

# Financial Report 2005

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# Financial Report 2005

## DIRECTORS' REPORT

for the year ended 30 June 2005

The directors present their report together with the financial report of Stanwell Corporation Limited and the consolidated financial report of the consolidated entity, being Stanwell Corporation Limited and its controlled entity, for the year ended 30 June 2005 and the auditor's report thereon.

### Consolidated results

	2005 \$'000	2004 \$'000
Operating profit after income tax equivalent	29,455	40,727

There were no items of an extraordinary nature.

### Consolidated earnings per share

	2005 Cents	2004 Cents
Basic earnings per share	3.01	4.16

Stanwell Corporation Limited is the parent entity and is hereafter referred to as the 'company'. The company and its controlled entity together are referred to as the 'consolidated entity'.

### DIRECTORS

The Board comprises seven 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 consolidated entity during the financial year are set out earlier in the 'Corporate Governance' section of this Annual Report.

### PRINCIPAL ACTIVITY

The principal activity of the consolidated entity 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 consolidated entity during the year.

### REVIEW AND RESULTS OF OPERATIONS

A full review of the operations of the consolidated entity during the financial year, and the results of these operations, is set out under the heading 'Business Performance' of the Annual Report.

### DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The consolidated entity has potential exposures as a result of changes in foreign exchange 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 consolidated entity policy 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 consolidated entity 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.

## DIRECTORS' REPORT

for the year ended 30 June 2005

Where appropriate, acceptable credit support is also obtained.

Financing facilities and operating cash flows are managed to ensure that the consolidated entity 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 \$'000	Date of payment
As proposed and provided for in last year's report:			
• Final—Ordinary shares	3.95	38,691	31 December 2004
In respect of the current financial year:			
• Approved final—Ordinary shares	2.41	23,564	31 December 2005

### STATE OF AFFAIRS

The Board did not receive any directions/notifications from Shareholding Ministers during the financial year ended 30 June 2005.

Since commissioning, the Rocky Point Cogeneration Plant has encountered significant operational problems that have translated into a permanent diminution in the carrying value of the asset. As a result of this diminution in value and the decision taken during the year to pursue divestment options for the asset, a write-down of \$10,682,757 has been applied to the carrying amount of the asset at 30 June 2005. This has resulted in an adjustment of \$7,477,930 to after tax profit for the year.

In the opinion of the directors, there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year not otherwise disclosed in this report or the financial statements set out on pages 63 to 95.

### ENVIRONMENTAL REGULATION

The consolidated entity'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 the Annual Report.

### EVENTS SUBSEQUENT TO BALANCE DATE

On 21 July 2005, after receiving Board and Shareholding Minister approval, the consolidated entity entered into a number of agreements in respect of the Emu Downs Wind Farm Project. These agreements included power and green benefit off take and network agreements and an engineer, procure and construct contract.

The project has an approved capital budget of \$180 million and will be completed in late 2006. The project will be project financed, with all financing arrangements finalised during the initial two months of construction. Furthermore, the intention is for the project to be jointly developed and operated with a third party. The joint venture arrangements are currently being finalised.

### LIKELY DEVELOPMENTS

An outline of future developments in the consolidated entity'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 consolidated entity 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 consolidated entity.

# Financial Report 2005

## DIRECTORS' REPORT

for the year ended 30 June 2005

### DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

The Human Resources and Workplace Health and Safety Committee is responsible for making recommendations to the Board on the remuneration policies and packages applicable to the senior executives of the consolidated entity. The remuneration 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 consolidated entity (including operational results). Directors do not receive any performance related remuneration.

Details of the nature and amount of each major element of the emoluments of each director and the senior executives of the consolidated entity are:

	Primary		Post employment	Other benefits	Total
	Salary and fee \$'000	Non-monetary \$'000	Superannuation \$'000	\$'000	\$'000
<b>Specified directors</b>					
Ms E Nosworthy (Chairman)	63	-	6	-	69
Mr S Campbell	27	-	2	-	29
Mr B Kelly (Chairman Human Resources and Workplace Health and Safety Committee)	28	-	2	-	30
Ms B Morris (Chairman Audit and Risk Management Committee)	28	-	2	-	30
Ms M Palmer	27	-	-	-	27
Ms K Shillington	27	-	2	-	29
Mr M Williamson	27	-	2	-	29
<b>Specified executives</b>					
Chief Executive Officer	337	8	33	13	391
Chief Financial Officer	207	3	20	7	237
General Manager Asset Management and Technical Services	185	2	19	9	215
General Manager Business Expansion	180	6	18	3	207
General Manager Business Services	185	5	19	9	218
General Manager Marketing and Trading	230	6	21	9	266
General Manager Operations and Maintenance Services	185	4	19	5	213

Note: The above table provides information relating to executives who are currently employed by the company. Executives may also earn performance based 'at risk' incentive bonuses which are not shown in this table.

Details of remuneration policies are disclosed in Note 29 to the financial statements.

## DIRECTORS' REPORT

for the year ended 30 June 2005

### DIRECTORS' INTERESTS

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

### RISK MANAGEMENT

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

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

The company'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 consolidated entity.

#### 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 consolidated entity's future business capability. The consolidated entity'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.

# Financial Report 2005

## DIRECTORS' REPORT

for the year ended 30 June 2005

### INDEMNIFICATION AND INSURANCE OF OFFICERS

#### Indemnification

Article 17 of the company'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.

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

#### Insurance premiums

During the financial year, the consolidated entity 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 98/100 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 370C of the *Corporations Act 2001* is set out on page 96.

Dated at Brisbane this 2nd day of September 2005.

Signed in accordance with a resolution of the directors:



**E Nosworthy**  
Chairman



**B Morris**  
Director and Audit and Risk Management  
Committee Chairman

## STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Revenue from ordinary activities	5	372,176	361,382
Expenses from ordinary activities, excluding borrowing costs	6	(318,644)	(283,662)
Borrowing costs		(14,406)	(16,485)
<b>Profit from ordinary activities before related income tax equivalent expense</b>		<b>39,126</b>	<b>61,235</b>
Income tax equivalent expense relating to ordinary activities	9(a)	(9,671)	(20,508)
<b>Profit from ordinary activities after related income tax equivalent expense</b>		<b>29,455</b>	<b>40,727</b>
<b>Net profit</b>		<b>29,455</b>	<b>40,727</b>
<b>Basic earnings per share</b>		<b>\$0.0301</b>	<b>\$0.0416</b>

*The Statement of Financial Performance is to be read in conjunction with the Notes to the Financial Statements set out on pages 66 to 95.*

