SUCCESS | LONGEVITY | SUSTAINABILITY

ANNUAL REPORT
2008 | 2009

TARONG ENERGY

PURPOSE

TO PROVIDE SAFE, RELIABLE AND EFFICIENT ENERGY SOLUTIONS FOR THE PEOPLE OF QUEENSLAND.

VALUES

SAFETY AND ENVIRONMENT
We live safely and respect our environment

PERFORMANCE
We make a lasting difference

ACCOUNTABILITY
We assume responsibility

COOPERATION
We engage with others

ETHICS
We do the right thing always

CONTENTS

This Annual Report celebrates the key achievements and initiatives of Tarong Energy Corporation Limited ('Tarong Energy' or 'the Corporation') in the 2008/2009 financial year. It provides our stakeholders with a comprehensive insight into business activities and performance and our strategies to meet future challenges in 2009 and 2010. It also discusses our capabilities to manage the business and finances on behalf of our shareholders and, ultimately, the people of Queensland.

Reflecting Tarong Energy's strong commitment to the environment, this Annual Report has been printed on recycled coated paper and environmentally friendly uncoated paper, containing elemental, chlorine-free pulp sourced from sustainable plantation forests and manufactured by ISO 14001 certified mills. The report has been printed with soy and linseed oil-based inks by Geon, awarded an Environmental Initiative Award for their recycling loop.

For more information or to download a PDF version of this report, visit www.tarongenergy.com.au

Front cover image: Tarong Power Station at dawn. 2009 marked 25 years of Tarong Power Station providing a safe and reliable supply of electricity to the people of Queensland.

Back cover image: Meandu Mine at dusk. Meandu Mine provides coal to the Tarong and Tarong North power stations.

Tarong Energy is one of Queensland's most significant power generators with a reputation built on reliability and strong performance in a competitive and dynamic electricity marketplace. Tarong Energy also owns its primary fuel source — coal.

CORPORATE PROFILE

Established in July 1997 and owned by the Queensland Government, Tarong Energy has the capacity to produce one quarter of Queensland's electricity needs. We are proud of our reputation for reliably supplying electricity to help underpin the state's growth.

Our reliability is a valuable asset, and we have developed a flexible and responsive marketing approach to make the most of this advantage in the National Electricity Market (NEM). Tarong Energy sells electricity and provides ancillary services to the NEM (operated by the Australian Energy Market Operator (AEMO), formerly NEMMCO) from the Tarong and Wivenhoe power stations.

Tarong Energy employs 497 people in electrical and mechanical trades, engineering, and a wide variety of professional and support roles at its generating sites and in its Brisbane corporate office.

The Corporation owns a mix of generating and mining assets.

Tarong Power Station, located near Nanango in the South Burnett region, is a coal-fired power station comprising four units with a gross generating capacity of 1,400 megawatts (MW). It also has a liquid fuel-fired emergency plant with a gross generating capacity of 15 MW.

The neighbouring **Tarong North Power Station** is a supercritical coal-fired power station with a gross generating capacity of 443 MW.

As at 19 August 2009 when the Tarong Energy directors signed the Annual Report financial statements, Tarong North Power Station was jointly owned by TN Power Pty Ltd (a subsidiary of Tarong Energy) and TM Energy (Australia) Pty Ltd, a company jointly owned by Tokyo Electric Power Company (TEPCO) and Mitsui & Co. Ltd (Mitsui).

Wivenhoe Power Station, located at Wivenhoe Dam about one hour west of Brisbane, is a hydro-electric, pumped-storage facility. It has two units that can generate a gross capacity of 500 MW.

Meandu Mine was acquired by Tarong Energy on 1 February 2008 and is operated by contract miner Thiess Pty Ltd. The mine provides coal to Tarong and Tarong North power stations via a 1.5 km conveyor.

Tarong Energy has acquired the **Kunioon Mineral Development Licence** to plan for a future mine at Kunioon and secure a long-term fuel source for Tarong and Tarong North power stations. The Kunioon coal resource is located about 15 km north of the power stations.

The **Glen Wilga and Haystack Road coal resources** located near Chinchilla in Queensland's Surat Basin were previously considered as a future fuel source for the Tarong power stations. Tarong Energy will determine the market value of the mining tenements in the near future.

2008/09 HIGHLIGHTS

- Significant reserves of economically-viable coal were identified at Meandu Mine, which will extend the mine's life and provide a secure fuel supply for the Tarong power stations.
- A state-of-the-art control system was installed in Unit 1 and Unit 2 at Tarong Power Station — the first stage of an approximately $168 million maintenance program to enhance the station's performance and reliability.
- 2009 commemorated 25 years of operation by Tarong Power Station and Wivenhoe Power Station. During this time, both stations have provided safe and reliable electricity supply to the people of Queensland.
- Tarong Energy introduced a safe operating philosophy and 10 lifesaving rules as part of a Corporation-wide, zero harm program.
- Nitrogen oxide (NO_x) emissions from Unit 1 at Tarong Power Station were reduced by more than 50 per cent with the installation of low NO_x burners.
- The Corporation prepared for operating in a carbon-constrained market by investigating low-emission generation opportunities and ways to generate and trade electricity more efficiently.

FIVE-YEAR FINANCIAL COMPARISON

	Consolidated					Change
	2004/05[3]	2005/06	2006/07	2007/08	2008/09	%
Revenue—Electricity—Continuing Operations[1]	421.5	418.1	366.3	313.7	439.4	40.0
Revenue—Electricity—Discontinued Operations	2.5	2.9	6.2	3.8	-	(100.0)
Revenue—Electricity—Total	424.0	421.0	372.5	317.5	439.4	38.4
Revenue—Gas—Discontinued Operations[2]	68.0	-	-	-	-	-
Earnings Before Interest and Tax (EBIT)[4]	134.7	110.7	(84.1)	219.4	149.0	(32.1)
Profit/(Loss) After Income Tax—Continuing Operations	77.8	62.0	(71.3)	56.7	85.1	50.1
Profit/(Loss) After Income Tax—Discontinued Operations[4]	4.7	7.3	2.7	121.6	-	(100.0)
Profit/(Loss) After Income Tax[4]	82.5	69.3	(68.6)	178.4	85.1	(52.3)
Dividend Paid or Proposed[5]	63.7	55.5	-	50.8	45.5	(10.4)
Total Assets	1,563.2	1,568.0	2,115.5	1,848.2	2,087.5	13.0
Total Liabilities	752.8	746.6	1,546.5	1,117.1	1,174.1	5.1
Total Equity	810.5	821.4	569.0	731.1	913.4	24.9
Dividend Payout Ratio[6,*]	80.0%	80.0%	80.0%	80.0%	80.0%	-
Return on Average Productive Assets[6,*]	9.2%	7.8%	(5.7%)	5.8%	4.3%	(25.9)
Return on Average Equity[6,7,*]	10.3%	8.6%	(8.8%)	8.7%	10.8%	24.0
Gearing[*]	24.3%	25.2%	39.4%	35.0%	32.8%	(6.3)

1 Including ancillary services revenue.
2 Terra Gas Trader was sold in 2005.
3 Results for 2004/05 have been restated under Australian International Financial Reporting Standards (AIFRS).
4 2007/08 result includes profit on sale of the wind farms of $114.9 million.
5 Dividend in relation to financial year shown is payable within six months after the end of the financial year.
6 2007/08 calculations exclude the profit on sale of the wind farms.
7 2007/08 equity was reduced by $134.9 million in June 2008 relating to the repatriation of wind farm sales proceeds to Government via a share buy-back.

* Definitions for these are shown in the Calculations on the inside back cover.

SUMMARY OF PERFORMANCE AGAINST STATED OBJECTIVES

Corporate objective	Key outcomes
Safety *To achieve a zero harm workplace through continuous improvement of systems, the work environment and culture, with team leaders accountable for ensuring that all employees take responsibility for their safety and the safety of others*	• Recorded a 167 per cent increase in the reporting of Health, Safety, Environment and Quality improvements and non-injury incidents across the Corporation, exceeding the corporate target of 1,000 reports by more than 73 per cent • Rolled out zero harm workshops across the Corporation to educate employees about Tarong Energy's safe operating philosophy and the 10 lifesaving rules • Introduced a rigorous fatigue, alcohol and other drugs program across all Tarong Energy operated sites
Fuel *To optimise use of economically recoverable coal resources and safeguard a reliable fuel supply into the future*	• Identified significant additional economically-viable coal reserves at Meandu Mine • Received Federal Government support to extend the surface rights at Meandu Mine • Progressed planning and design to develop a mine at the Kunioon coal resource when Meandu Mine is no longer commercially viable
Generating assets *To maintain the reliability and efficiency of the generation plant performance at Tarong Power Station, Tarong North Power Station and Wivenhoe Power Station*	• Successfully returned to higher generation levels at Tarong Power Station following the lifting of water restrictions • Undertook a $35 million overhaul of Unit 1 at Tarong Power Station to enhance the station's performance and reliability • Implemented a maintenance strategy for the 78 km-long Wivenhoe-Tarong water pipeline to achieve major cost savings while maintaining the pipeline's excellent availabilities
Environment *To reduce Tarong Energy's environmental impacts, use resources sustainably and prepare for the introduction of the Carbon Pollution Reduction Scheme*	• Planned a carbon capture project with the CSIRO to investigate the potential to capture up to 85 per cent of carbon emissions from Tarong Power Station • Commenced construction of a new facility to dispose of ash into a disused void at Meandu Mine • Installed low nitrogen oxide (NO_x) burners on Unit 1 at Tarong Power Station to reduce NO_x emissions by more than 50 per cent
Market position *To capitalise on the increased generation from the lifting of water restrictions and continue to enhance forward revenue*	• Implemented an innovative forward contracting strategy to optimise Tarong Energy's market position once water restrictions lifted and generation levels increased • Continued to develop strong relationships with a diverse mix of counterparties • Effectively traded in the forward contract markets
Stakeholder relations *To enhance and maintain Tarong Energy's social investment and community relations programs to achieve and maintain public recognition as a socially responsible organisation*	• Reconfirmed Tarong Energy's strong relationship with the Wakka Wakka people, the traditional owners in the South Burnett region, by signing an Indigenous Land Use Agreement (ILUA), which replaced an earlier agreement • Invested $300,000 in medium to long-term community partnerships with the launch of the Tarong Energy Community Partnership Fund • Provided an additional $145,000 in community sponsorships • Engaged with key stakeholders and communities about major projects, including the Kunioon Coal Project
People management *To enhance workplace policies and practices to achieve and maintain Tarong Energy's 'employer-of-choice' status*	• Undertook negotiations on the 2009 Enterprise Bargaining Agreement, with a focus on optimising operational work practices to benefit both employees and the Corporation • Re-launched the Corporation's intranet to give employees timely access to information • Implemented a new online Learning Management System

Top: Wivenhoe Power Station.

Bottom (l-r): Mining at Meandu Mine; safe driving at Tarong Power Station.

We can take great pride in our recent achievements and successes, and be confident that we are well placed to meet the challenges and capitalise on the opportunities of the year ahead.

CHAIR'S REPORT

Graham Carpenter

MBA, FAICD, FCA, FCPA

Chairman (1 July 2007), Independent non-executive director

Term of appointment 1 July 2005 – 30 September 2010

Member, People and Performance Committee, Strategy and Business Development Committee

Ex-officio member, Audit and Risk Management Committee

Tarong Energy has many reasons to celebrate as we look back over the achievements and successes of the past year.

We have emerged, after two difficult years of reduced generation during the drought and uncertainty about future fuel supplies, a stronger and more resilient business. The forward planning and hard work of previous years paid off in 2008/09 with strong financial returns and a sound performance across the business.

Our profit after tax of $85.1 million reflects a Corporation-wide effort to enhance efficiency and performance.

Another cause for celebration was the 25-year anniversary of the commissioning of Tarong Power Station and Wivenhoe Power Station. The past 25 years have seen significant changes in Queensland, and we can take enormous pride in the important contribution made by these two facilities in powering our state during this period of great progress and development.

Last year I reported that Tarong Energy had purchased Meandu Mine and the Kunioon coal resource near Kingaroy to secure its future fuel supply. In our first full year of mining operations, we identified a significant increase in economically-viable coal reserves at Meandu Mine. This is excellent news for Tarong Energy and the South Burnett community. It will extend the mine's life, provide a long-term fuel supply to the Tarong power stations and safeguard our future as a major employer in the South Burnett region.

The identification of additional coal at Meandu Mine gives us greater flexibility in the timing of the transition to the Kunioon coal resource. We remain committed to using both resources as the future fuel supply for our power stations. However, we will continue to assess a range of transitional options in 2009/10 to make the most sustainable and effective use of these precious resources.

The 2008/09 financial year was also a period in which we strategically planned and prepared for the challenges that lie ahead. As one of Queensland's largest energy providers, we will face major changes when the Australian Government introduces the proposed Carbon Pollution Reduction Scheme.

Despite the delay of the Scheme's introduction, Tarong Energy has pushed ahead with investigations into ways in which to reduce and offset our carbon emissions including low-emission generation technologies and the development of carbon capture.

Led by CEO Helen Gluer and the Executive Management Team, Tarong Energy employees were an integral part of our success in 2008/09. We remain as committed as ever to providing a safe and rewarding workplace for all our people.

My fellow directors, especially the committee chairs, continued to provide stable and strategic leadership to Tarong Energy. Together with our Executive Management Team and employees, they contributed to the strength of our achievements and excellent results this financial year.

I would also like to acknowledge the cooperation of our joint venture partners in the Tarong North Power Station, Tokyo Electric Power Company and Mitsui & Co. Ltd.

Finally, I would like to thank our shareholding Ministers, the Honourable Andrew Fraser MP, Treasurer and Minister for Employment and Economic Development; and the Honourable Stephen Robertson MP, Minister for Natural Resources, Mines and Energy and Minister for Trade for their support. I would also like to express my thanks to the former Minister for Mines and Energy, the Honourable Geoff Wilson MP, for his support whilst one of our shareholding Ministers.

This Annual Report details our performance for the financial year ended 30 June 2009 and outlines our direction in the coming year. We can take great pride in our recent achievements and successes, and be confident that we are well placed to meet the challenges and capitalise on the opportunities of the year ahead.

Graham Carpenter
Chair

Tarong North Power Station.

SUPPLEMENT — Tarong Energy signs agreement to take full ownership of Tarong North Power Station — 10 September 2009

Subsequent to the financial statements for this Annual Report being signed, Tarong Energy signed an agreement on 10 September 2009 to take full ownership of Tarong North Power Station, Australia's most emissions-efficient, coal-fired generator.

The Corporation, which currently owns 50 per cent of Tarong North, has agreed to purchase the remaining 50 per cent from its joint venture partners, Tokyo Electric Power Company and Mitsui & Co. Ltd.

Upon satisfying a number of regulatory and commercial requirements, Tarong Energy will complete the acquisition and move to full ownership of Tarong North Power Station.

The decision by our joint venture partners to pursue other strategic interests has delivered the Corporation a wonderful opportunity to play an even greater role in meeting Queensland's growing energy needs. Tarong North is a highly efficient, modern power station that will also help to reduce Tarong Energy's overall carbon intensity.

We have had an excellent working relationship with our joint venture partners for the past six years and I would like to thank them for the time, effort and genuine care they have shown in developing and maintaining Tarong North.

Our priority on taking ownership will be to ensure a smooth transition for the Tarong North employees into Tarong Power Station's workforce.

More information about Tarong Energy's acquisition of Tarong North Power Station is available on www.tarongenergy.com.au.

Graham Carpenter
Chair

Our focus during the year was on achieving financial and operational success, ensuring our longevity, and working towards a sustainable future. I am pleased to report we have made exceptional progress in each of these areas.

CEO'S REPORT

Helen Gluer

BCom, MBA, CPA, FAIM, FAICD

Chief Executive Officer

Tarong Energy delivered an excellent performance in 2008/09.

Our focus during the year was on achieving financial and operational success, ensuring our longevity, and working towards a sustainable future. I am proud to report that we have made exceptional progress in each of these areas.

Despite this financial period being dominated by global financial uncertainty and volatility in the resources sector, 2008/09 was a profitable year for Tarong Energy. We recorded a profit after tax of $85.1 million.

The confirmation of additional economic coal at Meandu Mine has helped to further secure our future and longevity.

This was a year in which we also reflected on our proud history. 2009 marked 25 years of reliable supply of electricity by Tarong Power Station and Wivenhoe Power Station and I joined past and present employees in celebrating this milestone at a well-attended Family Day in February 2009.

Looking ahead, I am confident we will continue to be one of Queensland's major power generators for another 25 years and beyond. The hard work and outstanding performance of our employees over this past year, as reflected in this report, have strengthened our business and positioned us to meet the challenges ahead.

Our zero harm journey

Protecting the health and safety of all our people remains a core value and our number one priority. Our ultimate goal is a zero harm workplace across all our sites.

We made significant progress towards realising this goal in 2008/09. We spearheaded the push for a safer workplace by rolling out workshops to engage all our people in a collaborative journey toward zero harm. Central to this initiative are our safe operating philosophy and lifesaving rules—the safe processes that must never be compromised when working or visiting one of our sites.

Over the past two years, we have worked in partnership with the unions and Queensland Government Owned Corporation generators to develop a common fitness for work policy. As part of this, we have implemented random alcohol and other drugs testing, and conducted workshops to raise employees' awareness about fatigue.

Our sustained commitment to health and safety was reflected in a commendable safety performance. Despite a massive influx of contractors and an increase in risk-oriented work during the unit overhauls at Tarong Power Station, we continued to work safely.

Enhancing our performance

This year we embarked on the most significant maintenance program ever undertaken at Tarong Power Station. While the station's reliability has been excellent, its four generating units will be overhauled over three years to further enhance performance and to reduce emissions.

The first overhaul—a $35 million upgrade of Unit 1—was successfully completed in January 2009, and the even larger Unit 2 overhaul finished in July 2009. I commend our employees for their excellent work in delivering a maintenance program of this magnitude.

The overhaul involves refitting each unit with a state-of-the-art control system—essentially replacing the 'brain' of the power station. At the same time, we are improving regional air quality by fitting new low nitrogen oxide (NO_x) burners to the units' stacks.

Working for a sustainable future

As the world looks to address climate change, Tarong Energy is taking steps to reduce its carbon intensity.

We are evolving our business to operate effectively in a carbon-constrained market. However, we also recognise that a successful transition to lower emissions will take time, will be market-driven and will be done in a way that will not threaten the economic advantages of generating reliable, affordable electricity.

This year we investigated options for generating electricity more efficiently at our power stations and offsetting our emissions in the most effective way. Initiatives included investigating biodiesel use and looking into post-combustion carbon capture technology.

Investing in our future

We are acutely aware of the need to plan for the future of our workforce in order to safeguard our longevity. This year we welcomed our first ever intake of university graduates as part of the new Graduate Development Program.

We also recruited our largest ever intake of apprentices and trainees from the South Burnett to work at Tarong Power Station.

Strengthening the community

We recognise that the communities in which we operate make an important contribution to our success. We strive to be a good neighbour and work hard to give back to the community. This year we launched the Community Partnership Fund, investing $300,000 in the South Burnett community to deliver long-term benefits to the region.

In addition to these direct investments, a University of Southern Queensland study undertaken in late 2008 found that Tarong Energy's operations contribute almost one third or $332.2 million of the South Burnett's total value of goods and services.

Since we took ownership of Meandu Mine, we have worked closely with the Wakka Wakka people, the traditional owners in the South Burnett. We formalised our ties with the Wakka Wakka people by signing an Indigenous Land Use Agreement (ILUA) in February 2009. This agreement commits our continued financial support of Indigenous projects and community organisations.

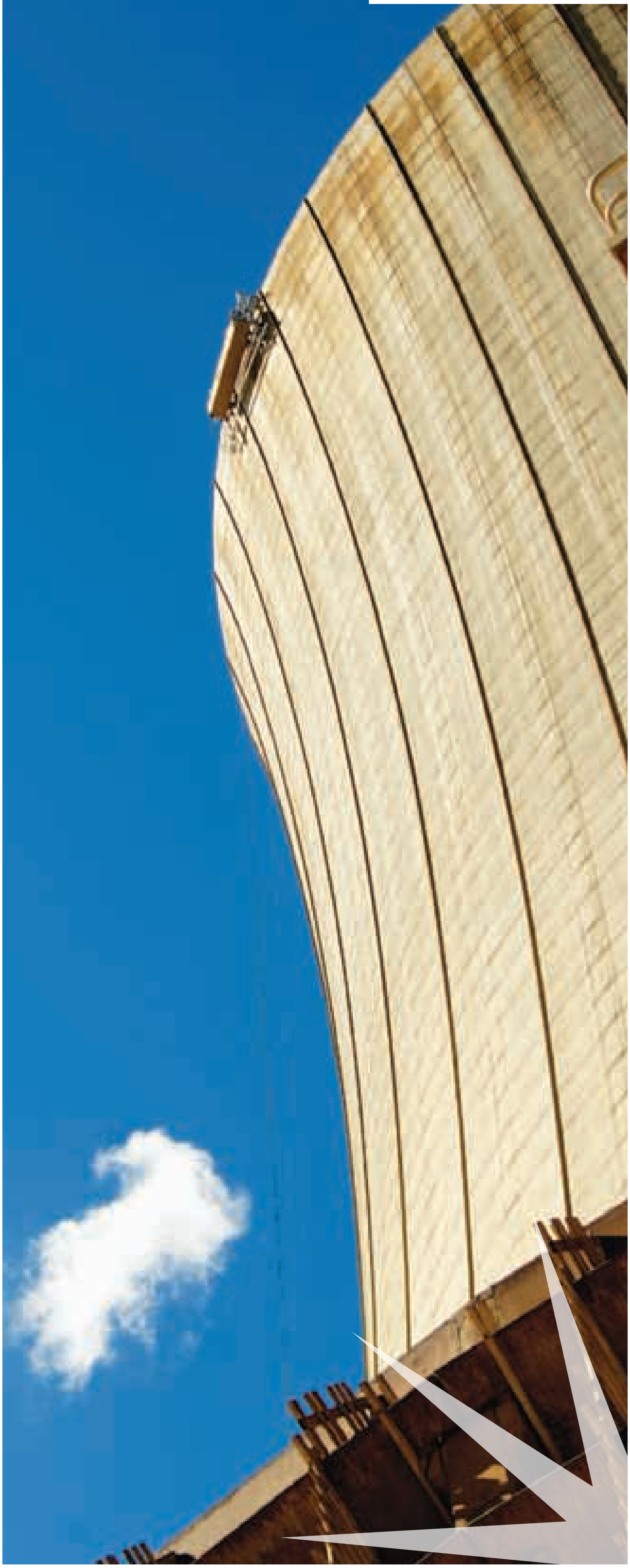
In closing, I would like to thank the Chair and Board for their unwavering support. My senior management team has once again risen to the challenges and capitalised on the opportunities presented during the year.

Above all, I would like to thank Tarong Energy's employees, whose efforts mean that we can be justifiably proud of our achievements, our longevity and reliability, and strong financial performance this year.

But we are not complacent—we will continue to evolve our business to meet the challenges of an increasingly competitive marketplace and a shift to a lower carbon future.

Helen Gluer
Chief Executive Officer

Cooling tower at Tarong Power Station.



BOARD OF DIRECTORS

Graham Carpenter

MBA, FAICD, FCA, FCPA

Chairman (1 July 2007), Independent non-executive director

Term of appointment 1 July 2005 – 30 September 2010

Member, People and Performance Committee, Strategy and Business Development Committee

Ex-officio member, Audit and Risk Management Committee

Mr Graham Carpenter is a chartered accountant who has held a number of senior executive positions in both the public and private sectors including partner in chartered accounting firms, Auditor-General in the Northern Territory and senior positions with Victorian and Queensland Treasuries.

Mr Carpenter brings expertise in the areas of corporate governance, financial management consulting, accounting, audit, risk management and performance management. He has a depth of experience in infrastructure management.

Mr Carpenter is Chair of the Audit Committees of South Bank Corporation, Queensland Police Service and Scenic Rim Regional Council. He is a member of Audit Committees for Queensland Transport and the Local Government Association of Queensland, and a member of the Audit, Evaluation and Risk Committee of the Department of Premier and Cabinet. He is also a member of the Finance and Resources Committee of Griffith University and a member of the Finance and Audit Committee of Construction Skills Queensland. Mr Carpenter was previously Chair and director of the Audit and Business Risk Committee of South East Queensland (Gold Coast) Desalination Company Pty Ltd, and a director of Ports Corporation Queensland Ltd. He provides consulting services to BDO Kendalls where he was previously a partner.

Richard (Ric) Barton

BE(Civil), MS(Civil Eng), FIEAust, FAIM

Independent non-executive director

Term of appointment 1 July 2008 – 30 September 2011

Member, Audit and Risk Management Committee

Mr Ric Barton is a civil engineer and currently a partner and director of Flagstaff Consulting Group Pty Ltd. He has extensive experience at corporate level in commercial business; at project development and delivery stages in the heavy, resource and civil engineering industries; and at project delivery stage in the health and industrial building industries, predominantly from the constructor's perspective but over recent years from the project owner's point of view.

Mr Barton held various project and senior management positions with John Holland Pty Ltd concluding with General Manager (Queensland) and Executive Director. More recently, he has held or currently holds independent director, steering committee member, project director, and executive advisor roles with various government-related enterprises.

Mr Barton has been involved in numerous major construction projects for more than 40 years. Throughout this time he has been actively involved in industry committees covering construction safety and project delivery issues, and technical and management research.

Leeanne Bond

BE(Chem), FIEAust, RPEQ, GAICD

Independent non-executive director

Term of appointment 16 September 2004 – 30 June 2008

Reappointed 1 July 2008 – 30 September 2011

Member, People and Performance Committee, Strategy and Business Development Committee

Mrs Leeanne Bond is a chemical engineer. She has extensive experience in business management, projects, design and proposals for a number of international engineering and project management organisations working on projects across the hydrocarbons, minerals processing, infrastructure and power industry sectors.

Mrs Bond is currently a director of the Queensland Bulk Water Supply Authority and South East Queensland Water Corporation Ltd (SEQWater) and consults to industry through her company Breakthrough Energy Pty Ltd. She previously served as Chairperson of the Brisbane Water Advisory Board for Brisbane City Council, Deputy Chairperson of the Board of Professional Engineers in Queensland, President of Engineers Australia (Queensland Division) and a member of the Queensland Government Smart Women Smart State Taskforce.

Mrs Bond was named "2007 Professional Engineer of the Year" by Engineers Australia.

Kym Collins

MBA, BEng(Elec), GAICD

Independent non-executive director

Term of appointment 1 July 2005 – 30 September 2008

Reappointed 1 October 2008 – 30 September 2011

Member, Audit and Risk Management Committee, People and Performance Committee

Mrs Kym Collins is an electrical engineer, experienced in project management, control and energy engineering in the commercial construction industry. She currently provides project management and engineering design services on several major projects in south east Queensland through her own consultancy business, and was previously the State Manager for Building Automation at Siemens Ltd.

Mrs Collins was a committee member of the Institute of Hospital Engineers (Queensland) and a member of Women in Technology. She is currently a committee member of the St Aidan's Old Girls Association.

