some economic hedges will not qualify as hedges for accounting purposes. Derivative financial instruments are not held for speculative purposes.

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. As a result, comparative amounts are measured and presented according to previous accounting policies presented in the 30 June 2005 financial statements.

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

Commodity price contracts

The Group enters into electricity hedge contracts. These contracts were not recognised in the financial statements upon inception. The net amounts receivable or payable under the electricity hedge contracts were progressively brought to account over the respective contract periods. The amount recognised was accounted for as an adjustment to electricity sales revenue during the period and included in electricity receivables or electricity payables at each reporting date.

Derivatives used for hedging

Transactions were designated as hedges against movements in future forecast transactions only when they were expected to reduce exposure to the risks being hedged, were designated prospectively so that it was clear when an anticipated transaction did or did not occur and it was probable the anticipated transaction would occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, were deferred and included in the measurement of the anticipated transaction when the transaction had occurred as designated. Any gains or losses on the hedge transaction after that date were included in the income statement.

notes to the financial statements

30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses were recorded on the balance sheet from the date of inception of the hedge transaction. When recognised, the net receivables or payables were revalued using the foreign currency rates of exchange ruling at the balance sheet date.

When the anticipated transaction was no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction were recognised immediately in the income statement.

Where a hedge transaction was terminated early and the anticipated transaction was still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continued to be deferred and were included in the measurement of the purchase or sale transaction when it occurred. Where a hedge transaction was terminated early because the anticipated transaction was no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination were included in the income statement for the period.

Where a hedge was redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation were only deferred where the original anticipated transaction was still expected to occur as designated. Where the original anticipated transaction was no longer expected to occur as designated, any gains or losses relating to the hedge instrument were included in the income statement for the period.

Other derivative transactions

All other derivative transactions were initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at reporting date were valued at the rates ruling on that date and any gains or losses were brought to account in the income statement. Costs or gains arising at the time of entering into the hedge were deferred and amortised over the life of the hedge.

Adjustments on transition date: 1 July 2005

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

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

- Impact of adoption of AIFRS – Note 3;
- Derivative financial instruments – Note 14; and
- Reserves – Note 25.

From 1 July 2005

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured to their fair value in line with market fluctuations at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 14. Movements in the hedging reserve in equity are shown in Note 25.



notes to the financial statements

30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to the risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustments to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the period when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'borrowing costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'revenue'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example property, plant and equipment) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Embedded derivatives

There may be circumstances where derivatives are embedded in the Group's sale and purchase contracts. This occurs when future transactions under such contracts are to be executed at prices which will depend on the market prices of the specified financial instruments which themselves are not closely related to the commodities which are the subject of the contracts. The Group has embedded derivatives; however the financial instruments are closely related to the commodities which are the subject of the contracts.

(M) FAIR VALUE ESTIMATION

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held.

notes to the financial statements

30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated at the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(N) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

As part of the electricity industry restructure, which established the parent entity, independent experts valued non-current assets at 30 June 1997 in conjunction with the Electricity Reform Unit (ERU) on the following basis:

- power stations at depreciated optimised replacement value except where otherwise noted. This approach arrived at values based on the optimum set of replacement assets to achieve the same service potential with no inappropriate surplus capacity;
- land at Valuer-General valuations or market values;
- buildings at market values;
- vehicles at market values; and
- other assets at depreciated historical cost where it was not material or reasonable to undertake a detailed revaluation exercise, otherwise at depreciated replacement cost.

These non-current asset values were taken up in the financial statements as cost to the parent entity as at 1 July 1997.

Assets 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.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Rehabilitation and decommissioning costs

Where the Group has an obligation to dismantle or remove an asset, or rehabilitate a site, the obligation is recognised as a provision (refer Note 1(t)) and is included in the initial cost of the asset. This cost is depreciated over the asset's useful life.

Business development project costs

Business development project costs are expensed as incurred until such time as it is determined that the relevant project should proceed to the bankable feasibility stage. Costs associated with the development of a bankable feasibility study are capitalised. Capitalised feasibility costs are expensed if subsequently the related project does not proceed. Acquisition bid costs are capitalised and treated in the same manner as feasibility costs.

Complex assets

The components of major assets that have materially different useful lives are effectively accounted for as separate assets, and are separately depreciated.



notes to the financial statements

30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation and amortisation

All physical non-current assets, with the exception of freehold land, have limited useful lives and are depreciated or amortised using the straight line method over their estimated useful lives, taking into account estimated residual values, with the following exceptions:

- carried forward exploration and evaluation and development expenditure in the production phase which is amortised on a units of production basis over the life of the economically recoverable reserves; and
- finance lease assets which are amortised over the term of the relevant lease, or where it is likely the Group will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

Major spares purchased specifically for particular plant are capitalised and depreciated on the same basis as the plant to which they relate. Expenditure relating to major power station overhauls is capitalised and then depreciated over the period of the expected benefits of the overhaul.

The effective lives used to calculate depreciation for each class of asset or component thereof are as follows:

Power stations – leased	6 – 47 years
Power stations – owned	3 – 47 years
Other property, plant and equipment – leased	4 – 45 years
Other property, plant and equipment – owned	2 – 45 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. During the year a review of the useful lives of the Stanwell Power Station assets was conducted. The asset lives were reassessed based on expert advice and the revised effective lives are disclosed in the previous table.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer Note 1(g)).

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

(O) EXPLORATION AND EVALUATION EXPENDITURE

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Deferred exploration and evaluation costs are being amortised over the period in which economic benefit will be obtained.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

(P) INTANGIBLE ASSETS

Capitalised software

Software which is not integral to the operation of property, plant and equipment is recognised as an intangible asset. Software which is integral to the operation of property, plant and equipment is treated as property, plant and equipment. Capitalised software is amortised using the straight-line method over its useful life, which ranges from two to five years.

notes to the financial statements

30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development

Research and development costs are recognised as an expense when incurred, except to the extent that such costs, together with unamortised deferred costs in relation to that project, are expected, beyond reasonable doubt, to be recoverable. Under these circumstances, the research and development costs would be capitalised and amortised over the period the related benefit is derived.

(Q) TRADE AND OTHER PAYABLES

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days. The carrying values of trade and other payables approximate their fair values.

(R) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings.

Stanwell Corporation Limited operates a debt-offset facility with Queensland Treasury Corporation as part of its debt management approach.

(S) BORROWING COSTS

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which generally take more than 12 months to get ready for their intended use or sale.

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.

(T) PROVISIONS

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows required to settle the obligation at a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and is measured on a basis consistent with the measurement of the related provision. In the income statement, the expense recognised in respect of a provision is presented net of the recovery. In the balance sheet, the provision is recognised net of the recovery receivable only when the entity:

- has a legally recognised right to set-off the recovery receivable and the provision; and
- intends to settle on a net basis or to realise the asset and settle the provision simultaneously.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

Restoration

Provisions for restoration costs are made for the remediation of soil, groundwater and untreated waste as soon as a legal, equitable and/or constructive obligation as a result of a past event is identified.

Rehabilitation and decommissioning

Provisions for rehabilitation and decommissioning costs are recognised for dismantling and removal of assets and site restoration costs where there is a legal, equitable and/or constructive obligation which arises as a result of the original construction of the asset.



notes to the financial statements

30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(U) EMPLOYEE BENEFITS

Wages and salaries

Liabilities for employee benefits in relation to wages and salaries resulting from employees' service provided to reporting date are calculated at undiscounted amounts based on remuneration wage and salary rates that are expected to be paid as at each reporting date, including related on-costs.

Annual leave and long service leave

The provisions for annual leave and long service leave are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

The provisions are calculated using expected future increases in wage and salary levels, including related on-costs and experience of employee departures and periods of service. Future payments not expected to be settled within 12 months are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Retirement benefit obligations

Employees of Stanwell Corporation Limited are entitled to benefits on retirement, disability or death from the Queensland Electricity Supply Industry Employees' Superannuation Scheme. Stanwell Corporation Limited has a defined benefit section and a defined contribution section within the scheme. The defined benefit fund provides lump sum benefits based on years of service and final average salary. The defined contribution fund receives fixed contributions from the entity and the entity's legal or constructive obligation is limited to these contributions. New employees are only entitled to join the defined contribution fund.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet and it is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date.

The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Gains and losses arising from changes in actuarial estimates are recognised directly in equity.

Past service costs are recognised immediately in the income statement, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes, such as taxes on investment income and employer contributions, are taken into account in the actuarial assumptions used to determine the relevant components of the employer's defined benefit liability or asset.

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

Further information is set out in Note 23.

(V) BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit after income tax equivalent by the weighted average number of ordinary shares of the parent entity.

notes to the financial statements

30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(W) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of 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.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flow.

2 CHANGES IN ACCOUNTING POLICIES

The following accounting policy changes were made during the year:

(A) REVENUE RECOGNITION - COAL REVENUE SHARING ARRANGEMENTS

Revenue from coal revenue sharing arrangements is recognised when coal is exported by the coal supplier. This is a change in policy from the prior year when revenue from the coal revenue sharing arrangements was recognised when payments were received by the coal supplier. The change has been made to more appropriately reflect the actual revenue from coal revenue sharing arrangements based on the accruals concept. This change in accounting policy has resulted in an increase in profit after tax for the year ended 30 June 2006 of \$5,863,729 (2005 – \$737,540).

(B) INVENTORIES - GREEN ENERGY PRODUCTS

Green energy products that are available for sale are recognised as inventory in the financial statements at fair market value. Previously, green energy products were recognised as intangible assets recorded at fair market value. The change has been made due to the introduction of AIFRS and this change in accounting policy has no impact on the income statement.

3 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in the summary of significant accounting policies, these are the Group's first consolidated financial statements prepared in accordance with AIFRS. The policies set out in Note 1 have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005 and the opening AIFRS balance sheet at 1 July 2004.

In preparing its opening AIFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with AGAAP. The following tables and notes explain the principal adjustments made by the Group in restating its previously published AGAAP financial statements for the years ended 30 June 2005 and 30 June 2004.