# Financial Report 2005

## STATEMENT OF FINANCIAL POSITION

as at 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>Current assets</b>			
Cash assets	11	11,268	9,229
Receivables	12	37,112	33,531
Inventories	13	15,324	15,683
Intangible assets	14	2,411	
Other	15	1,419	1,222
		67,534	59,665
Non-current assets held for sale	16	7,500	-
<b>Total current assets</b>		<b>75,034</b>	<b>59,665</b>
<b>Non-current assets</b>			
Property, plant and equipment	17	1,451,291	1,488,234
Deferred tax assets	9(d)	122,767	92,217
Other	18	3,761	8,255
<b>Total non-current assets</b>		<b>1,577,819</b>	<b>1,588,706</b>
<b>Total assets</b>		<b>1,652,853</b>	<b>1,648,371</b>
<b>Current liabilities</b>			
Payables	19	23,543	23,586
Provisions	20	30,120	45,189
Other	21	291	222
<b>Total current liabilities</b>		<b>53,954</b>	<b>68,997</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	22	206,021	234,021
Deferred tax liabilities	9(c)	371,874	331,653
Provisions	20	5,074	3,661
<b>Total non-current liabilities</b>		<b>582,969</b>	<b>569,335</b>
<b>Total liabilities</b>		<b>636,923</b>	<b>638,332</b>
<b>Net assets</b>		<b>1,015,930</b>	<b>1,010,039</b>
<b>Equity</b>			
Contributed equity	23	979,048	979,048
Retained profits	24	36,882	30,991
<b>Total equity</b>		<b>1,015,930</b>	<b>1,010,039</b>

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements set out on pages 66 to 95.

## STATEMENT OF CASH FLOWS

for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		405,199	430,389
Cash payments in the course of operations		(278,390)	(316,745)
Interest received		1,144	3,554
Borrowing costs paid		(14,576)	(16,533)
<b>Net cash provided by operating activities</b>	28(b)	<b>113,377</b>	<b>100,665</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(56,434)	(57,658)
Proceeds from disposal of non-current assets		7,475	40,209
Net proceeds/(payments) for exploration and evaluation expenditure		4,312	(171)
<b>Net cash (used in) investing activities</b>		<b>(44,647)</b>	<b>(17,620)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(28,000)	(100,000)
Dividends paid		(38,691)	(39,479)
<b>Net cash (used in) financing activities</b>		<b>(66,691)</b>	<b>(139,479)</b>
<b>Net increase/(decrease) in cash held</b>			
Cash at the beginning of the financial year		9,229	65,663
<b>Cash at the end of the financial year</b>	28(a)	<b>11,268</b>	<b>9,229</b>

*The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 66 to 95.*

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### FINANCIAL REPORTING FRAMEWORK

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Except where stated, the financial report has been prepared on the basis of historical costs and does not take into account changing money values or fair values of assets.

#### SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report and are consistent with those of the previous year with the exception of the changes disclosed in Note 2.

#### (a) ACQUISITIONS OF ASSETS

All assets acquired, including property, plant and equipment, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisitions.

As part of the electricity industry restructure, which established the company, 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 accounts as cost to the company as at 1 July 1997.

The cost of assets constructed or internally generated, other than goodwill, includes the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset.

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 additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years, otherwise they are expensed as incurred.

#### 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.

#### (b) BASIC EARNINGS PER SHARE

Basic earnings per share is determined by dividing the net profit by the weighted average number of ordinary shares of the company.

#### (c) 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. Borrowing costs incurred during the financial year were not attributable to the acquisition, construction or production of any qualifying assets.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) COMPARATIVE FIGURES

Where appropriate, comparative amounts in the financial statements have been restated to enable valid comparison with the prior year disclosures.

#### (e) DEPRECIATION AND AMORTISATION

##### Complex assets

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

##### Useful lives

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, 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 consolidated entity 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 are as follows:

Power stations—leased	6–43 years
Power stations—owned	3–43 years
Other property, plant and equipment—leased	4–40 years
Other property, plant and equipment—owned	2–40 years

#### (f) DERIVATIVE FINANCIAL INSTRUMENTS

The consolidated entity is potentially exposed to changes in foreign exchange rates and electricity commodity prices from its activities. The following derivative financial instruments are used to hedge these risks: forward foreign exchange contracts and commodity price swap, cap, collar and floor contracts. Derivative financial instruments are not held for speculative purposes.

##### Hedges

###### *Anticipated transactions*

Transactions are designated as a hedge against movements in future forecast transactions only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will 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, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the Statement of Financial Performance.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the Statement of Financial Position from the date of inception of the hedge transaction.

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When recognised, the net receivables or payables are revalued using the foreign currency rates of exchange ruling at reporting date (refer to Note 25).

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the Statement of Financial Performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the Statement of Financial Performance for the period.

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

#### *Other hedges*

All other hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at reporting date are valued at the rates ruling on that date and any gains or losses are brought to account in the Statement of Financial Performance.

Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

#### **Commodity price contracts**

The consolidated entity enters into electricity hedge contracts. These contracts are not recognised in the financial statements upon inception.

The net amounts receivable or payable under the electricity hedge contracts are progressively brought to account over the respective contract periods.

The amount recognised is accounted for as an adjustment to electricity sales revenue during the period and included in electricity debtors or electricity creditors at each reporting date.

#### **(g) EMPLOYEE BENEFITS**

##### **Wages, salaries and annual leave**

Liabilities for employee benefits in relation to wages, salaries and annual leave resulting from employees' services 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.

##### **Long service leave**

The provision for employee benefits to long service leave represents the present value of estimated future cash outflows to be made resulting from employees' services provided up to the reporting date.

The provision is calculated using expected future increases in wage and salary rates, including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

##### **Superannuation**

The consolidated entity contributes to defined benefit and defined contribution superannuation plans. Contributions are recognised as an expense as they are made. Further information is set out in Note 26.

#### **(h) 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.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

#### (i) FOREIGN CURRENCY

##### Foreign currency transactions

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

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the Statement of Financial Performance in the financial year in which the exchange rates change, except when hedging for specific anticipated transactions where exchange differences, to the extent that they arise up to the dates of purchase, are deferred and included in the measurement of the purchases.

#### (j) 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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 flows.

#### (k) INTANGIBLE ASSETS

##### Green energy products

A number of the consolidated entity'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. This policy is a change from prior years (refer to Note 2).

#### (l) INTEREST-BEARING LIABILITIES

Borrowings are recognised at their principal amounts at cost. Interest expense unpaid at reporting date is accrued at the book rate and included in 'Other creditors and accruals' (refer to Note 19).

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

#### (m) INVENTORIES

Consumable fuel and stores are carried at the lower of their weighted average cost per individual item of inventory and net realisable value.

#### (n) INVESTMENT IN CONTROLLED ENTITIES

Investments in controlled entities are carried in the company's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the Statement of Financial Performance when they are declared by the controlled entities.

#### (o) LEASED ASSETS

For assets subject to cross border leases, refer to Note 32.

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

##### Finance leases

Material finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

#### (p) 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.

#### (q) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are those of the consolidated entity, comprising Stanwell Corporation Limited (the company) as the parent company and all entities that the company controlled from time to time during the year and at reporting date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries 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.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

#### (r) 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 (adjusted for expected future risks) 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, being risk free rates on government bonds most closely matching the expected future payments. The unwinding of the discount is treated as part of the expense related to the particular provision.

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 Statement of Financial Performance, the expense recognised in respect of a provision is presented net of the recovery. In the Statement of Financial Position, 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 relating to non-current assets are made for estimated costs relating to 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.