Elizabeth Jameson

BA, LLB(Hons), LSDA, FAICD

Independent non-executive director

Term of appointment 12 April 2007 – 30 September 2010

Chair, People and Performance Committee

Member, Strategy and Business Development Committee

Ms Elizabeth Jameson is a corporate/commercial lawyer with comprehensive experience providing legal and related advice and assistance to a large range of corporate and not-for-profit organisations, including statutory bodies and government owned corporations. Ms Jameson teaches and facilitates a range of corporate governance classes and sessions for the Australian Institute of Company Directors.

Ms Jameson is Principal of Board Matters Pty Ltd and is currently Chair and director of Queensland Music Festival Pty Ltd and Board of Trustees Brisbane Girls' Grammar School. She is a director of RACQ Ltd and MAP Funds Management Ltd, and Chair of MAP Financial Planning Pty Ltd. Ms Jameson is also Chair and director of Fibrecycle Pty Ltd.

John Pegler

BE(Mining), MAusIMM

Independent non-executive director

Term of appointment 1 July 2006 – 30 September 2009

Chair, Strategy and Business Development Committee

Mr John Pegler has extensive national and international experience in open-cut and underground coal resource development, mining and processing operations, project development processes and international procurement. He also has a background in coal utilisation and marketing coal to power generators and steel mills in Australia, Japan, Korea, India and other Asian and European countries. Most recently he was Chief Executive Officer of Ensham Resources Pty Ltd.

Currently Mr Pegler is Chairman of the Australian Coal Association and a director of ACALET Ltd, Chairman of the National Low Emissions Coal Council Strategy Working Group, Chairman of the Centre for Low Emission Technology (cLET) and Chairman of the Queensland Underground Coal Gasification Consultative Committee. He was appointed by the Queensland Premier as a foundation member of the Queensland Clean Coal Council. Mr Pegler was twice elected President of the Queensland Resources Council (QRC) and was recently elected as a QRC Life Member in recognition of his service to the resources sector. On 30 July 2009, Mr Pegler was appointed director of Energy Resources of Australia Ltd.

Karen Smith-Pomeroy

MNIA, PNA, FAIBF, MAICD

Independent non-executive director

Term of appointment 12 April 2007 – 30 September 2010

Chair, Audit and Risk Management Committee

Ms Karen Smith-Pomeroy is a qualified accountant and has had extensive experience in senior roles within the Australian banking and finance industries. She is currently Chief Risk Officer Banking with Suncorp Bank.

Ms Smith-Pomeroy is a Professional National Accountant, a member of the National Institute of Accountants and the Australian Institute of Company Directors, and a Fellow of the Australian Institute of Banking and Finance. She has previously held a number of committee and treasury roles in community organisations and is a past Board member of the Queensland Board of Senior Secondary School Studies.

EXECUTIVE MANAGEMENT TEAM

Helen Gluer

BCom, MBA, CPA, FAIM, FAICD

Chief Executive Officer

Helen commenced as the Chief Executive Officer of Tarong Energy in January 2007. Before this, she was the Chief Financial Officer of Brisbane City Council.

With a diverse career, Helen has 25 years experience in banking, finance and infrastructure. Helen is currently a Council Member for the Queensland University of Technology, and Local Government Remuneration Tribunal, and has directorships with the Queensland Resources Council, National Generators Forum, and TransLink Transit Authority. Helen was previously the Chair of the Central Queensland Ports Authority. Her other previous directorships have included City Super Pty Ltd, the South East Queensland Water Board and Brisbane Airport Corporation.

Jackie Barber

BSc(Chemistry)

General Manager

Marketing and Trading

Jackie has more than 18 years trading experience in deregulated electricity markets: first in the UK where she worked for Powergen Plc Ltd; and in Australia for ETSA Power Corporation where she helped to establish an electricity retailing business in New South Wales.

Upon joining Tarong Energy in May 1999, Jackie led the Energy Contracting team responsible for optimising Tarong Energy's gross margin and providing stable cash flows for the generation portfolio. After serving as Acting General Manager Marketing and Trading, Jackie was appointed General Manager early in the 2008/09 financial year.

Jenny Gregg

BArts, MBA, Grad Cert(BAdmin), GAICD

General Manager

People and Communications

Jenny commenced with Tarong Energy in the role of Acting General Manager, People and Communications in September 2008 and was formally appointed in March 2009. Before this, Jenny worked for more than six years at SunWater, holding the position of Manager, Human Resources and Acting General Manager, Corporate.

In a diverse career, Jenny has gained experience in the utilities, human services and health sectors both in line management and within the human resources field. Previous roles include State Manager (Queensland) and National Manager, Human Resources for a national provider of professional human services.

The Executive Management Team provides strong leadership to Tarong Energy through the effective delivery of strategies, business plans, projects and policies.

Andrew Krotewicz

BEng(Electrical), Dip Mgt
General Manager
Generation Operations

Andrew commenced as General Manager, Generation Operations of Tarong Energy in September 2008.

Andrew has 27 years experience in the power industry in Queensland and, more recently, in Western Australia.

In Western Australia, he worked on a large-scale, gas-fired cogeneration plant for Alcoa's alumina smelter under an Operations and Maintenance agreement with joint venture partner Alinta in the recently deregulated state electricity market.

Andrew is an electrical engineer who has held engineering and management roles with the Queensland Electricity Commission and CS Energy. He comes with a suite of skills and knowledge in best practice operations, maintenance and asset management.

Bob Rutten

BCom, Cert(HR Mgt)
Acting General Manager
Mining Operations

As the Acting General Manger of Mining Operations, Bob is responsible for the supply and quality of coal provided to Tarong Energy's power stations.

With more than 26 years experience in the mining industry, his background includes commercial and operations management in projects across New South Wales, Western Australia, Tasmania and Queensland.

Bob joined Tarong Energy in 2001 as the Commercial Manager Operations and due to his background, has supervised and managed many projects for Tarong Energy including the fuel options study projects, various Environmental Impact Studies, the due diligence report of the Meandu Mine and negotiations for the Mining Services Agreement with Thiess.

Richard Van Breda

BCompt(Hons), CA(Z), CA(Aus)
Chief Financial Officer

Richard joined Tarong Energy in the role of Acting Chief Financial Officer in April 2008. He was formally appointed Chief Financial Officer in March 2009.

Richard formerly worked for Stanwell Corporation where he was appointed CFO in 2007 after acting in the role since July 2005. As CFO, Richard oversaw Stanwell's information and communication technology, procurement, finance, and finance risk management services.

Richard was a partner with Deloitte, Zimbabwe from 1995 to 1997 and subsequently spent three years with a major mining and manufacturing company. During this time he was responsible for the treasury, financial management and reporting of a number of public companies.

John Williamson

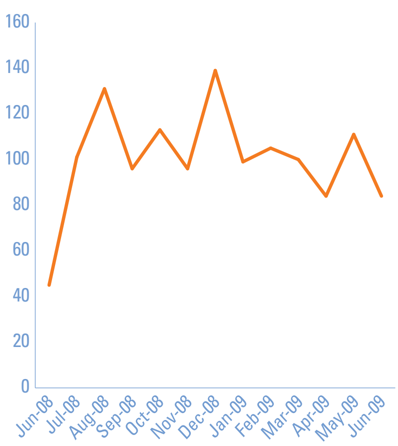
BA LLB, FCIS, FAusIMM, MAICD
General Manager
Corporate Governance
(and Company Secretary)

As General Manager Corporate Governance, John is responsible for the secretariat, legal, risk management/compliance, and internal audit functions of the Corporation.

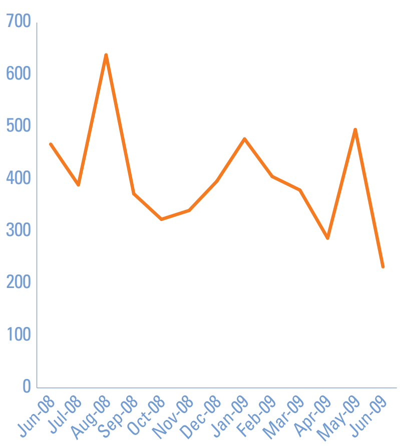
Directly prior to joining Tarong Energy in May 2007, John consulted on corporate governance and commercial matters for a range of clients. Other previous roles include Group General Manager Corporate Services and Company Secretary for Grainco Australia, and various senior management positions at MIM including six years as a director of the MIM Superannuation Plan. He is currently on the Queensland State Council of Chartered Secretaries Australia.

Alcohol breath testing at Tarong Power Station.

HSEQ Improvement Cards



HSE Star Cards



SAFETY

2008/09 HIGHLIGHTS

Safety performance

Tarong Energy continued to hold the lowest All Injury Frequency Rate (AIFR) of all Queensland Government Owned Corporation (GOC) generators this financial year. While the AIFR of 77 for employees and contractors across all Tarong Energy operated sites was below the corporate target, further reducing the AIFR will continue to be a top priority for Tarong Energy in the upcoming financial year.

Across Tarong Energy's operating sites, nine Lost Time Injuries (LTIs) for employees and contractors were recorded in 2008/09. Any LTI is a disappointment, and the Corporation remains committed to its goal of a zero harm workplace.

While many organisations target zero incidents, Tarong Energy encourages the reporting of incidents, near misses, potential incidents and improvement opportunities. Reporting helps to develop a culture where employees look actively to identify and control hazards, continually improve their workplace, and have the confidence to report issues.

Tarong Energy employees demonstrated their strong commitment to improving safety in their workplace, submitting more than 1,700 Health, Safety, Environment and Quality (HSEQ) improvement reports and non-injury incident reports to exceed the corporate target of 1,000. This represents a 167 per cent increase in reporting from the 2007/08 year.

Improving safety systems

Comprehensive health and safety systems, processes and practices are the foundation of Tarong Energy's excellent safety performance. This year the Corporation reviewed and updated key elements to ensure continuous improvement and, ultimately, to reach the goal of a zero harm workplace.

- The Occupational Health and Safety Management System was audited against AS/NZS 4801:2001 in a surveillance audit in November 2008. A full recertification audit across all sites was conducted in May 2009.
- The Corporate Risk Matrix was updated to better reflect the Corporation's risk appetite, goals and strong focus on zero harm. The matrix provides employees with a clear framework in which to identify, assess and report risks.

Ensuring the health and safety of our employees, contractors and visitors is a core value and our highest priority.

This year we made significant progress towards achieving a zero harm workplace through the continuous improvement of our health and safety practices and performance.

- Tarong Energy began a program of measuring its risk management practices against accepted Fatal Risk Control Protocols. The protocols identify fatal risks to industry and set minimum performance expectations to prevent these risks from being realised.

  The process of benchmarking the Corporation's risk management practices started with a machine guarding audit of the Tarong Power Station plant areas and will continue across other risk areas in 2009/10.
- The pocket HSE handbook is an essential resource that encourages employees to consider the health, safety and environmental risks associated with every task they perform throughout their working day. This year the handbook and its key tools, HSE Star Card and HSEQ Improvement Card, were updated to incorporate zero harm initiatives and the new policy and procedure for managing alcohol, fatigue and prohibited drug risks.
- Tarong Energy took part in an international benchmarking exercise of its Operations business unit at Tarong Power Station. The benchmarking company UMS reported that Tarong Energy demonstrated a good safety performance, highlighting a well-heeled safety culture.
- Tarong Energy developed a safety management system specific to the Kunioon Coal Project area.

Progressing towards zero harm

Tarong Energy launched a Corporation-wide campaign to engage its people in a collaborative journey towards achieving a zero harm workplace.

Championed by the Executive Management Team, zero harm workshops were rolled out across Tarong Energy's sites from February 2009. The workshops established a dynamic and open dialogue with employees and contractors about what zero harm means within Tarong Energy's safe operating philosophy, the significance of zero harm to everyday work, and the importance of fostering a zero harm work culture.

These workshops also defined Tarong Energy's 10 lifesaving rules—practical actions and processes not to be compromised when working at, or visiting, a Tarong Energy site.

Managing safety risks

Tarong Energy has implemented a rigorous testing and awareness program to manage alcohol, other drugs and fatigue in the workplace.

In partnership with CS Energy, Stanwell and state unions, the Corporation endorsed a common fitness for work policy and procedure for implementation across all GOC generators by November 2009.

To ensure early delivery, Tarong Energy engaged a specialist independent testing provider to undertake the alcohol and drug testing program across all its sites. The Board and Executive Management Team were the first to be tested in March 2009.

Workshops in April and May 2009 briefed all employees on how to effectively manage fatigue in the workplace.

Investing in safety

Tarong Energy encourages employees to identify ways to improve safety in their work teams. This financial year each business unit received $10,000 to fund a health, safety or environmental project separate to those covered by normal budgets and project planning. Implemented projects included:

- an adjustable work platform in the Tarong Power Station workshop to minimise the risk of low level falls;
- a pallet lifter to help the Fuel Team with manual handling;
- a new fume extraction system for an annex workshop; and
- pocket-sized emergency exit cards for all Brisbane office employees.

Better back clinics

One of the main types of injury at Tarong Energy is back strain, sprains and damage as a result of incorrect manual handling. The Corporation conducted Crook Back Clinics during May and June 2009 to educate employees about how to care for and strengthen their backs, and how to better manage risks associated with manual tasks.

Prepared for an emergency

Tarong Energy has an Emergency Response Team (ERT) trained and prepared to respond if an emergency incident occurs at its power stations or mine. To further develop and enhance their skills, the team completed fire training at the Queensland Fire and Rescue Service's Whyte Island facility and F500 training for coal stockpile fire management this year.

2009/10 OBJECTIVES

- Continue to improve Tarong Energy's systems, work environment and culture with the aim of achieving a zero harm workplace.
- Review the effectiveness of the Fitness for Work Program implementation.
- Progress the Fatal Risk Control Protocol Program.
- Pilot the 5S housekeeping program and plan for corporate-wide implementation as part of a five-year lean manufacturing program.

In 2008/09 we invested in major plant upgrades and maintenance to enhance the efficiency and reliability of our generating assets.

With the arrival of purified recycled water and the lifting of water restrictions, Tarong Energy increased generation at Tarong Power Station in 2008/09.

GENERATING ASSETS

2008/09 HIGHLIGHTS

Asset performance

Tarong Power Station produced 7,026 gigawatt hours (GWh) of electricity this financial year, a 40 per cent increase from last year's drought-restricted production.

Unit 1 of Tarong Power Station's four generating units was offline from September 2008 to January 2009 and Unit 2 was offline from April 2009 during their planned major overhauls. This resulted in a reduced plant availability of 85.3 per cent for the year.

In line with a reduced business need for energy storage and transfer, Wivenhoe Power Station, Tarong Energy's pumped-storage hydro plant, ramped down its service duty, but maintained a high state-of-readiness level and remained an important element in the asset portfolio's peaking capability. As in previous years, when called upon, the twin 250 MW hydromachines delivered at or above world-class performance standards, achieving an annual availability of 99.3 per cent and operational reliability of more than 99.9 per cent.

Unit overhauls

From August 2008 Tarong Energy started the largest and most significant operational overhaul of Tarong Power Station in its 25-year history. All four generating units at the power station are being overhauled to improve performance and reliability, and reduce emissions.

Given the complexity and enormity of the project, the overhauls will be staged over three years. The first overhaul — a $35 million upgrade of Unit 1 — was successfully completed, as scheduled, in January 2009. The larger Unit 2 overhaul commenced in April 2009 and was completed in July 2009.

The overhaul of Units 1 and 2 involved two major upgrades:

- refitting each unit's control system — essentially this replaces the 'brain' of the power station; and
- retrofitting the units with low NO_x burners and a precipitator trial to improve regional air quality.

In addition, the Unit 1 overhaul included a life assessment inspection of the unit's key components, such as the main steam and hot reheat piping and all high temperature boiler elements.

The Unit 2 overhaul also involved a 25-year condition assessment and reconditioning of its turbine, including refurbishment of the high and intermediate pressure sections.

Control system refit

The control system refit is essential to ensure plant reliability into the future. Although plant operations have been excellent since the original control system was installed 25 years ago, the system is now technically obsolete and has become more difficult and costly to maintain.

The majority of Unit 1's control system infrastructure was upgraded, including the unit protection systems, turbine bypass systems, turbine governors and supervisory systems, and some station plant control systems. The new, fully computerised control system incorporates several of the existing local control systems, but provides upgraded field equipment to improve control flexibility and reliability.

Tarong Energy overcame some initial issues during the installation to progress the control system refit of Unit 1 to full commercial operation in January 2009. Unit 1's performance has improved noticeably since the refit, particularly some of the primary operational parameters, such as loading and unloading ramp rates and superheater and reheater tube metal temperature control loops.

Low NO_x burners

Following a successful trial in 2007, low NO_x burners were installed and commissioned on Unit 1, as scheduled, in January 2009. The new burners have decreased NO_x emission levels from the Unit 1 stack by more than 50 per cent without compromising performance.

The new burners offer the potential to expand the operating range of each generating unit, which Tarong Energy will continue to investigate during and after the Unit 2 retrofit in July 2009.

Essential maintenance at Wivenhoe

In order to sustain safe operations, a suite of short and long-cycle maintenance and equipment replacement activities were carried out either online or during opportunity-type outages on Wivenhoe Power Station's pumping, generation, protection, low and high voltage, water, air supply and unit auxiliary systems. The annual dam safety program was completed in accordance with the national and state regulators' guidelines.

Preparing for future coal resources

Tarong Energy has completed a major pre-feasibility study to ensure its power stations can reliably and safely burn coal from the Kunioon coal resource.

The study found that specific plant areas at the Tarong and Tarong North generating units will require upgrading or modification. This will accommodate subtle but fundamental changes in the properties of the Kunioon coal ash and the consequent potential for coal to form slag in the furnace.

Engineering design concepts, feasibility investigations and preliminary cost estimates for these proposed upgrades were completed this year. Through this comprehensive study, Tarong Energy has identified challenges and developed the engineering solutions to ensure a smooth transition to the Kunioon coal resource when it is required.

Wivenhoe pipeline maintenance

Tarong Energy undertook the first detailed reliability modelling study of the Wivenhoe-Tarong pipeline to enhance the effectiveness and cost efficiency of the maintenance strategy. The maintenance strategy for the 78km long pipeline achieves major cost savings while still maintaining the pipeline's excellent availability.

Top: Production technicians Steve Gusthart and Chris Clark operate the new Unit 1 control system.

Bottom: Josh Carty during the Unit 2 overhaul.

2009/10 OBJECTIVES

- Complete control system refit of Unit 4 at Tarong Power Station.
- Retrofit new low NO_x burners on Unit 4 at Tarong Power Station.

This was Tarong Energy's first full year of mining operations since purchasing Meandu Mine in February 2008.

We significantly improved the mine's performance and secured an ongoing, reliable fuel supply through more efficient mining practices, better coal quality management and strategic mine planning.

MINING ASSETS

2008/09 HIGHLIGHTS

Securing future fuel resources

During the year Tarong Energy identified a significant increase in economic coal resources at Meandu Mine, which will extend the mine's life and provide a secure fuel supply to the Tarong power stations. The additional resources were identified during a resource extension and delineation drilling program at the mine site.

After the discovery, Tarong Energy applied the latest resource model and innovative planning practices to update the Life of Mine Plan. This plan will maximise economic benefits to the Corporation by significantly increasing the mine's economic mining reserve and life. An integral part of the plan involves completing the Mine Closure Plan; this planning will continue in 2009.

As a result of the increased life of Meandu Mine, Tarong Energy developed a detailed mobile equipment replacement program for inclusion in future budgets.

The Corporation will undertake further drilling at Meandu Mine in 2009/10 with the aim of identifying more commercially viable coal reserves.

A successful partnership

Experienced mining contractor Thiess Pty Ltd operates Meandu Mine under a Mining Service Agreement with Tarong Energy.

The relationship between Tarong Energy and Thiess continued to strengthen this year, with the contract miner achieving all of the Corporation's objectives. Thiess' innovative and professional approach has resulted in the highest standards of safety, an increase in operational efficiency and an extension of the mining reserve at Meandu Mine.

Thiess' cost base remained in line with the Corporation's budget despite escalating cost pressures across the resources sector. Thiess achieved this by improving the efficiency of its operations and implementing cost-saving initiatives.

Kunioon Coal Project

Tarong Energy purchased Meandu Mine and the Kunioon coal resource in early 2008 to secure a long-term, reliable fuel supply for its power stations.

The recent discovery of additional coal reserves at Meandu Mine gives Tarong Energy greater flexibility to assess the most appropriate timing for use of its Kunioon coal resource.

Tarong Energy remains committed to using both resources as the future fuel supply for its power stations. The Corporation is continuing to assess a range of options to optimise the integration of the proposed Kunioon coal resource and, ultimately, ensure its most sustainable and effective use.

During the year, Tarong Energy made significant progress in the planning, design and consultation for the Kunioon Coal Project.

Work continued on the Environmental Impact Statement (EIS)—a comprehensive assessment of potential environmental and social impacts of the project. This work included three rounds of community consultation to present the findings from key EIS technical studies into air quality, dust, noise and vibration, traffic and roads, fauna and flora, and visual amenity.

Tarong Energy continued to engage landholders in the project area. All land acquisitions were undertaken in accordance with the Corporation's Voluntary Land Acquisition Policy, which ensures that land is purchased in a fair, balanced and consistent manner.

The project team advanced planning and design elements for the project, including:

- the preliminary design of a 16 km coal transport system;
- a preliminary water management strategy;
- an assessment of dragline walk options from Meandu to Kunioon;
- design of mining infrastructure; and
- drilling across the project area to improve the confidence in the geological model of its coal seams.

The work undertaken at Kunioon regarding environmental impact studies, land acquisitions and drilling has laid a solid foundation for future planning and mine development.

Mining at Meandu Mine.

Top: Maintenance work at Meandu Mine.

Bottom (l-r): Environmental investigations at Kunioon; setting up explosives.

MINING ASSETS *(continued)*

Surat Basin mining assets

Tarong Energy has owned several mining tenements in the Surat Basin since 1999. These tenements include the following Mineral Development Licences (MDL) and Exploration Permits for Coal (EPC):

- MDL382 over the Glen Wilga coal resource located about 12 km south east of Chinchilla;
- MDL383 over the Haystack Road coal resource located about 25 km east of Chinchilla; and
- EPC585 and 637 located near these two coal resources.

Tarong Energy also has an interest in the 150km rail corridor from the Glen Wilga coal resource to the Tarong power stations.

Since securing an alternative long-term fuel supply for the Tarong power stations in 2008, Tarong Energy does not intend to develop the Surat Basin coal tenements for fuel supply to its power stations.

The Corporation will soon determine the market value of the mining tenements as part of its assessment of the future of these assets.

Investing in a lower carbon future

Tarong Energy is investigating less carbon-intensive fuel alternatives as part of its commitment to reducing its greenhouse gas emissions.

This year Tarong Energy launched Project Wasabi, an innovative study looking at the potential for a biodiesel fuel industry in the South Burnett region.

The project is investigating the benefits of establishing and managing a productive Pongamia (Legume Tree) plantation on Tarong Energy land in the South Burnett region and harvesting the trees' oil to produce biodiesel. The project team will determine if technical and economic feasibility studies support the establishment of a local biodiesel industry. In the next stage of the project, the team will explore growing requirements and partnering opportunities with local businesses, community organisations and Council.

Project Wasabi also has the potential to generate carbon off-sets through bio-sequestration and provide renewable electricity feedstock from the biomass residue of the processed seeds. By creating a local biodiesel fuel industry, the project would help to create new jobs and business opportunities in the South Burnett region.

New mining training centre

In a major boost for regional employment, the Minister for Natural Resources, Mines and Energy and Minister for Trade, the Honorable Stephen Robertson MP, opened the new Mining Operations Training Centre at Meandu Mine in July 2009. The training centre will deliver a 12-month training program to equip recruits with the skills to pursue a career in the mining industry.

Trainees will learn specific skills and competencies to safely and efficiently operate mining equipment within the open-cut mine environment.

The training centre—an initiative of Tarong Energy and Thiess—will accept two trainees every three months, with a maximum of eight trainees enrolled at any one time during the year.

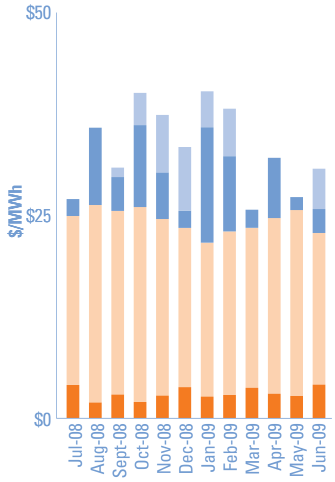
2009/10 OBJECTIVES

- Finalise the assessment of Meandu/Kunioon fuel supply integration options.
- Assess potential further increases to coal reserves at Meandu Mine.
- Assess the Surat Basin coal assets to best realise the value of these assets.

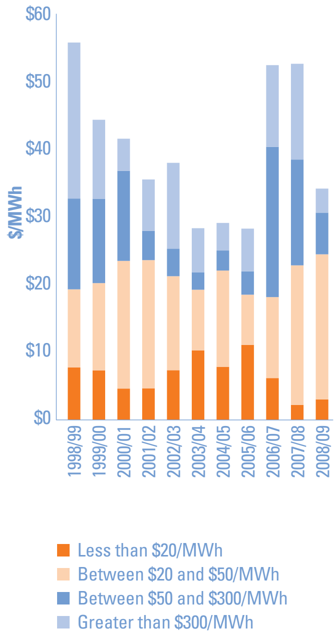
Having successfully managed a difficult market position during the recent drought, Tarong Energy was well placed to capitalise on its excellent relationships with wholesale and retail customers and secure a strong financial performance this year.

MARKETING AND TRADING

Queensland Monthly Average Spot Prices



Queensland Average Spot Prices



2008/09 HIGHLIGHTS

The Marketing and Trading team manages the dispatch of electricity generated by Tarong Energy's assets in the National Electricity Market (NEM). As well as optimising the Corporation's gross margin, the team is responsible for securing stable revenue. It achieves this by offering electricity products that meet the needs of wholesale and retail customers and hedging physical production.

Queensland market overview

The Queensland electricity market experienced a reduction in volatility this year, returning to pre-drought conditions. A modest increase of 7.4 per cent in maximum demand to 8,677 MW was recorded during the financial year compared to the previous year. Electricity demand was well below the levels forecast by the NEM Operator, National Electricity Market Management Company (NEMMCO), in its 2008/09 Statement of Opportunities.

The average spot price for the financial year was $34/MWh. This average annual spot price was supported by stable underlying prices in the $20 to $50/MWh price range.

Strong financial performance

The easing of drought conditions combined with only a modest increase in demand reduced market volatility compared with the previous financial year in both the spot and forward contract market.

Tarong Energy implemented an innovative forward contracting strategy to successfully optimise its market position once drought conditions had eased.

Delivering sustainable profits

Marketing and Trading's strategy to maximise short and medium-term revenues while safeguarding long-term business value contributed to Tarong Energy's profits this year.

This strategy involved actively pursuing an optimal portfolio of spot and forward contract exposure while proactively managing the risks associated with the Corporation's planned and unplanned outages during the year.

Satisfying customers

Tarong Energy further strengthened relationships with its wholesale and retail customers during the year by tailoring products to meet their ever-changing electricity needs. This was achieved by leveraging already strong relationships and working more closely with customers to better understand their energy needs and business risks.