As the AIFRS adjustments are the same for both the Group and the parent entity, no separate disclosure of the parent entity has been detailed in the tables and notes following.



notes to the financial statements

30 June 2006

3 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(1) RECONCILIATION OF EQUITY REPORTED UNDER PREVIOUS AGAAP TO EQUITY UNDER AIFRS

At the date of transition to AIFRS: 1 July 2004

	NOTES	PREVIOUS AGAAP \$'000	EFFECT OF TRANSITION TO AIFRS \$'000	AIFRS \$'000
ASSETS				
Current assets				
Cash and cash equivalents		9,229	-	9,229
Trade and other receivables		33,531	-	33,531
Inventories		15,683	-	15,683
Other current assets		1,222	-	1,222
Total current assets		59,665	-	59,665
Non-current assets				
Property, plant and equipment	(a), (b), (c), (d)	1,488,234	(24,491)	1,463,743
Intangible assets	(d)	-	6,908	6,908
Deferred tax assets	(e)	92,217	682	92,899
Other non-current assets		8,255	-	8,255
Retirement benefit plan obligations	(f)	-	1,349	1,349
Total non-current assets		1,588,706	(15,552)	1,573,154
Total assets		1,648,371	(15,552)	1,632,819
LIABILITIES				
Current liabilities				
Trade and other payables		23,586	-	23,586
Provisions		45,189	-	45,189
Other current liabilities		222	-	222
Total current liabilities		68,997	-	68,997
Non-current liabilities				
Borrowings		234,021	-	234,021
Deferred tax liabilities	(e)	331,653	(4,782)	326,871
Provisions	(c)	3,661	3,622	7,283
Total non-current liabilities		569,335	(1,160)	568,175
Total liabilities		638,332	(1,160)	637,172
Net assets		1,010,039	(14,392)	995,647
EQUITY				
Contributed equity		979,048	-	979,048
Retained profits	(k)	30,991	(14,392)	16,599
Total equity		1,010,039	(14,392)	995,647

notes to the financial statements

30 June 2006

3 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(1) RECONCILIATION OF EQUITY REPORTED UNDER PREVIOUS AGAAP TO EQUITY UNDER AIFRS (continued)

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

	NOTES	PREVIOUS AGAAP \$'000	EFFECT OF TRANSITION TO AIFRS \$'000	CHANGE IN POLICY OR RECLASS \$'000	ADJUSTED AIFRS \$'000
ASSETS					
Current assets					
Cash and cash equivalents		11,268	-	-	11,268
Trade and other receivables	(g), (i)	37,112	-	2,144	39,256
Inventories	(h)	15,324	-	2,411	17,735
Intangible assets	(h)	2,411	-	(2,411)	-
Other current assets	(i)	1,419	-	(1,419)	-
		67,534	-	725	68,259
Non-current assets held for sale		7,500	-	-	7,500
Total current assets		75,034	-	725	75,759
Non-current assets					
Property, plant and equipment	(a), (b), (c), (d)	1,451,291	(24,152)	-	1,427,139
Intangible assets	(d)	-	5,099	-	5,099
Deferred tax assets	(e)	122,767	1,214	-	123,981
Other non-current assets	(i)	3,761	-	95	3,856
Total non-current assets		1,577,819	(17,839)	95	1,560,075
Total assets		1,652,853	(17,839)	820	1,635,834
LIABILITIES					
Current liabilities					
Trade and other payables	(i)	23,543	-	(1)	23,542
Provisions		30,120	-	-	30,120
Other current liabilities	(i)	291	-	(233)	58
Total current liabilities		53,954	-	(234)	53,720
Non-current liabilities					
Borrowings		206,021	-	-	206,021
Deferred tax liabilities	(e)	371,874	(5,223)	316	366,967
Provisions	(c)	5,074	4,021	-	9,095
Retirement benefit plan obligations	(f)	-	26	-	26
Total non-current liabilities		582,969	(1,176)	316	582,109
Total liabilities		636,923	(1,176)	82	635,829
Net assets		1,015,930	(16,663)	738	1,000,005
EQUITY					
Contributed equity		979,048	-	-	979,048
Retained profits	(k)	36,882	(16,663)	738	20,957
Total equity		1,015,930	(16,663)	738	1,000,005



notes to the financial statements

30 June 2006

3 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(2) RECONCILIATION OF PROFIT FOR THE YEAR ENDED 30 JUNE 2005

	NOTES	PREVIOUS AGAAP \$'000	EFFECT OF TRANSITION TO AIFRS \$'000	CHANGE IN POLICY OR RECLASS \$'000	ADJUSTED AIFRS \$'000
Revenue	(g), (i)	372,176	-	(747)	371,429
Other income	(i)	-	-	1,354	1,354
Expenses excluding borrowing costs	(b), (c), (f), (i)	(318,644)	(1,049)	447	(319,246)
Borrowing costs	(c)	(14,406)	(398)	-	(14,804)
Profit before income tax equivalent expense		39,126	(1,447)	1,054	38,733
Income tax equivalent expense	(e)	(9,671)	434	(316)	(9,553)
Profit after income tax equivalent expense		29,455	(1,013)	738	29,180

(3) RECONCILIATION OF CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

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

(4) NOTES TO THE RECONCILIATIONS

(a) Property, plant and equipment – overhauls

Under AASB 116 *Property, Plant and Equipment* a more prescriptive treatment of overhauls and major inspection expenditure within property, plant and equipment is required. As a result, overhaul expenditure has been identified with specific items of plant and depreciated appropriately. The net effect of this is as follows:

At 1 July 2004 and 30 June 2005

There has been a decrease in property, plant and equipment of \$14,743,000 and a decrease in retained profits of \$10,813,000. Deferred tax liabilities have decreased by \$3,930,000.

For the year ended 30 June 2005

There is no effect.

(b) Property, plant and equipment – impairment

AASB 136 *Impairment of Assets* requires that where there are indicators of assets being impaired, then impairment testing is performed for those assets at the cash generating unit level. Cash generating units for the Group are power generating sites.

Under AGAAP the recoverable amounts of assets at this level was not assessed. As a result of additional sustaining capital requirements and the review of the operations and maintenance regime on site, it was necessary to raise an impairment adjustment against Windy Hill Wind Farm. The effect of this is:

At 1 July 2004

There has been a decrease in property, plant and equipment of \$3,914,000 and a decrease in retained profits of \$2,740,000. Deferred tax liabilities have decreased by \$1,174,000.

At 30 June 2005

There has been a decrease of \$5,330,000 in property, plant and equipment and a decrease in retained profits of \$3,731,000. Deferred tax liabilities have decreased by \$1,599,000.

For the year ended 30 June 2005

An impairment loss of \$1,681,000 has been made against the results for the year ended 30 June 2005, and a reduction in depreciation of \$265,000. After adjusting for depreciation, the net impact on profit is a reduction of \$1,416,000, and, after adjusting for taxation the net impact on after tax profit is a reduction of \$991,000.

notes to the financial statements

30 June 2006

3 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(4) NOTES TO THE RECONCILIATIONS (continued)

(c) Provision for rehabilitation and decommissioning

Under AASB 116 *Property, Plant and Equipment* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* the Group recognised a provision for dismantling and removal of assets and site restoration and included the cost in the initial cost of the asset to be depreciated over the asset's useful life. The effect of this is:

At 1 July 2004

There has been an increase in property, plant and equipment of \$1,075,000, an increase in the non-current provision for rehabilitation and decommissioning by \$3,622,000 and a decrease in retained profits of \$1,783,000. Deferred tax assets and liabilities have increased by \$1,087,000 and \$322,000 respectively.

At 30 June 2005

There has been an increase in property, plant and equipment of \$1,020,000, an increase in the non-current provision for rehabilitation and decommissioning by \$4,021,000 and a decrease in retained profits of \$2,101,000. Deferred tax assets and liabilities have increased by \$1,206,000 and \$305,000 respectively.

For the year ended 30 June 2005

Expenses from ordinary activities have increased by \$55,000 reflecting an increase in depreciation expense and borrowing costs have increased by \$398,000, being the impact of the time value of money of the provision. The net impact on after tax profit is a reduction of \$317,000.

(d) Capitalised software

With the introduction of AASB 138 *Intangible Assets*, capitalised software has been reclassified from property, plant and equipment to intangible assets. This reclassification has no impact on the income statement and the effect on the balance sheet is:

At 1 July 2004

Property, plant and equipment with a net book amount of \$6,908,000 has been reclassified to intangible assets as capitalised software.

At 30 June 2005

Property, plant and equipment with a net book amount of \$5,099,000 has been reclassified to intangible assets as capitalised software.

(e) Deferred tax asset, deferred tax liability and income tax equivalent expense

Under previous AGAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. In the previous year the Group elected to apply the revised AASB 1020 *Income Taxes (1999)* in order to facilitate a smoother transition to AIFRS and this resulted in a change in accounting policy. As a result, the adoption of AIFRS has not resulted in a change of accounting policy in the year to 30 June 2006. However, in the current year, the adoption of AIFRS has resulted in changes to deferred tax balances and income tax equivalent expense in relation to the adjustments referred to in notes a, b, c, f and g.



notes to the financial statements

30 June 2006

3 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(4) NOTES TO THE RECONCILIATIONS (continued)

(f) Retirement benefit obligations

Stanwell Corporation Limited is the sponsor of a superannuation plan with a defined benefit section and a defined contribution section. Under previous AGAAP, cumulative actuarial gains and losses on the defined benefit section were not recognised on the balance sheet. At the date of transition to AIFRS a liability has been recognised for the retirement benefit obligation. This has been measured as the difference of the present value of the employees' accrued benefits and the net market value of the superannuation fund's assets at the transition date. The entity early adopted AASB 119 *Employee Benefits* and elected to recognise actuarial gains and losses directly in retained profits. The effect of this is:

At 1 July 2004

There has been an increase of \$1,349,000 in retirement benefit plan assets and an increase in retained profits of \$944,000. Deferred tax assets have decreased by \$405,000.

At 30 June 2005

A retirement benefit obligation of \$26,000 has been recognised in non-current liabilities with a decrease in retained profits of \$18,000 and deferred tax assets of \$8,000.