#### (s) RECEIVABLES

Trade debtors to be settled within 30 days are carried at amounts due.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

#### (t) RECOVERABLE AMOUNT OF NON-CURRENT ASSETS VALUED ON COST BASIS

The carrying amounts of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward (refer to Note 1(h)), are reviewed to determine whether they are in excess of their recoverable amount at reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, the recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have been discounted to their present value at a post tax nominal discount rate of 7.5%.

Under AASB 1040 *Statement of Financial Position*, paragraph 8.2, land and buildings measured on the cost basis are required to be valued at least once every three years. As the consolidated entity's holdings of land and buildings are immaterial when compared to the total carrying amount of non-current assets, valuations have not been conducted and land and buildings continue to be carried at cost.

#### (u) 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.

#### (v) REVENUE RECOGNITION

Revenues are recognised at fair value of the consideration received net of the amount of GST payable to the ATO.

*Sales revenue*—is recognised for the major business activities as follows:

- electricity—revenue is recognised when the commodity is dispatched into the electricity grid;
- coal rebates—contractually determined based on when payments are received by the coal supplier; and
- coal on-sale—revenue is recognised upon delivery of coal.

*Interest income*—is recognised as it accrues.

*Sale of non-current assets*—gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

*Research and development grants*—where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue. Where a grant is received relating to research and development costs that have been deferred, the grant is deducted from the carrying amount of the deferred research and development costs.

*Other revenue*—is recognised when an invoice is issued.

#### (w) REVISIONS OF ACCOUNTING ESTIMATES

Revisions to accounting estimates are recognised prospectively in current and future periods only.

#### (x) TAXATION

##### Income tax

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

The consolidated entity adopts the balance sheet method of tax effect accounting. This reflects a change in accounting policy from the prior year (refer to Note 2). The tax expense represents the sum of tax currently payable and deferred tax.

Current tax is calculated based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Financial Performance because it excludes items from income or expense that are taxable or deductible in other years and it excludes items that are never taxable. The consolidated entity's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits or capital gains will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit or capital gains will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Financial Performance, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### 2 CHANGES IN ACCOUNTING POLICIES

The following accounting policy changes have been made during the year.

#### INTANGIBLE ASSETS—GREEN ENERGY PRODUCTS

Green energy products that are available for sale are recognised in the financial statements at fair market value. This policy is a change from prior years when products available for sale were carried at the cost of registration.

Previously, green energy products were treated as inventory valued at the cost of creation. This year, in order to present more reliable and relevant information in the financial statements, green energy products that are held for sale have been recognised as intangible assets recorded at fair market value. This change in accounting policy has resulted in an increase in net assets at 30 June 2005 of \$2,411,228 with a corresponding increase in profit for the year then ended. The number of green energy products held at 30 June 2004 was immaterial.

#### TAXATION

The consolidated entity has chosen to apply the revised AASB 1020 *Income Taxes (1999)* for the first time from 1 July 2004, in order to facilitate a smoother transition to International Financial Reporting Standards.

Tax balances are calculated using the balance sheet approach. This change in accounting policy has no impact on the Statement of Financial Performance. However, deferred tax assets totalling \$104,254,876 (2004—\$88,147,309) which were previously offset against deferred tax liabilities have been reclassified and disclosed as deferred tax assets.

### 3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Stanwell Corporation Limited is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to the Australian equivalents of International Financial Reporting Standards (A-IFRS) which will be applicable for the financial year ending 30 June 2006.

The organisation established an International Financial Reporting Standards project and project team to manage the transition. The project team reported to executive management and to the Audit and Risk Management Committee and Board and provided regular updates on the transition. At the date of this report, substantially all phases of the project plan are complete, including:

- understanding the A-IFRS and how these differ to current AGAAP,
- communicating the differences in the standards and the impacts thereof to the business and to stakeholders,
- finalising internal accounting policies and procedures to ensure compliance with A-IFRS,
- upgrading systems and reporting processes, and
- educating all stakeholders as to the requirements of the standards.

The following reconciliations outline the likely impacts on the current year result and financial position of the consolidated entity had the financial statements been prepared using A-IFRS, based on the directors' accounting policy decisions current at the date of this financial report. Readers of the financial report should note that further developments in A-IFRS (for example, the release of further pronouncements by the Australian Accounting Standards Board and the Urgent Issues Group), if any, may result in changes to the accounting policy decisions made by the directors and, consequently, the likely impacts outlined in the following reconciliations.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

	Notes	2005 \$'000
<b>Reconciliation of net profit</b>		
<b>Net profit (AGAAP)</b>		<b>29,455</b>
Employee benefits expense	(a)	(38)
Depreciation and amortisation expense—overhauls	(b)	(1,089)
Depreciation and amortisation expense—rehabilitation	(d)	(112)
Interest expense—rehabilitation	(d)	(398)
Income tax	(c)	480
<b>Net profit (A-IFRS)</b>		<b>28,298</b>
<b>Reconciliation of total assets and total liabilities</b>		
<b>Total assets (AGAAP)</b>		<b>1,652,853</b>
Property, plant and equipment—overhauls	(b)	(14,772)
Property, plant and equipment—rehabilitation	(d)	964
Deferred tax liabilities—defined benefit superannuation plan	(c)	8
Deferred tax assets—rehabilitation	(c)	917
<b>Total assets (A-IFRS)</b>		<b>1,639,970</b>
<b>Total liabilities (AGAAP)</b>		<b>636,923</b>
Defined benefit superannuation plan	(a)	26
Provision for rehabilitation	(d)	4,021
Deferred tax liabilities—overhauls	(c)	(4,432)
<b>Total liabilities (A-IFRS)</b>		<b>636,538</b>
<b>Reconciliation of equity</b>		
<b>Total equity (AGAAP)</b>		<b>1,015,930</b>
Retained profits—defined benefit superannuation plan	(e)	(18)
Retained profits—overhauls	(e)	(10,340)
Retained profits—rehabilitation	(e)	(2,140)
<b>Total equity (A-IFRS)</b>		<b>1,003,432</b>

#### (a) EMPLOYEE BENEFITS

The consolidated entity is required to recognise the surplus or deficit of defined benefit plans as an asset or liability in the Statement of Financial Position and has elected for actuarial movements to be recognised in equity.

The cumulative effect of the above requirement on the financial position at 30 June 2005 will be recognition of a defined benefit liability of \$26,000.

The impact on profits for the financial year ended 30 June 2005 will be an expense of \$38,000.

#### (b) PROPERTY, PLANT AND EQUIPMENT

Under A-IFRS, AASB 116 *Property, Plant and Equipment* requires a more prescriptive treatment of overhauls and major inspection expenditure within property, plant and equipment.

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

As a result, the consolidated entity will recognise in the financial position at 30 June 2005 a reduction in property, plant and equipment of \$14,772,115. The impact on the financial performance for the year to 30 June 2005 will be an increase in depreciation expense of \$1,089,000.

#### (c) INCOME TAX

The change in income tax expense and movements in the deferred tax asset and deferred tax liability are as a result of the recognition of assets and liabilities under A-IFRS.