Carbon trading

Tarong Energy has adapted its policies, procedures and systems this year to prepare for carbon hedging under the Australian Government's Carbon Pollution Reduction Scheme.

For more details about Tarong Energy's other greenhouse gas initiatives, please refer to pages 24 and 26.

Energy market reforms

Throughout the year Tarong Energy leveraged its membership of key industry groups to participate in the development and implementation of important regulatory and structural changes in the NEM.

On 1 July 2009 the Australian Energy Market Operator (AEMO) replaced NEMMCO as the national market operator. In addition to assuming the responsibilities of NEMMCO, AEMO has an expanded transmission planning role and new gas market functions. Through its membership of the National Generators Forum, Tarong Energy has been involved in planning for, and the transition to, AEMO.

Tarong Energy will continue to monitor further anticipated market reforms and developments and adopt a flexible approach to managing its risk profile going forward.

Trader Adam Branson checks the markets.

2009/10 OBJECTIVES

- Continue to prepare for the introduction of the Carbon Pollution Reduction Scheme by implementing policies, procedures and systems to fulfil Tarong Energy's liability under the Scheme in the most cost effective manner.
- Build on a successful strategy to diversify Tarong Energy's wholesale and retail customer base in order to secure stable cash flows from a profitable operation.
- Develop a strategy to optimise Tarong Energy's financial performance, taking into account evolving energy market dynamics and the extensive plant outages scheduled for 2009/10.

Our commitment to using natural resources sustainably and minimising any potential environmental impacts underpins our daily operations and future planning.

This year we continued to implement water-saving and emission-reduction initiatives and to enhance the local environment in which we operate.

ENVIRONMENT

2008/09 HIGHLIGHTS

Incidents

For the fourth consecutive year, Tarong Energy recorded no catastrophic or major environmental incidents at its operating sites. The Corporation recorded one minor breach at Meandu Mine, and two moderate and nine minor environmental incidents at Tarong Power Station.

As illustrated in the *Number of Incidents and Complaints* graph to the left, Tarong Energy received and responded to four complaints. The Corporation reports on environmental incidents on its website **www.tarongenergy.com.au**

Number of Incidents and Complaints

Environmental management

At the heart of Tarong Energy's strong environmental performance is its comprehensive Environmental Management System (EMS). The EMS identifies, manages and reduces the Corporation's impact on the environment, effectively integrating environmental management into daily operations and long-term planning.

Certification of the EMS to AS/NZS ISO 14001 at the Tarong and Wivenhoe power stations was maintained in 2008/09, with ongoing internal and external audits and system reviews undertaken. Tarong Energy also achieved certification of the EMS at its Brisbane corporate office in May 2009, while Thiess maintained its certified EMS at Meandu Mine.

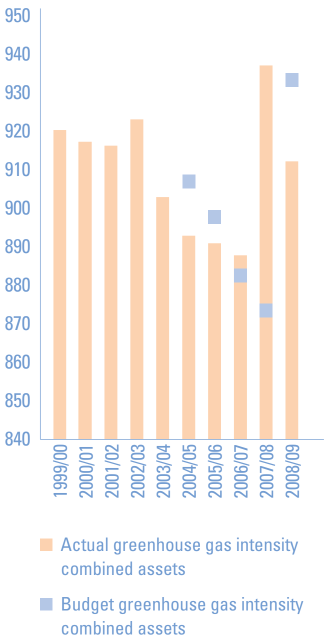
The Corporation continues to engage and educate its employees and contractors about environmental management issues through toolbox talks, internal newsletters and training.

Carbon

Tarong North Power Station continued to be one of Australia's most efficient coal-fired stations with a carbon intensity of 867 kilograms of carbon dioxide (CO_2) equivalent per MWh of electricity sent to the grid.

Tarong Energy's overall carbon intensity, as illustrated in the graph to the left, decreased from the previous year. This is attributed to more efficient loading and operation of Tarong Power Station's four generating units with the lifting of water restrictions in June 2008.

Kg of CO_2 per MWh



Carbon initiatives

Tarong Energy is committed to further reducing its carbon intensity and invested in a range of initiatives to prepare for the proposed introduction of the Carbon Pollution Reduction Scheme in 2011.

Strategic direction

In December 2008, the Board approved a revised greenhouse gas policy and strategy — the foundation for Tarong Energy's broad-ranging plans to improve the carbon efficiency of its business. A dedicated carbon response team is overseeing the implementation of the greenhouse gas strategy.

Capturing carbon

In September 2008 Tarong Energy and the CSIRO announced a $5 million joint pilot project aimed at capturing up to 85 per cent of CO_2 emissions from coal-fired generation. The project, the first of its type in Queensland, will see post-combustion capture (PCC) technology fitted at Tarong Power Station. The pilot project will assess the performance of a solvent-based PCC pilot plant to capture CO_2 emitted during coal-fired generation of a 350 MW turbine. The research findings will help Tarong Energy to select the most effective technology for a commercial-scale application. When coupled with CO_2 storage, PCC offers the potential for near zero emissions from the Tarong power stations.

Investigating low-emission generation

Tarong Energy recognises the need to find ways to generate electricity that create less greenhouse gas for every MWh produced. During the year, the Corporation began comparatively assessing a broad range of Queensland-based low-emission generation opportunities. Investing in these technologies would enable Tarong Energy to reduce its carbon emissions intensity while growing and diversifying its generation portfolio and fuel supply mix. Following a detailed assessment of the options, the Corporation will move into the planning stages in 2009/10.

Top: Cooling water dam at Tarong Power Station.

Bottom: Wildlife at Tarong Power Station.

Top: Environment Officer Sue Ryan monitors growth at the rehabilitated northern lands.

Bottom: Translocated *Senna acclinis*.

ENVIRONMENT *(continued)*

Offsetting emissions

Tarong Energy continued to offset the emissions generated by employees' business-related travel through Greenfleet's nationwide reforestation program. In line with Queensland Government policy, the Corporation is offsetting all business-related travel (via vehicle, bus or plane) between December 2007 and December 2009, which equates to almost two million kilometres or 1,147 tonnes of CO_2. In addition, Tarong Energy subsidised half of the cost to offset private vehicle travel for participating employees.

Switching to biodiesel

Tarong Energy investigated the use of biodiesel as an alternative to using diesel at Meandu Mine and Tarong Power Station. A feasibility study undertaken this year found biodiesel could be effectively burnt in the power station's boilers. A trial is now planned for late 2009.

At Meandu Mine, Tarong Energy progressed a trial of using biodiesel in selected mine equipment. Up to three million litres of biodiesel could be used as a substitute for diesel in the mining fleet.

Conserving energy

Tarong Energy has installed electrical metering at all its operating sites to monitor and reduce energy consumption in line with the Queensland Government's Climate Smart 2050 strategy.

Air

Tarong Energy has worked to reduce its level of airborne emissions, in particular NO_x (nitrogen oxide) emissions. During the year all Tarong Energy sites operated within air emission limits.

Reducing emissions

Following a successful trial in 2007, Tarong Energy is installing low NO_x burners on all four generating units at Tarong Power Station. Since low NO_x burners were commissioned in Unit 1 in February 2009, the NO_x emissions from the unit's stack have decreased by more than 50 per cent.

The low NO_x burners were installed on Unit 2 in July 2009, and will be progressively installed on Units 3 and 4 during their overhauls in 2009 and 2010.

To further reduce stack emissions, precipitator trials are planned for the 2009/10 financial year.

By improving regional air quality, these initiatives provide significant environmental and community benefits.

Reporting

Compliance with air quality requirements is reported to the Department of Environment and Resource Management (formerly the Environmental Protection Agency). Tarong Energy also reports emissions information to the National Pollutant Inventory (www.npi.gov.au) and from October 2009 will report its greenhouse gas emissions under the new National Greenhouse and Energy Reporting System (NGERS).

The Corporation has significantly updated and is continuing to test its NGERS reporting systems to ensure they gain independent verification well in advance of the first compliance return in October 2009. As part of the process, Tarong Energy participated in workshops with other generators this year to actively contribute to the development of standard industry measurement and reporting practices.

Water

Water is essential for operating Tarong Energy's power stations.

Since June 2008 Tarong Energy has used purified recycled water from the South East Queensland Water Grid to supply Tarong North Power Station. Since November 2008, some of this water has also been used at Tarong Power Station. Using purified recycled water from the Water Grid at Tarong North Power Station this year saved up to 7,000 ML of water from Wivenhoe Dam, the major source of drinking water for south east Queensland.

Tarong Power Station continues to use water that is predominately sourced from Boondooma Dam, a purpose-built water storage facility located near Proston. Boondooma Dam received significant inflows during the year, which further improved reliability of water supply to the power station.

Despite the easing of drought conditions and the arrival of purified recycled water, Tarong Energy is still strongly committed to water conservation, and reuses water where possible.

During the year the Corporation saved approximately 498 ML of water by reusing blowdown water at Tarong Power Station and Meandu Mine.

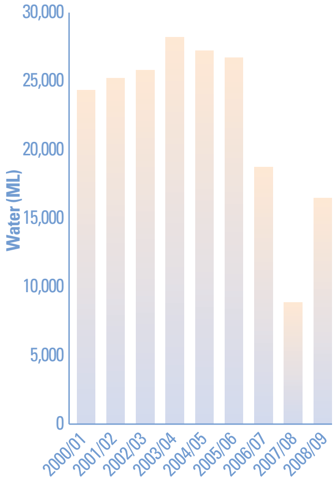
In addition, the Corporation has designed a stormwater capture system for Tarong Power Station, which will be implemented next financial year.

Protecting receiving waters

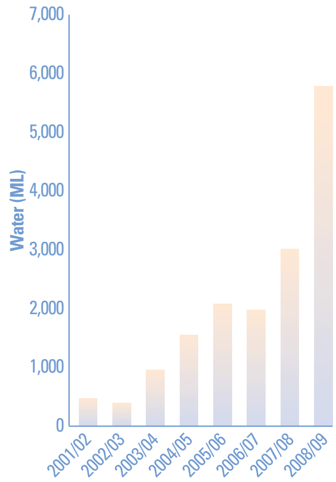
In October 2008, Tarong Energy started releasing approximately 20 ML of water a day from Meandu Creek Dam for stock and domestic use. The Corporation carried out regular water monitoring, including aquatic ecology sampling, in line with agreed monitoring protocols. The quality of the released water was consistently within the licence limits of 1,000 mg/L Total Dissolved Solids.

Tarong Energy is working closely with the Department of Environment and Resource Management and the local irrigators committee to develop a plan to effectively manage releases from Meandu Creek Dam into the future.

Water Consumption at Tarong Power Station



Water Recycled at Tarong Power Station



ENVIRONMENT *(continued)*

Land

With land acquisitions for its Kunioon Coal Project, Tarong Energy now owns substantial land holdings. This year the Corporation progressed a program of property and land management inspections of its rural properties. The inspections involved identifying weeds and potential contaminated lands, and assessing the condition of buildings, including checking for the presence of asbestos. Using the information gathered from these inspections, Tarong Energy is now developing a comprehensive property management process and procedures to guide the long-term management of its land holdings.

Regenerating northern lands

Tarong Energy has planted 20,000 trees on about 20 ha of land adjacent to Berlin and Neumgna Roads near Tarong Power Station to restore the original habitat and create a wildlife corridor. Greening Australia maintained the rehabilitated land on behalf of Tarong Energy during the year, and excellent growth was achieved.

Protecting fauna habitat

When Tarong Energy purchased Meandu Mine in February 2008, there was an existing federal government approval to extend the surface rights area of the mine to access approximately 11 Mt of extra coal.

However, Tarong Energy was concerned the extension could impact on the habitat of a vulnerable bird species, the Black Breasted Button Quail. In consultation with fauna specialists and the then Environmental Protection Agency, the project team confirmed this risk was low. Despite this, Tarong Energy acquired a sizeable area of land suitable for habitat establishment to mitigate any potential impacts.

Consequently, Tarong Energy submitted a referral to the Federal Department of Environment, Water, Heritage and the Arts (DEWHA) recommending that the surface rights extension did not trigger a controlled action under the *Environment Protection and Biodiversity Act*. DEWHA supported Tarong Energy's recommendations, allowing the surface rights extension to proceed in a timely manner. Throughout the process, Tarong Energy remained committed to protecting environmentally significant habitat.

In preparation for the mine extension, Tarong Energy translocated a threatened plant species, *Senna acclinis,* discovered in the mine extension area. The translocated plants have achieved excellent growth.

Controlling weeds and pests

Tarong Energy's land management practices aim to control the spread of weeds and pest animals that impact on native vegetation and wildlife corridors.

At Tarong Power Station, a baiting program was undertaken as part of a coordinated regional effort to control the feral dog population.

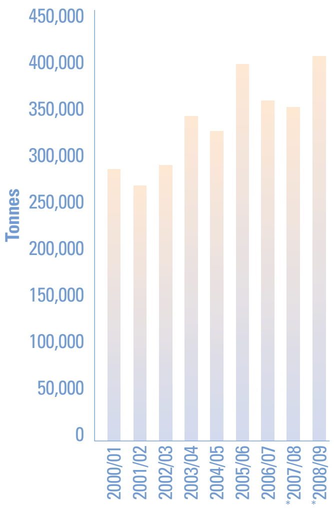
A new mobile wash down unit was also set up at the power station to help control the spread of weeds. Vehicles that may be contaminated with weeds are washed down prior to entry to the power station.

Waste

A significant amount of ash generated by Tarong Energy's operations during the year was reused, including as an additive material in cement. Any ash not reused was stored in the ash dam at Tarong Power Station.

Tarong Energy continues to seek potential new markets for any unsold ash volumes. The Corporation is a member of the Ash Development Association of Australia comprising producers and marketers of coal combustion products, including ash.

Sale of Coal Combustion Products



*2007/08 and 2008/09 volumes are the combined sales from Tarong Power Station and Tarong North Power Station.

New ash disposal

Construction started this year on a new ash disposal system that will redirect ash from the Tarong power stations to a disused mine void at Meandu Mine.

In line with the Department of Environment and Resource Management approvals, Tarong Energy will deposit the ash in Meandu Mine's King 2 West void, which will have capacity for up to five years of disposal. When this void is filled, the ash will be directed to the adjacent King 2 East void, subject to State Government approvals. King 2 East has an ash storage capacity of more than 20 years.

When construction is completed in November 2009, ash from the Tarong power stations will be pumped to Meandu Mine via a 4.5 km, above-ground slurry pipeline. Ash water that collects in the mine void will be recycled and pumped back to the ash water circuit at Tarong Power Station via another pipeline.

Tarong Energy will continue to adhere to the best practice principles that have guided ash disposal management to date, including control of dust and sourcing opportunities for beneficial reuse of the ash.

Rehabilitating the ash dam

Tarong Energy is successfully rehabilitating its ash dam, capping approximately 25 ha of the dam surface with soil. Revegetation trials have shown that native grasses, shrubs and trees establish successfully on the capped areas even without fertilisers or topsoil.

Tarong Energy began developing a Final Land Use and Rehabilitation Plan for the ash dam, which will identify a stable final landform and surface drainage arrangement. As the ash dam nears full capacity, the Corporation is also creating a progressive decommissioning and rehabilitation strategy. Consistent with the Final Land Use and Rehabilitation Plan, this strategy will outline short-term requirements for depositing ash and mitigating dust as well as longer-term requirements for managing the residual ash water pond.

Reducing landfill

An expanded recycling program at Tarong Power Station has significantly reduced the volume of general waste that goes to landfill. From November 2008, the recycling program expanded to include steel cans, glass bottles, plastic containers and newspapers.

Tarong Energy is still investigating further recycling opportunities for e-waste and timber at the power station.

Minimising the environmental footprint

Tarong Energy is reducing its environmental footprint by integrating sustainable procurement across all business areas. In March 2009, the Executive Management Team endorsed new sustainable procurement targets, which align with the State Government's Procurement Policy. Tarong Energy will continue to set, measure and report on the annual sustainable procurement targets as it moves forward to a lower carbon future.

These targets can be viewed on the Tarong Energy website, **www.tarongenergy.com.au**

Move to Green Star rated office

The Brisbane corporate office will relocate to a more environmentally sustainable building in September 2009. Located in Albert Street in Brisbane city, the new building has achieved 5-star rating under the nationally accredited Green Star rating system.

2009/10 OBJECTIVES

- Prepare for the proposed start of the Carbon Pollution Reduction Scheme in 2011.
- Investigate ways to reduce and offset the Corporation's greenhouse emissions.
- Further develop low-emission, bulk generation projects to progress to detailed investigation of preferred options.
- Install low NO_x burners on Unit 4 at Tarong Power Station.
- Seek greenhouse gas capture and sequestration solutions for Tarong Energy power stations.
- Construct and commission King 2 West void at Meandu Mine for ash disposal, implement long-term ash storage to the mine voids and prepare plans to manage the existing ash dam.
- Develop a strategic water use plan for Tarong and Tarong North power stations and Meandu Mine.
- Implement Corporation-wide sustainable procurement policy and targets.

Top: Engineer Les Air with his daughters at the 2009 Family Day.

Bottom: Apprentice Jackson Purcell.

PEOPLE

2008/09 HIGHLIGHTS

EBA negotiations

Negotiations were held between employee representatives, unions and Tarong Energy representatives regarding the 2009 Enterprise Bargaining Agreement. The negotiations were concentrated on achieving a variation to the 2006 agreement, focusing on optimising operational work practices to benefit both employees and the Corporation.

Employee communication

In keeping with its values, Tarong Energy is committed to openness and encourages regular, honest and transparent communication with employees. The Corporation has several embedded tools including weekly newsletters, monthly corporate issues and information discussions and regular workshops, all aimed at providing opportunities for two-way communication between employees and the various levels of management.

One of the Corporation's key communication tools is its intranet, TarongNet. With several operating sites and business units, some of which are located across various sites, it is critical that information is accessible and consistent for all employees.

An improved intranet site was launched in early 2009, with the updated software and a new look designed to make information easier to locate and keep up to date.

Celebrating 25 years

2009 marks the 25-year anniversary of the commissioning of Tarong Power Station and Wivenhoe Power Station. The main celebration was Family Day 2009, held in February at Tarong Power Station. The event attracted 1,300 past and present employees, contractors and their families.

Investing in the future

Tarong Energy is acutely aware of the need to plan for the future of its workforce to ensure ongoing success.

Our people are the key to achieving our goal of providing reliable and energy efficient solutions to the people of Queensland.

By providing a safe, rewarding and supportive work culture, we continue to attract, recruit and retain highly skilled and motivated employees. This year we introduced a range of new initiatives to consolidate our 'employer of choice' status.

Graduate Development Program

In January 2009, the Corporation welcomed its first intake of seven employees as part of the Graduate Development Program. Graduates were placed in various disciplines including engineering, finance, environment and human resources. As well as undergoing training and development in their fields, graduates were each allocated a mentor from a different business unit to help them during their year at Tarong Energy.

Apprentices and trainees

Tarong Energy welcomed its largest ever intake of apprentices and trainees from the South Burnett region into various work placements at Tarong Power Station. This brings the total number of apprentices and trainees currently working at Tarong Energy to 37.

Tarong Energy's apprentices and trainees scooped the major awards at the 2008 Wide Bay Group Training Annual Awards. The event celebrates the achievements of apprentices and trainees nominated for their hard work and outstanding efforts in their chosen fields during the year. Tarong Energy is very proud of its five employees who won awards for their high calibre of work, confidence and competence.

Creating Indigenous employment

Tarong Energy is committed to creating greater job opportunities for Indigenous people in the South Burnett. To achieve this, the Corporation is developing an Indigenous Employment Program to provide direct and indirect employment opportunities to Indigenous Australians.

The Corporation also sponsored 50 high school students and teachers from across the South Burnett to attend the Indigenous Employment Expo in Brisbane in November 2008. The expo showcased a diverse range of career opportunities on offer to Indigenous school leavers.

Strong leadership

Tarong Energy recognises that the continual development of its leaders is paramount to the successful engagement of all employees. In late 2008, leadership workshops commenced with the Executive Management Team and Broader Management Team to clearly define the Corporation's leadership values.

Attracting the best

A review was undertaken during the year to reinvigorate Tarong Energy's recruitment processes and employment branding. These improvements will allow the Corporation to capitalise on new opportunities arising from shifts in the employment market.

First masters degree graduates

November 2008 saw the first wave of graduates from the Power Generation Masters Program, Australia's first dedicated electricity generation postgraduate degree course developed by Tarong Energy in partnership with other generators and universities.

Two Tarong Energy employees completed the module-based course and were honoured at a graduation ceremony. There are still several employees studying as part of the program, and the Corporation continues to support and promote industry participation in the course both nationally and internationally.

Learning online

Tarong Energy's online Learning Management System was rolled out across the Corporation in late 2008. The system allows employees and managers instant access to the Corporation's training and development plans and progress. The success of the online training systems has since led to the introduction of e-learn packages. E-learn has proven to be a more effective, less time consuming way for employees to self-train, minimising time away from their day-to-day work.

2009/10 OBJECTIVES

- Assess and define Tarong Energy's organisational culture, with a focus on developing the capabilities of leaders.
- Further develop and promote Tarong Energy's employment branding.
- Develop, implement and embed a clear change management policy and process infrastructure across the Corporation.
- Evaluate the yearly program of performance reviews to ensure adequate feedback is given to employees to enable them to progress in their jobs and careers.
- Undertake workforce succession planning to support effective resourcing and succession management across the Corporation.

During the year we strengthened relationships with our stakeholders through proactive and responsive engagement.

As we celebrate 25 years since the commissioning of the Tarong and Wivenhoe power stations, we recognise the important contribution of our stakeholders to our longevity and success.

STAKEHOLDERS

2008/09 HIGHLIGHTS

Supporting regional jobs and economic growth

Tarong Energy commissioned a university study in late 2008 to quantify the economic contribution of its South Burnett operations.

Undertaken by the University of Southern Queensland, the Economic Benefits Study estimated the change in real value added by Tarong Energy's operations to the South Burnett region at $332.2 million or 31.6 per cent of the Gross Regional Product.

The Corporation's South Burnett operations inject millions of dollars directly into the local economy, including more than $17 million annually on goods and services, more than $62 million on wages and salaries and $46 million of income indirectly generated in other industries such as trade, housing, transport and food.

The study identified Tarong Energy as a major job generator, creating and sustaining more than 10 per cent of all jobs in the region. The Corporation directly employs more than 570 people in the South Burnett, but through expenditure in the region, creates and sustains 1,224 full-time equivalent jobs.

The independent study involved extensive research, collecting census and other official data, and conducting stakeholder interviews and employee surveys to identify local employment levels and determine the flow-on effects of wages and expenditure patterns.

Investing in the community

Through its Social Investment Policy, Tarong Energy invests further resources to nurture a strong community. The policy has two funding streams — a Corporate Sponsorship Program and the new Tarong Energy Community Partnership Fund.

Community Partnership Fund

Launched in August 2008, the Community Partnership Fund supports initiatives that value add to the South Burnett region by providing much-needed services or enhancing culture, lifestyle or education. Through this support, Tarong Energy aims to develop medium to long-term partnerships with community groups.

To ensure that the most appropriate areas in the community are targeted, the fund is administered by the Tarong Energy Community Reference Group, which comprises four community members and four senior Tarong Energy employees.

In its inaugural year, the fund allocated its entire annual budget of $300,000 to a range of beneficial community initiatives.

2008/09 Community Partnership Fund partners

Murgon Palliative Care Unit

Tarong Energy supported the major upgrade of the Murgon Palliative Care Unit to provide private visiting and accommodation facilities for family and friends of terminally ill patients.

Gumnut laundry service

The Corporation supported job creation for people with a disability by funding the establishment of a new commercial laundry service at Gumnut Place, a supported employment provider in Murgon. When the laundry opens in mid 2009, Tarong Energy and Thiess employees will be among its first customers.

Tanduringie State School multi-purpose area

Over the past three years, Tanduringie State School has almost doubled enrolments. To help the school cater for this growth, Tarong Energy provided funding towards a new, covered, multi-purpose area suitable for school parades, sporting events and cultural activities.

South Burnett soccer

Tarong Energy provided funding support for an extension and upgrade of the Kingaroy Senior Soccer Club's amenities building. This premier facility will attract future competitions to the South Burnett.

Iron Bark Ridge function centre

The Silver Lining Foundation is an independent not-for-profit organisation that supports young Indigenous people who need a second chance. This year Tarong Energy boosted the Foundation's income stream by funding renovations to its Iron Bark Ridge function centre.

South Burnett alternative education programs

Tarong Energy helped to fund an innovative education program that encourages marginalised students to stay in school. The program is delivered across all four South Burnett high schools and provides alternative learning and employment pathways for students plus greater opportunities for vocational education and training.

Energy Centre

The South Burnett community is celebrating the significant role of energy in its history, economic development and social fabric with the opening of the new Energy Centre in Nanango. Through its Community Partnership Fund, Tarong Energy is contributing $120,000 towards this significant tourist attraction.

The centre includes an interactive display, information panels and an instructive DVD about Tarong Energy. It gives visitors an insight into how Tarong Energy's power stations generate safe, reliable and efficient energy for Queensland.

The Energy Centre opened to the public in August 2009, coinciding with Tarong Energy's celebrations to mark 25 years since the commissioning of Tarong and Wivenhoe power stations. The centre is expected to attract thousands of visitors annually.

Top: Tarong Engineer Naveen Sirka works with Liam Wilson at the Science and Engineering Challenge.

Bottom: Community Relations Manager Tim Loth takes Nanango State School students on a tour of the Energy Centre.

STAKEHOLDERS *(continued)*

Corporate Sponsorship Program

In addition to the Community Partnership Fund, Tarong Energy this year injected more than $145,000 into local communities through its Corporate Sponsorship Program. The Corporation broadened the program's reach this year with donations of marquees and promotional materials for use at school fetes, sporting carnivals, Christmas celebrations and community festivals.

The sponsorships and donations provided vital support to community events and charities; this year's highlights included:

- eight Tarong Energy science and engineering employees volunteered their time to judge the Science and Engineering Challenge at Nanango High School;
- a $20,000 annual sponsorship of the Queensland Minerals and Energy Academy was announced to encourage students to pursue careers in the minerals and energy sector;
- a three-year sponsorship was provided for the Queensland Music Festival's regional program;
- sponsorship was provided for the fireworks display at the Nanango Show, celebrating the town's 100 year history; and
- two academic bursaries were donated for Lowood High School's annual presentation evening.

Working with traditional owners

In February 2009 Tarong Energy reconfirmed its strong relationship with the Wakka Wakka people, the traditional owners in the South Burnett, by signing an Indigenous Land Use Agreement (ILUA), which replaced an earlier agreement.

The ILUA employs a structured process to enhance the Corporation's ongoing relationship with traditional owners and the wider Indigenous community in the South Burnett. The ILUA is implemented through the Agreement Implementation Group, the Aboriginal Community Interest Consultative Committee (ACICC), and the Cultural Heritage Coordinating Committee.

The Agreement Implementation Group is a governance structure comprised of traditional owners and senior Tarong Energy employees. It oversees the full implementation of the ILUA and is responsible for directly allocating more than $500,000 of significant funding to community projects, as well as to the ACICC for distribution to the wider South Burnett Indigenous community.