For the year ended 30 June 2005

Employee benefits expense for the year has decreased by \$422,000 resulting in a \$295,000 impact after tax. Actuarial losses recognised directly in equity increased by \$1,797,000 or \$1,258,000 after tax.

(g) Revenue recognition – coal revenue sharing arrangements

Revenue from coal revenue sharing arrangements is recognised when coal is exported by the coal supplier. This is a change in policy from the prior year and is detailed in Note 2. The effect of this is:

At 1 July 2004

No impact.

At 30 June 2005

There has been an increase of \$1,054,000 in trade receivables and an increase in retained profits of \$738,000. Deferred tax liabilities have increased by \$316,000.

For the year ended 30 June 2005

Revenue increased by \$1,054,000 and tax equivalent expense increased by \$316,000.

(h) Green energy products

Green energy products have been reclassified from current intangible assets to inventory. The only impact of this is a reclassification of \$2,411,000 of current intangible assets to inventory. Refer to Note 2 for further details.

(i) Sundry reclassifications

Sundry reclassifications have been made to be consistent with current year disclosures.

(j) Derivative financial instruments

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

notes to the financial statements

30 June 2006

3 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(4) NOTES TO THE RECONCILIATIONS (continued)

(k) Retained profits

The effect on retained profits of the changes set out above are as follows:

	NOTES	1 JULY 2004 \$'000	30 JUNE 2005 \$'000
Property, plant and equipment – overhauls	(a)	(10,813)	(10,813)
Property, plant and equipment – impairment	(b)	(2,740)	(3,731)
Provision for rehabilitation and decommissioning	(c)	(1,783)	(2,101)
Retirement benefit obligations	(f)	944	(18)
Total AIFRS related impacts		(14,392)	(16,663)
Revenue recognition – coal revenue sharing arrangements	(g)	-	738
Total adjustments		(14,392)	(15,925)



notes to the financial statements

30 June 2006

3 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(5) ADJUSTMENTS ON TRANSITION TO AASB 132 AND AASB 139

	30 JUNE 2005 \$'000	ADJUSTMENTS \$'000	1 JULY 2005 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	11,268	-	11,268
Trade and other receivables	39,256	-	39,256
Inventories	17,735	-	17,735
Derivative financial instruments	-	5,658	5,658
	68,259	5,658	73,917
Non-current assets held for sale	7,500	-	7,500
Total current assets	75,759	5,658	81,417
Non-current assets			
Property, plant and equipment	1,427,139	-	1,427,139
Intangible assets	5,099	-	5,099
Deferred tax assets	123,981	1,450	125,431
Derivative financial instruments	-	15,920	15,920
Other non-current assets	3,856	-	3,856
Total non-current assets	1,560,075	17,370	1,577,445
Total assets	1,635,834	23,028	1,658,862
LIABILITIES			
Current liabilities			
Trade and other payables	23,542	-	23,542
Provisions	30,120	-	30,120
Derivative financial instruments	-	24,040	24,040
Other current liabilities	58	-	58
Total current liabilities	53,720	24,040	77,760
Non-current liabilities			
Borrowings	206,021	-	206,021
Deferred tax liabilities	366,967	-	366,967
Provisions	9,095	-	9,095
Derivative financial instruments	-	2,372	2,372
Retirement benefit plan obligations	26	-	26
Total non-current liabilities	582,109	2,372	584,481
Total liabilities	635,829	26,412	662,241
Net assets	1,000,005	(3,384)	996,621
EQUITY			
Contributed equity	979,048	-	979,048
Reserves	-	(3,384)	(3,384)
Retained profits	20,957	-	20,957
Total equity	1,000,005	(3,384)	996,621

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

notes to the financial statements

30 June 2006

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
4 REVENUE				
From operating activities:				
Sales of electricity	336,463	328,424	336,463	328,424
Coal revenue sharing arrangements	82,625	5,239	82,625	5,239
Interest	911	1,144	930	1,144
Dividends	-	-	237	-
Other revenue	2,883	9,180	2,883	9,180
From outside operating activities:				
Coal on-sale	885	26,805	885	26,805
Other revenue	426	637	713	637
	424,193	371,429	424,736	371,429

5 OTHER INCOME

Net gain on disposal of property, plant and equipment	-	1,354	-	1,354
Net gain on disposal of investment in subsidiary (refer Note 33)	339	-	-	-
	339	1,354	-	1,354

6 EXPENSES EXCLUDING BORROWING COSTS

Cost of sales ¹	140,536	140,161	140,536	140,161
Depreciation and amortisation (refer Note 7)	65,950	67,403	65,950	67,403
Employee expenses	36,727	35,549	36,727	35,549
Business support costs	32,063	27,675	32,063	27,675
Development costs written off	10,920	1,547	10,920	1,547
Research and development	8,882	3,946	4,796	3,946
Cost of coal for on-sale	402	22,126	402	22,126
Net loss on disposal of property, plant and equipment	1,556	-	1,556	-
Impairment loss	563	12,364	563	12,364
Other expenses	10,728	8,475	11,015	8,475
	308,327	319,246	304,528	319,246

1. Cost of sales incorporates expenses relating to energy inputs and production processes.



notes to the financial statements

30 June 2006

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
7 PROFIT BEFORE INCOME TAX EQUIVALENT EXPENSE				
Profit before income tax equivalent expense has been arrived at after charging/(crediting) the following items:				
DEPRECIATION				
Property, plant and equipment	22,840	24,262	22,840	24,262
AMORTISATION				
• Property, plant and equipment	40,330	40,644	40,330	40,644
• Intangible assets	2,685	2,410	2,685	2,410
• Exploration and evaluation expenditure	95	87	95	87
Total depreciation and amortisation	65,950	67,403	65,950	67,403
BORROWING COSTS				
• Interest and finance charges paid/payable	13,287	14,804	12,358	14,804
• Amount capitalised	(924)	-	-	-
Borrowing costs expensed	12,363	14,804	12,358	14,804
BORROWING COSTS CAPITALISED				
The capitalisation rate used to determine the capitalised amount of borrowing costs is the weighted average interest rate applicable to the entity's outstanding borrowings, which was 7.20% (2005 – 6.26%).				
Net bad and doubtful receivables expense including movements in provision for doubtful receivables	(16)	(16)	(16)	(16)
Defined contribution superannuation expense	2,096	1,999	2,096	1,999
Net expense from movement in employee entitlements provision	770	1,268	770	1,268
Rental expense relating to operating leases	2,658	2,955	2,658	2,955
8 AUDITORS' REMUNERATION				
Audit services:				
Queensland Auditor-General	131	110	117	110

notes to the financial statements

30 June 2006

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
9 INCOME TAX				
(A) MAJOR COMPONENTS OF INCOME TAX EQUIVALENT EXPENSE				
Current tax	38,153	(14,670)	39,279	(14,670)
Deferred tax	(7,200)	24,223	(7,200)	24,223
Income tax equivalent expense	30,953	9,553	32,079	9,553
(B) INCOME TAX EQUIVALENT EXPENSE				
Prima facie income tax equivalent expense calculated at 30% (2005 – 30%) on profit before income tax equivalent expense:	31,153	11,620	32,355	11,620
Increase/(decrease) in income tax equivalent expense due to:				
• Non-deductible expenses	53	107	53	107
• Sundry items	(72)	(69)	(77)	(69)
• Leave provision transfers	10	2	10	2
• Non-assessable revenue	-	-	(71)	-
• Income tax equivalent over provided in prior year	(191)	(2,107)	(191)	(2,107)
Income tax equivalent expense attributable to profit from ordinary activities	30,953	9,553	32,079	9,553
Income tax equivalent expense attributable to profit from ordinary activities is made up of:				
• Deferred tax liabilities	(3,387)	35,314	(3,488)	40,635
• Deferred tax assets	34,531	(23,654)	35,758	(28,975)
• Over provision in prior year	(191)	(2,107)	(191)	(2,107)
	30,953	9,553	32,079	9,553
(C) AMOUNTS RECOGNISED DIRECTLY IN EQUITY				
Deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity as follows				
• Deferred tax liabilities	5,754	(539)	5,505	(539)
• Deferred tax assets	-	-	-	-
	5,754	(539)	5,505	(539)



notes to the financial statements

30 June 2006

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

9 INCOME TAX (continued)

(D) DEFERRED TAX ASSETS

Deferred tax assets comprises the temporary differences at the applicable rate of 30% (2005 – 30%) on the following items:

• Provisions and accrued employee entitlements not currently deductible	5,782	5,445	5,782	5,445
• Development costs deductible in future	2,838	-	2,838	-
• Defined benefit plan liability	-	8	-	8
• Sundry items	290	299	290	299
• Tax losses	80,731	118,229	79,504	118,229
	89,641	123,981	88,414	123,981

(E) DEFERRED TAX LIABILITIES

Deferred tax liability comprises the temporary differences at the applicable rate of 30% (2005 – 30%) on the following items:

• Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax equivalent purposes	354,917	361,330	354,917	361,330
• Expenditure currently deductible for tax equivalent but deferred and amortised for accounting purposes	8,538	4,598	8,437	4,598
• Revenue recognised in accounting revenue but deferred for taxation purposes	75	1,039	75	1,039
• Defined benefit plan asset	1,555	-	1,555	-
• Derivative assets	4,249	-	4,000	-
	369,334	366,967	368,984	366,967

10 DIVIDENDS

Dividends recognised by the parent entity are:

	CENTS PER SHARE	TOTAL AMOUNT \$'000	DATE OF PAYMENT
2006			
2006 Final – Ordinary (Declared)	6.19	60,617	31 December 2006
2005			
2005 Final – Ordinary (Declared)	2.41	23,564	31 December 2005

notes to the financial statements

30 June 2006

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
11 CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	2,402	95	6	95
Deposits at call:				
Queensland Treasury Corporation	13,740	11,173	13,740	11,173
	16,142	11,268	13,746	11,268

12 TRADE AND OTHER RECEIVABLES

Trade receivables	53,941	33,043	53,941	33,043
Less: Provision for doubtful trade receivables	(117)	(134)	(117)	(134)
	53,824	32,909	53,824	32,909
Other receivables	452	5,256	871	5,256
Prepayments	900	1,091	900	1,091
	55,176	39,256	55,595	39,256

Trade receivables

No interest is charged on trade receivables.

Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at 9.50% (2005 – 9.50%) where repayment is after the due date.

13 INVENTORIES

Fuel at weighted average cost	9,839	6,922	9,839	6,922
Stores at weighted average cost	8,196	8,402	8,196	8,402
Green energy products at fair market value	251	2,411	251	2,411
	18,286	17,735	18,286	17,735



notes to the financial statements

30 June 2006

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
14 DERIVATIVE FINANCIAL INSTRUMENTS				
Current assets				
Interest rate swap contracts	80	-	-	-
Electricity hedging contracts	5,242	-	5,242	-
Foreign currency option ¹	1,285	-	1,285	-
Total current derivative financial instrument assets	6,607	-	6,527	-
Non-current assets				
Interest rate swap contracts	748	-	-	-
Electricity hedging contracts	23,170	-	23,170	-
Total non-current derivative financial instrument assets	23,918	-	23,170	-
Current liabilities				
Electricity hedging contracts	13,990	-	13,990	-
Forward foreign exchange contracts	222	-	222	-
Total current derivative financial instrument liabilities	14,212	-	14,212	-
Non-current liabilities				
Electricity hedging contracts	866	-	866	-
Total non-current derivative financial instrument liabilities	866	-	866	-
Net derivative financial instrument assets	15,447	-	14,619	-

1. Changes in the fair value of the foreign currency option are recorded against the cost of the option in other expenses.

(A) TRANSITION TO AASB 132 AND AASB 139

The Group has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards the only adjustment required for both the Group and the parent entity was to recognise current and non-current financial assets and liabilities relating to electricity hedging contracts. Pre tax increases in current and non-current assets of \$5,658,000 and \$8,501,000 respectively were recognised and pre tax increases in current and non-current liabilities of \$24,040,000 and \$2,225,000 respectively were recognised. Refer to Note 3.

The other derivatives in the table above were entered into during the financial year ended 30 June 2006.

(B) INSTRUMENTS USED BY THE GROUP

The Group has a range of policies and procedures in place to control financial risks associated with its operating activities. Exposure to commodity, credit, interest rate and currency risk arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in electricity prices, foreign exchange rates and interest rates. Throughout the period under review, no speculative trading in financial instruments was undertaken.

notes to the financial statements

30 June 2006

14 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(C) FOREIGN CURRENCY EXCHANGE RISK

The electricity revenue of the Group is denominated in Australian dollars as is its net debt. However, where considered necessary to ensure approved expenditures and revenues remain within budget, transaction exposures relating to foreign currencies are managed by entering into currency hedge contracts.

The Group classifies its forward exchange contracts which hedge forecasted transactions as cash flow hedges and states them at fair value.

The forward exchange contracts at 30 June 2006 have a maturity of less than one year.

(D) COMMODITY PRICE RISK

The Group enters into derivative contracts to hedge a proportion of electricity production. The Board has established strict limits on the level of hedging undertaken. The derivative contracts are negotiated at arms length on commercial terms and are for terms of less than three years. The majority of commodity price risk is in the Queensland market and the Group is not exposed to basis risk as a result of hedging underlying electricity generation.

The Group designates electricity derivatives as cash flow hedges where they qualify for hedge accounting and measures them at fair value. Price information is acquired from external sources and where appropriate, industry valuation techniques are used.

Electricity derivative contracts are settled on a weekly basis with reference to the half hourly spot prices for electricity provided by NEMMCO.

(E) CREDIT RISK EXPOSURES

Credit risk represents the loss that could be recognised if counterparties failed to perform as contracted.

The Group utilises industry practice credit review processes and security instruments to manage its credit risks. The Group's credit risk exposure is managed by trading with electricity industry counterparties under International Swaps and Derivatives Association (ISDA) agreements and it trades predominantly with other government owned corporations.

The Group has a strict credit policy for all customers trading on credit terms. It has a range of measures for determining counterparty credit worthiness relying on a risk adjusted assessment principally based on the counterparty's credit rating determined by a recognised rating agency. Where appropriate, the Group also obtains acceptable credit support. Receivable balances are monitored on an ongoing basis with the result that the entity's exposure to bad debts is not significant.

Concentrations of credit risk exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. A concentration of credit risk for derivative instruments exists predominantly in the Queensland market. The maximum exposure to credit risk is represented by the carrying value of receivables and payables and derivative financial instruments in the balance sheet.

(F) LIQUIDITY RISK EXPOSURE

The Group operates in an environment in which there is a market for hedging electricity sales. The entity trades customised derivative contracts through brokers or by bilateral arrangement with other government related entities at negotiated prices.

The company is wholly owned by the State of Queensland. The company has been subject to review by an international credit rating agency. The public long term rating of the company is AA-.

(G) INTEREST RATE RISK EXPOSURE

The Group's exposure to market risk for changes in interest rates relates primarily to the entity's loan facilities. The Group's policy is to manage its interest cost using a mix of fixed and floating debt.

Interest rate swaps have been entered into to manage this mix of fixed and floating rate exposure within the entity's policy. The Group classifies interest rate swaps as cash flow hedges and states them at fair value.



notes to the financial statements

30 June 2006

14 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(H) EFFECTIVE INTEREST RATES

The following tables set out the Group's exposure to interest rate risk and the effective weighted average interest rate by maturity period:

	NOTES	EFFECTIVE INTEREST RATE %	FLOATING INTEREST \$'000	FIXED INTEREST			TOTAL \$'000
				1 YEAR OR LESS \$'000	1 TO 5 YEARS \$'000	OVER 5 YEARS \$'000	
2006							
Financial assets							
Cash at bank	11	5.75%	2,402	-	-	-	2,402
Deposits at call	11	6.11%	13,740	-	-	-	13,740
Total financial assets			16,142	-	-	-	16,142
Financial liabilities							
Bank overdraft	20	9.60%	259	-	-	-	259
Borrowings – unsecured	20	6.19%	-	-	-	118,517	118,517
Borrowings – secured	20	5.90%	4,411	-	-	-	4,411
Borrowings – secured	20	7.23%	48,729	-	-	-	48,729
Interest rate swaps – floating		7.23%	(48,729)	-	-	-	(48,729)
Interest rate swaps – fixed		7.08%	-	1,295	13,953	33,481	48,729
Total financial liabilities			4,670	1,295	13,953	151,998	171,916
2005							
Financial assets							
Cash at bank	11	5.75%	95	-	-	-	95
Deposits at call	11	5.75%	11,173	-	-	-	11,173
Total financial assets			11,268	-	-	-	11,268
Financial liabilities							
Borrowings – unsecured	20	6.26%	-	-	-	206,021	206,021
Total financial liabilities			-	-	-	206,021	206,021

notes to the financial statements

30 June 2006

14 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(I) NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying value of financial assets and financial liabilities equates to fair value, except for unsecured borrowings, where the fair value for the Group and parent entity at 30 June 2006 was \$117,759,160 (2005 – \$208,818,610) compared to a carrying amount of \$118,516,968 (2005 – \$206,020,736).

A future loan commitment exists for \$25,999,977 (2005 – nil) and has an effective borrowing rate of 5.31%. This loan commitment relates to the equity contribution required to be made by the parent entity as part of the project financing arrangements for the Emu Downs Wind Farm Project.

CONSOLIDATED		PARENT ENTITY	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

15 NON-CURRENT ASSETS HELD FOR SALE

Property, plant and equipment	-	7,500	-	7,500
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The Rocky Point Cogeneration Plant was disposed of during the financial year ended 30 June 2006.



notes to the financial statements

30 June 2006

16 PROPERTY, PLANT AND EQUIPMENT

	POWER STATIONS OWNED AT COST \$'000	POWER STATIONS OWNED AT RECOVERABLE AMOUNT \$'000	POWER STATIONS UNDER FINANCE LEASE \$'000	OTHER PROPERTY PLANT AND EQUIPMENT AT COST \$'000	OTHER PROPERTY, PLANT AND EQUIPMENT UNDER FINANCE LEASE \$'000	WORKS IN PROGRESS AT COST \$'000	TOTAL \$'000
CONSOLIDATED 2006							
At 30 June 2006							
At cost or fair value	264,103	7,127	1,532,700	47,401	18,613	93,246	1,963,190
Accumulated depreciation and amortisation	(86,641)	-	(387,262)	(15,681)	(5,203)	-	(494,787)
Net book amount	177,462	7,127	1,145,438	31,720	13,410	93,246	1,468,403
Year ended 30 June 2006							
Opening net book amount	152,253	8,326	1,185,396	31,386	14,110	35,668	1,427,139
Additions	393	91	-	1,897	-	114,696	117,077
Transfers between asset classes	45,107	-	-	1,091	-	(46,198)	-
Retirements	(591)	-	(328)	(241)	-	-	(1,160)
Impairment loss	-	(563)	-	-	-	-	(563)
Development costs written off	-	-	-	-	-	(10,920)	(10,920)
Depreciation	(19,700)	(727)	-	(2,413)	-	-	(22,840)
Amortisation	-	-	(39,630)	-	(700)	-	(40,330)
Closing net book amount	177,462	7,127	1,145,438	31,720	13,410	93,246	1,468,403
Land and buildings included above	1,903	165	34,344	17,382	11,131	355	65,280

(A) NON-CURRENT ASSETS PLEDGED AS SECURITY

Refer to Note 20 for information on non-current assets pledged as security by the parent entity and its controlled entities.