#### (d) PROVISION FOR REHABILITATION

Under AGAAP, a provision is raised for decommissioning and rehabilitation to the extent that a legal and/or constructive obligation exists as a result of a past event. Under AASB 116 *Property, Plant and Equipment* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, the consolidated entity will be required to recognise a provision for dismantling and removal of assets and site restoration and include the cost in the initial cost of the asset to be depreciated over the asset's useful life. The cumulative impact on the financial position at 30 June 2005 will be an increase in the provision of \$4,020,604 and an increase in property, plant and equipment of \$964,303. The cumulative impact on the financial performance is an increase in depreciation expense of \$111,780 and an increase in interest expense of \$398,438, being the impact of discounting the provision.

#### (e) RETAINED PROFITS

Adjustments required on first time adoption of A-IFRS are recognised directly in retained earnings. The cumulative effect of these adjustments for the consolidated entity will be a decrease in retained earnings of \$12,498,090.

#### (f) AASB 139 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

AASB 139 *Financial Instruments: Recognition and Measurement* establishes principles for recognising, measuring and disclosing information about financial assets and liabilities, including derivatives.

Under the standard, financial instruments must be measured at fair value and recognised in the Statement of Financial Performance, with the change in fair value between each reporting period recognised in either equity reserves or the Statement of Financial Position.

AASB 139 *Financial Instruments: Recognition and Measurement* applies from 1 July 2005. In order to correctly account for financial instruments, it is necessary to:

- determine which of the consolidated entity's financial instruments qualify for hedge accounting,
- test the effectiveness of those hedge contracts, and
- value financial instruments at each reporting date.

In applying AASB 139 *Financial Instruments: Recognition and Measurement* at 1 July 2005, the value of financial instruments has been determined as at 30 June 2005. The valuation resulted in a net liability of \$6,900,000. This valuation includes all hedge contracts entered into by the consolidated entity that qualify for hedge accounting.

### 4 CONTROLLED ENTITIES AND CONSOLIDATED FINANCIAL STATEMENTS

On 2 June 2005, EDWF Holdings 1 Pty Ltd was incorporated to hold an interest in the Emu Downs Wind Farm Project. Stanwell Corporation Limited holds 100% of the ordinary shares in the company. The only transaction that occurred in the wholly owned subsidiary prior to 30 June 2005 was the issue of ordinary shares amounting to \$100. In view of the immateriality of the transaction, it was decided not to separately disclose company and consolidated information.

The financial statements therefore represent the consolidated position of Stanwell Corporation Limited and its wholly owned subsidiary EDWF Holdings 1 Pty Ltd.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<b>5 REVENUE FROM ORDINARY ACTIVITIES</b>		
<b>From operating activities:</b>		
Sales of electricity <sup>1</sup>	328,424	327,377
Interest received/receivable	1,144	3,462
Coal rebates	4,185	-
Other	9,180	3,569
<b>From outside operating activities:</b>		
Sales of coal	26,805	26,116
Other	2,438	858
	<b>372,176</b>	<b>361,382</b>

(1) Represents unhedged revenue based upon spot prices for electricity as provided by the National Electricity Market Management Company (NEMMCO) and hedged revenue based upon contract prices.

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>6 EXPENSES FROM ORDINARY ACTIVITIES EXCLUDING BORROWING COSTS</b>			
Cost of sales <sup>1</sup>		162,287	144,948
Employee expenses <sup>2</sup>		38,983	34,862
Depreciation and amortisation expenses	7	67,613	65,945
Development costs written off		1,547	-
Asset write-down <sup>3</sup>		10,683	204
Other expenses from ordinary activities		37,531	37,703
		<b>318,644</b>	<b>283,662</b>

(1) Cost of sales incorporates expenses relating to energy inputs, production processes and coal on-sale.

(2) Employee expenses include all labour costs, movements in employee entitlement provisions and the costs of the Employee Relations department. In addition, the following information is provided in respect of performance payments to employees:

	2005	2004
Aggregate performance bonuses paid—\$'000	2,051	1,710
Total salaries and wages (including employer contributions to superannuation funds) paid to employees receiving bonuses—\$'000	32,974	29,713
The number of employees who received performance bonuses	343	346

The table below details the terms and grant dates of performance payments by category of employee (refer to Note 29):

Category	Grant date	Criteria	Nature
Senior executives (including Chief Executive Officer)	Shareholder approval	Performance	Cash
Salaried employees	1 July	Performance	Cash
Employees—Queensland Industrial Relations Commission	1 January/1 July	Performance	Cash

(3) The Rocky Point Cogeneration Plant was commissioned in February 2002. The asset has encountered a number of operational problems which necessitated engineering and process refinements and an increase in capital expenditure over the original capital budget. In view of these issues, the directors revised their estimate of the recoverable amount of the asset and adjusted the carrying value down by \$18.9 million at 30 June 2002 and by \$18.2 million at 30 June 2003.

The asset continues to experience operational difficulties although there have been a number of significant improvements in this area. During 2004–05, the Board made a decision to pursue divestment options for the asset and accordingly the carrying amount of the asset has been reassessed in light of this exercise. This has resulted in a write-down of the carrying amount of the asset by \$10.7 million.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<b>7 PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT EXPENSE</b>		
Profit from ordinary activities before income tax equivalent expense has been arrived at after charging/(crediting) the following items:		
<b>Depreciation</b>		
• Power stations	21,388	19,189
• Other property, plant and equipment	5,494	5,160
	<b>26,882</b>	<b>24,349</b>
<b>Amortisation</b>		
• Power stations	39,889	40,806
• Other property, plant and equipment	755	790
	40,644	41,596
Total depreciation and amortisation relating to Note 17	67,526	65,945
Amortisation of exploration and evaluation as per Note 18	87	-
<b>Total depreciation and amortisation</b>	<b>67,613</b>	<b>65,945</b>
Net bad and doubtful debts expense including movements in provision for doubtful debts	(16)	(3)
Net expense from movement in provision for:		
• Employee entitlements	1,268	730
• Restoration	203	230
Operating lease rental expense	2,955	2,418
Net (gain)/loss on disposal of property, plant and equipment	(1,354)	735

## 8 AUDITORS' REMUNERATION

Audit services:

• Queensland Auditor-General	110	103
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# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<b>9 TAXATION</b>		
<b>(a) Major components of income tax equivalent expense</b>		
Current tax expense	(14,372)	(27,627)
Deferred tax expense relating to the origination and reversal of temporary differences	24,043	48,135
<b>Income tax equivalent expense</b>	<b>9,671</b>	<b>20,508</b>
<b>(b) Income tax equivalent expense</b>		
Prima facie income tax equivalent expense calculated at 30% (2004–30%) on profit from ordinary activities:	11,738	18,371
Increase/(decrease) in income tax equivalent expense due to:		
• Non-deductible expenses	107	2,148
• Sundry items	(69)	(44)
• Leave provision transfers	2	84
Income tax equivalent over provided in prior year <sup>1</sup>	(2,107)	(51)
<b>Income tax equivalent expense attributable to profit from ordinary activities</b>	<b>9,671</b>	<b>20,508</b>
Income tax equivalent expense attributable to profit from ordinary activities is made up of:		
• Deferred tax liabilities	40,221	48,124
• Deferred tax assets	(28,443)	(27,565)
• Overprovision in prior year <sup>1</sup>	(2,107)	(51)
	<b>9,671</b>	<b>20,508</b>
<small>(1) Relates primarily to business development costs which were initially treated as non-deductible. Based on expert advice these costs have subsequently been treated as deductible.</small>		
<b>(c) Deferred tax liability</b>		
Deferred tax liability comprises the temporary differences at the applicable rate of 30% (2004–30%) on the following items:		
• Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax equivalent purposes	366,553	326,947
• Expenditure currently deductible for tax equivalent but deferred and amortised for accounting purposes	4,598	4,706
• Revenue recognised in accounting revenue but deferred for taxation purposes	723	-
	<b>371,874</b>	<b>331,653</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<b>9 TAXATION (continued)</b>		
<b>(d) Deferred tax asset</b>		
Deferred tax asset comprises the temporary differences at the applicable rate of 30% (2004–30%) on the following items:		
• Provisions and accrued employee entitlements not currently deductible	4,239	3,761
• Sundry items	299	309
• Unused tax losses <sup>1</sup>	104,255	88,147
• Unrealised capital losses <sup>2</sup>	13,974	-
	<b>122,767</b>	<b>92,217</b>

(1) The unused tax losses have been recognised as a deferred tax asset as it is considered probable that future economic benefit will eventuate and the value can be reliably measured. It is considered that the company has sufficient assessable temporary differences relating to the same taxation authority and the same taxable entity that will result in an increase in taxable amounts within the entity against which the unused tax losses can be utilised before they expire.

(2) The unrealised capital losses have been recognised as a deferred tax asset as it is considered probable that future economic benefit will eventuate and the value can be reliably measured. It is considered that the company will have sufficient future capital gains against which the capital losses can be offset.

## 10 DIVIDENDS

Dividends recognised in the current year by the company are:

	Cents per share	Total amount \$'000	Date of payment
<b>2005</b>			
2005 Final—Ordinary (Declared)	2.41	23,564	31 December 2005
<b>2004</b>			
2004 Final—Ordinary (Declared)	3.95	38,691	31 December 2004

	2005 \$'000	2004 \$'000
<b>11 CASH ASSETS</b>		
Cash at bank and on hand	95	171
Deposits at call:		
–Queensland Treasury Corporation	11,173	9,058
	<b>11,268</b>	<b>9,229</b>

### Deposits at call

Deposits at call pay interest at a weighted average interest rate of 5.75% (2004–5.23%).

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<b>12 RECEIVABLES</b>		
Trade debtors	31,990	24,428
Less: Provision for doubtful trade debtors	(134)	(150)
	31,856	24,278
Other debtors	5,256	9,253
	<b>37,112</b>	<b>33,531</b>

### Other debtors

These amounts generally arise from transactions outside the usual operating activities of the consolidated entity. Interest may be charged at 9.50% (2004–9.50%) where repayment is after the due date.

## 13 INVENTORIES

Fuel at weighted average cost	6,922	7,457
Stores at weighted average cost	8,402	8,226
	<b>15,324</b>	<b>15,683</b>

## 14 INTANGIBLE ASSETS

Green energy products at fair market value	2,411	-
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## 15 OTHER CURRENT ASSETS

Prepayments	1,091	1,055
Deferred foreign currency hedge costs	233	167
Deferred exploration and evaluation costs	95	-
	<b>1,419</b>	<b>1,222</b>

## 16 NON-CURRENT ASSETS HELD FOR SALE

Property, plant and equipment	7,500	-
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During 2004–05, the Board made a decision to pursue divestment options for the Rocky Point Cogeneration Plant. On this basis, the asset has been disclosed as 'held for sale'.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<b>17 PROPERTY, PLANT AND EQUIPMENT</b>		
<b>Power stations</b>		
Power stations owned at cost	239,498	211,298
Less: Accumulated depreciation	(74,164)	(54,408)
	<b>165,334</b>	<b>156,890</b>
Power stations owned at recoverable amount	-	14,791
Less: Asset write-down	-	(204)
Less: Accumulated depreciation	-	(893)
	-	<b>13,694</b>
Power stations under finance lease	1,533,535	1,534,293
Less: Accumulated amortisation	(333,396)	(293,953)
	<b>1,200,139</b>	<b>1,240,340</b>
<b>Total power stations</b>	<b>1,365,473</b>	<b>1,410,924</b>
<b>Works in progress at cost</b>	<b>35,668</b>	<b>21,474</b>
<b>Other property, plant and equipment</b>		
Other property, plant and equipment at cost	55,097	55,416
Less: Accumulated depreciation	(19,057)	(14,444)
	<b>36,040</b>	<b>40,972</b>
Other property, plant and equipment under finance lease at cost	18,613	18,617
Less: Accumulated amortisation	(4,503)	(3,753)
	<b>14,110</b>	<b>14,864</b>
<b>Total other property, plant and equipment</b>	<b>50,150</b>	<b>55,836</b>
<b>Total property, plant and equipment net book value</b>	<b>1,451,291</b>	<b>1,488,234</b>
The carrying amount of land and buildings included above:	65,945	70,311

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>17 PROPERTY, PLANT AND EQUIPMENT (continued)</b>			
<b>Reconciliations</b>			
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:			
<b>Power stations owned at cost</b>			
Carrying amount at beginning of year		156,890	149,511
Additions		542	721
Transfer from capital works in progress		33,339	25,456
Transfer to power stations owned at recoverable amount		(4,617)	(404)
Reclassifications		(258)	-
Retirements		(63)	(98)
Depreciation		(20,499)	(18,296)
Carrying amount at end of year		<b>165,334</b>	<b>156,890</b>
<b>Power stations owned at recoverable amount</b>			
Carrying amount at beginning of year		13,694	14,397
Transfers from power stations owned at cost		4,617	404
Transfers from other property, plant and equipment at cost		224	-
Transfers from capital works in progress		738	-
Asset write-down	6	(10,683)	(204)
Reclassifications		(1)	-
Retirements		(200)	(10)
Depreciation		(889)	(893)
Transfer to non-current assets held for sale		(7,500)	-
Carrying amount at end of year		-	<b>13,694</b>
<b>Power stations under finance lease</b>			
Carrying amount at beginning of year		1,240,340	1,280,416
Additions		-	942
Retirements		(312)	(212)
Amortisation		(39,889)	(40,806)
Carrying amount at end of year		<b>1,200,139</b>	<b>1,240,340</b>
<b>Works in progress</b>			
Carrying amount at beginning of year		21,474	33,219
Additions		51,221	53,631
Development costs written off		(1,547)	-
Retirements		-	(38,597)
Transfer to power stations and other property, plant and equipment		(34,742)	(26,779)
Transfers to power stations owned at recoverable amount		(738)	-
Carrying amount at end of year		<b>35,668</b>	<b>21,474</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>17 PROPERTY, PLANT AND EQUIPMENT (continued)</b>			
<b>Other property, plant and equipment at cost</b>			
Carrying amount at beginning of year		40,972	44,472
Additions		4,671	2,364
Transfer from capital works in progress		1,403	1,323
Transfers to power stations owned at recoverable amount		(224)	-
Reclassifications		258	-
Retirements		(5,546)	(2,027)
Depreciation		(5,494)	(5,160)
Carrying amount at end of year		<b>36,040</b>	<b>40,972</b>
<b>Other property, plant and equipment under finance lease</b>			
Carrying amount at beginning of year		14,864	15,654
Reclassifications		1	-
Amortisation		(755)	(790)
Carrying amount at end of year		<b>14,110</b>	<b>14,864</b>
<b>18 OTHER NON-CURRENT ASSETS</b>			
Exploration and evaluation expenditure carried forward		3,848	8,255
Accumulated amortisation on exploration and evaluation		(87)	-
Debtors		397	397
Provision for doubtful debts		(397)	(397)
		<b>3,761</b>	<b>8,255</b>
<b>19 PAYABLES</b>			
Trade creditors		3,394	4,615
Other creditors and accruals		20,149	18,971
		<b>23,543</b>	<b>23,586</b>
<b>20 PROVISIONS</b>			
<b>Current</b>			
Dividends	10	23,564	38,691
Employee entitlements	26	6,146	6,206
Restoration		410	292
		<b>30,120</b>	<b>45,189</b>
<b>Non-current</b>			
Employee entitlements	26	4,547	3,219
Restoration		527	442
		<b>5,074</b>	<b>3,661</b>