In January 2008, the Agreement Implementation Group allocated funds to purchase business premises in Murgon for the Bunya Wakka Wakka Cultural and Heritage Corporation, the cultural and business arm of the Wakka Wakka people. This purchase fulfilled the Wakka Wakka people's long-term aspiration to house and display their cultural heritage and to provide a platform for future business growth.

The ACICC provides funding to South Burnett Indigenous groups or individuals to support innovative 'grassroots' development programs that contribute to the region's long-term sustainability.

Some ACICC-funded initiatives delivered this year:

- Local youth and employment services group, CTC, implemented a multi-strand project to engage at-risk Indigenous youth in structured and safe activities.
- An expo showcased the wide range of Indigenous goods and business services for sale in the South Burnett. The event, organised by the Bunya Wakka Wakka Cultural and Heritage Corporation to coincide with the opening of a community facility near Murgon, attracted more than 500 people.
- A graduation dinner was held to celebrate the completion of Year 12 by Indigenous high school students from across the South Burnett.

The Cultural Heritage Coordinating Committee is a collaborative structure comprised of traditional owners and senior Tarong Energy employees. It coordinates the implementation of the Cultural Heritage Investigation Agreement between Tarong Energy and the Wakka Wakka Native Title claimants.

Top: Consultation about the Meandu/Kunioon fuel strategy.

Bottom: Tarong Energy injects millions of dollars into the South Burnett economy through direct and flow-on spending.

Engaging with the community

Tarong Energy endeavours to be a good neighbour by actively engaging with its stakeholders across a range of forums.

Quarterly Community Information Sessions were held to provide a platform for sharing information with the key stakeholders. These sessions have proved a valuable way to inform key stakeholders about the Corporation's activities, answer questions and receive feedback.

The quarterly community newsletter, *Power News*, kept the broader community well informed about the Corporation's activities and achievements during the year. The newsletter was distributed to more than 10,000 residents and businesses across the South Burnett region.

The Corporation actively sought community feedback about the Meandu/Kunioon fuel strategy. The Kunioon Coal Project Team consulted extensively with landholders and the local community about the proposed mine development, as further detailed on page 18. Tarong Energy also continued to update the Dalby and Chinchilla communities about its plans for the Surat Basin mining tenements.

As part of a process of continuous improvement, Tarong Energy commissioned independent market research in May 2009 to measure community attitudes. The findings will help to enhance Tarong Energy's community relations program in 2009/10 and ensure that it delivers the greatest benefit to the community.

Shareholder and corporate engagement

The support of Tarong Energy's shareholders is vital to the Corporation's ongoing success. Throughout the year, regular reports and briefings were provided to shareholding Ministers and their departments.

The Corporation worked closely with electricity industry business partners, particularly NEMMCO and Powerlink, to ensure bulk supply of electricity to the market.

Recognised as a market leader in generation, Tarong Energy actively contributed to a variety of key industry groups this year, including:

- Energy Supply Association of Australia;
- Queensland Resources Council;
- National Generators Forum; and
- Clean Energy Council.

2009/10 OBJECTIVES

- Engage with stakeholders to provide timely access to information about Tarong Energy's business activities and opportunities for discussion.
- Strengthen the communities in which Tarong Energy operates through the continued delivery of the Community Partnership Fund and Corporate Sponsorship Program.
- Apply the findings of community perception research to improve communication and community relations activities.

Tarong Energy is committed to best practice corporate governance and processes that will enhance the Corporation's effectiveness and ensure the appropriate degree of accountability and transparency to stakeholders.

CORPORATE GOVERNANCE

Tarong Energy defines governance as 'the system by which the Corporation is directed, managed and held to account'. It incorporates the culture, structures and processes for decision-making, accountability, control and behaviour. It provides the framework within which:

- the Board is accountable to shareholding Ministers for the successful operation of Tarong Energy;
- the strategies and goals of Tarong Energy are set and agreed;
- the key risks are managed; and
- ethical values and behaviours, and responsible decision-making are promoted, and inappropriate actions and behaviours are not sanctioned.

Tarong Energy endorses the view that the eight core principles of the Corporate Governance Guidelines for Government Owned Corporations form a sound platform for supporting good corporate governance practices. Tarong Energy has complied with the best practice recommendations set out in the Corporate Governance Guidelines for Government Owned Corporations.

Tarong Energy's Corporate Values and Code of Ethics apply to all the Corporation's directors and employees and to all contractors working at Tarong Energy. The Corporate Values and Code of Ethics sets out the expectations on how employees should behave to maintain the highest standards of corporate behaviour. A copy of the Corporate Values and Code of Ethics can be viewed on the Corporate Governance section of the Tarong Energy website.

The Board and the Executive Management Team oversee the direction, management and control of the Corporation through cooperation and team work. Continually reviewing and enhancing Tarong Energy's governance practices is integral to ensuring that the requirements of the business and stakeholders are met and embedded in Tarong Energy's culture.

More detailed information about Tarong Energy's corporate governance policies can be viewed at **www.tarongenergy.com.au**

Board structure

The Board of Tarong Energy consists of seven independent, non-executive directors. The names, qualifications and relevant skills, experience and expertise of the directors who held office during the financial year and up to the date of this report, along with their terms of appointment, are listed on pages 10 and 11.

The Board considers that individually and collectively the directors bring a level of skill, knowledge and experience that enables the Board to discharge its responsibilities effectively.

Directors are appointed by the Governor-in-Council for a specified period.

The role of the Board

Tarong Energy has a Board Charter of the roles and functions and charters for each of its committees. The Board Charter, Committee Charters and other Board delegations are summarised below. They specify the roles and functions reserved for the Board and its committees, those delegated to other Tarong Energy bodies and to staff including the Chief Executive Officer. The Board reviews the Board Charter, Committee Charters and delegation framework annually. Copies of the Board Charter and each Committee Charter are publicly available from the Corporate Governance section of the Tarong Energy website.

The powers and duties of Tarong Energy's Board are governed by the *Corporations Act 2001*, the *Government Owned Corporations Act 1993* and Tarong Energy's Constitution.

The matters reserved for, and which remain the responsibility of the Board, include:

- the appointment, removal, performance monitoring and succession planning of the Chief Executive Officer and the General Manager Corporate Governance (who fulfils the role of Company Secretary);
- monitoring performance including financial, operations, safety and environment;
- setting goals and approving the strategic direction of Tarong Energy;
- approving policies and internal controls, including corporate governance, risk management and compliance, safety and environmental policy; and
- approving major project expenditure.

The general approach to the delegation of its powers and authority adopted by the Board of Tarong Energy is that:

- the Board reserves certain decisions to itself for approval;
- it delegates specific standing powers and authority to certain Tarong Energy people and bodies; and
- subject to the above, it delegates its power and authority to manage and supervise management of the day-to-day operation of the Corporation to the Chief Executive Officer.

Board meetings

The Board held 11 meetings during the period 1 July 2008 to 30 June 2009.

The table on page 51 of this report provides details of director attendance at those meetings.

The Chair finalises the agenda for each meeting in conjunction with the Chief Executive Officer and Company Secretary, which is based on the agreed Board annual plan of activity and takes into account current issues. Individual directors may request that an item be added to the agenda.

The Board and committees regularly review their information needs (quality, quantity and timeliness) to ensure that the information they receive is appropriate for the effective discharge of their duties.

Board papers are circulated in advance of Board meetings either in electronic or paper format.

Directors are expected to prepare adequately for, attend, and participate in Board and committee meetings.

The directors usually meet without executive management present at the commencement of each Board meeting. Members of the Executive Management Team attend the Board meetings by rotation. At the conclusion of each Board meeting, a meeting critique is presented by a nominated director. The critique stimulates discussion on improvements that could be made to both the content and process of future Board meetings.

Top: Tarong Energy's Brisbane corporate office.

Bottom: HR Graduate Heidi Say inducts Records Officer Phil Herbst.

CORPORATE GOVERNANCE *(continued)*

Access to management

Each director has access to the Chief Executive Officer or members of the Executive Management Team should they require additional information. Directors are encouraged to contact the Company Secretary prior to the Board meeting to discuss any matters that require clarification.

The Company Secretary provides advice and support to the Board and is responsible for the Corporation's day-to-day governance framework.

Access to independent professional advice

Directors are entitled to seek independent professional advice, at the Corporation's expense, on any aspect of Tarong Energy's business. The process for obtaining such advice requires the relevant director to consult with the Chair or the Chair of the Audit and Risk Management Committee or Company Secretary, where the Chair is conflicted, to facilitate the advice.

The Board can conduct or direct any investigation to fulfil its responsibilities and can retain, at the Corporation's expense, any legal, accounting or other services it considers necessary to perform its duties.

Committees of the Board

The Board has established three committees to assist in the execution of its role and to allow detailed consideration of complex issues. Committee members are chosen for their skills and experience.

The roles, responsibilities and delegated authorities of each committee are set out in the respective Committee Charters. Each year the Committee Charters are reviewed and, where appropriate, updated to take account of changes and other developments in the committee's area of responsibility. The Committee Charters are available from the Corporate Governance section of Tarong Energy's website.

Each committee meets several times a year, depending on committee workload requirements. The role and membership of each committee are described in more detail to the right.

People and Performance Committee

The People and Performance Committee consists of the following directors:

- Elizabeth Jameson (Chair)
- Leeanne Bond
- Graham Carpenter
- Kym Collins

The committee's primary responsibilities are:

- corporate governance policy and framework;
- stakeholder engagement and corporate communication;
- succession planning for the Chief Executive Officer, senior executives and directors;
- workplace health and safety;
- remuneration, strategy, reviews and setting and obtainment of incentive targets for the Chief Executive Officer and the senior executive;
- employment and industrial relations strategy and policy; and
- Board, committee and director evaluations.

Audit and Risk Management Committee

The Audit and Risk Management Committee consists of the following directors:

- Karen Smith-Pomeroy (Chair)
- Graham Carpenter (ex-officio)
- Kym Collins
- Richard (Ric) Barton

The committee's primary responsibilities are:

- financial management and accounting practices;
- the integrity of financial statements;
- business critical risk identification, risk management framework and business continuity strategy and plans;
- compliance with regulatory and contractual obligations;
- internal and external audit effectiveness and independence;
- energy trading strategy and risk profile; and
- insurance strategy, renewals and claims.

Strategy and Business Development Committee

The Strategy and Business Development Committee consists of the following directors:

- John Pegler (Chair)
- Leeanne Bond
- Graham Carpenter
- Elizabeth Jameson

The committee's primary responsibilities are:

- corporate strategic planning;
- monitoring operational performance and the adequacy and effectiveness of Tarong Energy's asset management, security systems and plans;
- environmental strategy and plans; and
- post-implementation reviews of major projects.

The papers and material provided to committee members are available to all directors. The minutes of committee meetings are provided to the Board. The Chair of each committee provides a verbal report of the items and issues discussed and details instances where the committees have used the authority delegated by the Board.

The committees are authorised, with prior approval of the Chair or the Chair Audit and Risk Management Committee or Company Secretary, if the Chair is conflicted, to obtain independent external professional advice at the Corporation's expense and to secure the attendance of external parties with relevant experience and expertise if they consider it necessary.

Board evaluation

The Board evaluates its performance, the performance of individual directors, the Chair and the Board committees at regular periods, not exceeding two years.

The People and Performance Committee is responsible for assessing the framework and the processes used for conducting the performance evaluation of the Board, individual directors, the Chair and the Board committees.

The objectives of the performance evaluation are to:

- identify areas in which the Board is performing well;
- identify areas for Board performance improvements;
- identify significant corporate governance issues facing the Board;
- provide a forum for directors to discuss any governance issues;
- develop a series of recommendations to address these issues;
- develop an agreed set of action items to ensure practical improvements to the corporate governance system; and
- identify directors' professional development requirements.

During 2008/09 an externally facilitated Board and Chair evaluation was held. The results of the review were presented to the Board and discussed as a whole. An agreed set of action items to address issues identified was developed. A report to shareholders was provided on the outcomes of the Board evaluation.

Director induction and professional development

Newly-appointed directors are provided with a letter of appointment. This letter of appointment sets out the key terms and conditions of their appointment including their roles and responsibilities, information regarding access to corporate records and assets, time commitments envisaged and the Chair's expectation regarding their participation in Board and committee meetings.

Tarong Energy has a comprehensive director induction program in place that includes the provision of key corporate documents, facilitation of site visits and meetings with senior executives.

The induction program is modified as required to ensure that it is appropriate for the new director's qualifications and experience.

To facilitate continual improvement, all directors are encouraged to participate in professional and self-development activities. The Corporation pays for activities undertaken by directors that are in furtherance of their responsibilities to Tarong Energy.

CORPORATE GOVERNANCE *(continued)*

Remuneration

The fees paid to directors for serving on the Board and on the Board committees are determined by the shareholding Ministers and advised to Tarong Energy.

Each year the Board, with the assistance of the Chief Executive Officer and the People and Performance Committee, undertakes a formal process of reviewing the performance of the senior executives. The rate of remuneration increase for the Chief Executive Officer and senior executives is determined with regard to salary movements and individual performance. At-risk performance incentive payments for the Chief Executive Officer and senior executive are capped at 15 per cent of total fixed remuneration, with the amount payable being tied to achievement of pre-determined, Board-approved Corporation and individual performance targets. The Chief Executive Officer is not present at the Board meeting or People or Performance Committee meeting when the Chief Executive Officer's own remuneration and performance are being considered.

Further details on the assessment criteria for the Chief Executive Officer and senior executive remuneration (including at-risk performance incentive payments) are disclosed in the Remuneration Report from pages 96 to 100.

Details of the remuneration paid to directors and senior executives are set out in note 31 on page 98.

Director independence

The Board has considered the associations of each director and is of the view that all directors are independent. The basis for this decision is that no director is employed by Tarong Energy or is a supplier to, or customer of, Tarong Energy. In addition, no director has a relationship or contract with Tarong Energy or a business or other relationship (including length of service as a director) that, in the opinion of the Board, would affect the directors' ability to act in the best interests of the Corporation.

Materiality thresholds used in the determination of whether a relationship is 'material' are detailed in the Independence of Directors Policy, which is available on the Corporate Governance section of the Tarong Energy website.

Avoidance of conflicts of interest by directors

The Board is conscious of its obligation to ensure that directors avoid conflicts of interest (actual, potential or perceived) between their duties as directors of Tarong Energy and their private interests.

All directors are required to provide written disclosure of any actual, potential or perceived conflicts of interest on appointment; and they are required (at least annually or when relevant changes occur) to update these disclosures. The Company Secretary ensures that copies of all disclosures, including updated disclosures, are provided to each other director.

Any director with a conflict of interest in a matter being considered by the Board must declare his/her interest and, unless the Board resolves otherwise, may not participate in boardroom discussions or vote on matters in which they have a conflict.

The Conflicts of Interest Policy is available from the Corporate Governance section of the Tarong Energy website.

Trading in securities

The Securities Trading Policy deals with the manner in which Tarong Energy's directors and employees can trade in securities. This policy is specifically designed to raise awareness of the prohibitions on insider trading contained within the *Corporations Act 2001*, to ensure Tarong Energy employees understand these requirements and the restrictions on trading while in possession of price-sensitive information, and to raise awareness of directors and officers that, in some circumstances, trading in securities may create an actual or potential conflict of interest.

The Securities Trading Policy is available from the Corporate Governance section of the Tarong Energy website.

Whistleblower protection

The Whistleblower Protection Policy outlines Tarong Energy's commitment to support and protect employees who report non-compliant, suspicious or unethical conduct by other employees. The policy formalises Tarong Energy's commitment to protect the confidentiality and position of its employees wishing to raise matters that affect the integrity of Tarong Energy.

The Whistleblower Protection Policy is available from the Corporate Governance section of the Tarong Energy website.

Integrated governance, risk and compliance

Tarong Energy, in recognition of the linkages between governance, risk and compliance, adopts an integrated governance, risk management and compliance framework. Ethics and culture have been identified as the cornerstone of this integrated approach.

The objectives of this framework are to ensure that:

- Tarong Energy's values, ethics and behavioural expectations are known, clearly communicated and accepted within Tarong Energy;
- business strategies are understood and Tarong Energy's people, processes and technology are aligned to support the achievement of the strategies;
- risk appetites and tolerances within the business units and across Tarong Energy are appropriate and aligned with the expectations of the Board, management and stakeholders;
- all significant risks have been identified and assessed and are actively managed and mitigated;
- information reported to management, the Board and stakeholders is accurate, reliable, timely and complete; and
- compliance obligations are identified and assessed and any exceptions identified and corrective actions are taken in a timely manner.

Tarong Energy views effective risk management as key to maintaining its operational and strategic objectives. The Board has ensured, through its oversight of a system of management controls and the regular reporting to the Board and Audit and Risk Management Committee, that Tarong Energy has the ability to understand and subsequently manage its risks. Reviews of Tarong Energy's business-critical risks and its risk appetite occur periodically. From these reviews, any changes in Tarong Energy's risk profile are considered and addressed.

CORPORATE GOVERNANCE *(continued)*

Tarong Energy conducts a periodic business continuity exercise, which is designed to provide a sound degree of resilience should the Corporation need to respond to and recover from a crisis while continuing to maintain normal business operations.

The Corporation's internal audit function operates under the terms of the Internal Audit Charter. The charter is reviewed annually and formalises the purpose, role, authority responsibilities, scope and operational framework of the internal audit function within Tarong Energy and its subsidiaries.

Evaluating the effectiveness of risk management, control, performance and governance processes is subject to review by the Internal Auditor. The Audit and Risk Management Committee monitors management's response to these reviews. The internal audit function is independent of management and the external audit, and has full and free access to the Audit and Risk Management Committee, the Corporation's employees and records. At the conclusion of each Audit and Risk Management Committee meeting, the Internal Auditor and representatives of the Auditor General, are invited to meet with the committee without management being present. The Internal Auditor reports, for administrative purposes, to the General Manager Corporate Governance.

When presenting financial statements for approval, the Chief Executive Officer and the Chief Financial Officer provide a letter of assurance to the Board to the effect that:

- the Corporation's financial statements and notes to the accounts comply with the accounting standards and present a true and fair view, in all material respects, of the Corporation's financial performance;
- the Corporation's financial statements are founded on a sound system of risk management and internal compliance and control, which implement the policies adopted by the Board; and
- the risk management and internal control systems are operating effectively in all material respects in relation to Tarong Energy's material business risks.

Communication

Tarong Energy is committed to ensuring that its stakeholders are continually and appropriately informed of Tarong Energy's performance and activities. Communication is undertaken through a number of forums including:

- **Statement of Corporate Intent, Corporate Plan** and **Quarterly Reports** are prepared to provide information to shareholders and their representatives on Tarong Energy's performance against agreed targets. The Statement of Corporate Intent (with commercially sensitive information deleted) is published on Tarong Energy's website.
- The **Annual Report** is prepared and issued to shareholders and interested stakeholders and is also published on Tarong Energy's website.
- **Briefings to shareholders and their representatives** are conducted on a regular basis for the purpose of disclosing business activities and performance against agreed targets.
- **Regular Community Information Sessions and a community newsletter** inform the local community of activities involving Tarong and Tarong North power stations.
- **Tarong Energy's website** is a key source of information for Tarong Energy's stakeholders.

Tarong Energy routinely publishes, releases and makes information available via its website-based **Publication Scheme.**

Tarong Energy's owners

Tarong Energy is a Government Owned Corporation (GOC), registered in Queensland as a public company under the *Corporations Act 2001*. Two Ministers hold shares in Tarong Energy on behalf of the people of Queensland. While Tarong Energy operates within broad government guidelines and policy, its overriding objective is to carry on its business as a commercial enterprise and in the best interests of its shareholders.

Statutory public interest directions from shareholders during the year

On 16 July 2008 shareholding Ministers issued a Public Interest Direction pursuant to section 124 of the *Government Owned Corporations Act 1993* revoking directions to Tarong Energy Corporation Limited effective from the delivery of commissioning water from the Western Corridor Recycled Water Scheme:

1. the direction given on 2 November 2007 and gazetted on 16 November 2007;
2. the direction given on 10 February 2006 and gazetted on 13 April 2006; and
3. the direction given on 28 July 2006 and gazetted on 4 August 2006.

Modification of 2008/09 Statement of Corporate Intent

At the request of the shareholding Ministers the Statement of Corporate Intent for 2008/09 was modified to include additional information on corporate entertainment and hospitality.

Dividend Policy

Tarong Energy's Dividend Policy takes into account the return that shareholders expect from their investment and the cash requirements of the business. On 29 April 2009, the Board of Tarong Energy recommended to shareholders a dividend amount equivalent to 80 per cent of Tarong Energy's consolidated profit after tax adjusted for mark-to-market gains for the 2008/09 year.

Overseas travel

During the year Tarong Energy's Wivenhoe Power Station Manager and the Lead Hydro Engineer travelled to New Zealand to gain a broader and more varied understanding and perspective of hydro-electricity operations and maintenance.

The Supply Manager travelled to New Zealand to share information with other electricity operators on sourcing critical spares, resources and equipment.

Corporate entertainment and hospitality (individual events over $5,000)

Event	Date	Purpose / benefits to Tarong Energy	Cost
Christmas functions	December 2008	More than 450 employees participated in Corporation-wide Christmas functions.	$44,157[1]
Family Day Celebration	28 February 2009	Family Day was held for approximately 1300 people to celebrate 25 years of operation by the Tarong Power Station and Wivenhoe Power Station.	$35,798[1]
Total			$79,955

1 Cost did not exceed $100/head at any event.

CORPORATE GOVERNANCE *(continued)*

Statement of Compliance

Tarong Energy is committed to best practice corporate governance and processes that will enhance its effectiveness and ensure the appropriate degree of accountability and transparency to stakeholders. Each year the Tarong Energy Board reviews its corporate governance framework, policies and charters to ensure practices are in place to enhance shareholder value, while making certain that Tarong Energy's activities are properly managed and supervised.

Tarong Energy endorses the view that the eight core principles of the Corporate Governance Guidelines for Government Owned Corporations form a sound platform for supporting good corporate governance practices. Tarong Energy has complied with the best practice recommendations set out in the Corporate Governance Guidelines for Government Owned Corporations.

The table shown below lists the relevant policies or charters that underpin corporate governance practices at Tarong Energy, all of which are available to view at **www.tarongenergy.com.au**

Principle 1 – Foundations of management and oversight	Reference material
The Tarong Energy Board Procedures Manual articulates the processes, procedures and functions of the Board and provides guidance regarding the practicalities associated with good corporate governance. The Board Charter sets out the role, responsibilities and authority of the Board, the Chair, individual directors and the Chief Executive Officer within the Governance Framework of Tarong Energy. The Board's Standing Delegations of Authority Policy details the delegations by the Board of its powers and authority to other Tarong Energy bodies and to staff, including the Chief Executive Officer. The Board has established three Board committees. Each committee has its own charter. On an annual basis the Board, with the assistance of the Chief Executive Officer and the People and Performance Committee, undertakes a formal process of reviewing the performance of the senior executives. On a six monthly basis, the Chair with assistance from the Board and People and Performance Committee, undertakes a formal process of reviewing the performance of the Chief Executive Officer. Tarong Energy has a comprehensive director induction program in place that includes the provision of key corporate documents, facilitation of site visits and meetings with senior executives. The induction program is modified as required to ensure that it is appropriate for the new director's qualifications and experience.	• Board Procedures Manual* • Board Charter* • Board Standing Delegations of Authority Policy* • Audit and Risk Management Committee Charter* • Strategy and Business Development Committee Charter* • People and Performance Committee Charter* • Senior Executive Appointments and Remuneration Policy

Principle 2 – Structure the Board to add value	Reference Material
Government Owned Corporation directors are appointed by the Governor-in-Council under the *Government Owned Corporations Act 1993* for a specified period. In this regard the Board does not play a formal role in setting the composition or size of the Board. All directors appointed by the Governor-in-Council are non-executive directors (including the Chair). The Board has considered the associations of each of the directors and is of the view that all directors are independent. The materiality threshold is discussed on page 40. Directors may obtain independent professional advice in relation to the execution of their duties at Tarong Energy's expense with the prior approval of the Chair or the Chair Audit and Risk Management Committee or the Company Secretary if the Chair is conflicted. Details of directors' terms of office, skills, experience, expertise and attendances at Board and committee meetings are disclosed on pages 10 and 11. The Board evaluates its performance, the performance of individual directors, the Chair and the Board committees at regular periods, not exceeding two years. The evaluations are overseen by the People and Performance Committee. A report to shareholding Ministers is provided on the outcomes of this review. All directors are required to maintain their skills and undertake professional development activities to assist them in meeting their responsibilities to Tarong Energy. Directors are entitled to seek independent professional advice, at the Corporation's expense, on any aspect of Tarong Energy's business. The process for obtaining such advice requires the relevant director to consult with the Chair or the Chair of the Audit and Risk Management Committee or Company Secretary, where the Chair is conflicted, to facilitate the advice.	• Independence of Directors Policy* • Director biographies (refer to pages 10 and 11*)

Principle 3 – Promote ethical and responsible decision making	Reference material
The Corporate Values and Code of Ethics applies to all directors, employees and contractors working at Tarong Energy. The Code of Ethics provides a framework for everyone at Tarong Energy to maintain the highest standards of corporate behaviour in their relationships with each other and with stakeholders. The behaviour this fosters is integral to supporting Tarong Energy's value and governance practices. Policies are an important part of the Code of Ethics and are based on the following five principles: • Ethical Behaviour (Ethical Behaviour Policy) • Fair Treatment (Fair Treatment Policy) • Conflict of Interest (Conflicts of Interest Policy and Gifts and Benefits Policy) • Confidential Information (Confidential Information Policy and Securities Trading Policy) • Comply with the Law (GOC Corporate Responsibility Policy) Ethical and responsible decision-making at Tarong Energy is also promoted by the Whistleblower Policy, which is designed to support and protect employees who report non-compliant, suspicious or unethical conduct by other employees. The policy formalises Tarong Energy's commitment to protecting the confidentiality and position of its employees wishing to raise serious matters that affect the integrity of Tarong Energy.	• Code of Ethics* • Values Statement* • Ethical Behaviour Policy* • Fair Treatment Policy* • Conflicts of Interest Policy* • Gifts and Benefits Policy* • Confidential Information Policy* • Securities Trading Policy* • GOC Corporate Responsibilities Policy* • Whistleblower Protection Policy*

Principle 4 – Safeguard integrity in financial reporting	Reference material
The Chief Executive Officer and Chief Financial Officer provide letters of assurance to the Board that Tarong Energy's financial reports present a true and fair view, in all material respects of Tarong Energy's financial condition, and that operational results are in accordance with relevant accounting standards. The Audit and Risk Management Committee has a charter which is reviewed annually. Details of Audit and Risk Management Committee members' terms of office, skills, experience, expertise and attendances at meetings are disclosed on page 51 of the Annual Report.	• Audit and Risk Management Committee Charter* • Director biographies (refer to pages 10 and 11)*

Principle 5 – Make timely and balanced disclosures	Reference material
An extensive continuous reporting regime is in place with shareholding Ministers, which includes preparing Quarterly Reports against Key Performance Indicators, a Statement of Corporate Intent, the Corporate Plan and Annual Report. Additional briefings are undertaken on an ad-hoc basis and as required.	• Procedure for making timely and balanced disclosures to shareholders • Corporate Governance section of the Annual Report on pages 36 to 45

Principle 6 – Respect the rights of shareholders	Reference Material
Under the *Government Owned Corporations Act 1993*, shareholding Ministers are advised in a timely manner of all issues likely to have a significant financial, operating, social and environmental impact. Shareholder approvals are sought as appropriate, pursuant to legislation and shareholder policy guidelines. Regular scheduled briefings occur between the Chair and the portfolio Minister. Tarong Energy's Chief Executive Officer and other officers and employees communicate regularly and cooperate with the Office of Government Owned Corporations and representatives of Queensland Mines and Energy to ensure that the shareholding Ministers can be briefed in a timely manner.	• Stakeholder Engagement Policy • Corporate Governance section from pages 36 to 45

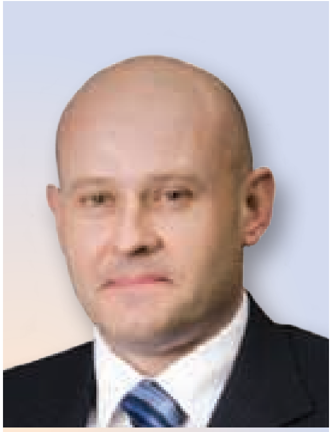
Principle 7 – Recognise and manage risk	Reference Material
Tarong Energy has risk and compliance policies and procedures which are periodically reviewed. Business critical risks are periodically reviewed and addressed. The Chief Executive Officer and Chief Financial Officer letters of assurance given in accordance with Principle 4 (Safeguard integrity in financial reporting) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and the risk management and control system is operating effectively in all material respects. Tarong Energy has an internal audit function which is independent of management and the external audit and has full and free access to the Chair Audit and Risk Management Committee and also has free access to the Corporation's employees and records. The internal audit function is governed by the Internal Audit Charter. Annually, the Audit and Risk Management Committee approves a five-year internal audit strategic plan and annual audit internal operational plan. The external audit function is performed by or on behalf of the Queensland Auditor General. Additional work is conducted as required by independent professionals. Tarong Energy does not tolerate fraud or corruption and ensures that all instances of fraud and misappropriation are promptly reported and investigated. Details of Audit and Risk Management Committee members' terms of office, skills, experience, expertise and attendances at meetings are disclosed on pages 10 to 11 and 51 of the Annual Report.	• Audit and Risk Management Charter* • Internal Audit Charter* • Fraud Prevention and Control Policy* • Risk Policy* • Compliance Policy* • Director biographies (refer to pages 10 and 11)*

Principle 8 – Remunerate fairly and responsibly	Reference Material
Shareholding Ministers determine and advise the remuneration payable to directors and fees are paid according to this advice. Tarong Energy's Senior Executive Appointments and Remuneration Policy accords with the Government Owned Corporations' Governance Arrangements for Chief and Senior Executives. The Policy provides the framework by which Tarong Energy undertakes the recruitment, appointment and establishment of conditions of employment for chief and senior executives. The People and Performance Committee oversees employee remuneration and benefits including incentive payments for the past year and incentive targets for the ensuing year. Details of People and Performance Committee members' terms of office, skills, experience, expertise and attendances at meetings are disclosed on pages 10 to 11 and 51 of the Annual Report. A summary of Tarong Energy's Remuneration Policy is disclosed on pages 96 to 100.	• Remuneration Report (refer to pages 96 to 100) • Director biographies (refer to pages 10 and 11)* • People and Performance Committee Charter* • Senior Executive Appointments and Remuneration Policy

* Tarong Energy's corporate governance policies can be viewed at www.tarongenergy.com.au

Tarong Energy will continue to focus on the safety and development of our people, invest in our assets and build strong foundations to deliver outcomes that maximise value for our shareholders.