notes to the financial statements

30 June 2006

16 PROPERTY, PLANT AND EQUIPMENT (continued)

	POWER STATIONS OWNED AT COST \$'000	POWER STATIONS OWNED AT RECOVERABLE AMOUNT \$'000	POWER STATIONS UNDER FINANCE LEASE \$'000	OTHER PROPERTY PLANT AND EQUIPMENT AT COST \$'000	OTHER PROPERTY, PLANT AND EQUIPMENT UNDER FINANCE LEASE \$'000	WORKS IN PROGRESS AT COST \$'000	TOTAL \$'000
PARENT ENTITY 2006							
At 30 June 2006							
At cost or fair value	264,103	7,127	1,532,700	47,401	18,613	40,566	1,910,510
Accumulated depreciation and amortisation	(86,641)	-	(387,262)	(15,681)	(5,203)	-	(494,787)
Net book amount	177,462	7,127	1,145,438	31,720	13,410	40,566	1,415,723
Year ended 30 June 2006							
Opening net book amount	152,253	8,326	1,185,396	31,386	14,110	35,668	1,427,139
Additions	393	91	-	1,897	-	66,127	68,508
Transfers between asset classes	45,107	-	-	1,091	-	(46,198)	-
Retirements	(591)	-	(328)	(241)	-	(4,111)	(5,271)
Impairment loss	-	(563)	-	-	-	-	(563)
Development costs written off	-	-	-	-	-	(10,920)	(10,920)
Depreciation	(19,700)	(727)	-	(2,413)	-	-	(22,840)
Amortisation	-	-	(39,630)	-	(700)	-	(40,330)
Closing net book amount	177,462	7,127	1,145,438	31,720	13,410	40,566	1,415,723
Land and buildings included above	1,903	165	34,344	17,382	11,131	-	64,925



notes to the financial statements

30 June 2006

16 PROPERTY, PLANT AND EQUIPMENT (continued)

CONSOLIDATED AND PARENT ENTITY 2005	POWER STATIONS OWNED AT COST \$'000	POWER STATIONS OWNED AT RECOVERABLE AMOUNT \$'000	POWER STATIONS UNDER FINANCE LEASE \$'000	OTHER PROPERTY PLANT AND EQUIPMENT AT COST \$'000	OTHER PROPERTY, PLANT AND EQUIPMENT UNDER FINANCE LEASE \$'000	WORKS IN PROGRESS AT COST \$'000	TOTAL \$'000
At 30 June 2005							
At cost or fair value	221,377	8,326	1,533,535	44,802	18,613	35,668	1,862,321
Accumulated depreciation and amortisation	(69,124)	-	(348,139)	(13,416)	(4,503)	-	(435,182)
Net book amount	152,253	8,326	1,185,396	31,386	14,110	35,668	1,427,139
Year ended 30 June 2005							
Opening net book amount	143,352	23,432	1,225,597	35,024	14,864	21,474	1,463,743
Additions	542	4	-	4,667	-	51,221	56,434
Transfers between asset classes	28,921	5,578	-	980	1	(35,480)	-
Transfer to non-current assets held for sale	-	(7,500)	-	-	-	-	(7,500)
Retirements	(63)	(200)	(312)	(6,146)	-	-	(6,721)
Impairment loss	-	(12,364)	-	-	-	-	(12,364)
Development costs written off	-	-	-	-	-	(1,547)	(1,547)
Depreciation	(20,499)	(624)	-	(3,139)	-	-	(24,262)
Amortisation	-	-	(39,889)	-	(755)	-	(40,644)
Closing net book amount	152,253	8,326	1,185,396	31,386	14,110	35,668	1,427,139
Land and buildings included above	1,403	-	35,409	17,605	11,528	-	65,945

notes to the financial statements

30 June 2006

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
17 INTANGIBLE ASSETS				
Capitalised software	14,033	10,876	14,033	10,876
Accumulated amortisation	(8,435)	(5,777)	(8,435)	(5,777)
	5,598	5,099	5,598	5,099
18 OTHER NON-CURRENT ASSETS				
Financial				
Investments in subsidiary entities (refer Note 32)	-	-	-	-
Other				
Exploration and evaluation expenditure	4,017	3,943	4,017	3,943
Accumulated amortisation on exploration and evaluation expenditure	(182)	(87)	(182)	(87)
	3,835	3,856	3,835	3,856
19 TRADE AND OTHER PAYABLES				
Trade payables	5,132	3,393	5,132	3,393
Other payables and accruals	30,004	20,149	24,484	20,149
	35,136	23,542	29,616	23,542
20 BORROWINGS				
Current				
Bank overdraft	259	-	259	-
Secured borrowings	5,706	-	-	-
	5,965	-	259	-
Non-current				
Unsecured borrowings	118,517	206,021	118,517	206,021
Secured borrowings	47,434	-	-	-
	165,951	206,021	118,517	206,021



notes to the financial statements

30 June 2006

20 BORROWINGS (continued)

(A) BANK OVERDRAFT

The bank overdraft is a book overdraft as a result of unpresented cheques.

(B) SECURED BORROWINGS

Current and non-current limited recourse borrowings relating to the Emu Downs Wind Farm Project financing are \$1,294,848 and \$47,434,034 respectively.

Funds are drawn according to a schedule of draw downs based on estimated construction payments and the satisfaction of bank requirements. Interest rates on these total borrowings of \$48,728,882 are variable and are converted to fixed through the use of interest rate swaps. Interest rate swaps cover 100% of the borrowings and are timed to expire as each loan repayment falls due.

Queensland Treasury Corporation has provided current secured borrowings of \$4,410,783 to ZeroGen Pty Ltd to fund the activities of Project ZeroGen.

(C) UNSECURED BORROWINGS

The unsecured borrowings are provided by Queensland Treasury Corporation. An amount of \$501 million (2005 – \$413 million) is in a debt offset account, and is reported as a set-off against non-current borrowings. Interest rates on the unsecured borrowings are fixed unless further draw downs are required and funds may be drawn from the offset account at any time.

(D) ASSETS PLEDGED AS SECURITY

The secured borrowings of \$48,728,882 for the Emu Downs Wind Farm Project are secured by fixed and floating charges over the assets of EDWF Holdings 1 Pty Ltd and Wind Portfolio Pty Ltd. EDWF Holdings 1 Pty Ltd has granted fixed and floating charges to the joint venture manager, EDWF Manager Pty Ltd and EDWF 2 Pty Ltd to secure monies owing under the joint venture arrangements.

The borrowings of ZeroGen Pty Ltd are secured through an indemnity agreement with the parent entity and a bank guarantee provided by Queensland Treasury Corporation (refer to Note 28).

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Financing arrangements				
The Group has access to the following lines of credit:				
Total facilities available:				
Bank overdraft	11,000	11,000	11,000	11,000
Secured borrowings	78,050	-	-	-
Unsecured borrowings	619,595	619,536	619,595	619,536
	708,645	630,536	630,595	630,536
Facilities used at balance date:				
Bank overdraft	259	-	259	-
Secured borrowings	53,140	-	-	-
Unsecured borrowings	118,517	206,021	118,517	206,021
	171,916	206,021	118,776	206,021
Facilities not used at balance date:				
Bank overdraft	10,741	11,000	10,741	11,000
Secured borrowings	24,910	-	-	-
Unsecured borrowings	501,078	413,515	501,078	413,515
	536,729	424,515	511,819	424,515

notes to the financial statements

30 June 2006

CONSOLIDATED AND PARENT ENTITY

21 PROVISIONS

Current

Dividends (refer Note 10)	60,617	23,564
Employee benefits	4,445	6,146
Restoration	516	410
	65,578	30,120

Non-current

Employee benefits	7,018	4,547
Restoration	343	527
Rehabilitation and decommissioning	2,653	4,021
	10,014	9,095

(A) EMPLOYEE BENEFITS

The present value of employee entitlements not expected to be settled within 12 months of balance date have been calculated using the following weighted averages:

Estimate of average labour cost increases	5.0%	5.0%
Discount rate	5.9%	5.1% to 5.3%
Settlement term (years)	19	19

(B) MOVEMENTS IN PROVISIONS

	RESTORATION \$'000	REHABILITATION AND DECOMMISSIONING \$'000	DIVIDENDS \$'000
Consolidated and parent entity			
Year end 30 June 2006			
Opening carrying amount	937	4,021	23,564
Additional provision	106	-	60,617
Payments	(236)	-	(23,564)
Reversal of provision – disposal of asset	-	(1,794)	-
Unwinding of present value discount	52	426	-
Closing carrying amount	859	2,653	60,617

(C) REHABILITATION AND DECOMMISSIONING

The provision has been calculated by projecting the estimated costs in current values by the expected long-term inflation rate to the end of the useful life of each site, which may include a mothball period, and discounting back to present value using the Group's cost of capital.



notes to the financial statements

30 June 2006

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
22 OTHER CURRENT LIABILITIES				
Security deposits and retentions	31	58	26	58

23 RETIREMENT BENEFIT PLAN OBLIGATIONS

(A) SUPERANNUATION PLAN

Permanent employees of Stanwell Corporation Limited are entitled to benefits on retirement, disability or death from the Queensland Electricity Supply Industry Employees' Superannuation Scheme. The Group has a defined benefit plan and a defined contribution plan. The defined benefit section provides lump sum benefits based on years of service and average salary. The defined contribution section receives fixed contributions from the Group and the Group's legal or constructive obligation is limited to these contributions.

The following sets out the details in respect of the defined benefit plan only.