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<b>21 OTHER CURRENT LIABILITIES</b>		
Security deposits and retentions	58	55
Unrealised foreign exchange gains	233	167
	<b>291</b>	<b>222</b>

## 22 INTEREST-BEARING LIABILITIES

<b>Non-current</b>		
Unsecured loan from Queensland Treasury Corporation	206,021	234,021
<b>Bank overdraft</b>		
The company has access to an unsecured bank overdraft of:	1,000	1,000
Bank overdraft unused at balance date:	1,000	1,000

### Loan facilities

Interest rates on the facility are fixed unless further draw-downs are required. The interest rate at 30 June 2005 is 5.55% (2004–5.01%).

An amount of \$413 million (2004–\$351 million) is in a Queensland Treasury Corporation debt offset account, and is reported as a set-off against long-term borrowings.

## 23 CONTRIBUTED EQUITY

<b>Share Capital</b>		
4 (2004–4) ordinary voting (A class) shares, fully paid	-	-
979,047,712 (2004–979,047,712) ordinary non-voting (B class) shares, fully paid	979,048	979,048
	<b>979,048</b>	<b>979,048</b>

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.

## 24 RETAINED PROFITS

Retained profits at beginning of year	30,991	28,955
Net profit after income tax equivalent	29,455	40,727
Dividends	(23,564)	(38,691)
Retained profits at end of year	<b>36,882</b>	<b>30,991</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 25 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

The consolidated entity has a range of policies and procedures in place to control financial risks associated with its operating activities.

#### (a) FOREIGN CURRENCY EXCHANGE RISK

The consolidated entity is not exposed to material foreign exchange risk. The revenue of the consolidated entity is denominated in Australian dollars as is its net debt. However, where considered necessary to ensure approved expenditures remain within budget, transaction exposures relating to foreign currencies are managed by entering into currency hedge contracts. At 30 June 2005, there were no material currency hedges in place.

#### (b) COMMODITY PRICE RISK

The consolidated entity enters into derivative contracts to hedge a proportion of electricity production. The terms of these contracts range in duration. The Board has established strict limits on the level of hedging undertaken.

Hedge contracts use the half-hourly spot prices for electricity provided by the NEMMCO to settle weekly. The gains/losses on these contracts are recognised as they occur.

#### (c) CREDIT RISK EXPOSURES

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

The consolidated entity utilises appropriate credit review processes and security instruments to manage its credit risks.

The consolidated entity's credit risk exposure is minimised as it trades predominantly with other government owned corporations in the electricity industry.

The consolidated entity 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 consolidated entity also obtains acceptable credit support.

#### (d) LIQUIDITY RISK EXPOSURE

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-.

#### (e) INTEREST RATE RISK EXPOSURE

Transaction exposure risks in relation to interest rates on borrowings are managed by Queensland Treasury Corporation within certain parameters set by the company.

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out on the next page.

The interest rate on borrowings is managed by Queensland Treasury Corporation within limits set by the consolidated entity. Additional borrowings will result in the rate being recalculated. There is no fixed repayment period.

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 25 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

	Notes	Weighted average interest rate	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>2005</b>						
<b>Financial assets</b>						
Cash and deposits	11	5.75%	11,268	-	-	11,268
Receivables—trade	12		-	-	31,990	31,990
Receivables—other	12	8.76%	5,253	-	3	5,256
<b>Total financial assets</b>			<b>16,521</b>	<b>-</b>	<b>31,993</b>	<b>48,514</b>
<b>Financial liabilities</b>						
Creditors—trade	19		-	-	3,394	3,394
Creditors—other	19		-	-	20,149	20,149
Other current liabilities	21		-	-	291	291
Borrowings	22	6.26%	-	206,021	-	206,021
Dividends payable	20		-	-	23,564	23,564
Employee entitlements	26		-	-	10,693	10,693
<b>Total financial liabilities</b>			<b>-</b>	<b>206,021</b>	<b>58,091</b>	<b>264,112</b>
<b>2004</b>						
<b>Financial assets</b>						
Cash and deposits	11	5.23%	9,229	-	-	9,229
Receivables—trade	12		-	-	24,428	24,428
Receivables—other	12	9.19%	9,251	-	2	9,253
<b>Total financial assets</b>			<b>18,480</b>	<b>-</b>	<b>24,430</b>	<b>42,910</b>
<b>Financial liabilities</b>						
Creditors—trade	19		-	-	4,615	4,615
Creditors—other	19		-	-	18,971	18,971
Other current liabilities	21		-	-	222	222
Borrowings	22	5.72%	-	234,021	-	234,021
Dividends payable	20		-	-	38,691	38,691
Employee entitlements	26		-	-	9,425	9,425
<b>Total financial liabilities</b>			<b>-</b>	<b>234,021</b>	<b>71,924</b>	<b>305,945</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 25 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

#### (f) NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

##### Unrecognised financial instruments

In accordance with AASB 1033 *Presentation and Disclosure of Financial Instruments*, the fair value of forward priced electricity contracts (derivatives) are not recognised in the Statement of Financial Position due to the illiquidity of the Queensland electricity derivative market.

Under AASB 139 *Financial Instruments: Recognition and Measurement*, all financial instruments will be fair valued and included in the financial statements with effect from 1 July 2005.

##### Recognised financial instruments

The carrying value of financial assets and financial liabilities, excluding borrowings, approximates their net fair value. The net fair value of borrowings is based upon market value as advised by Queensland Treasury Corporation.