CHIEF FINANCIAL OFFICER'S REPORT



Richard Van Breda

BCompt(Hons), CA(Z), CA(Aus)

Chief Financial Officer

2008/09 RESULTS

I am pleased to report that Tarong Energy recorded a profit after tax of $85.1 million (2008: $178.4 million of which $114.9 million resulted from the sale of two wind farms) for the financial year ended 30 June 2009. Profit from continuing operations for the year was $85.1 million (2008: $56.7 million) which is a solid result supported by water security, a strong partnership with our mining services contractor and a very favourable energy contracting position.

Total sent out generation for the year was 8,601 GWh (2008: 5,787 GWh), an increase of 51 per cent on the prior year when drought restrictions were in place. The improved generation volumes contributed significantly to the increase in revenue of $125.7 million, from $327.5 million to $448.2 million. The net realised price was $50.77/MWh against $55.17/MWh in 2008.

The mark-to-market gain of $40.3 million (2008: $67.5 million) was also a contributor to the strong Profit After Tax result for the year. This result is primarily due to our active positioning in the energy contract market in response to the decreasing forward curve. The forward electricity curve has fallen over the last year as a result of limited market volatility and continued forecast surplus capacity in Queensland.

The global financial crisis has reinforced the need for strong risk and financial management practices across the business. We are more closely aligning our risk, strategy and governance processes and have implemented a number of initiatives in this regard. Specifically, we have enhanced credit risk procedures and market risk management policies and procedures to respond to the ever changing energy market.

Significant progress has also been made to ensure the long-term fuel security of the generation fleet. As a result of the confirmation of additional economic coal reserves at Meandu Mine, which was purchased from Rio Tinto Coal Australia in early 2008, Tarong Energy has been able to defer a full-scale development and transition to the Kunioon coal resource. We are continuing to evaluate the Kunioon coal resource in terms of ensuring options for low cost fuel in the long term.

Tarong Energy continues to focus on improving the efficiency and longevity of its generation assets. In this regard, the business has initiated a review of business processes and the cost value chain to ensure that the benefits of owning the Meandu Mine are translated into secure, low cost electricity.

Tarong Energy will pay a dividend of $45.5 million to shareholders, representing 80 per cent of net profit after tax, excluding mark-to-market gains.

Cash flow and gearing

At 30 June 2009 Tarong Energy had total debt of $445.0 million (2008: $393.1 million) and a gearing ratio, representing total debt as a percentage of total capital, of 32.8 per cent (2008: 35.0 per cent). The increase in debt is primarily the result of significant capital expenditure on Tarong Power Station generating unit overhauls, control systems upgrades and on the acquisition of land to support the long-term fuel strategy. Operating cash flows were $171.2 million (2008: $107.7 million) reflecting increased revenue and profitability.

Environmental regulation and reporting

Considerable uncertainty remains around the introduction of the Federal Government's Carbon Pollution Reduction Scheme. This is a significant issue for coal-fired electricity generators and the Australian economy as a whole. Depending on the final form of the legislation and the market response including the ability to recover carbon costs through revenue, the Scheme is likely to have a serious impact on Tarong Energy's future working capital requirements, profitability and cash flows. However, as a result of the legislative uncertainty and vagaries of the energy market response to the scheme, Tarong Energy is not in a position to accurately quantify any impairment of non-current assets at this time.

In preparing for the potential introduction of the Scheme, Tarong Energy has implemented reporting and compliance processes and undertaken a comprehensive carbon risk review of the business. In particular, Tarong Energy has registered under the *National Greenhouse and Energy Reporting Act* (NGERA) and has undertaken extensive validation work to ensure that its emissions reporting is compliant with the Act.

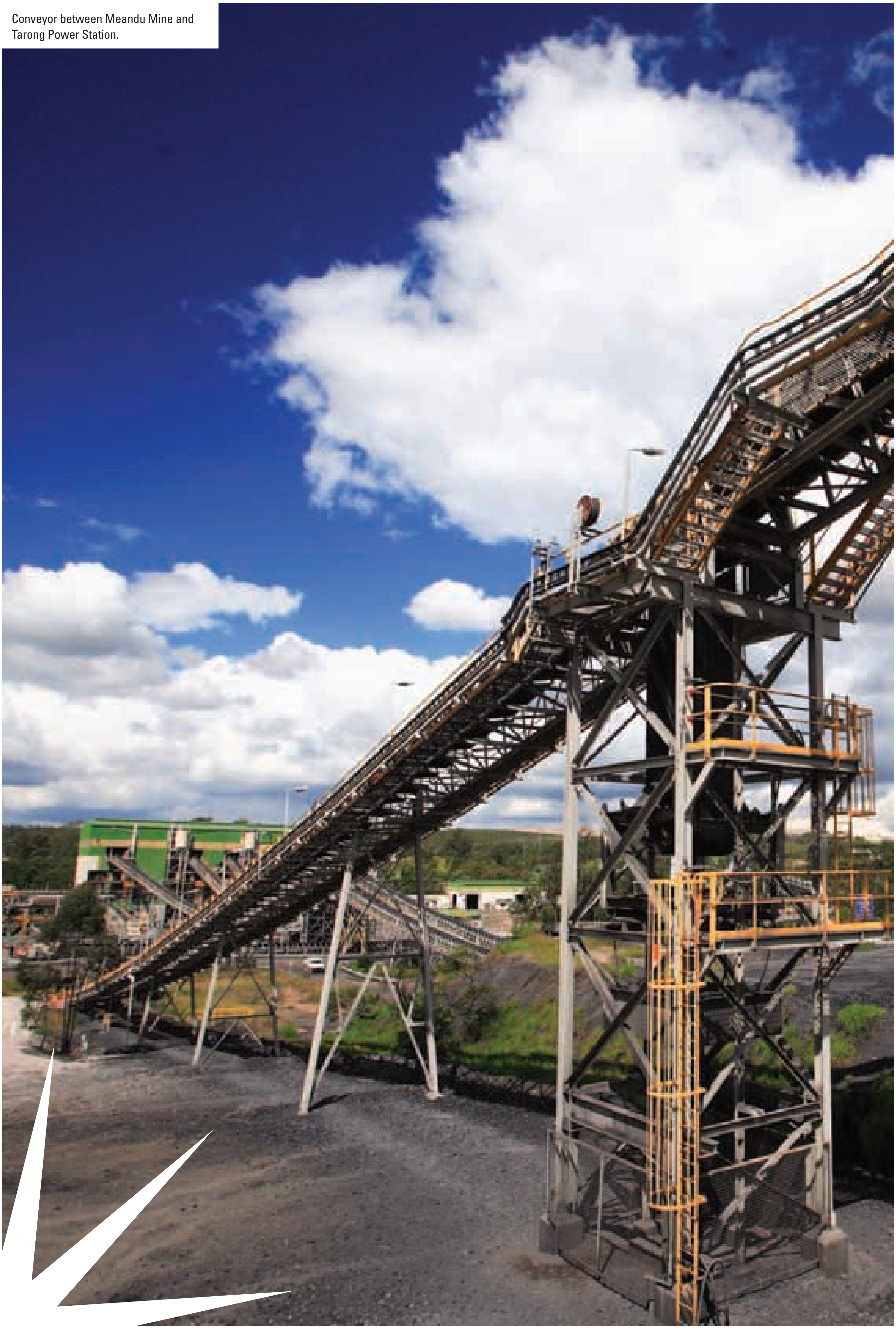
Looking forward

Both the world economy and electricity industry are in a period of unprecedented uncertainty. However, Tarong Energy will continue to focus on the safety and development of our people, invest in our assets and build strong foundations to deliver outcomes that maximise value for our shareholders. We will sharpen our focus across all aspects of the business to ensure we remain competitive.

There are undoubtedly many challenges ahead. However, we are well placed to meet them. We now have a long-term economic fuel source in place, water security, a portfolio of well-maintained generation assets and a team of people who are passionate about supplying reliable and efficient power for the people of Queensland. The future for Tarong Energy is looking positive indeed.

Richard Van Breda
Chief Financial Officer

Conveyor between Meandu Mine and Tarong Power Station.



FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

DIRECTORS' REPORT
30 JUNE 2009

The directors present their report together with the financial report of Tarong Energy Corporation Limited ("Corporation" or "Parent Entity") and of the Economic Entity, being the Corporation and its subsidiaries, and the Corporation's interest in joint ventures for the financial year ended 30 June 2009 and the auditor's report thereon.

Directors

Details of the directors' period of appointment, their qualifications, experience and special responsibilities are detailed in pages 10 to 11 of the Annual Report.

The following persons were directors of Tarong Energy Corporation Limited during the whole of the financial year and up to the date of this report:

Mr G J Carpenter
Mr R A Barton (appointed 1 July 2008)
Ms L K Bond
Ms K L Collins
Ms E M Jameson
Mr J H Pegler
Ms K E Smith-Pomeroy

Principal activities

The principal activity of the Economic Entity during the year was the generation and sale of electricity and the operation and development of coal mining assets in support of its principal activity.

Trading results

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Profit before income tax—continuing operations	118,509	80,916	93,939	61,522
Profit after income tax—continuing operations	85,103	56,749	67,495	46,058
Profit after income tax—discontinued operations	-	121,620	-	129,400
Profit attributable to members of the Economic Entity	85,103	178,369	67,495	175,458

Dividends—Tarong Energy Corporation Limited

In accordance with the *Government Owned Corporations Act 1993*, the following dividends of the Economic Entity have been paid or declared since the end of the preceding financial year:

	$'000
Final dividend for 2007/08 declared in previous year, paid 31 December 2008	50,750
Final dividend for 2008/09 provided for in this report	45,541

Review of operations

Information on the operations of the Economic Entity and the results of such operations are detailed in the Annual Report.

Significant changes in the state of affairs

Long-term fuel strategy

At a Board meeting held on 24 June 2009, the Board approved that Meandu Mine, which was acquired from Rio Tinto Coal Australia in February 2008, would be utilised as the primary fuel source for the current portfolio of generating assets. This was supported by the confirmation that economic coal reserves at Meandu Mine are likely to extend past 2024. The Kunioon coal resource will continue to be evaluated as part of a single Meandu/Kunioon coal mine to ensure Tarong Energy Corporation Limited has access to the lowest cost coal possible. In view of this decision, expenditure relating to the development of a full-scale mine at Kunioon has been identified as being unlikely to provide future economic benefits to the Corporation and details have been disclosed in the financial statements as appropriate.

Carbon Pollution Reduction Scheme

The Australian Federal Government has proposed the introduction of a Carbon Pollution Reduction Scheme (CPRS) to become effective from 1 July 2011. In this regard, in July 2008, the Federal Government released the Carbon Pollution Reduction Scheme Green Paper as the first formal step in a process to design and implement an Australian Emissions Trading Scheme (the Scheme). A White Paper was subsequently issued in December 2008 and in May 2009 the Federal Government formally announced a deferral of the start date of the proposed CPRS from 1 July 2010 to 1 July 2011. The changes announced in May 2009 also included a softer transition into the CPRS through a carbon price cap in the first year.

The inherent uncertainty of the CPRS and importantly, the market response to the CPRS has made impairment calculations highly subjective as there is a wide range of possible outcomes. In light of this, the directors are of the view that the impact of the CPRS on the recoverability of the carrying amount of assets cannot be reliably quantified and that there are too many uncertainties arising from the introduction of CPRS to support an impairment adjustment in the current year.

Additional disclosures have been included in note 3 Critical accounting estimates and judgements to address:

- the nature of key uncertainties; and
- the carrying amounts of the assets expected to be impacted.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

(a) the Economic Entity's operations in future financial years;
(b) the results of those operations in future financial years; or
(c) the Economic Entity's state of affairs in future financial years.

Likely developments

An outline of the likely developments in the Economic Entity's operations is included throughout the Annual Report.

Environmental regulation

The Economic Entity's operations are subject to significant environmental regulation under both Commonwealth and State legislation. The primary environmental legislation governing the Economic Entity's activities in Queensland is the *Environmental Protection Act 1994*.

The Economic Entity undertakes a number of systematic processes to manage its environmental activities. These systems include line management environmental responsibilities for day-to-day activities, specialist environmental personnel providing environmental advice and monitoring compliance, and a reporting regime which involves the Chief Executive Officer providing monthly environmental performance reports to the Board. The directors are not aware of any significant breaches of environmental regulation occurring during the period covered by this report. Further information relating to environmental matters is contained within the Annual Report.

Meetings of directors

The number of directors' meetings held, and the number attended by each of the directors of Tarong Energy Corporation Limited during the period 1 July 2008 to 30 June 2009 are detailed in the table below:

	Full meetings of directors		Meetings of committees					
			People and Performance		Audit and Risk Management		Strategy and Business Development	
	A	B	A	B	A	B	A	B
Mr G J Carpenter (C)	11	11	4	4	5	5	5	5
Mr R A Barton	11	11	-	-	5	5	-	-
Ms L K Bond	11	11	4	4	-	-	5	5
Ms K L Collins	11	10	4	4	5	4	-	-
Ms E M Jameson	11	10	4	3	-	-	5	5
Mr J H Pegler	11	7	-	-	-	-	5	5
Ms K E Smith-Pomeroy	11	10	-	-	5	5	-	-

A = Number of meetings held during the time the director held office or was a member of the committee.
B = Number of meetings attended.
C = Mr G J Carpenter is an ex-officio member of the Audit and Risk Management Committee.

Indemnification and insurance of officers

In accordance with the Constitution of the Economic Entity, the Economic Entity has entered into a standard form deed of access, insurance and indemnity with the current directors of the Economic Entity to indemnify them to the maximum extent permitted by law against all liabilities which they may incur in the performance of their duties as directors of the Economic Entity, except a liability for a pecuniary penalty order or compensation order under the *Corporations Act 2001*. The indemnity is made available to current and former directors of the Economic Entity for a period of seven years from the date of their resignation. To the extent permitted by law the indemnity covers liability for legal costs.

In accordance with the standard form deed of access, insurance and indemnity referred to above, the Economic Entity has, during the financial year ended 30 June 2009, paid an insurance premium in respect of the directors and executive officers of the Economic Entity. In accordance with normal commercial practice, the insurance contract prohibits disclosure of the nature or the liability covered by, or the amount payable under, the contract of insurance.

No claims have been made by any director or officer of the Economic Entity pursuant to these indemnities.

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 53.

Rounding of amounts

The Corporation is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

The Queensland Audit Office continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

Mr G J Carpenter
Director

Ms K E Smith-Pomeroy
Director

Brisbane
19 August 2009

AUDITOR'S INDEPENDENCE DECLARATION

To the directors of Tarong Energy Corporation Limited.

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

Independence Declaration

As lead auditor for the audit of Tarong Energy Corporation Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Tarong Energy Corporation Limited and the entities it controlled during the period.

AUDITOR GENERAL
19 AUG 2009
OF QUEENSLAND

G G Poole
Auditor-General of Queensland

Brisbane

INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Consolidated		Parent	
		2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Revenue from continuing operations	5	**448,244**	327,524	**396,260**	254,418
Other income	6	**33,521**	2,107	**4,254**	10,335
Change in fair value of derivative instruments that do not qualify for hedge accounting		**40,252**	67,499	**40,209**	67,499
Change in inventory/deferred stripping		**13,123**	21,345	**-**	3,964
Fuel costs		**(123,427)**	(99,809)	**(95,583)**	(65,668)
Depreciation expense	7	**(88,527)**	(80,846)	**(70,593)**	(67,961)
Employee benefits expense		**(70,999)**	(54,733)	**(69,127)**	(53,338)
Services		**(23,422)**	(28,740)	**(20,581)**	(26,132)
Finance costs	7	**(34,959)**	(25,570)	**(26,364)**	(23,005)
Raw materials and consumables used		**(36,802)**	(22,689)	**(27,857)**	(15,008)
Other expenses		**(38,495)**	(25,172)	**(36,679)**	(23,582)
Profit before income tax from continuing operations		**118,509**	80,916	**93,939**	61,522
Income tax expense	8	**(33,406)**	(24,167)	**(26,444)**	(15,464)
Profit from continuing operations		**85,103**	56,749	**67,495**	46,058
Profit from discontinued operations, net of income tax	9	**-**	121,620	**-**	129,400
Profit for the year		**85,103**	178,369	**67,495**	175,458
Profit attributable to members of Tarong Energy Corporation Limited		**85,103**	178,369	**67,495**	175,458

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

BALANCE SHEETS
AS AT 30 JUNE 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
ASSETS					
Current assets					
Cash and cash equivalents	10	**78,661**	69,342	**78,185**	69,103
Trade and other receivables	11	**88,588**	53,704	**72,287**	52,469
Inventories	12	**75,011**	61,587	**57,450**	45,437
Current tax asset		**-**	4,395	**-**	4,395
Other current assets	13	**29,695**	28,932	**-**	-
Derivative financial instruments	14	**106,104**	61,886	**106,104**	61,886
Total current assets		**378,059**	279,846	**314,026**	233,290
Non-current assets					
Trade and other receivables	15	**5,059**	-	**312,013**	301,536
Retirement benefit surplus	21	**-**	5,652	**-**	5,652
Derivative financial instruments	14	**137,169**	42,282	**137,169**	42,282
Property, plant and equipment	16	**1,422,044**	1,367,305	**1,172,157**	1,108,672
Exploration, evaluation and development	17	**49,476**	47,644	**49,476**	47,644
Intangible assets	19	**66,822**	74,933	**-**	-
Other non-current assets	20	**28,875**	30,500	**-**	-
Total non-current assets		**1,709,445**	1,568,316	**1,670,815**	1,505,786
Total assets		**2,087,504**	1,848,162	**1,984,841**	1,739,076
LIABILITIES					
Current liabilities					
Trade and other payables	22	**78,615**	78,958	**69,507**	51,741
Derivative financial instruments	14	**70,149**	124,006	**70,149**	124,006
Current tax liabilities		**2,448**	-	**2,448**	-
Provisions	23	**67,268**	70,840	**66,162**	69,713
Deferred income	24	**883**	1,605	**-**	170
Other current liabilities		**295**	638	**295**	568
Total current liabilities		**219,658**	276,047	**208,561**	246,198
Non-current liabilities					
Borrowings	25	**445,009**	393,111	**445,009**	393,111
Deferred tax liabilities	26	**301,233**	209,257	**292,989**	200,558
Provisions	27	**155,055**	151,163	**70,500**	61,784
Retirement benefit obligations	21	**3,091**	-	**3,091**	-
Derivative financial instruments	14	**50,009**	87,529	**50,009**	87,529
Total non-current liabilities		**954,397**	841,060	**861,598**	742,982
Total liabilities		**1,174,055**	1,117,107	**1,070,159**	989,180
Net assets		**913,449**	731,055	**914,682**	749,896
EQUITY					
Contributed equity	28	**711,965**	711,965	**711,965**	711,965
Reserves	29(a)	**93,850**	(54,637)	**93,850**	(54,637)
Retained profits	29(b)	**107,634**	73,727	**108,867**	92,568
Total equity		**913,449**	731,055	**914,682**	749,896

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Total equity at the beginning of the financial year		**731,055**	569,049	**749,896**	590,801
Actuarial losses on retirement benefit obligations, net of tax	29(b)	**(5,655)**	(6,375)	**(5,655)**	(6,375)
Change in hedging reserve due to cash flow hedges, net of tax	29(a)	**148,487**	175,683	**148,487**	175,683
Income recognised directly in equity		**142,832**	169,308	**142,832**	169,308
Profit for the year		**85,103**	178,369	**67,495**	175,458
Total recognised income and expense for the year		**227,935**	347,677	**210,327**	344,766
Transactions with equity holders in their capacity as equity holders:					
Buy-back of shares, inclusive of transaction costs	28	-	(134,921)	-	(134,921)
Dividends provided for or paid	30	**(45,541)**	(50,750)	**(45,541)**	(50,750)
		(45,541)	(185,671)	**(45,541)**	(185,671)
Total equity at the end of the financial year		**913,449**	731,055	**914,682**	749,896

The above statements of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Cash flows from operating activities					
Cash receipts from customers (inclusive of goods and services tax)		**514,065**	422,396	**432,503**	325,085
Cash payments to suppliers and employees (inclusive of goods and services tax)		**(329,349)**	(312,722)	**(275,953)**	(304,527)
		184,716	109,674	**156,550**	20,558
Interest received		**4,505**	11,620	**4,489**	11,560
Interest paid		**(22,372)**	(22,028)	**(19,965)**	(22,025)
Income tax refund received		**4,395**	12,921	**4,395**	12,921
Income taxes paid		**-**	(4,395)	**-**	(4,395)
Net cash inflow from operating activities	43	**171,244**	107,792	**145,469**	18,619
Cash flows from investing activities					
Payment for the acquisition of the assets and liabilities of the Meandu Mine and Kunioon development site	37	**-**	(151,365)	**-**	-
Payments for property, plant and equipment		**(147,000)**	(104,702)	**(127,586)**	(89,526)
Interest payments capitalised		**(8,299)**	(2,775)	**(3,910)**	(1,053)
Payments for exploration, evaluation and development expenditure		**(1,832)**	(3,311)	**(1,832)**	(3,311)
Loans repaid by/(provided to) associated entities		**(6,231)**	-	**(4,225)**	(79,024)
Proceeds from sale of property, plant and equipment		**289**	223	**18**	108
Proceeds from the sale of wind farms		**-**	279,400	**-**	279,400
Net cash (outflow)/inflow from investing activities		**(163,073)**	17,470	**(137,535)**	106,594
Cash flows from financing activities					
Share buy-back		**-**	(134,921)	**-**	(134,921)
Proceeds from borrowings		**51,898**	23,331	**51,898**	23,331
Dividends paid to the Corporation's shareholders		**(50,750)**	-	**(50,750)**	-
Net cash inflow/(outflow) from financing activities		**1,148**	(111,590)	**1,148**	(111,590)
Net increase in cash and cash equivalents		**9,319**	13,672	**9,082**	13,623
Cash and cash equivalents at the beginning of the financial year		**69,342**	55,670	**69,103**	55,480
Cash and cash equivalents at end of year	10	**78,661**	69,342	**78,185**	69,103

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial report of the Group and the financial report of the Corporation comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

Historical cost convention

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

Critical accounting estimates

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

Rounding of amounts

The Corporation is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Tarong Energy Corporation Limited as at 30 June 2009 and the results of all subsidiaries for the year then ended. Tarong Energy Corporation Limited and its subsidiaries together are referred to in this financial report as the Economic Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Economic Entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Economic Entity controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Economic Entity (refer to note 1(h)).

Subsidiaries are fully consolidated from the date on which control is transferred to the Economic Entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Economic Entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Economic Entity.

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

(ii) Joint ventures

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of joint venture operations have been incorporated in the financial statements under the appropriate headings. Details of joint ventures are set out in note 40.

(c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services provided within a particular economic environment are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Australian dollars, which is the functional currency of the parent and each of the subsidiaries in the Economic Entity.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Sales revenue

Revenue from the sale of electricity is recognised when the electricity and ancillary services are traded in the National Electricity Market (NEM). The revenue is based on spot prices for the products and is calculated by the National Electricity Market Management Company Ltd (NEMMCO)[1], the body responsible for the day-to-day operation and administration of the power system and the wholesale spot electricity market. This revenue is stabilised and at times improved when electricity derivative contracts are struck with other market counterparties including retailers.

The Economic Entity is involved in various environmental certificate schemes. It holds Renewable Energy Certificates (RECs) and Gas Energy Certificates (GECs) to meet its environmental obligations and for trading purposes. Part of the Economic Entity's holding of RECs relates to certificates created by its previously owned Starfish Hill Wind Farm and Mt Millar Wind Farm (both were sold on 19 December 2007). One REC was created for every one megawatt hour of electricity generated. For RECs and GECs held for trading purposes, revenue is recognised when the sale of certificates occurs.