(B) BALANCE SHEET AMOUNTS

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

	CONSOLIDATED AND PARENT ENTITY	
	2006 \$'000	2005 \$'000
Fair value of defined benefit plan assets	26,376	21,888
Present value of the defined benefit obligation	(21,970)	(21,910)
Net asset/(liability) before adjustment for contributions tax	4,406	(22)
Add: Adjustment for contributions tax	778	(4)
Net asset/(liability) in the balance sheet	5,184	(26)

The Group intends to reduce contributions to the defined benefit plan to 10.0% (2005 – 13.8%) of salaries having consideration for the actuary's latest recommendations.

notes to the financial statements

30 June 2006

CONSOLIDATED AND PARENT ENTITY

2006
\$'000

2005
\$'000

23 RETIREMENT BENEFIT PLAN OBLIGATIONS (continued)

(C) CATEGORIES OF PLAN ASSETS

The major categories of plan assets are as follows:

Cash	1,292	1,817
Fixed interest	6,093	3,765
Domestic equities	7,675	6,577
Private equity	818	635
International equities	7,649	6,664
Unlisted property	2,849	2,430
	26,376	21,888

(D) RECONCILIATIONS

Reconciliation of the present value of the defined benefit obligation, which is fully funded:

Balance at the beginning of the year	21,910	17,643
Current service cost	1,676	961
Interest cost	919	949
Actuarial (gain)/loss	(1,119)	3,689
Contributions by members	448	429
Benefits paid	(2,646)	(2,074)
Past service cost	-	317
Contributions tax	782	(4)
Balance at the end of the year	21,970	21,910

Reconciliation of the fair value of plan assets:

Balance at the beginning of the year	21,888	18,992
Expected return on plan assets	1,550	1,465
Actuarial gain	3,899	1,892
Contributions by group companies	1,237	1,184
Contributions by members	448	429
Benefits paid	(2,646)	(2,074)
Balance at the end of the year	26,376	21,888

(E) AMOUNTS RECOGNISED IN INCOME STATEMENT

The amounts recognised in the income statement are as follows:

Current service cost	1,676	961
Finance cost	919	949
Expected return on plan assets	(1,550)	(1,465)
Past service cost	-	317
Total included in employee benefits expense	1,045	762



notes to the financial statements

30 June 2006

CONSOLIDATED AND PARENT ENTITY
2006 2005

23 RETIREMENT BENEFIT PLAN OBLIGATIONS (continued)

(F) PRINCIPAL ACTUARIAL ASSUMPTIONS

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

Discount rate	4.9%	4.3%
Expected return on plan assets	6.5%	7.0%
Future salary increases	4.5%	4.5%

The expected return on plan assets has been calculated based on the current asset allocation to each of the major asset classes and the expected future investment return for each of these asset classes. This resulted in the selection of a 6.5% expected return (net of investment fees and tax).

(G) EMPLOYER CONTRIBUTIONS

Employer contributions to the defined benefit plan are based on the recommendation of the plan's actuary. Actuarial assessments are made at no more than yearly intervals, and the last such assessment was made as at 1 July 2005 by Sunsuper Financial Services Pty Ltd.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the projected unit credit method. This funding method seeks to have the benefits funded by means of a total contribution which is expected to be a consistent percentage of members' salaries over their working lifetime.

Using the projected unit credit method and particular actuarial assumptions as to the plan's future experience, the actuary recommended in the actuarial review as at 1 July 2005, the payment of employer contributions to the fund of 8.0% of staff salaries, from 1 July 2006. A contribution rate of 10% has been adopted by the Group. This is higher than the rate recommended by the actuary due to differing wage growth assumptions and to minimise the risk of any downward fluctuations in market investment returns.

Total employer contributions expected to be paid by the Group for the year ending 30 June 2007 are \$852,000.

(H) NET FINANCIAL POSITION OF PLAN

In accordance with AAS 25 *Financial Reporting by Superannuation Plans* the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of the plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (1 July 2005) and a surplus of \$3,465,000 was reported.

The surplus as at 1 July 2005 under AAS 25 differs from the net asset of \$5,184,000 recognised in the balance sheet as at 30 June 2006 due to different measurement rules in the relevant accounting standards AAS 25 and AASB 119 *Employee Benefits* and different measurement dates.

notes to the financial statements

30 June 2006

CONSOLIDATED AND PARENT ENTITY

2006
\$'000

2005
\$'000

24 CONTRIBUTED EQUITY

Share capital

4 (2005 – 4) ordinary voting (A class) shares, fully paid	-	-
979,047,712 (2005 – 979,047,712) ordinary non-voting (B class) shares, fully paid	979,048	979,048
	979,048	979,048

Holders of ordinary shares are entitled to receive dividends as declared from time to time and holders of A class shares are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

CONSOLIDATED

2006
\$'000

2005
\$'000

PARENT ENTITY

2006
\$'000

2005
\$'000

25 RESERVES

HEDGING RESERVE – CASH FLOW HEDGES

Reserves at beginning of year	-	-	-	-
Adjustment on adoption of AASB 132 and AASB 139	(4,834)	-	(4,834)	-
Tax on adjustment on adoption of AASB 132 and AASB 139	1,450	-	1,450	-
Gain/(loss) on revaluation	634	-	(214)	-
Transfer to net profit	18,362	-	18,382	-
Deferred tax arising on movements in hedges	(5,699)	-	(5,450)	-
Reserves at end of year	9,913	-	9,334	-

NATURE AND PURPOSE OF RESERVE

The hedging reserve is used to record gains or losses on cash flow hedges that are recognised directly in equity, as described in Note 1(l). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.



notes to the financial statements

30 June 2006

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
26 RETAINED PROFITS				
Retained profits at beginning of year as previously stated	36,882	30,991	36,882	30,991
Adjustments on adoption of AIFRS net of tax:				
• Property, plant and equipment – overhauls	(10,813)	(10,813)	(10,813)	(10,813)
• Property, plant and equipment – impairment	(3,731)	(2,740)	(3,731)	(2,740)
• Provision for rehabilitation and decommissioning	(2,101)	(1,783)	(2,101)	(1,783)
• Retirement benefit obligations	(18)	944	(18)	944
Adjustments for changes in accounting policies net of tax:				
• Revenue recognition – coal revenue sharing arrangements	738	-	738	-
Retained profits at the beginning of the financial year as restated	20,957	16,599	20,957	16,599
Actuarial gains/(losses) on defined benefit plans	5,018	(1,797)	5,018	(1,797)
Income tax on items taken directly to equity	(1,505)	539	(1,505)	539
Profit after income tax equivalent expense	72,889	29,180	75,771	29,180
Dividends	(60,617)	(23,564)	(60,617)	(23,564)
Retained profits at end of year	36,742	20,957	39,624	20,957

27 COMMITMENTS

Capital expenditure commitments

Contracted but not provided for and payable:

• Within one year	54,220	19,302	13,990	19,302
• One year or later and no later than five years	-	1,009	-	1,009
	54,220	20,311	13,990	20,311

Operating expenditure commitments

Contracted but not provided for and payable:

• Within one year	5,390	3,874	4,640	3,874
• One year or later and no later than five years	14,927	8,918	14,927	8,918
• Later than five years	18,077	17,852	18,077	17,852
	38,394	30,644	37,644	30,644

Operating lease commitments¹

Future operating lease rentals not provided for in the financial statements and payable:

• Within one year	2,175	1,850	2,175	1,850
• One year or later and no later than five years	6,915	5,796	6,915	5,796
• Later than five years	2,115	2,486	2,115	2,486
	11,205	10,132	11,205	10,132

1. Operating lease commitments relate to premises, motor vehicles and computer equipment.

notes to the financial statements

30 June 2006

2006 **2005**
\$'000 \$'000

28 CONTINGENT LIABILITIES

Parent entity guarantees in favour of third parties

Emu Downs Wind Farm	38,524	-
ZeroGen Pty Ltd	10,000	-
Other	2,250	-
	50,774	-

All guarantees are provided in the form of unconditional undertakings provided by Queensland Treasury Corporation and are secured through indemnity agreements.

These guarantees may give rise to liabilities in the parent entity if the subsidiaries do not meet their obligations under the terms of the agreements or other liabilities subject to the guarantees.

No material losses are anticipated in respect of any of the above contingent liabilities.



notes to the financial statements

30 June 2006

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

29 NOTES TO THE CASH FLOW STATEMENTS

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at the end of the financial year as shown in the consolidated cash flow statement is reconciled to the related items in the balance sheet as follows:

Cash at bank and on hand (refer Note 11)	2,402	95	6	95
Deposits at call (refer Note 11)	13,740	11,173	13,740	11,173
Bank overdraft (refer Note 20)	(259)	-	(259)	-
	15,883	11,268	13,487	11,268

(B) RECONCILIATION OF PROFIT AFTER INCOME TAX EQUIVALENT EXPENSE TO NET CASH INFLOW FROM OPERATING ACTIVITIES

Profit after income tax equivalent	72,889	29,180	75,771	29,180
Add items classified as investing/financing activities:				
Net loss/(gain) on disposal of non-current assets	1,217	(1,354)	1,556	(1,354)
Add non-cash items:				
Depreciation and amortisation	65,950	67,403	65,950	67,403
Impairment loss	563	12,364	563	12,364
Development costs written off	10,920	1,547	10,920	1,547
Retirement benefits expense	(192)	(423)	(192)	(423)
Amounts recognised directly in equity	8,408	6,003	7,829	6,003
Net cash provided by operating activities before change in assets and liabilities	159,755	114,720	162,397	114,720
Change in assets and liabilities:				
Increase in trade and other receivables	(15,920)	(4,635)	(16,339)	(4,635)
Increase in inventories	(1,194)	(2,052)	(1,194)	(2,052)
Decrease/(increase) in deferred tax assets	34,340	(31,764)	35,567	(31,764)
Increase in derivative financial instrument assets	(30,525)	-	(29,697)	-
Increase in other operating assets	-	(102)	-	(102)
Increase/(decrease) in trade and other payables	11,594	(43)	6,074	(43)
Increase/(decrease) in deferred tax liabilities	2,367	35,314	2,017	35,314
Increase in derivative financial instrument liabilities	15,078	-	15,078	-
Increase in provisions and other current liabilities	1,091	1,939	1,086	1,939
Net cash inflow from operating activities	176,586	113,377	174,989	113,377

notes to the financial statements

30 June 2006

30 KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) COMPENSATION OF DIRECTORS

Directors' compensation is determined by the Shareholding Ministers based on recommendations provided by the Cabinet Budget Review Committee. Directors do not receive performance related compensation.