The aggregate net fair values of financial assets and liabilities at balance date are as follows:

	Notes	2005 \$'000	2004 \$'000
<b>Financial assets</b>			
Cash and deposits	11	11,268	9,229
Receivables—trade	12	31,856	24,278
Receivables—other	12	5,256	9,253
<b>Total financial assets</b>		<b>48,380</b>	<b>42,760</b>
<b>Financial liabilities</b>			
Creditors—trade	19	3,394	4,615
Creditors—other	19	20,149	18,971
Other current liabilities	21	291	222
Borrowings		208,819	231,483
Dividends	20	23,564	38,691
Employee entitlements	26	10,693	9,425
<b>Total financial liabilities</b>		<b>266,910</b>	<b>303,407</b>

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>26 EMPLOYEE ENTITLEMENTS</b>			
Aggregate liability for employee entitlements, including on-costs:			
• Current	20	6,146	6,206
• Non-current	20	4,547	3,219
		<b>10,693</b>	<b>9,425</b>
The present values of employee entitlements not expected to be settled within 12 months of balance date have been calculated using the following weighted averages:			
• Nineteen year estimate of average labour cost increases		5%	5%
• Discount rate		5.1%–5.3%	5.2%–6.0%
• Settlement term (years)		19	19

### THE ELECTRICITY SUPPLY INDUSTRY SUPERANNUATION FUND (QLD)

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 Defined Benefit Account of this fund provides defined lump sum benefits based on years of service and final average salary. The Defined Contribution Account of this fund provides lump sum benefits based on contributions and the performance of the fund. Employees contribute to the fund based on varying percentages of their superannuation salaries.

New employees are only entitled to join the Defined Contribution Account.

An actuarial assessment of the fund was last made as at 1 July 2002 by Ralph Collins FIAA of Sunsuper Financial Services Pty Ltd. An actuarial assessment is conducted every three years and the next assessment is due as at 1 July 2005. Based on calculations made as part of this assessment, the actuary is of the view that the assets of the fund are sufficient to satisfy all benefits that would have been vested under the fund in the event of termination of the fund or voluntary or compulsory termination of employment of each employee as at the assessment date.

At 1 July 2002, the accrued benefits and fund assets at net market value were as follows:

	\$'000
Present value of employees' accrued benefits	13,147
Net market value of assets held by the fund to meet future benefit payments	14,828
Excess of the assets held to meet future benefit payments over present value of employees' accrued benefits	1,681
Vested benefits	13,147

As the present value of employees' accrued benefits does not exceed assets held to meet future benefit payments, no liability is recognised.

Vested benefits are benefits which are not conditional upon continued membership of the fund (or any factor other than resignation from the fund) and include

benefits which members were entitled to receive had they terminated their fund membership as at the reporting date.

Employer contributions paid to the superannuation scheme for the year were \$3,052,633 (2004–\$2,600,483).

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<b>27 COMMITMENTS</b>		
<b>Capital expenditure commitments<sup>1</sup></b>		
Contracted but not provided for and payable:		
• Within one year	19,302	11,072
• One year or later and no later than five years	1,009	1,874
	<b>20,311</b>	<b>12,946</b>
<b>Operating expenditure commitments</b>		
Contracted but not provided for and payable:		
• Within one year	3,874	4,781
• One year or later and no later than five years	8,918	15,461
• Later than five years	32,405	32,503
	<b>45,197</b>	<b>52,745</b>
<b>Operating lease commitments<sup>2</sup></b>		
Future operating lease rentals not provided for in the financial statements and payable:		
• Within one year	1,850	2,303
• One year or later and no later than five years	5,796	5,486
• Later than five years	2,486	4,529
	<b>10,132</b>	<b>12,318</b>

(1) Refer to Note 33 with regard to capital expenditure commitments for the Emu Downs Wind Farm Project.

(2) Operating lease commitments relate to premises, motor vehicles and computer equipment.

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>28 NOTES TO THE STATEMENT OF CASH FLOWS</b>			
<b>(a) Reconciliation of cash</b>			
For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year, as shown in the Statement of Cash Flows, is reconciled to the related items in the Statement of Financial Position as follows:			
Cash at bank and on hand	11	95	171
Deposits at call	11	11,173	9,058
		<b>11,268</b>	<b>9,229</b>
<b>(b) Reconciliation of profit from ordinary activities after income tax equivalent to net cash provided by operating activities</b>			
Profit from ordinary activities after income tax equivalent		29,455	40,727
Add items classified as investing/financing activities:			
• (Gain)/loss on sale of non-current assets		(1,354)	735
Add non-cash items:			
• Depreciation and amortisation		67,613	65,945
• Recoverable amount write-down		10,683	204
• Development costs written off		1,547	-
Net cash provided by operating activities before change in assets and liabilities		107,944	107,611
Change in assets and liabilities:			
• (Increase)/decrease in debtors		(3,581)	17,255
• Decrease in inventories		359	297
• (Increase) in intangible assets		(2,411)	-
• (Increase) in deferred tax assets		(30,550)	(89)
• (Increase) in other operating assets		(102)	(435)
• (Decrease) in accounts payable		(43)	(7,256)
• Increase in deferred tax liabilities		40,221	20,596
• Increase/(decrease) in other provisions/liabilities		1,540	(37,314)
Net cash provided by operating activities		<b>113,377</b>	<b>100,665</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 29 DIRECTOR AND EXECUTIVE DISCLOSURES

#### REMUNERATION OF SPECIFIED DIRECTORS

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

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

	Primary	Post employment	Total
	Salary and fees \$'000	Superannuation \$'000	\$'000
<b>Specified directors</b>			
Ms E Nosworthy (Chairman)			
• 2005	63	6	69
• 2004	55	5	60
Mr S Campbell			
• 2005	27	2	29
• 2004	23	2	25
Mr B Kelly (Chairman Human Resources and Workplace Health and Safety Committee)			
• 2005	28	2	30
• 2004	24	2	26
Ms B Morris (Chairman Audit and Risk Management Committee)			
• 2005	28	2	30
• 2004	24	2	26
Ms M Palmer			
• 2005	27	-	27
• 2004	23	-	23
Ms K Shillington			
• 2005	27	2	29
• 2004	21	2	23
Mr M Williamson			
• 2005	27	2	29
• 2004	23	2	25
<b>Total remuneration:</b>			
• 2005	227	16	243
• 2004	193	15	208

Directors' remuneration 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 remuneration in the form of non-monetary or other benefits.

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 29 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

#### REMUNERATION OF SPECIFIED EXECUTIVES

The Human Resources and Workplace Health and Safety Committee is responsible for making recommendations to the Board on the remuneration policies and packages applicable to the senior executives of the company.