The Economic Entity also holds New South Wales Greenhouse Abatement Certificates (NGACs) which have been acquired or created immediately upon registration with the Independent Pricing and Regulatory Tribunal of NSW. One NGAC represents the abatement of one tonne of carbon dioxide equivalent associated with the consumption of electricity in New South Wales. NGACs are held for trading purposes with revenue being recognised when the sale of certificates occurs.

(ii) Interest revenue

Interest revenue is recognised as it accrues using the effective interest rate method.

(iii) Sale of by-product

Revenue from by-product sales is recognised when the goods are provided to the customer, the customer has accepted the goods and collection of the related receivable is probable.

(iv) Other revenue

Other revenue is recognised when the goods are provided or when the fee in respect of services provided is receivable.

(f) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

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

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

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

1 From 1 July 2009 NEMMCO ceased operations. NEMMCO's roles and responsibilities have transitioned to the Australian Energy Market Operator (AEMO).

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Income tax (continued)

Tax consolidation

Tarong Energy Corporation Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Tarong Energy Corporation Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Tarong Energy Corporation Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses assumed from controlled entities in the tax consolidated group as disclosed in note 8.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 8.

(g) Leases

Leases of property, plant and equipment where the Economic Entity, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term. The Economic Entity does not currently have any finance leases.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Economic Entity as lessee are classified as operating leases (note 35). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(h) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition (refer to note 1(p)).

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Economic Entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Economic Entity's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measure of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are also reviewed annually for impairment.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

When such events or changes in circumstances impact on a particular asset or cash generating unit, its carrying value is assessed by reference to its recoverable amount, being the higher of fair value less costs to sell and value in use. Value in use is calculated as the net present value of expected future cash flows of the relevant cash generating unit.

The best evidence of an asset's fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value less costs to sell is based on the best available information to reflect the amount the Entity could receive for the cash generating unit in an arm's length sale. In some cases this is estimated using a discounted cash flow analysis. For the purposes of calculating value in use, cash-flow forecasts are based on detailed mine plans and operating budgets, modified as appropriate to meet the requirements of *AASB 136 Impairment of Assets.*

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount. A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Cash and cash equivalents

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

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. Trade receivables are reviewed on an ongoing basis and debts which are known to be uncollectible are written off in the income statement.

(l) Inventories

(i) Raw materials and fuel

Fuel and stores are stated at the lower of cost and net realisable value. Cost for raw materials, stores and fuel is their purchase price and for partly processed and saleable products is generally the cost of production. For this purpose, the costs of production include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Work in progress inventory relates to stocks of raw and crushed coal not in a form ready for consumption. Quantities are assessed through monthly surveys.

(ii) Environmental certificates

RECs and NGACs are held at fair value. Fair value is determined by reference to market prices for such certificates at balance date.

(m) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Economic Entity designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 14. Movements in the hedging reserve in shareholders' equity are shown in note 29.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedge

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

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect the income statement (for instance when the forecast sale that is hedged takes place). The gain or loss is recognised in the income statement within sales. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability. The deferred amounts are ultimately recognised in the income statement as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

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

(ii) Derivatives that do not qualify for hedge accounting

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Deferred stripping costs

Stripping costs comprise the removal of overburden and other waste products from a mine. Stripping costs incurred in the development of a mine before production commences are capitalised as part of the cost of constructing the mine and are subsequently amortised over the life of the operation.

Stripping costs incurred during the production stage of a mine are deferred when this is considered the most appropriate basis for matching the costs against the related economic benefits. The amount of stripping costs deferred is based on the ratio obtained by dividing the amount of waste mined by the amount of coal mined. Stripping costs incurred in the period are deferred to the extent that the stripping ratio for the current period exceeds the expected stripping ratio for the area or block subject to mining activity during the period. Such deferred costs are then charged to the income statement in subsequent periods to the extent that the current period stripping ratio falls below the block stripping ratio. The block stripping ratio is calculated based on proven and probable reserves. Any changes to the block stripping ratio are accounted for prospectively.

Deferred stripping costs are included in "Other current assets" and "Other non-current assets". These form part of the total investment in the relevant cash generating unit, which is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

(o) Property, plant and equipment

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

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

The Economic Entity has established a program of major overhauls providing cyclical maintenance works on the operating assets. Capitalised overhaul expenditure is depreciated over the period in which the Economic Entity expects to derive the benefits of the overhaul.

Depreciation is recorded over the useful life of the asset, or over the remaining life of the mine if shorter. Assets are depreciated from the date they become available for use. Land is not depreciated. The major categories of property, plant and equipment are depreciated on a units of production or straight-line basis as follows.

Units of production basis

Operational mining assets and mining development assets are depreciated on a units of production basis. In applying the units of production method, depreciation is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proven and probable reserves.

Development costs that relate to a discrete section of an ore body and which only provide benefit over the life of those reserves, are depreciated over the estimated life of that discrete section. Development costs incurred which benefit the entire ore body are depreciated over the estimated life of the ore body.

Straight-line basis

- Buildings 23–32 years
- Generation assets 2–32 years
- Non-generation assets 2–10 years
- Capitalised overhauls 2–4 years

Estimates of residual values and useful lives are reassessed annually, and any change in estimate is taken into account in the determination of future depreciation charges.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement. When revalued assets are sold the amounts included in other reserves in respect of those assets are transferred to retained profits.

(p) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Economic Entity's share of the net identifiable assets of the acquired business/subsidiary at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Intangible assets (continued)

(ii) Research and development

Expenditure on research and development activities, undertaken with the prospect of obtaining and developing new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

(iii) Mining information and mining leases

Mining information and mining leases acquired are carried at the net fair value at date of acquisition less amortisation and impairment losses. Mining information and mining leases are amortised over the life of the mine for which the information relates using the units of production method and reflecting the pattern of economic benefit to the Economic Entity.

(q) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Economic Entity prior to the end of the financial year which are unpaid. Trade payables are stated at their original invoice amount, are unsecured and are normally settled on 30 day terms.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

(s) Borrowing costs

Borrowing costs relate to interest incurred on the Corporation's loan with Queensland Treasury Corporation (QTC), net of interest earned on the QTC Debt Offset Facility. These costs are expensed as incurred unless they relate to qualifying assets, in which case they are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Exploration, evaluation and development expenditure carried forward relating to areas of interest on the basis that they are expected to be recouped through successful development and exploitation, or alternatively by sale, are deemed to be qualifying assets.

Exploration, evaluation and development expenditure carried forward relating to areas of interest which have not reached a stage permitting reliable assessment of economic benefits are not regarded as qualifying assets and therefore, related borrowing costs are expensed.

Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised are those incurred in relation to that borrowing net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average interest rate.

(t) Provisions

Provisions are recognised when the Economic Entity has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects the current market assessment of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(u) Employee benefits

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

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised as provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Employee benefits (continued)

(iii) Retirement benefit obligations

All employees of the Economic Entity are eligible for benefits on retirement, disability or death. The Economic Entity's default superannuation plan (ESI Super) has a defined benefit section and a defined contribution section within its plan. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from Economic Entity companies and the Economic Entity's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to retained earnings.

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

Future taxes that are funded by the Entity and are part of the provision of the existing benefit obligation (eg taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset. Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Profit-sharing and bonus plans

The Economic Entity recognises a liability and an expense for bonuses on a formula that takes into consideration, amongst other factors, the profit attributable to the Corporation's shareholders.
The Economic Entity recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Economic Entity recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(v) Dividends

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

(w) 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 material and 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
- activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development expenditure incurred by or on behalf of the Economic Entity is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises costs directly attributable to the construction of a mine and the related infrastructure.

Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as "development properties".

A development property is reclassified as a "mining property" at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

Development properties are tested for impairment in accordance with the policy in note 1(i).

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

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried-forward exploration, evaluation and development costs are amortised on a units of production basis over the life of the economically recoverable reserves.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Restoration, rehabilitation and environmental expenditure

Future costs associated with the rehabilitation of power station sites, and close down and restoration of coal mines are estimated and provided for in accordance with note 1(t). In relation to mining activities, restoration and rehabilitation costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the site development or during the production phase, based on the net present value of estimated future costs. Provisions for restoration and rehabilitation costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost is amortised over the estimated economic life of the operation. The value of the provision is progressively increased over time as the effect of the discounting unwinds, creating an expense which is recognised in finance charges. The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost.

The costs for the restoration of site damage which arises during production, are provided at their net present values and charged against operating profits as the extraction progresses.

(y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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

(z) Discontinued operations

A discontinued operation is a component of the Economic Entity that has been disposed of or is classified as held for sale, and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

(aa) Fair value estimation

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

The fair value of financial instruments traded in active markets is based on quoted market prices at balance date. The quoted market price used for financial assets and liabilities held by the Economic Entity is the appropriate current mid price.

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

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

The carrying amount of financial assets and liabilities approximate their fair value.

(ab) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Economic Entity's assessment of the impact of these new standards and interpretations is set out below.

(i) Revised AASB 123 *Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123* (effective from 1 July 2009)

The revised AASB 123 has removed the option to expense all borrowing costs and will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Economic Entity, as the Economic Entity already capitalises borrowing costs relating to qualifying assets.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) New accounting standards and interpretations not yet adopted (continued)

(ii) Revised AASB 127 *Consolidated and Separate Financial Statements* (effective from 1 July 2009)

The revised AASB 127 changes the accounting for investments in subsidiaries. Key changes include the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in the income statement and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. This is not expected to have a material impact on the Economic Entity.

(iii) Revised AASB 101 *Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB101* (effective from 1 July 2009)

The revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet, this one being as at the beginning of the comparative period. The Economic Entity will apply the revised standard from 1 July 2009. This should not have a significant impact on the Economic Entity.

(iv) Revised AASB 3 *Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* (effective 1 July 2009)

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statements. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed. This is different to the Economic Entity's current policy which is set out in note 1(h) above.

The Economic Entity will apply the revised standards prospectively to all business combinations and transactions with non-controlling interests from 1 July 2009.

(v) AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective from 1 July 2009)

In July 2008, the AASB issued a number of improvements to existing Australian Accounting Standards. The Economic Entity will apply the revised standards from 1 July 2009. On initial application, the Entity will need to make adjustments to disclosures for each of the amendments.

(vi) AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective 1 July 2009)

The amendments to AASB 5 *Discontinued Operations* and AASB 1 *First-Time Adoption of Australian-Equivalents to International Financial Reporting Standards* are part of the International Accounting Standards Board's (IASB) annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held-for-sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The Economic Entity will apply the amendments prospectively to all partial disposals of subsidiaries from 1 July 2009.

(vii) AASB 2008-8 *Amendment to Australian Accounting Standards—Eligible Hedged Items* (effective 1 July 2009)

AASB 2008-8 amends AASB 139 *Financial Instruments: Recognition and Measurement* and must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Economic Entity will apply the amended standard from 1 July 2009. It is not expected to have a material impact on the Economic Entity's financial statements.

2 FINANCIAL RISK MANAGEMENT

The Economic Entity's activities expose it to a variety of financial risks: market risk (including interest rate risk and commodity price risk), credit risk, liquidity risk and foreign exchange risk. The Economic Entity's overall risk management program focuses mainly on the unpredictability of the electricity and financial markets and seeks to minimise potential adverse effects on the financial performance of the Economic Entity. The Economic Entity uses derivative financial instruments to hedge certain risk exposures. The Economic Entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and commodity price risks and an aging analysis for credit risk.

Financial risk management is carried out by the Energy Risk Management and Settlements department under policies approved by the Board. The Marketing and Trading department identifies, evaluates and hedges electricity market risks. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as mitigating interest rate and credit risk, use of derivative financial instruments and investment of excess liquidity.

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

2 FINANCIAL RISK MANAGEMENT (continued)

The Economic Entity holds the following financial instruments:

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Financial assets				
Cash and cash equivalents	**78,661**	69,342	**78,185**	69,103
Trade and other receivables	**93,647**	53,704	**384,300**	354,005
Electricity derivatives — cash flow hedges	**112,590**	8,695	**112,590**	8,695
Electricity derivatives — held for trading	**130,683**	95,473	**130,683**	95,473
	415,581	227,214	**705,758**	527,276
Financial liabilities				
Trade and other payables	**78,615**	78,958	**69,507**	51,741
Borrowings	**445,009**	393,111	**445,009**	393,111
Electricity derivatives — cash flow hedges	**3,285**	110,310	**3,285**	110,310
Electricity derivatives — held for trading	**116,873**	101,225	**116,873**	101,225
	643,782	683,604	**634,674**	656,387

(a) Market risk

(i) Foreign exchange risk

The Economic Entity incurs foreign exchange exposure primarily as a result of imported components and equipment. Contracts to supply these items at times include a currency rise and fall clause in which the Economic Entity is exposed to foreign exchange risk. The Economic Entity is not materially exposed to foreign exchange risk at 30 June 2009.

(ii) Commodity price risk

The Economic Entity is exposed to electricity price movements in the National Electricity Market. To manage its commodity price risk the Economic Entity has entered into a number of electricity derivatives (including over-the-counter swaps, futures and cap contracts) in accordance with the Board approved risk management policy. For the majority of these contracts the Economic Entity receives from counterparties a fixed price per megawatt hour and in return pays the current pool price. These contracts assist the Economic Entity to provide certainty in relation to revenue received.

Commodity price risk is measured weekly through the review of mark-to-market exposure of the net derivative asset and liability.

(iii) Cash flow and fair value interest rate risk

The Economic Entity has interest rate risk on its debt. The Economic Entity manages its cash flow interest rate risk by maintaining a spread of maturities. The debt duration is selected with reference to the cash flow profile of the assets.

Interest rate risk is measured monthly through the monitoring of changes in yields over the debt duration profile.

(iv) Summarised sensitivity analysis

The following commentary and tables summarise the sensitivity of the Economic Entity's financial assets and financial liabilities to commodity risk and interest rate risk. The analysis is based on similar information to that which would be provided to management and reflects the impact on the Economic Entity's financial instruments should certain price movements occur.

The sensitivity in the mark-to-market of the electricity derivative portfolio at balance date was investigated by observing the impact of annualised historical upward or downward moves in the forward curve over a selected period under observable market conditions. The analysis assumes an upward movement of 20% and a downward movement of 20%, which reflects the market sensitivity of positions held by the Economic Entity at balance date.

The Economic Entity has assumed a +/-100bpt movement in interest rates applicable to its borrowings as a reasonable expectation based on historical patterns for the type of debt facility held.

2 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

Consolidated		Interest rate risk				Commodity price risk			
		-100 bpt		+100 bpt		-20%		+20%	
30 June 2009	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	78,661	(787)	(787)	787	787	-	-	-	-
Electricity derivatives—cash flow hedges	112,590	-	-	-	-	-	113,358	-	(68,572)
Electricity derivatives—held for trading	130,683	-	-	-	-	128,645	128,645	(30,153)	(30,153)
Non-current receivable	5,059	(51)	(51)	51	51	-	-	-	-
Financial liabilities									
Electricity derivatives—cash flow hedges	3,285	-	-	-	-	-	2,860	-	(47,451)
Electricity derivatives—held for trading	116,873	-	-	-	-	(117,508)	(117,508)	19,203	19,203
Borrowings	445,009	426	426	(426)	(426)	-	-	-	-
Total increase/(decrease)		**(412)**	**(412)**	**412**	**412**	**11,137**	**127,355**	**(10,950)**	**(126,973)**

Consolidated		Interest rate risk				Commodity price risk			
		-100 bpt		+100 bpt		-20%		+20%	
30 June 2008	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	69,342	(693)	(693)	693	693	-	-	-	-
Electricity derivatives—cash flow hedges	8,695	-	-	-	-	-	22,764	-	(6,300)
Electricity derivatives—held for trading	95,473	-	-	-	-	11,429	11,429	58,800	58,800
Financial liabilities									
Electricity derivatives—cash flow hedges	110,310	-	-	-	-	-	69,448	-	(102,300)
Electricity derivatives—held for trading	101,225	-	-	-	-	20,422	20,422	(70,300)	(70,300)
Borrowings	393,111	504	504	(504)	(504)	-	-	-	-
Total increase/(decrease)		**(189)**	**(189)**	**189**	**189**	**31,851**	**124,063**	**(11,500)**	**(120,100)**

The sensitivity of the Parent Entity's financial instruments is not materially different to the amounts disclosed above.

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

2 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk largely arises from the potential failure of counterparties to meet their obligations under the respective contracts upon maturity. In relation to the Economic Entity, credit risk arises largely from derivative financial instruments (note 14) and trade receivables (notes 11 and 15). The Economic Entity trades within defined parameters, sets credit limits and monitors the performance of counterparties. Further, the Economic Entity has a rigorous and independent credit assessment, taking into account ratings of counterparties as provided by rating agencies and adopts a conservative approach to credit risk.

In relation to transactions with NEMMCO, this company is limited by guarantee incorporated under the *Corporations Act 2001* and is owned by the Governments of the six jurisdictions who are members of the National Electricity Market—Queensland, Victoria, South Australia, New South Wales, Australian Capital Territory and Tasmania. The company is self-funding and has an ability to recover its costs from fees that participants are required to pay. As effective power system operations are of great importance to the Governments involved, implied support from all owners is assumed. As a result credit risk is not considered significant.

Refer to notes 11, 14 and 15 for further details on the Economic Entity's exposure to credit risk.

A summary of the credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings in the following table:

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Cash at bank and short-term bank deposits				
AA	**76,602**	54,712	**76,602**	54,712
AA-	**1,584**	14,463	**1,283**	14,336
Other (non-rated)	**475**	167	**300**	55
	78,661	69,342	**78,185**	69,103
Trade and other receivables				
AA+	-	1,146	-	1,146
AA	**7,858**	-	**7,858**	-
AA-	**248**	15,605	**248**	15,605
BBB+	**2,664**	88	**2,664**	88
BBB	**821**	1,093	**821**	1,093
NEMMCO	**25,771**	22,293	**25,771**	22,293
Other (non-rated)	**56,285**	13,479	**346,938**	313,780
	93,647	53,704	**384,300**	354,005
Derivative financial assets				
AAA	-	-	-	-
AA	**75,393**	422	**75,393**	422
AA-	**1,762**	19,133	**1,762**	19,133
BBB+	**7,105**	-	**7,105**	-
BBB	**59,043**	168	**59,043**	168
Other (non-rated)	**27,303**	2,836	**27,303**	2,836
	170,606	22,559	**170,606**	22,559

2 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

The Economic Entity is subject to cash flow volatility and prefers to minimise the risk by maintaining a highly contracted profile. To the extent that volatility still arises, the Economic Entity manages liquidity risk by maintaining sufficient cash and undrawn facilities to meet any unexpected volatility. The Economic Entity uses stress testing to measure extreme cash flow risk. The Economic Entity has access to Queensland Treasury Corporation (QTC) funds as required once shareholding Ministers' approval for the borrowing purpose has been received, subject to meeting credit criteria set by QTC. The QTC borrowings have no fixed repayment date however the facility is assessed by QTC annually.

Maturities of financial liabilities

Economic Entity — As at 30 June 2009	Less than 5 months	Greater than 5 months	Nominal amount
Non-derivatives			
Trade and other payables	78,615	-	78,615
Total non-derivatives	**78,615**	-	**78,615**
Derivatives			
Electricity derivatives — cash flow hedges	231	3,027	3,258
Electricity derivatives — held for trading	30,107	67,118	97,225
Total derivatives	**30,338**	70,145	**100,483**

Economic Entity — As at 30 June 2008	Less than 5 months	Greater than 5 months	Nominal amount
Non-derivatives			
Trade and other payables	78,958	-	78,958
Total non-derivatives	**78,958**	-	**78,958**
Derivatives			
Electricity derivatives — cash flow hedges	28,276	88,182	116,458
Electricity derivatives — held for trading	32,268	69,628	101,896
Total derivatives	**60,544**	157,810	**218,354**

Refer to note 25 for details of the maturity of borrowings.

The electricity derivatives designated as cash flow hedges are expected to impact the income statement in the same period in which the cash flows occur.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Entity and that are believed to be reasonable under the circumstances.

The Economic Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the following:

(i) Recoverable amount of non-current assets

The Australian Federal Government has proposed the introduction of a Carbon Pollution Reduction Scheme (CPRS) to become effective from 1 July 2011. In this regard, in July 2008, the Federal Government released the Carbon Pollution Reduction Scheme Green Paper as the first formal step in a process to design and implement an Australian Emissions Trading Scheme. A White Paper was subsequently issued in December 2008 and in May 2009 the Federal Government formally announced a deferral of the start date of the proposed CPRS from 1 July 2010 to 1 July 2011. The changes announced in May 2009 also included a softer transition into the CPRS through a carbon price cap in the first year.

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(i) Recoverable amount of non-current assets (continued)

The Federal Government introduced the Carbon Pollution Reduction Scheme Bill 2009 to the Federal Parliament in June 2009. The legislation was not passed and is still the subject of scrutiny, debate and possible amendment. As a result there is significant uncertainty as to the final form of the legislation and importantly the market response to imposing a cost on carbon emissions. Specific areas of uncertainty include:

- abatement opportunities;
- the price or range of prices of emission permits;
- the number of permits required to be purchased;
- the ability to pass on the cost of the permits;
- the impact on costs charged by suppliers; and
- Government assistance.

The introduction of the CPRS has the potential to significantly impact future cash flows of many Australian entities and depending on the final form of the legislation and the energy market response to the CPRS, will have an impact on the cash flows of the Economic Entity. This is likely to have a significant impact on the determination of the recoverable amounts of non-current assets as required under AASB 136 *Impairment of Assets* (the Standard).

In view of the above and management's assessment that the introduction of a CPRS is an indicator of impairment, a range of impairment tests has been carried out in accordance with the accounting policy stated in note 1(i) and the Standard. Importantly the Standard requires that:

"In measuring value in use an entity shall base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that exist over the remaining useful life of the asset."

In carrying out the impairment tests at 30 June 2009, recoverable amounts have been considered using both value in use and fair value less cost to sell methodologies. These calculations require the use of a range of assumptions including:

- forecast electricity pool and contract prices;
- forecast fuel prices;
- forecast water costs;
- forecast capital expenditure;
- discount rates;
- consideration of recent sales of similar assets;
- carbon costs and the recovery thereof; and
- new entrant costs for similar long-term assets.

The uncertainties of the CPRS and importantly the market response to the CPRS will significantly impact the assumptions outlined above and there is a wide and divergent range of possible outcomes. However, the CPRS is likely to have a significant impact on the future cash flows of the Economic Entity and it is likely that the carrying amounts of non-current assets will not be supported by future cash flows if the draft legislation is approved in its current form or includes more extreme emissions reduction targets. However, given the uncertainties of the CPRS and the possible energy market responses, the directors do not believe that it is possible to provide a reasonable and supportable estimate of any impairment adjustment at this time and on this basis have not adjusted the carrying amounts of non-current assets at 30 June 2009.

The carrying amounts of non-current assets that may be impacted by the CPRS are as follows:

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Property, plant and equipment	**1,422,044**	1,367,305	**1,172,157**	1,108,672
Exploration, evaluation and development	**49,476**	47,644	**49,476**	47,644
Intangible assets	**66,822**	74,933	**-**	-
	1,538,342	1,489,882	**1,221,633**	1,156,316

(ii) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market (for example, certain types of electricity derivatives) is determined by using valuation techniques. The Economic Entity uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each balance sheet date.

(iii) Rehabilitation provisions

The Economic Entity has to provide for site closure and restoration in accordance with the accounting policy stated in note 1(x). This calculation requires the use of key assumptions including the timing of restoration work, legal requirements and the use of a discount rate.

4 SEGMENT INFORMATION

(a) Description of segments

Business segments

The Economic Entity operates in the energy industry. Its primary activity is the generation and sale of electricity.

Geographical segments

The Economic Entity operates in Queensland, Australia. The sale of the South Australian (wind farm) operations was completed during the year ended 30 June 2008.

(b) Primary reporting format—business segments

2009	Electricity generation from continuing operations $'000	Electricity generation from discontinued operations (note 9) $'000	Consolidated $'000
Sales to external customers	443,739	-	443,739
Other revenue/income	51,149	-	51,149
Change in fair value of derivative instruments that do not qualify for hedge accounting	40,252	-	40,252
Total segment revenue/income	**535,140**	**-**	**535,140**
Segment result and profit before income tax	**118,509**	**-**	**118,509**
Income tax expense	(33,406)	-	(33,406)
Net profit for the year	**85,103**	**-**	**85,103**
Segment assets	**2,087,504**	**-**	**2,087,504**
Segment liabilities	**1,174,055**	**-**	**1,174,055**
Acquisitions of property, plant and equipment (including the increase in the rehabilitation asset)	155,373	-	155,373
Depreciation expense	88,527	-	88,527
Write-off of property, plant and equipment	9,775	-	9,775

2008	Electricity generation from continuing operations $'000	Electricity generation from discontinued operations (note 9) $'000	Consolidated $'000
Sales to external customers	315,904	3,788	319,692
Other revenue/income	13,727	122,430	136,157
Change in fair value of derivative instruments that do not qualify for hedge accounting	67,499	-	67,499
Total segment revenue/income	**397,130**	**126,218**	**523,348**
Segment result and profit before income tax	**80,916**	**124,485**	**205,401**
Income tax expense	(24,167)	(2,865)	(27,032)
Net profit for the year	**56,749**	**121,620**	**178,369**
Segment assets	**1,848,162**	**-**	**1,848,162**
Segment liabilities	**1,117,107**	**-**	**1,117,107**
Acquisitions of property, plant and equipment (including the increase in the rehabilitation asset)	252,227	1,342	253,569
Depreciation expense	80,846	-	80,846

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

4 SEGMENT INFORMATION (continued)

(c) Secondary reporting format—geographical segments

	Segment revenues from sales to external customers		Segment assets		Acquisitions of property, plant and equipment[1]	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
Queensland	**443,739**	315,904	**2,087,504**	1,848,162	**155,373**	252,227
South Australia	**-**	3,788	**-**	-	**-**	1,342
	443,739	319,692	**2,087,504**	1,848,162	**155,373**	253,569

5 REVENUE

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
From continuing operations				
Sales revenue				
Sale of electricity	**439,921**	313,748	**388,034**	240,831
Sale of by-product	**3,818**	2,156	**3,737**	2,027
	443,739	315,904	**391,771**	242,858
Other revenue				
Interest	**4,505**	11,620	**4,489**	11,560
	448,244	327,524	**396,260**	254,418

6 OTHER INCOME

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Net present value gain on contingent consideration in business combination[2]	**14,531**	-	**-**	-
Net gain on change in rehabilitation liability[3]	**14,205**	-	**-**	-
Foreign exchange gains (net)	**1,778**	-	**1,778**	-
Other income	**3,007**	2,107	**2,476**	10,335
	33,521	2,107	**4,254**	10,335

1 Including the increase in the rehabilitation asset.

2 Refer to note 37.

3 The life of Meandu Mine has been extended to at least 2024 based on a reassessment of economic coal reserves. The rehabilitation provision liability has been reassessed based on the extension to the mine life. As a result of the change in the estimated timing of outflows to settle the obligation, the rehabilitation provision has decreased. In accordance with the requirements of Australian Accounting Standards, the amount of the change in the rehabilitation liability in excess of the carrying value of the related assets has been recognised in the income statement.