Details of the nature and amount of each major element of the compensation of each director of the company, all of whom are non-executive, are:

	SHORT-TERM EMPLOYEE BENEFITS Salary and fees \$'000	POST EMPLOYMENT BENEFITS Superannuation \$'000	TOTAL \$'000
DIRECTORS			
E Nosworthy (Chairman)¹			
2006	66	6	72
2005	63	6	69
S Campbell¹			
2006	28	2	30
2005	27	2	29
B Kelly (Chairman Human Resources and Workplace Health and Safety Committee)			
2006	29	3	32
2005	28	2	30
B Morris (Chairman Audit and Risk Management Committee)			
2006	29	3	32
2005	28	2	30
M Palmer¹			
2006	28	-	28
2005	27	-	27
K Shillington¹			
2006	28	2	30
2005	27	2	29
M Williamson			
2006	28	2	30
2005	27	2	29
Total remuneration:			
2006	236	18	254
2005	227	16	243

1. These directors retired from the Stanwell Corporation Limited Board with effect from 30 June 2006.

On 1 July 2006 D Byrne was appointed as the Chairman and P Gregg and L Gillespie were appointed as directors.

Directors' compensation does not include insurance premiums paid by the company or related parties in respect of directors' and officers' liabilities and legal expenses insurance contracts, as the insurance policies do not specify premiums paid in respect of individual directors. Further, the directors do not receive any compensation in the form of non-monetary or other benefits.



notes to the financial statements

30 June 2006

30 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(B) COMPENSATION OF OTHER KEY MANAGEMENT PERSONNEL

The Human Resources and Workplace Health and Safety Committee is responsible for making recommendations to the Board on the compensation policies and packages applicable to the senior executives of the company. The compensation policies and packages are subject to State Government guidelines that may be issued from time to time.

Senior executives may receive an 'at risk' payment based on the achievement of specific goals related to the performance of the company (including operational results).

Executive officers are those officers involved in the strategic direction, generation management or control of business at a company or operating division level.

Details of the nature and amount of each major element of the compensation of each executive of the company are:

	SHORT-TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS	TOTAL
	Salary and fees	Other	Termination	Superannuation	
	\$'000	\$'000	\$'000	\$'000	\$'000
OTHER KEY MANAGEMENT PERSONNEL					
Chief Executive Officer¹					
2006	352	12	-	49	413
2005	337	21	-	33	391
Chief Financial Officer¹					
2006	201	11	-	21	233
2005	207	10	-	20	237
General Manager Asset Management and Technical Services					
2006	194	12	-	19	225
2005	185	11	-	19	215
General Manager Business Expansion¹					
2006	188	8	26	19	241
2005	180	9	-	18	207
General Manager Business Services¹					
2006	171	3	-	14	188
2005	185	14	-	19	218
General Manager Marketing and Trading¹					
2006	209	20	91	19	339
2005	230	15	-	21	266
General Manager Operations and Maintenance Services					
2006	203	6	-	26	235
2005	185	9	-	19	213
Total compensation:					
2006	1,518	72	117	167	1,874
2005	1,509	89	-	149	1,747

1. The Chief Executive Officer, General Manager Marketing and Trading and General Manager Business Expansion ceased employment during the year, resulting in these positions being performed by the Chief Financial Officer and General Manager Business Services respectively for part of the year. At all times that the Chief Financial Officer and General Manager Business Services performed these alternate roles, their substantive positions were filled internally by other corporate employees. The above disclosure relates to the total compensation provided by Stanwell Corporation Limited during the year in respect of each position.

notes to the financial statements

30 June 2006

30 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Executives may earn performance based 'at risk' incentive bonuses which are not shown in the previous table.

Executives' compensation does not include insurance premiums paid by the Group or related parties in respect of directors' and officers' liabilities and legal expenses insurance contracts, as the insurance policies do not specify premiums paid in respect of individual officers.

(C) COMPENSATION POLICY

The Group seeks to attract and retain high performing individuals to ensure that it exceeds its shareholders' expectations of operational and value adding performance.

One component of attracting and retaining such employees is a competitive compensation strategy that rewards based on a combination of personal, team and company performance.

The Group has three broad categories of employees; each category has a specific compensation policy and framework.

Senior executives (inclusive of the Chief Executive Officer)

This category of employees is employed on individual employment agreements on salary and conditions outlined by the shareholder's policy 'Remuneration Guidelines and Senior Executives in Government Owned Corporations.' The terms of these agreements and expiry dates for each senior executive position are detailed below:

POSITION	TERM (YEARS)	EXPIRY DATE
Chief Executive Officer	-	Ceased employment 9 November 2005 ¹
Chief Financial Officer	5	30 June 2007 ¹
General Manager Asset Management and Technical Services	5	30 June 2007
General Manager Business Expansion	-	Ceased employment 25 April 2006
General Manager Business Services	5	17 December 2008 ¹
General Manager Marketing and Trading	-	Ceased employment 29 July 2005 ¹
General Manager Operations and Maintenance Services	5	30 June 2007

1. A recruitment process is currently underway to fill these positions.

Separation benefits, in the event of termination by the company (in circumstances other than by ill health, misconduct or poor performance) are allowed for in the agreements. Performance payments for senior executives are based on key performance indicators reflective of personal, division and company performance over each financial year. Payment is subject to endorsement by the Board and approval by the Shareholding Ministers. Payments are made in cash or, if appropriate notice has been provided, paid into the employee's superannuation fund on a salary sacrifice basis.

Salaried employees

In line with shareholder guidelines, these employees are employed under a collective bargaining agreement framework but have some of their conditions, inclusive of salary, established by an Alternative Employment Agreement (AEA). These employees have an open term of employment and separation benefits are in line with the relevant site bargaining agreements.

Performance payments for these employees are based on key performance indicators reflective of personal, site and corporate performance over each financial year. Payment is subject to endorsement by the Chief Executive Officer and approval by the Board. Payments are made in cash or, if appropriate notice has been given, paid into an employee's superannuation fund on a salary sacrifice basis.



notes to the financial statements

30 June 2006

30 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Employees under Queensland Industrial Relations Commission

The majority of the employees of the company are employed pursuant to site bargaining agreements. There are four agreements, covering the major operating sites and the offices. All agreements are certified by the Queensland Industrial Relations Commission. These employees have an open term of employment with the company and separation benefits are in line with the relevant site bargaining agreements.

Each of the bargaining agreements has a clause allowing for the payment of team-based performance bonuses which are paid six monthly. Performance is measured against mutually agreed indicators that are renewed for each payment period. Payments are made in cash or, if appropriate notice has been provided, paid into an employee's superannuation fund on a salary sacrifice basis.

(D) PERFORMANCE PAYMENTS

The following information is provided in respect of performance payments to Group employees:

	2006 \$'000	2005 \$'000
Aggregate performance payment expense	2,220	2,051
Total salaries and wages (including employer contributions to superannuation funds) paid to employees receiving bonuses	35,616	32,974
The number of employees who received performance bonuses	368	343

The table below details the terms and grant dates of performance payments by category of employee:

CATEGORY	GRANT DATE	CRITERIA	NATURE
Senior executives (including Chief Executive Officer)	Shareholder approval	Performance	Cash
Salaried employees	1 July	Performance	Cash
Employees – Queensland Industrial Relation Commission	1 January/1 July	Performance	Cash

31 RELATED PARTY TRANSACTIONS

(A) PARENT ENTITY

The company is a Queensland Government Owned Corporation, with all shares held by the Shareholding Ministers on behalf of the State of Queensland.

(B) WHOLLY OWNED GROUP

The wholly owned group consists of Stanwell Corporation Limited and its wholly owned entities. Details of the interest in subsidiaries are set out in Note 32. The following transactions occurred with subsidiaries during the year:

	\$'000
Interest receivable on loans provided during the year	18
Other revenue from provision of services	287
Dividend	237
Recharge of capital costs	4,111
Recharge of research and development costs	4,086

notes to the financial statements

30 June 2006

31 RELATED PARTY TRANSACTIONS (continued)

(C) JOINT VENTURES

The Group holds a 50% participatory interest in the Emu Downs Wind Farm Project through EDWF Holdings 1 Pty Ltd.

Details of the interest and transactions with the joint venture are set out in Note 33.

(D) KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in Note 30.

Apart from specific compensation detailed in Note 30, no director has entered into a contract with the Group since the end of the previous financial year. A number of directors of the Group are also directors of other organisations which have transactions with the Group. These transactions are based on normal commercial

terms and conditions, and are not material other than those with other State of Queensland controlled entities disclosed in Note 31(e).

(E) OTHER STATE OF QUEENSLAND CONTROLLED ENTITIES AND POST EMPLOYMENT BENEFIT PLANS

All State of Queensland controlled entities meet the definition of a related party in AASB 124 *Related Parties*. The Group transacts with other State of Queensland controlled entities as part of its normal operations.

Material related party transactions relate to an unsecured loan facility (no fixed repayment term), electricity financial instruments (terms to three years subject to credit limits), purchase of goods and services, superannuation contributions to post employment benefit plans, dividends and other receivables and payables.

The following transactions occurred with related parties:

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Electricity financial instrument settlements and green energy products	43,873	34,944	43,873	34,944
Purchase of goods and services	28,146	25,718	28,146	25,718
Net interest expense	11,011	13,283	11,006	13,283
Superannuation contributions	3,409	3,052	3,409	3,052
Dividends paid and proposed	60,617	23,564	60,617	23,564

The following balances are outstanding at the reporting date in relation to transactions with related parties:

Cash and cash equivalents	13,170	11,173	13,170	11,173
Receivables	5,575	6,706	5,575	6,706
Derivative financial instrument assets	21,338	-	21,338	-
Deferred tax assets	89,641	123,981	88,414	123,981
Payables	1,090	943	1,090	943
Derivative financial instrument liabilities	12,495	-	12,495	-
Deferred tax liabilities	369,334	366,967	368,983	366,967
Borrowings	122,928	206,021	118,517	206,021
Dividend	60,617	23,564	60,617	23,564

No provisions for doubtful receivables have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful receivables due from related parties.



notes to the financial statements

30 June 2006

32 INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 1(b).

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDINGS		INVESTMENT CARRYING AMOUNT	
			2006 %	2005 %	2006 \$	2005 \$
Wind Portfolio Pty Ltd (incorporated 13 July 2005)	Australia	Ordinary	100	-	100	-
EDWF Holdings 1 Pty Ltd (incorporated 2 June 2005)	Australia	Ordinary	100	100	100	100
EDWF Holdings 2 Pty Ltd (incorporated 13 July 2005) ¹	Australia	Ordinary	-	-	-	-
EDWF Manager Pty Ltd (incorporated 20 July 2005) ²	Australia	Ordinary	50	-	50	-
ZeroGen Pty Ltd (incorporated 30 March 2006) ³	Australia	Ordinary	100	-	5	-
					255	100

1. EDWF Holdings 2 Pty Ltd was incorporated on 13 July 2005 and was sold to the 50% joint venture participant on 22 December 2005.