The remuneration 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 remuneration of each specified executive of the company are:

	Primary		Post employment	Other benefits	Total
	Salary and fees \$'000	Non-monetary \$'000	Superannuation \$'000	\$'000	\$'000
<b>Specified executives</b>					
Chief Executive Officer					
• 2005	337	8	33	13	391
• 2004	326	10	33	7	376
Chief Financial Officer					
• 2005	207	3	20	7	237
• 2004	210	5	20	6	241
General Manager Asset Management and Technical Services					
• 2005	185	2	19	9	215
• 2004	179	3	18	9	209
General Manager Business Expansion					
• 2005	180	6	18	3	207
• 2004	172	6	17	3	198
General Manager Business Services					
• 2005	185	5	19	9	218
• 2004 <sup>1</sup>	88	6	9	5	108
General Manager Marketing and Trading					
• 2005	230	6	21	9	266
• 2004	204	7	20	11	242
General Manager Operations and Maintenance Services					
• 2005	185	4	19	5	213
• 2004	179	5	18	4	206
<b>Total remuneration:</b>					
• 2005	1,509	34	149	55	1,747
• 2004	1,358	42	135	45	1,580

(1) This comparison figure has been restated to reflect a payment made in the 2005 year which related to the 2004 year.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 29 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

The table on the previous page provides information relating to executives who are currently employed by the consolidated entity. Further, executives may earn performance based 'at risk' incentive bonuses which are not shown in this table.

Executives' remuneration does not include insurance premiums paid by the consolidated entity 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.

#### REMUNERATION POLICY

The company 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 remuneration strategy that rewards based on a combination of personal, team and company performance.

The company has three broad categories of employees; each category has a specific remuneration 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	6	31 December 2007
Chief Financial Officer	5	30 June 2007
General Manager Asset Management and Technical Services	5	30 June 2007
General Manager Business Expansion	5	5 March 2008
General Manager Business Services	5	17 December 2008
General Manager Marketing and Trading (Resigned 29 July 2005)	6	30 June 2008
General Manager Operations and Maintenance Services	5	30 June 2007

# Financial Report 2005

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 29 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

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 employees' superannuation funds on a salary sacrifice basis.

#### 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 the employee's superannuation fund on a salary sacrifice basis.

### 30 RELATED PARTIES

#### DIRECTORS

The names of each person holding the position of Director of the company during the financial year are Elizabeth Nosworthy, Steven Campbell, Barry Kelly, Bronwyn Morris, Maureen Palmer, Kasha Shillington and Mark Williamson.

Details of directors' remuneration are set out in Note 29.

Apart from the details disclosed in this note, no director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year-end.

#### DIRECTORS' TRANSACTIONS WITH THE COMPANY

There were no material director related party transactions during the financial year.

A number of the directors of the company are also directors of other organisations which have transactions with the company. The directors do not believe that they have the capacity to control or significantly influence the financial or operating policies of the consolidated entity or the organisations in their dealings with each other. Those organisations are therefore not considered to be director related entities.

#### NON-DIRECTOR RELATED PARTIES

There were no material non-director related party transactions during the financial year.

### 31 SEGMENT INFORMATION

#### BUSINESS SEGMENTS

The consolidated entity operates principally in the electricity generation industry.

#### GEOGRAPHICAL SEGMENTS

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

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

### 32 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 Statement of Financial Performance over the estimated life of the assets on a straight-line basis consistent with the consolidated entity'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.

### 33 EVENTS SUBSEQUENT TO BALANCE DATE

On 21 July 2005, after receiving Board and Shareholding Minister approval, the consolidated entity entered into a number of agreements in respect of the Emu Downs Wind Farm Project.

These agreements included power and green benefit off take and network agreements and an engineer, procure and construct contract. The project has an approved capital budget of \$180 million and will be completed in late 2006. The project will be project financed, with all financing arrangements finalised during the initial two months of construction. Furthermore, the intention is for the project to be jointly developed and operated with a third party. The joint venture arrangements are currently being finalised.

### 34 ECONOMIC DEPENDENCY

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

# Financial Report 2005

## DIRECTORS' DECLARATION

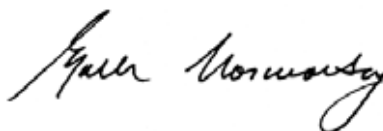
for the year ended 30 June 2005

In the opinion of the directors:

- (a) the financial statements and notes of the company and the consolidated entity set out on pages 63 to 95 are in accordance with 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 2005 and of their performance for the year ended on that date, and
  - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) 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 2nd day of September 2005.

Signed in accordance with a resolution of the directors:



**E Nosworthy**  
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 section 307C of the *Corporations Act 2001*.

### INDEPENDENCE DECLARATION

As lead auditor for the audit of Stanwell Corporation Limited and its controlled entities for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and

- b) no contraventions of any applicable code of professional conduct in relation to the audit.



**V P MANERA, FCPA**

Deputy Auditor-General of Queensland  
(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office  
Brisbane  
30 August 2005

## INDEPENDENT AUDIT REPORT

to the members of Stanwell Corporation Limited

### MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL REPORT

The audit report relates to the financial report of Stanwell Corporation Limited for the financial year ended 30 June 2005 included on Stanwell Corporation Limited's web site. The directors are responsible for the integrity of Stanwell Corporation Limited's web site. We have not been engaged to report on the integrity of 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 Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, accompanying 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 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

#### Directors' responsibility

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

#### Audit approach

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

### 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 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 2005.

### 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 and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date, and
  - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



V P MANERA, FCPA

Deputy Auditor-General of Queensland  
(as Delegate of the Auditor-General of Queensland)

Queensland Audit Office  
Brisbane  
6 September 2005

# Glossary and Abbreviations

## GLOSSARY

### availability

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

### base load 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

### hedge contract

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

### forced outage rate

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

### output

Dispatched generation

### 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

**AS4801** Australian standard for health and safety

**ATO** Australian Taxation Office

**CIS** Capital Investment System

**CO<sub>2</sub>** Carbon dioxide

**CO2CRC** Cooperative Research Centre for Greenhouse Gas Technologies

**CCSD** Cooperative Research Centre for Coal in Sustainable Development

**EBA** Enterprise Bargaining Agreement

**EMP** Environmental Management Plan

**EMS** Environmental Management System

**EPA** Environmental Protection Agency

**ESAA** Energy Supply Association of Australia

**GL** Gigalitres. One GL = one thousand megalitres

**GOC** A government owned corporation under the *Government Owned Corporations Act 1993*

**GST** Goods and services tax

**GWh** Gigawatt hour. One GWh = one thousand megawatt hours

**HP** High pressure

**IFRS** International Financial Reporting Standards

**IGCC** Integrated Gasification Combined Cycle

**IT** Information technology

**ISO 14001** International standard for environmental management

**LNG** Liquefied natural gas

**LP** Low pressure

**LPG** Liquefied petroleum gas

**LTI** Lost Time Injury(ies)

**LTIDR** Lost Time Injury Duration Rate

**LTIFR** Lost Time Injury Frequency Rate

**ML** Megalitres. One ML = one million litres

**m** Million

**MW** Megawatt. One MW = one million watts

**MWh** Megawatt hour. One MWh = one thousand kilowatt hours

**NEM** National Electricity Market. A competitive wholesale electricity market for eastern and south eastern Australia

**NEMMCO** National Electricity Market Management Company

**NO<sub>x</sub>** Nitrous oxide

**OHS** Occupational health and safety

**QTC** Queensland Treasury Corporation

**RECs** Renewable Energy Certificates

**SCI** Statement of Corporate Intent

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