7 EXPENSES

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Profit before income tax from continuing operations includes the following expenses:				
Depreciation				
Buildings	**2,306**	2,395	**2,004**	1,976
Generation assets	**54,610**	51,031	**47,655**	44,205
Non-generation assets	**6,674**	5,109	**6,505**	4,952
Operational mining assets	**7,675**	3,460	**-**	-
Capitalised overhauls	**17,262**	18,851	**14,429**	16,828
Total depreciation	**88,527**	80,846	**70,593**	67,961
Finance costs				
Interest and finance charges paid/payable on borrowings	**33,104**	24,800	**26,307**	23,078
Amount capitalised	**(8,299)**	(2,775)	**(3,910)**	(1,053)
Interest associated with increase in provisions due to the passage of time	**10,154**	3,545	**3,967**	980
Finance costs expensed	**34,959**	25,570	**26,364**	23,005

Tarong Energy will continue to develop the Meandu-only fuel option with a view to utilising Meandu Mine as its mainstream source of coal for the foreseeable future. A full-scale transition to Kunioon is no longer considered likely. On this basis, expenditure incurred in connection with a full-scale transition to Kunioon was identified as no longer providing future economic benefits to the entity and written off accordingly ($9.8 million prior year expenditure written off as other expenses and $18.6 million of current year costs recognised in the income statement relating to employee expenses ($7.9 million), finance costs ($1.1 million) and other expenses, primarily consultancies ($9.6 million).

8 INCOME TAX EXPENSE

(a) Income tax expense

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Current tax	**25,250**	(14,905)	**21,724**	15,384
Deferred tax	**9,849**	41,937	**6,241**	80
Over provided in prior years	**(1,693)**	-	**(1,521)**	-
	33,406	27,032	**26,444**	15,464
Income tax expense is attributable to:				
Profit from continuing operations	**33,406**	24,167	**26,444**	15,464
Profit from discontinued operations	**-**	2,865	**-**	-
Aggregate income tax expense	**33,406**	27,032	**26,444**	15,464
Deferred income tax expense included in income tax expense comprises:				
Decrease in deferred tax assets—continuing operations (note 18)	**9,174**	19,255	**7,181**	18,726
Increase/(decrease) in deferred tax liabilities—continuing operations (note 26)	**675**	21,061	**(940)**	(18,646)
Increase in deferred tax liabilities—discontinued operations	**-**	1,621	**-**	-
	9,849	41,937	**6,241**	80

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

8 INCOME TAX EXPENSE (continued)

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense from continuing operations	**118,509**	80,916	**93,939**	61,522
Profit from discontinuing operations before income tax expense	**-**	124,486	**-**	129,400
	118,509	205,402	**93,939**	190,922
Tax at the Australian tax rate of 30% (2008: 30%)	**35,553**	61,622	**28,182**	57,277
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:				
Gain on sale of wind farms	**-**	(34,481)	**-**	(38,820)
Inter-company dividend	**-**	-	**-**	(2,666)
Sundry items	**(454)**	(109)	**(218)**	(327)
	35,099	27,032	**27,964**	15,464
Over provision in prior years	**(1,693)**	-	**(1,520)**	-
Income tax expense	**33,406**	27,032	**26,444**	15,464
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in the income statement but directly debited or credited to equity:				
Cash flow hedges (note 29)	**63,637**	75,293	**63,637**	75,293
Defined benefit plan (note 29)	**(2,623)**	(2,732)	**(2,623)**	(2,732)
	61,014	72,561	**61,014**	72,561

(d) Tax consolidation

Tarong Energy Corporation Limited and its wholly owned Australian-controlled entities entered into a tax sharing and funding agreement from 1 July 2005 in relation to their participation in the tax consolidation regime. Under the terms of this agreement, the wholly owned entities reimburse Tarong Energy Corporation Limited for any current income tax payable by Tarong Energy Corporation Limited arising in respect of their activities. The reimbursements are payable at the same time as the associated income tax liability falls due. In the opinion of the directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly owned entities in the case of a default by Tarong Energy Corporation Limited.

9 DISCONTINUED OPERATION

(a) Description

The wind farm assets of the Economic Entity were sold effective 19 December 2007.

Financial information relating to the discontinued operation for the period up to sale date are set out in the following. The gain on sale recognised in the parent represents the gain on sale of its investments in subsidiaries related to the wind farm assets. Further information is set out in note 4—segment information.

9 DISCONTINUED OPERATION (continued)

(b) Financial performance, balance sheet and cash flow information

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Results of discontinued operations				
Revenue	-	11,283	-	-
Other expenses	-	(1,733)	-	-
Profit before income tax	-	9,550	-	-
Income tax expense	-	(2,865)	-	-
Profit after income tax of discontinued operations	-	6,685	-	-
Gain on sale of wind farms	-	114,935	-	129,400
Profit from discontinued operations	**-**	121,620	**-**	129,400
Cash flows from discontinued operations				
Net cash inflow from operating activities	-	15,773	-	-
Net cash (outflow) from investing activities	-	(5,669)	-	-
Proceeds from the sale of wind farms	-	279,400	-	279,400
Net increase in cash generated by discontinued operations	-	289,504	-	279,400
(c) Details of the sale of the wind farms				
Consideration received:				
Cash	-	279,400	-	279,400
Carrying amount of net assets sold	-	(164,465)	-	(150,000)
Gain on sale	**-**	114,935	**-**	129,400

10 CURRENT ASSETS—CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Cash at bank and on hand	**1,584**	687	**1,108**	448
Deposits at call	**76,602**	54,712	**76,602**	54,712
Margin call account—available funds	**475**	13,943	**475**	13,943
	78,661	69,342	**78,185**	69,103

(a) Reconciliation to cash at the end of the year

The above figures also equate to cash and cash equivalents at the end of the financial year as shown in the cash flow statements.

(b) Margin call account—Interest rates

The Economic Entity is exposed to interest rate risk on cash held in its futures margin call account.

(c) Cash at bank and on hand

Cash held with banks is bearing an interest rate of 4.1% (2008: 6.3%).

(d) Deposits at call

The deposits yielded floating interest rates between 3.2% and 8.3% during the year ended 30 June 2009 (2008: 6.3% to 8.1%).

(e) Fair value

The carrying amount for cash and cash equivalents equals the fair value.

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

11 CURRENT ASSETS — TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Net trade receivables				
Trade receivables	**52,472**	28,763	**53,378**	28,779
Net other receivables				
Other receivables	**35,416**	21,327	**18,304**	20,268
Insurance claims	**-**	3,010	**-**	3,010
	35,416	24,337	**18,304**	23,278
Prepayments				
Insurance	**108**	93	**69**	67
Other prepayments	**592**	511	**536**	345
	700	604	**605**	412
	88,588	53,704	**72,287**	52,469

There are no receivables that are past due.

(a) Bad and doubtful trade receivables

The Economic Entity did not recognise any material losses in respect of bad and doubtful trade receivables during the year ended 30 June 2009 (2008: $nil).

(b) Other receivables

These amounts generally arise from non-electricity related transactions of the Economic Entity. Repayment terms are generally 30 days from invoice date. No interest is charged on outstanding balances. Collateral is not normally obtained.

(c) Effective interest rates and credit risk

Information concerning the effective interest rate and credit risk of non-current receivables is set out in note 14 and note 15.

(d) Fair value

The carrying amounts of trade and other receivables equal their fair values.

12 CURRENT ASSETS — INVENTORIES

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Raw materials				
Stores at cost	**15,503**	17,333	**11,970**	8,712
Fuel				
Coal stocks at cost (work in progress)	**13,370**	6,887	**-**	-
Coal stocks at cost (complete)	**40,090**	32,557	**40,090**	32,557
Oil stocks at cost	**1,431**	1,346	**1,435**	1,346
	54,891	40,790	**41,525**	33,903
Environmental certificates				
Renewable Energy Certificates	**3,738**	2,473	**3,738**	2,473
Gas Energy Certificates	**6**	6	**6**	6
NSW Greenhouse Abatement Certificates	**873**	985	**211**	343
	4,617	3,464	**3,955**	2,822
	75,011	61,587	**57,450**	45,437

13 OTHER CURRENT ASSETS

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Deferred stripping	**29,695**	28,932	**-**	-

14 DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Current assets				
Electricity derivatives — held for trading	**56,837**	58,242	**56,837**	58,242
Electricity derivatives — cash flow hedges	**49,267**	3,644	**49,267**	3,644
Total current derivative financial instrument assets	**106,104**	61,886	**106,104**	61,886
Non-current assets				
Electricity derivatives — held for trading	**73,846**	37,231	**73,846**	37,231
Electricity derivatives — cash flow hedges	**63,323**	5,051	**63,323**	5,051
Total non-current derivative financial instrument assets	**137,169**	42,282	**137,169**	42,282
Total derivative financial instrument assets	**243,273**	104,168	**243,273**	104,168
Current liabilities				
Electricity derivatives — held for trading	**68,502**	68,716	**68,502**	68,716
Electricity derivatives — cash flow hedges	**1,647**	55,290	**1,647**	55,290
Total current derivative financial instrument liabilities	**70,149**	124,006	**70,149**	124,006
Non-current liabilities				
Electricity derivatives — held for trading	**48,371**	32,509	**48,371**	32,509
Electricity derivatives — cash flow hedges	**1,638**	55,020	**1,638**	55,020
Total non-current derivative financial instrument liabilities	**50,009**	87,529	**50,009**	87,529
Total derivative financial instrument liabilities	**120,158**	211,535	**120,158**	211,535
Net derivative financial instrument assets/(liabilities)	**123,115**	(107,367)	**123,115**	(107,367)

(a) Instruments used by the Economic Entity

The Economic Entity is party to derivative financial instruments in the normal course of business primarily to hedge exposures to fluctuations in the spot price of electricity. Some trading occurs to profit from short-term movements in the electricity derivative forward market in accordance with the Economic Entity's energy risk management policy (refer to note 2).

(i) Electricity derivatives — cash flow hedges

The Economic Entity enters into derivative contracts (generally swaps) to fix the price of electricity sales. The volume of generation hedged by contracts is determined in accordance with the Economic Entity's energy risk management policies. The cash flows are expected to occur within three years of balance date.

The contracts are recognised at trade date and are settled on a net basis each week. The settlement dates coincide with the dates on which revenue is received on the underlying electricity sales (generally 20 business days from the end of the settlement week).

These contracts are fair valued by comparing the contracted rate to the current market rate for an identical contract. The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and recycled into the income statement when the hedged electricity revenue is recognised. The ineffective portion is recognised in the income statement immediately. In the year ended 30 June 2009 a loss of $85,416,000 (2008: loss of $1,332,000) was reclassified from the cash flow hedge reserve to the income statement and included in the measurement of electricity revenue.

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

14 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Instruments used by the Economic Entity (continued)

(i) Electricity derivatives — cash flow hedges (continued)

At balance date for both the Economic Entity and the Parent Entity these contracts constituted a net asset with a fair value of $109,305,000 (2008: net liability of $101,615,000).

Due to the nature of the electricity derivative contracts, most ineffectiveness arises at the time when the hedged electricity is generated. The ineffective portion of the hedge is recognised in the income statement at the time when the effective portion of the hedge is recycled to the income statement.

(ii) Electricity derivatives — held for trading

Speculative contracts are entered into for the purposes of profiting from short-term movements in the electricity derivative forward market in accordance with the Economic Entity's energy risk management policy. Maturities are unrelated to outstanding hedging contracts. However, the amount and rate of hedging transactions are considered in the determination of the speculative positions taken. In addition to these speculative contracts designated as held for trading, an accounting reclassification is made to contracts entered into as a hedge for portfolio purposes that do not meet the requirements of a cash flow hedge under AASB 139 *Financial Instruments: Recognition and Measurement.*

At balance date for both the Economic Entity and the Parent Entity these contracts constituted a net asset with a fair value of $13,810,000 (2008: net liability of $5,752,000). All contracts expire by 31 December 2013.

These contracts are fair valued by comparing the contracted rate to the current market rate for an identical contract. Any changes in fair values are taken to the income statement immediately.

(b) Credit risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at each settlement date as well as any unrealised mark-to-market losses from derivative contracts. Management have established limits using external credit ratings to measure credit risk arising from derivative financial instruments. Controls are also in place limiting the amount of exposure, by groupings of counterparties. Measurement of credit risk is monitored and reported on a weekly basis.

The Economic Entity has historically undertaken the majority of its transactions in electricity derivatives contracts with counterparties owned by the State of Queensland. With the sale of the Government-owned contestable retail businesses, and with Full Retail Contestability beginning on 1 July 2007, new counterparties have emerged or are emerging, presenting a changing landscape with regard to credit risk. Management conducts regular credit reviews of all counterparties.

15 NON-CURRENT ASSETS — TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Related party receivables				
Loans to subsidiaries	-	-	**306,954**	301,536
Secured loan to third party — accrued shortfall balance	**5,059**	-	**5,059**	-
	5,059	-	**312,013**	301,536

The Corporation's non-current receivables include loans provided to subsidiaries for their net cash requirements. These loans are non-interest bearing and are eliminated upon consolidation.

Under the terms of the Tarong North Electricity Agreement, the Corporation can be required to advance funds to the external Joint Venture party TM Energy (Australia) Pty Ltd. These loans are secured and interest is payable at the rate specified in the agreement.

16 NON-CURRENT ASSETS—PROPERTY, PLANT AND EQUIPMENT

Consolidated	Work in progress $'000	Freehold land $'000	Freehold buildings $'000	Generation assets $'000	Operational mining assets $'000	Mining development assets $'000	Non-generation assets $'000	Overhaul deferred expenditure $'000	Total $'000
Year ended 30 June 2009									
Opening net book amount	62,796	10,854	48,362	1,054,650	95,761	50,801	12,291	31,790	1,367,305
Additions through normal operations	140,677	-	-	-	-	-	-	-	140,677
Transfers from work in progress	(81,904)	2,499	676	25,131	4,252	25,807	8,771	14,768	-
Borrowing costs capitalised	8,299	-	-	-	-	-	-	-	8,299
Increase in site rehabilitation	-	-	-	6,397	-	-	-	-	6,397
Disposals	-	-	-	(16)	(444)	-	(40)	-	(500)
Write down of previously capitalised amounts[1]	(558)	-	-	-	-	(9,217)	-	-	(9,775)
Transferred to exploration, evaluation and development	(153)	(1,679)	-	-	-	-	-	-	(1,832)
Depreciation charge	-	-	(2,306)	(54,610)	(7,675)	-	(6,674)	(17,262)	(88,527)
Closing net book amount	**129,157**	**11,674**	**46,732**	**1,031,552**	**91,894**	**67,391**	**14,348**	**29,296**	**1,422,044**
At 30 June 2009									
Cost	129,157	11,674	66,404	1,474,555	102,827	67,391	52,285	67,897	1,972,190
Accumulated depreciation	-	-	(19,672)	(443,003)	(10,933)	-	(37,937)	(38,601)	(550,146)
Net book amount	**129,157**	**11,674**	**46,732**	**1,031,552**	**91,894**	**67,391**	**14,348**	**29,296**	**1,422,044**

1 As part of the Corporation's review of its primary fuel source for the current portfolio of generation assets and extension of the Meandu Mine life, expenditure incurred in connection with a full scale transition to Kunioon was identified as no longer providing future economic benefits to the entity and written off accordingly ($9.8 million) prior year expenditure written off as other expenses and $18.6 million of current year costs recognised in the income statement relating to employee expenses ($7.9 million), finance costs ($1.1 million) and other expenses, primarily consultancies ($9.6 million).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

16 NON-CURRENT ASSETS—PROPERTY, PLANT AND EQUIPMENT (continued)

Consolidated	Work in progress $'000	Freehold land $'000	Freehold buildings $'000	Generation assets $'000	Operational mining assets $'000	Mining development assets $'000	Non-generation assets $'000	Overhaul deferred expenditure $'000	Total $'000
Year ended 30 June 2008									
Opening net book amount	51,526	10,854	55,518	1,034,166	-	-	11,173	36,028	1,199,265
Transfer between asset classes	-	-	(4,752)	4,841	-	-	(89)	-	-
Additions through normal operations	103,982	-	-	-	-	-	-	-	103,982
Additions through business combinations	-	-	-	-	99,019	-	-	-	99,019
Transfers from work in progress	(95,355)	3,179	-	20,235	202	50,801	6,325	14,613	-
Borrowing costs capitalised	2,775	-	-	-	-	-	-	-	2,775
Increase in rehabilitation asset	-	-	-	46,451	-	-	-	-	46,451
Disposals	-	-	(9)	(12)	-	-	(9)	-	(30)
Transferred to exploration, evaluation and development	(132)	(3,179)	-	-	-	-	-	-	(3,311)
Depreciation charge	-	-	(2,395)	(51,031)	(3,460)	-	(5,109)	(18,851)	(80,846)
Closing net book amount	**62,796**	**10,854**	**48,362**	**1,054,650**	**95,761**	**50,801**	**12,291**	**31,790**	**1,367,305**
At 30 June 2008									
Cost	62,796	10,854	65,729	1,447,005	99,221	50,801	45,815	75,803	1,858,024
Accumulated depreciation	-	-	(17,367)	(392,355)	(3,460)	-	(33,524)	(44,013)	(490,719)
Net book amount	**62,796**	**10,854**	**48,362**	**1,054,650**	**95,761**	**50,801**	**12,291**	**31,790**	**1,367,305**

16 NON-CURRENT ASSETS—PROPERTY, PLANT AND EQUIPMENT (continued)

Parent	Work in progress $'000	Freehold land $'000	Freehold buildings $'000	Generation assets $'000	Mining development assets $'000	Non-generation assets $'000	Overhaul deferred expenditure $'000	Total $'000
Year ended 30 June 2009								
Opening net book amount	57,584	10,854	41,711	912,154	50,801	11,933	23,635	1,108,672
Additions	137,419	-	-	-	-	-	-	137,419
Transfers from work in progress	(75,648)	2,499	654	24,171	25,807	8,645	13,872	-
Borrowing costs capitalised	3,910	-	-	-	-	-	-	3,910
Increase in rehabilitation asset	-	-	-	4,410	-	-	-	4,410
Disposals	-	-	-	(15)	-	(39)	-	(54)
Write down of previously capitalised amounts	(558)	-	-	-	(9,217)	-	-	(9,775)
Transferred to exploration, evaluation and development	(153)	(1,679)	-	-	-	-	-	(1,832)
Depreciation charge	-	-	(2,004)	(47,655)	-	(6,505)	(14,429)	(70,593)
Closing net book amount	**122,554**	**11,674**	**40,361**	**893,065**	**67,391**	**14,034**	**23,078**	**1,172,157**
At 30 June 2009								
Cost	122,554	11,674	57,743	1,283,207	67,391	50,199	55,989	1,648,757
Accumulated depreciation	-	-	(17,382)	(390,142)	-	(36,165)	(32,911)	(476,600)
Net book amount	**122,554**	**11,674**	**40,361**	**893,065**	**67,391**	**14,034**	**23,078**	**1,172,157**

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

16 NON-CURRENT ASSETS—PROPERTY, PLANT AND EQUIPMENT (continued)

Parent	Work in progress $'000	Freehold land $'000	Freehold buildings $'000	Generation assets $'000	Mining development assets $'000	Non-generation assets $'000	Overhaul deferred expenditure $'000	Total $'000
Year ended 30 June 2008								
Opening net book amount	50,908	10,854	43,687	893,306	-	10,743	34,544	1,044,042
Additions	91,910	-	-	-	-	-	-	91,910
Transfers from work in progress	(86,155)	3,179	-	20,107	50,801	6,149	5,919	-
Borrowing costs capitalised	1,053	-	-	-	-	-	-	1,053
Increase in rehabilitation asset	-	-	-	42,958	-	-	-	42,958
Disposals	-	-	-	(12)	-	(7)	-	(19)
Transferred to exploration, evaluation and development	(132)	(3,179)	-	-	-	-	-	(3,311)
Depreciation charge	-	-	(1,976)	(44,205)	-	(4,952)	(16,828)	(67,961)
Closing net book amount	**57,584**	**10,854**	**41,711**	**912,154**	**50,801**	**11,933**	**23,635**	**1,108,672**
At 30 June 2008								
Cost	57,584	10,854	57,089	1,258,603	50,801	43,840	64,792	1,543,563
Accumulated depreciation	-	-	(15,378)	(346,449)	-	(31,907)	(41,157)	(434,891)
Net book amount	**57,584**	**10,854**	**41,711**	**912,154**	**50,801**	**11,933**	**23,635**	**1,108,672**

17 NON-CURRENT ASSETS — EXPLORATION AND EVALUATION

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Costs carried forward in respect of areas of interest in the exploration and evaluation phases:				
Cost				
Opening balance	**47,644**	44,333	**47,644**	44,333
Expenditure incurred	**1,832**	3,311	**1,832**	3,311
Closing balance	**49,476**	47,644	**49,476**	47,644
Net book value	**49,476**	47,644	**49,476**	47,644

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the areas of interest.

18 NON-CURRENT ASSETS — DEFERRED TAX ASSETS

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement				
Tax losses*	-	25,214	-	25,214
Provisions	**51,517**	49,681	**25,818**	22,860
Accruals	**2,507**	1,553	**1,785**	1,553
Fixed assets	**10,723**	21,024	-	8,708
Deferred income	-	773	-	773
Derivatives held for trading	-	977	-	977
Renewable Energy Certificates	**87**	-	**87**	-
	64,834	99,222	**27,690**	60,085
Amounts recognised directly in equity				
Cash flow hedges	-	30,459	-	30,459
Defined benefit plan	**927**	-	**927**	-
Total deferred tax assets	**65,761**	129,681	**28,617**	90,544
Set-off of deferred tax liabilities pursuant to set-off provisions (note 26)	**(65,761)**	(129,681)	**(28,617)**	(90,544)
Net deferred tax assets	**-**	-	**-**	-
Movements:				
Opening balance at 1 July	**129,681**	181,462	**90,544**	170,135
(Charged)/credited to the income statement (note 8)	**(9,174)**	(19,255)	**(7,181)**	(18,726)
(Charged)/credited to equity	**(29,532)**	(75,293)	**(29,532)**	(75,293)
Tax losses (used)/created in current year	**(22,801)**	17,845	**(22,801)**	14,428
Deferred tax asset acquired	-	24,922	-	-
Under provision in prior year	**(2,413)**	-	**(2,413)**	-
Closing balance at 30 June	**65,761**	129,681	**28,617**	90,544

* The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

19 NON-CURRENT ASSETS—INTANGIBLE ASSETS

Consolidated	Goodwill $'000	Mining Lease–Kunioon $'000	Other intangibles $'000	Total $'000
Year ended 30 June 2009				
Opening net book amount	8,111	62,037	4,785	74,933
Reduction in Goodwill	(8,111)	-	-	(8,111)
Closing net book amount	**-**	**62,037**	**4,785**	**66,822**
At 30 June 2009				
Cost	-	62,037	4,785	66,822
Accumulated amortisation	-	-	-	-
Net book amount	**-**	**62,037**	**4,785**	**66,822**
Year ended 30 June 2008				
Opening net book amount	-	-	-	-
Acquisition of business	8,111	62,037	4,785	74,933
Closing net book amount	**8,111**	**62,037**	**4,785**	**74,933**
At 30 June 2008				
Cost	8,111	62,037	4,785	74,933
Accumulated amortisation and impairment	-	-	-	-
Net book amount	**8,111**	**62,037**	**4,785**	**74,933**

Goodwill

Goodwill represents the value over and above the value of identifiable business assets acquired from Rio Tinto Coal Australia (RTCA) in February 2008. Reductions in the current year include an adjustment to employee provision balances of $4.5 million, as part of the finalisation of the allocation of the purchase price. The remaining $3.6 million relates to movements in the estimate in the contingent consideration under the terms of the acquisition. Changes to the net present value of the contingent consideration were recorded against goodwill up to the point where the value of goodwill was reduced to nil, with subsequent adjustments recognised in the income statement.

Mining Lease—Kunioon

Additional economic coal reserves at Meandu Mine were confirmed during the year and Tarong Energy has been able to defer a full-scale development and transition to the Kunioon coal resource. Tarong Energy is continuing to evaluate the Kunioon coal resource to ensure options for low cost fuel in the long term. Amortisation of the Kunioon mining lease and mining information will occur over the life of the Kunioon mine using a units of production method and reflecting the pattern of economic benefit to the Economic Entity in accordance with note 1(p). Amortisation will commence once the mine is operational.

20 OTHER NON-CURRENT ASSETS

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Deferred stripping	28,875	30,500	-	-
	28,875	30,500	-	-

21 NON-CURRENT ASSETS — RETIREMENT BENEFIT SURPLUS

(a) Superannuation plan

The Corporation's superannuation contributions include contributions to its default superannuation fund, the Electricity Supply Industry Superannuation Fund (Qld) (ESI Super), an industry multiple employer superannuation fund. The Fund has Defined Benefit and Defined Contribution Accounts. Employer contributions to the Defined Benefit Account are based on the advice of the Fund's Actuary. After serving a qualifying period, members are entitled to benefits from this Scheme on retirement, retrenchment, disability or death. The Defined Benefit Account of this Fund provides lump sum benefits based on years of service and final average salary. Employees are given the choice of converting their benefits into the Defined Contribution Account of this Fund. From 10 June 2001 new employees were only entitled to join the Defined Contribution Account. The Defined Contribution Account receives fixed contributions from the Economic Entity and the Economic Entity's legal or constructive obligation is limited to these contributions.

ESI Super has reported that the most recent actuarial assessment of the defined benefit portion of the Fund, as at 30 June 2008, was carried out by Mr Shane Mather, Fellow of the Institute of Actuaries of Australia, on 22 May 2009. The actuary concluded that the assets of the plans were sufficient to meet all benefits payable to all members of the scheme in the event of the plan's termination, or voluntary or compulsory termination of employment.

The Actuary has certified that the Fund is in a satisfactory financial position. The Actuary has utilised the Experience Rated Approach to determine the financial position of Tarong Energy's notional interest in the Fund. The contribution rate for each Employer under this approach is determined based on the movement in that Employer's notional assets and benefit liabilities.

(b) Balance sheet amounts

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
The amounts recognised in the balance sheet are determined as follows:				
Present value of the defined benefit obligation	**(36,424)**	(30,439)	**(36,424)**	(30,439)
Fair value of defined benefit plan assets	**33,797**	35,243	**33,797**	35,243
	(2,627)	4,804	**(2,627)**	4,804
Net (liability)/asset before adjustment for contributions tax	(2,627)	4,804	(2,627)	4,804
Adjustment for contributions tax	**(464)**	848	**(464)**	848
Net (liability)/asset in the balance sheet	**(3,091)**	5,652	**(3,091)**	5,652

The total amount of actuarial loss net of tax that was recognised in retained earnings for the year ended 30 June 2009 is $5,655,531 (2008: loss of $6,375,043). The cumulative amount of actuarial losses net of tax that has been recognised in retained earnings is $4,618,166 (2008: cumulative actuarial gain net of tax of $1,037,365).