2. EDWF Manager Pty Ltd was incorporated on 20 July 2005 and the 50% share owned by EDWF Holdings 2 Pty Ltd was sold to the 50% joint venture participant on 22 December 2005.

3. ZeroGen Pty Ltd was incorporated on 30 March 2006 by Stanwell Corporation Limited. The carrying amount of the investment is \$5 and the company has a net shareholder deficit of \$2,863,577 and is dependent on continued support from Stanwell Corporation Limited.

notes to the financial statements

30 June 2006

33 INTERESTS IN JOINT VENTURES

The Group has a 50% (2005 – 100%) participating interest in the Emu Downs Wind Farm Project, whose principal activity is the construction and operation of a wind farm in Western Australia. The joint venture interest is held by EDWF Holdings 1 Pty Ltd, which is a wholly owned subsidiary of Wind Portfolio Pty Ltd, which in turn is a wholly owned subsidiary of Stanwell Corporation Limited.

The joint venture is managed by EDWF Manager Pty Ltd which was incorporated by Stanwell Corporation Limited on 20 July 2005.

During the year ended 30 June 2006 Wind Portfolio Pty Ltd entered into a call option agreement with a third party which granted the third party the right to acquire 100% of the interest in EDWF Holdings 2 Pty Ltd and its 50% share of EDWF Manager Pty Ltd. The option was exercised on 22 December 2005 with sale proceeds of \$451,981 and a resulting gain on sale before tax of \$339,211 after deducting legal costs of \$112,770 associated with the call option and sale. EDWF Manager Pty Ltd had no transactions in its own name while controlled by the Group. Details of the balance sheet of EDWF Holdings 2 Pty Ltd at sale date were as follows:

	\$'000
ASSETS	
Cash assets	1,462
Receivables	1,220
Property, plant and equipment	14,530
Total assets	17,212
LIABILITIES	
Payables	139
Debt	17,073
Total liabilities	17,212
Net assets	-

The Group's interest in the assets employed in the joint venture are included in the consolidated balance sheet, in accordance with the accounting policy described in Note 1(b), under the following classifications:

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Current assets				
Cash assets	82	-	-	-
Trade and other receivables	1	-	-	-
Total current assets	83	-	-	-
Non-current assets				
Property, plant and equipment	47,125	-	-	-
Total non-current assets	47,125	-	-	-
Share of assets employed in joint venture	47,208	-	-	-

For capital expenditure commitments relating to the Emu Downs Wind Farm Joint Venture refer to Note 27. For contingent liabilities relating to the Emu Downs Wind Farm Joint Venture refer to Note 28.



notes to the financial statements

30 June 2006

34 SEGMENT INFORMATION

Business segments

The Group operates principally in the electricity generation industry.

Geographical segments

The Group operates solely in Australia. The Group's customers are located entirely in Australia.

35 CROSS BORDER LEASES

Stanwell Power Station is subject to cross border leases which were entered into in 1995. In accordance with accounting standards, the leases are treated as finance leases. The leased assets are being amortised to the income statement over the estimated life of the assets on a straight-line basis consistent with the Group's policy on depreciation of power stations.

Any major changes to the operational configuration of the power station must be approved by the lessors. There is no lease liability as future lease payments were prepaid at the commencement of the lease.

36 EVENTS SUBSEQUENT TO BALANCE DATE

On 30 March 2006 ZeroGen was incorporated as a wholly owned subsidiary of Stanwell Corporation Limited to undertake Project ZeroGen (formally known as Project Stanwell). On 24 July 2006 a framework agreement was executed between the parent entity, ZeroGen Pty Ltd and Shell Development (Australia) Pty Ltd (Shell). The framework agreement enables ZeroGen Pty Ltd to access the expertise of the Shell Group and provides Shell with the opportunity to take an equity interest in ZeroGen Pty Ltd when the project is further developed. The ownership structure of Project ZeroGen is currently being finalised with the Queensland Government.

No other significant events have occurred since balance date that would impact on the 2006 financial statements or future operations of the Group.

37 ECONOMIC DEPENDENCY

There is a co-dependent relationship between the company and Sun Retail Pty Ltd (Sun Retail) and Ergon Energy Pty Ltd (Ergon). A large portion of electricity is sold into the NEMMCO Pool, with Sun Retail and Ergon purchasing a significant amount of this electricity. In addition, a significant portion of Sun Retail's and Ergon's hedge contracts are with the Group.

On 26 April 2006, the Queensland State Government announced a number of measures for the reform and restructuring of the Queensland energy retail industry. As part of this reform process, the Government proposes to sell Sun Retail (the renamed Energex Retail) and the competitive parts of Ergon Energy Retail.



directors' declaration

for the year ended 30 June 2006

In the opinion of the directors:

- a) the financial statements and notes set out on pages 94 to 145 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and the Group's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (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.

Dated at Brisbane this 30th day of August 2006.

Signed in accordance with a resolution of the directors:

D Byrne
Chairman

B Morris
Director and Audit and Risk Management
Committee Chairman



auditor's independence declaration

To the Directors of Stanwell Corporation 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 Stanwell Corporation Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been –

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

J E HARTEN, FCPA
Assistant Auditor-General
As Delegate of the Auditor-General of Queensland

Queensland Audit Office
Brisbane
30 August 2006



independent audit report

To the Members of Stanwell Corporation Limited

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDIT REPORT

The audit report relates to the financial report of Stanwell Corporation Limited for the financial year ended 30 June 2006 included on Stanwell Corporation Limited's web site. The Directors are responsible for the integrity of the Stanwell Corporation Limited's web site. We have not been engaged to report on the integrity of the Stanwell Corporation Limited's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. 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 Stanwell Corporation Limited, 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.

SCOPE

The financial report

The financial report of Stanwell Corporation Limited consists of the income statements, balance sheets, statements of changes in equity, cash flow statements, notes to the financial report, and the directors' declaration for both Stanwell Corporation Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

Directors' responsibility

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

Audit approach

As required by law, an independent audit was conducted in accordance with *QAO Auditing Standards*, which incorporate the *Australian Auditing Standards*, to enable me to provide an independent opinion whether in all material respects the financial report is 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.



independent audit report

To the Members of Stanwell Corporation Limited

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 all government owned corporations and their controlled entities and can only be removed by Parliament.

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

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

No events have occurred that would require any changes to the audit independence declaration previously provided to the Directors on 30 August 2006.

AUDIT OPINION

In my opinion, the financial report of Stanwell Corporation Limited is in accordance with –

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

- (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*;

(b) other mandatory financial reporting requirements in Australia.

J E HARTEN, FCPA

Assistant Auditor-General

As Delegate of the Auditor-General of Queensland

Queensland Audit Office

Brisbane

31 August 2006

glossary

availability

The total energy available to the system, allowing for planned and forced maintenance, as a percentage of total energy capacity

baseload power stations

Low cost power stations that operate with a high capacity factor in order to meet the majority of the electricity demand

capacity factor

The ratio of a plant's actual usage to its total capacity

environmental incident classifications

Level 1 – 3

An event, usually contained to the site, which has minimal environmental effects. This also includes non compliances with business systems

Level 4 – 5

An event leading to material or serious environmental harm and which may result in prosecution

forced outage rate

The proportion of a plant's capacity that is unavailable as a result of forced maintenance

hedge contract

A contract between two counterparties used to manage the exposure to the volatile electricity spot market

major environmental incident

Any notifiable event or an event that occurred, resulting in serious environmental harm or serious plant damage

minor environmental incident

Any event that resulted in minor environmental damage

output

Dispatched generation

Renewable Energy Certificates

A form of 'currency' created by the *Renewable Energy (Electricity) Act 2000* and used to demonstrate compliance with the requirements of the Government's mandatory renewable energy target

sent out generation

The amount of power exported to the electricity grid after the energy used by the power station itself

spot market

The physical market managed by NEMMCO for the dispatch of generating units and dispatchable loads

spot price

The half-hour average of the five-minute dispatch prices set by marginal generator



● abbreviations

AIFRS	Australian equivalents to International Financial Reporting Standards	LTI	Lost Time Injury(ies)
AS4801	Australian standard for health and safety	LTIDR	Lost Time Injury Duration Rate
ATO	Australian Taxation Office	LTIFR	Lost Time Injury Frequency Rate
ATW	Authority to Work	m	Million
CCSD	Cooperative Research Centre for Coal in Sustainable Development	ML	Megalitre(s). One ML = one million litres
CIS	Capital Investment System	MW	Megawatt(s). One MW = one million watts
CO₂	Carbon dioxide	MWh	Megawatt hour. One MWh = one thousand kilowatt hours
CO₂CRC	Cooperative Research Centre for Greenhouse Gas Technologies	NEM	National Electricity Market. A competitive wholesale electricity market for eastern and south eastern Australia
EEO	Equal employment opportunity	NEMMCO	National Electricity Market Management Company
EMS	Environmental Management System	NO_x	Nitrous oxide
ESAA	Energy Supply Association of Australia	OHS	Occupational health and safety
GL	Gigalitre(s). One GL = one thousand megalitres	OHSIP	Occupational Health and Safety Improvement Plan
GOC	A government owned corporation under the <i>Government Owned Corporations Act 1993</i>	QTC	Queensland Treasury Corporation
GST	Goods and services tax	SCI	Statement of Corporate Intent
GWh	Gigawatt hour. One GWh = one thousand megawatt hours	SO₂	Sulfur dioxide
ISO 14001	International standard for environmental management	TSC	Total Safety Culture
IT	Information technology	ZIP	Zero Incident Process

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