(c) Categories of plan assets

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
The major categories of plan assets are as follows:				
Cash	**2,366**	2,432	**2,366**	2,432
Equity instruments	**20,954**	21,484	**20,954**	21,484
Debt instruments	**5,407**	6,978	**5,407**	6,978
Property	**5,070**	4,349	**5,070**	4,349
	33,797	35,243	**33,797**	35,243

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

21 NON-CURRENT ASSETS—RETIREMENT BENEFIT SURPLUS (continued)

(d) Reconciliations

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Reconciliation of the present value of the defined benefit obligation, which is wholly funded:				
Balance at the beginning of the year	30,439	28,416	30,439	28,416
Current service cost	1,591	1,569	1,591	1,569
Interest cost	1,613	1,479	1,613	1,479
Contributions by plan participants	496	476	496	476
Actuarial losses	3,919	901	3,919	901
Change in tax	(1,312)	(1,373)	(1,312)	(1,373)
Benefits paid	(322)	(1,029)	(322)	(1,029)
Balance at the end of the year	**36,424**	30,439	**36,424**	30,439
Reconciliation of the fair value of plan assets:				
Balance at the beginning of the year	35,243	41,004	35,243	41,004
Expected return on plan assets	2,276	2,653	2,276	2,653
Actuarial losses	(4,360)	(8,146)	(4,360)	(8,146)
Contributions by Group companies	464	285	464	285
Contributions by plan participants	496	476	496	476
Benefits paid	(322)	(1,029)	(322)	(1,029)
Balance at the end of the year	**33,797**	35,243	**33,797**	35,243

(e) Amounts recognised in income statement

The amounts recognised in the income statement are as follows:

	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current service cost	1,591	1,569	1,591	1,569
Interest cost	1,613	1,479	1,613	1,479
Expected return on plan assets	(2,276)	(2,653)	(2,276)	(2,653)
Total included in employee benefits expense	**928**	395	**928**	395
Actual return on plan assets	**(2,084)**	(5,493)	**(2,084)**	(5,493)

21 NON-CURRENT ASSETS — RETIREMENT BENEFIT SURPLUS (continued)

(f) Principal actuarial assumptions

	Consolidated		Parent	
	2009	2008	**2009**	2008
The principal actuarial assumptions used (expressed as annual weighted averages) were as follows:				
Discount rate	**4.7%**	5.4%	**4.7%**	5.4%
Expected return on plan assets	**6.0%**	6.5%	**6.0%**	6.5%
Future salary increases	**4.5%**	4.6%	**4.5%**	4.6%

The expected rate of return on assets has been based on historical and future expectations of returns for each of the major categories of asset classes as well as the expected and actual allocation of plan assets to these major categories. This resulted in the selection of a 6.0% per annum (2008: 6.5% per annum) rate of return net of tax (and expenses).

(g) Employer contributions under defined benefit plan

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

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

Using the funding method described above and particular actuarial assumptions as to the plan's future experience (as detailed below), the Actuary recommended in the actuarial review as at 30 June 2008, the payment of employer contributions to the Fund of 18% of salaries for employees who are members of the defined benefit section. These contribution rates have been adopted by the Economic Entity from 1 July 2009. The contribution rate for defined benefit members adopted by the Economic Entity for the year ended 30 June 2009 was 3%, plus a lump sum additional payment of $150,000 as recommended by the Actuary.

The increase in the employer contribution rate is primarily due to a reduction in the investment return on Plan assets.

Total employer contributions expected to be paid by the Economic Entity companies for the year ending 30 June 2010 are approximately $1,965,000 (Parent Entity: $1,965,000).

The economic assumptions used by the Actuary to make the funding recommendations were a long-term investment earning rate of 6% per annum (net of fees and taxes), a salary increase rate of 4.5% per annum together with an age related promotional scale, and an inflation rate of 3.0% per annum.

(h) Net financial position of plan

In accordance with AAS 25 *Financial Reporting by Superannuation Plans* the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (30 June 2008), and a surplus of $3,488,000 was reported.

Financial Reporting by Superannuation Plans

(i) Historic summary

	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Defined benefit plan obligation	**(36,424)**	(30,439)	(28,416)	(29,911)
Plan assets	**33,797**	35,243	41,004	36,508
(Deficit)/Surplus	**(2,627)**	4,804	12,588	6,597
Experience adjustments arising on plan liabilities	**2,607**	(472)	(2,616)	2,495
Experience adjustments arising on plan assets	**(4,360)**	(8,146)	3,965	2,486

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

22 CURRENT LIABILITIES—TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Trade payables	**27,979**	18,552	**26,918**	17,971
Accrued expenses	**42,752**	49,386	**25,576**	12,083
Amounts payable to subsidiaries	**-**	-	**9,498**	10,670
Other payables	**7,884**	11,020	**7,515**	11,017
	78,615	78,958	**69,507**	51,741

All trade and other payables are contractually due within 30 days.

(a) Fair value

The carrying value of trade payables equals their fair value.

23 CURRENT LIABILITIES—PROVISIONS

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Employee benefits	**21,727**	20,090	**20,621**	18,963
Dividends	**45,541**	50,750	**45,541**	50,750
	67,268	70,840	**66,162**	69,713

(a) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date. Dividends provided for at balance date will be paid by 31 December 2009.

(b) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, represented by consolidated and parent dividend provisions, are set out below:

	2009 $'000	2008 $'000
Consolidated and parent		
Current provision		
Carrying amount at start of year	**50,750**	-
Amounts paid during the year	**(50,750)**	-
Additional provisions recognised	**45,541**	50,750
Carrying amount at end of year	**45,541**	50,750

(c) Amounts not expected to be settled within the next 12 months

The current provision for employee entitlements includes all unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Economic Entity does not have an unconditional right to defer settlement. However, based on past experience, the Economic Entity does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Long service leave obligation expected to be settled after 12 months	**7,308**	6,896	**7,308**	6,896

24 CURRENT LIABILITIES—DEFERRED INCOME

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Environmental certificate revenue	**883**	1,605	**-**	170

25 NON-CURRENT LIABILITIES—BORROWINGS

	Consolidated		Parent	
Unsecured	**2009** $'000	2008 $'000	**2009** $'000	2008 $'000
Loans from Queensland Treasury Corporation (QTC)	**445,009**	393,111	**445,009**	393,111

(a) Loans from QTC

The QTC borrowings have no fixed repayment date however the facility is assessed by QTC annually. Interest is charged based on a variable rate which is set annually.

The total interest rate payable includes a Competitive Neutrality Fee payable to Queensland Treasury, representing the difference between the cost at which QTC is able to source debt and the estimated cost of debt for the Economic Entity were it to be a stand-alone entity not owned by the Queensland Government. The Competitive Neutrality Fee can be adjusted up or down according to changes in credit quality of the Economic Entity and market changes to the relative cost of debt compared with a highly-rated government issuer.

(b) Financing arrangements

The Economic Entity and the Parent Entity had access to the following undrawn borrowing facilities at balance date:

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Credit standby arrangements				
Bank overdrafts				
Total facilities	**1,000**	1,000	**1,000**	1,000
Used at balance date	-	-	-	-
Unused at balance date	**1,000**	1,000	**1,000**	1,000
QTC loan facilities				
Total facilities	**495,009**	443,111	**495,009**	443,111
Used at balance date	**445,009**	393,111	**445,009**	393,111
Unused at balance date	**50,000**	50,000	**50,000**	50,000

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. Subject to the continuance of satisfactory credit ratings, the QTC loan facilities may be drawn at any time.

In addition to the unrestricted access to funds as noted above, the Corporation has a $200 million facility with QTC which is able to be drawn to support the Corporation's Australian Financial Services License requirements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

25 NON-CURRENT LIABILITIES — BORROWINGS (continued)

(c) Interest rate risk exposures

The following table sets out the Economic Entity's exposure to interest rate risk at balance date.

The QTC borrowings have no fixed repayment date as noted in (a) above. After consideration of future funding requirements and in accordance with the 5 year Corporate Plan, the Economic Entity does not expect to repay the QTC loan within 5 years of balance date. Accordingly, the amounts shown in the '1 year or less' column and 'Over 1 to 5 years' column below consist of interest only repayments.

	Fixed interest securities maturing in:			
	1 year or less $'000	Over 1 to 5 years $'000	Over 5 years $'000	Total $'000
2009				
Loans from QTC	28,332	113,401	445,009	586,743
Weighted average interest rate	6.39%	6.39%	6.39%	
2008				
Loans from QTC	25,261	101,108	393,111	519,480
Weighted average interest rate	6.25%	6.25%	6.25%	

(d) Fair value

The carrying amounts and fair values of interest bearing liabilities at balance date are:

	2009		2008	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Borrowings	**445,009**	450,640	**393,111**	376,389

Fair value is inclusive of costs which would be incurred on settlement of a liability.

26 NON-CURRENT LIABILITIES—DEFERRED TAX LIABILITIES

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement				
Inventories	**27,791**	33,153	**14,400**	11,070
Receivables	**6,451**	4,941	**5,120**	3,137
Research and development	**5,038**	4,965	**5,038**	4,965
Fixed assets	**231,512**	266,227	**228,953**	262,700
Mining costs	**20,046**	20,362	**-**	315
Derivatives held for trading	**10,977**	-	**10,977**	-
Other	**24,961**	408	**16,900**	33
	326,776	330,056	**281,388**	282,220
Amounts recognised directly in equity				
Revaluation of property, plant and equipment	**7,044**	7,044	**7,044**	7,044
Cash flow hedges	**33,174**	-	**33,174**	-
Defined benefit plan	**-**	1,838	**-**	1,838
Sub-total other	**40,218**	8,882	**40,218**	8,882
Total deferred tax liabilities	**366,994**	338,938	**321,606**	291,102
Set-off of deferred tax assets of Parent Entity pursuant to set-off provisions (note 18)	**(65,761)**	(129,681)	**(28,617)**	(90,544)
Net deferred tax liabilities	**301,233**	209,257	**292,989**	200,558
Movements:				
Opening balance at 1 July	**338,938**	320,052	**291,102**	311,923
Charged/(credited) to the income statement (note 8)	**675**	21,061	**(940)**	(18,646)
Charged/(credited) to equity	**31,336**	(2,732)	**31,336**	(2,732)
(Over)/under provision in prior year	**(3,955)**	557	**108**	557
Closing balance at 30 June	**366,994**	338,938	**321,606**	291,102

27 NON-CURRENT LIABILITIES—PROVISIONS

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Employee benefits	**1,396**	1,027	**1,396**	1,027
Site rehabilitation	**153,659**	150,136	**69,104**	60,757
	155,055	151,163	**70,500**	61,784

(a) Site rehabilitation

Provision is made for site rehabilitation costs expected to be incurred upon the closure of each generation site and the mine site. The estimated costs include reclamation, plant closure, waste site closure and monitoring activities. The costs have been determined on the basis of current costs, current legal requirements and current technology. The calculation of the provision is in accordance with note 1(x).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

27 NON-CURRENT LIABILITIES — PROVISIONS (continued)

(b) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Site rehabilitation $'000
Consolidated — 2009	
Carrying amount at start of year	150,136
Increase in discounted amount arising from passage of time	10,154
Effect of change in discount rate*	24,698
Reassessment of provision	(30,097)
Rehabilitation works undertaken in the year	(1,232)
Carrying amount at end of year	**153,659**
Consolidated — 2008	
Carrying amount at start of year	17,614
Acquisition of mine site	83,073
Increase in discounted amount arising from passage of time	3,545
Effect of change in discount rate*	37,388
Reassessment of provision	9,249
Rehabilitation works undertaken in the year	(733)
Carrying amount at end of year	**150,136**
Parent — 2009	
Carrying amount at start of year	60,757
Increase in discounted amount arising from passage of time	3,967
Effect of change in discount rate*	10,698
Reassessment of provision	(6,288)
Rehabilitation works undertaken in the year	(30)
Carrying amount at end of year	**69,104**
Parent — 2008	
Carrying amount at start of year	16,928
Increase in discounted amount arising from passage of time	980
Effect of change in discount rate*	33,896
Reassessment of provision	8,953
Carrying amount at end of year	**60,757**

* This change reflects a reassessment of the discount rate to be used in calculating the present value of future rehabilitation obligations.

28 CONTRIBUTED EQUITY

(a) Share capital

	Parent		Parent	
	2009 Shares	2008 Shares	**2009** $'000	2008 $'000
Ordinary shares				
Voting (A class) shares of $1.50 fully paid	**4**	4	**-**	-
Non-voting (B class) shares fully paid	**661,965,442**	661,965,442	**711,965**	711,965
	661,965,446	661,965,446	**711,965**	711,965

(b) Movements in ordinary share capital:

Date	Details	Number of shares	$'000
30 June 2007	Closing balance	796,886,392	846,886
23 June 2008	Capital reduction	(134,920,946)	(134,921)
30 June 2008	Closing balance	661,965,446	711,965
30 June 2009	Closing balance	661,965,446	711,965

(c) Ordinary shares

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

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

In accordance with a Project Direction issued on 23 June 2008 to the Corporation pursuant to section 11 of the *Energy Assets (Restructuring and Disposal) Act 2006*, the Corporation undertook a selective buy-back of 134,920,946 B class non-voting shares for a total consideration of $134,920,946 in order to facilitate the return of the sale proceeds to the State of Queensland on disposal of the Economic Entity's wind farm assets.

(d) Capital risk management

The Economic Entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with industry practice, the Economic Entity monitors capital on the basis of the gearing ratio. This ratio is calculated as gross debt divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet plus gross debt.

During 2009, the Economic Entity's strategy, which was unchanged from 2008, was to maintain a gearing ratio within a 40% upper limit. The gearing ratios at balance date were as follows:

	Consolidated	
	2009 $'000	2008 $'000
Total borrowings from QTC	**445,009**	393,111
Total equity	**913,449**	731,055
Total capital	**1,358,458**	1,124,166
Gearing ratio	**32.8%**	35.0%

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

29 RESERVES AND RETAINED PROFITS

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
(a) Reserves				
Property, plant and equipment revaluation reserve	**16,434**	16,434	**16,434**	16,434
Hedging reserve — cash flow hedges	**77,416**	(71,071)	**77,416**	(71,071)
	93,850	(54,637)	**93,850**	(54,637)
Movements:				
Property, plant and equipment revaluation reserve				
Balance as at 1 July and as at 30 June	**16,434**	16,434	**16,434**	16,434
Movements:				
Hedging reserve — cash flow hedges				
Balance as at 1 July	**(71,071)**	(246,754)	**(71,071)**	(246,754)
Revaluation — gross	**126,708**	249,644	**126,708**	249,644
Deferred tax on revaluation	**(38,012)**	(74,893)	**(38,012)**	(74,893)
Transfer to net (profit)/loss — gross	**85,416**	1,332	**85,416**	1,332
Deferred tax on transfers	**(25,625)**	(400)	**(25,625)**	(400)
Balance as at 30 June	**77,416**	(71,071)	**77,416**	(71,071)
(b) Retained profits/(accumulated losses)				
Movements in retained profits/(accumulated losses) were as follows:				
Balance as at 1 July	**73,727**	(47,517)	**92,568**	(25,765)
Net profit for the year	**85,103**	178,369	**67,495**	175,458
Dividends	**(45,541)**	(50,750)	**(45,541)**	(50,750)
Actuarial losses on defined benefit plans recognised directly in retained earnings — gross	**(8,278)**	(9,107)	**(8,278)**	(9,107)
Deferred tax relating to actuarial movements on defined benefit plans	**2,623**	2,732	**2,623**	2,732
Balance as at 30 June	**107,634**	73,727	**108,867**	92,568

(c) Nature and purpose of reserves

(i) *Property, plant and equipment revaluation reserve*
The property, plant and equipment revaluation reserve was used to record increments and decrements on the revaluation of non-current assets when it was carried at fair value prior to the transition to Australian Equivalents to International Financial Reporting Standards.

(ii) *Hedging reserve — cash flow hedges*
The hedging reserve is used to record gains or losses on hedging instruments in cash flow hedges that are recognised directly in equity, as described in note 1(m). Amounts are recognised in the income statement when the associated hedged transaction affects income.

30 DIVIDENDS

	Parent	
	2009 $'000	2008 $'000
Total dividends provided	**45,541**	50,750

Pursuant to the National Tax Equivalents Regime the Economic Entity is not required to maintain a franking account.

31 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The following persons were directors of Tarong Energy Corporation Limited during the financial year:

(i) Chair – non-executive

Mr G J Carpenter

(ii) Non-executive directors

Mr R A Barton (appointed 1 July 2008)
Ms L K Bond
Ms K L Collins
Ms E M Jameson
Mr J H Pegler
Ms K E Smith-Pomeroy

(b) Other key management personnel

The following positions had the authority and responsibility for planning, directing and controlling the activities of the consolidated entity during the financial year:

Position	Employer
Chief Executive Officer	Tarong Energy Corporation Limited
Chief Operating Officer	Tarong Energy Corporation Limited
General Manager Generation Operations	Tarong Energy Corporation Limited
General Manager Mining Operations	Tarong Energy Corporation Limited
Chief Financial Officer	Tarong Energy Corporation Limited
General Manager Marketing and Trading	Tarong Energy Corporation Limited
General Manager People and Communications	Tarong Energy Corporation Limited
General Manager Corporate Governance	Tarong Energy Corporation Limited

(c) Remuneration of key management personnel

(i) Directors

Directors' remuneration is determined by the shareholding Ministers. In addition, the shareholding Ministers have determined remuneration payable to directors who are members of various Board committees. Directors' remuneration comprises cash salary, committee fees and superannuation contributions. No other benefits are payable to directors.

(ii) Other key management personnel

Tarong Energy Corporation's remuneration policy has three distinct objectives:

- to ensure all employees are recognised and rewarded for their performance in a fair and equitable way;
- to ensure the remuneration paid to employees is competitive, enabling the Economic Entity to attract and retain employees capable of meeting the Economic Entity's needs; and
- to reward employees for achieving pre-determined corporate, business unit and personal performance targets.

Remuneration packages for the Chief Executive Officer and other key management personnel comprise the following components:

- base salary, which is payable in cash. Base salaries are based on the general market rate, as assessed by external consultants Mercer HR Consulting;
- other benefits, including motor vehicle allowances, private health insurance and car parking;
- retirement benefits delivered under defined contribution superannuation funds nominated by the key management personnel apart from one key management person who is provided defined lump sum benefits based on years of service and final salary; and
- at-risk performance incentives, that may be payable annually in cash, depending upon satisfaction of key criteria.

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

31 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(c) Remuneration of key management personnel (continued)

(iii) Link between remuneration paid and the performance of the Corporation

Directors' remuneration is not directly linked to the performance of the Corporation, with any remuneration increases being determined by the shareholding Ministers. Directors do not receive any performance-related remuneration.

The rate of remuneration increase for the Chief Executive Officer and other key management personnel is determined with regard to wage movements and individual performance. Remuneration increases are applied after personal performance reviews, consideration of the Corporation's performance and review and approval by the Board.

At-risk performance incentive payments of the Chief Executive Officer and other key management personnel are capped at 15% of total fixed remuneration (base salary, motor vehicle allowance, superannuation and parking benefit where applicable). The amounts payable are tied to the achievement of pre-determined Corporation and individual performance targets as approved by the Board.

(iv) Service Agreements

Service agreements are not in place for directors.

The Chief Executive Officer's appointment is approved by the shareholding Ministers upon recommendation of the Board. The remuneration and other terms of employment for the Chief Executive Officer are specified in an employment contract. The contract provides for the provision of performance-related cash bonuses and other benefits including motor vehicle allowance, health insurance and car parking. Other major provisions of the contract relating to remuneration are set out below:

- term of contract — 3 years, commencing 29 January 2007 (with an option to extend a further two years on mutual agreement);
- payment of termination benefit on early termination by the Economic Entity, except for serious misconduct or poor performance, equal to 2 weeks' salary (with a minimum of 4 weeks and maximum of 52 weeks salary) for each year of continuous service, 20% of residual salary value of the contract and any accrued entitlements; and
- payment of 12 weeks' salary upon expiry of the agreement, and any accrued entitlements.

All Senior Executive appointments have been approved by the shareholding Ministers upon the recommendation of the Board. The remuneration and other terms of employment for these roles are specified in employment contracts. The contracts provide for the provision of performance, related cash bonuses and other benefits including motor vehicle allowance, health insurance and car parking.

The General Manager Marketing and Trading, who commenced in the role on 23 July 2008, is employed under another contract arrangement which is not for a fixed term and therefore does not provide for the payment of a termination benefit on early termination. Should the position become redundant, the contract provides for payment of a redundancy amount comprising 9 months salary, and as for all employees, an additional amount payable for each year of service subject to a cap of 75 weeks salary, an additional notice payment of 17 weeks salary, and accrued entitlements.

All senior executives, other than the General Manager Marketing and Trading are employed on fixed term employment contracts. The Chief Financial Officer and General Managers Corporate Governance, Generation Operations, Mining Operations and People and Communications are subject to these contracts. Contract provisions include:

- three-year terms, with the option to extend the term for a maximum of two years by mutual agreement. Commencement date for the General Manager Corporate Governance was 1 June 2007, for the General Manager Generation Operations was 1 September 2008, for the General Manager Mining Operations was 11 September 2008, and for the Chief Financial Officer and the General Manager People and Communications was 2 March 2009;
- a payment of termination benefit on early termination by the Economic Entity, except for serious misconduct or poor performance, equal to 2 weeks salary (with a minimum of 4 weeks and maximum of 52 weeks salary) for each year of continuous service, 20% of the residual salary value of the contract and any accrued entitlements; and
- a severance payment equal to 12 weeks of salary, only in circumstances where employment terminates upon expiry of the contract and where the Economic Entity has not offered further employment beyond the expiry date for reasons other than for serious misconduct or poor performance, and any accrued entitlements.

(v) At-risk performance incentive remuneration

The terms and conditions for each category of at-risk performance incentive remuneration in this or future reporting periods are set out in note 32.

31 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Details of remuneration

Details of the remuneration of each director of Tarong Energy Corporation Limited and each of the other key management personnel of the Economic Entity are set out in the following tables.

	2009 $'000	2008 $'000
Short-term employee benefits	2,112	1,811
Post-employment benefits	218	138
	2,330	1,949

(i) Directors of Tarong Energy Corporation Limited

2009	Short-term employee benefits			Post-employment	
Name	Cash salary $'000	Committee fees $'000	Non-monetary benefits $'000	Super-annuation $'000	Total $'000
Mr G J Carpenter	64	8	-	7	79
Mr R A Barton (appointed 1 July 2008)	26	4	-	3	33
Ms L K Bond	26	8	-	3	37
Ms K L Collins	26	8	-	3	37
Ms E M Jameson	26	9	-	4	39
Mr J H Pegler	26	5	-	3	34
Ms K E Smith-Pomeroy	26	5	-	3	34

2008	Short-term employee benefits			Post-employment	
Name	Cash salary $'000	Committee fees $'000	Non-monetary benefits $'000	Super-annuation $'000	Total $'000
Mr G J Carpenter (Chair from 1 July 2007)	62	7	-	7	76
Ms L K Bond	25	8	-	3	36
Ms K L Collins	25	8	-	3	36
Ms E M Jameson	25	9	-	3	37
Mr J H Pegler	25	5	-	3	33
Ms K E Smith-Pomeroy	25	4	-	3	32

Comparative information is only required to be disclosed for those directors specified for the current reporting period who were also specified in the preceding reporting period.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

31 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(ii) Other key management personnel of the Economic Entity

2009	Short-term employee benefits				Post-employment	
Name	Cash salary $'000	Motor vehicle allowance $'000	Car parking allowance $'000	Non-monetary benefits[4] $'000	Super-annuation $'000	Total $'000
Chief Executive Officer	325	51	-	16	48	440
Chief Operating Officer (until 26 July 2008)[1]	26	3	1	-	2	32
General Manager Generation Operations (appointed 1 September 2008)[1]	193	31	1	14	26	265
Acting General Manager Marketing and Trading (until 27 July 2008)	14	2	-	7	-	23
General Manager Marketing and Trading (appointed 28 July 2008)	180	30	-	4	12	226
General Manager Mining Operations (appointed 11 September 2008)[2]	191	30	-	-	24	245
Acting Chief Financial Officer (until 1 March 2009)[3]	250	-	-	3	25	278
Chief Financial Officer (appointed 2 March 2009)	68	11	-	2	9	90
General Manager Corporate Governance	170	30	-	10	26	236
Acting General Manager People and Communications (from 8 September 2008 until 1 March 2009)[3]	114	-	-	2	11	127
General Manager People and Communications (appointed 2 March 2009)	53	11	-	2	7	73

1 The Chief Operating Officer position was renamed to General Manager Generation Operations.

2 The General Manager Mining Operations is an existing role which was appointed as a Senior Executive position in the current year.

3 The Acting Chief Financial Officer and Acting General Manager People and Communications were employed under a contract through a recruitment agency before they were formally appointed to these positions.

4 The benefits include private health insurance, car parking, relocation payments and associated fringe benefits tax.

31 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(ii) Other key management personnel of the Economic Entity (continued)

2008	Short-term employee benefits			Post-employment		
Name	Cash salary $'000	Motor vehicle allowance $'000	Car parking allowance $'000	Non-monetary benefits[2] $'000	Super-annuation $'000	Total $'000
Chief Executive Officer	300	48	-	12	30	390
Chief Operating Officer	191	33	7	18	19	268
Chief Financial Officer (until 9 May 2008)	159	28	-	19	16	222
Acting Chief Financial Officer (from 10 May 2008)[1]	51	-	-	1	5	57
General Manager Marketing and Trading (until 6 July 2007)	3	1	-	-	-	4
Acting General Manager Marketing and Trading (from 7 July 2007)	178	24	6	8	5	221
General Manager Corporate Governance	174	27	-	10	17	228
General Manager People and Communications (until 28 March 2008)	114	21	4	4	11	154
Acting General Manager People and Communications (until 18 January 2008)	83	13	-	14	8	118

1 The Acting Chief Financial Officer was employed under a contract through a recruitment agency.
2 The benefits include private health insurance, car parking, relocation payments and associated fringe benefits tax.

Comparative information is only required to be disclosed for those executives specified for the current reporting period who were also specified in the preceding reporting period.

Executives may also earn performance based at-risk incentive payments which, in accordance with the *Office of Government Owned Corporations mandated reporting requirements for the disclosure of executive remuneration*, are not included in these tables.

(e) Other transactions with directors and other key management personnel

All transactions in the years ended 30 June 2009 or 30 June 2008 between the Economic Entity and directors or other key management personnel, including their related parties, were on normal commercial terms and conditions and were immaterial in nature.

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

32 EMPLOYEE BENEFITS

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Aggregate employee benefit liability (including on-costs):				
Current	**21,727**	20,090	**20,621**	18,963
Non-current	**1,396**	1,027	**1,396**	1,027
	23,123	21,117	**22,017**	19,990
Average number of employees during the reporting period (full-time equivalent)	**452**	386	**452**	386
Long service leave				
The present values of long service leave not expected to be settled within 12 months of balance date have been calculated using the following assumptions:				
Assumed rate of increase in wage and salary rates	**4.5%**	4.6%	**4.5%**	4.6%
Discount rate	**5.6%**	6.4%	**5.6%**	6.4%
Settlement term	**13 years**	13 years	**13 years**	13 years

Performance payments for the Economic Entity

The following discloses the aggregate at-risk performance bonuses and salary and wages paid to all employees who received an at-risk performance payment:

	2009 $'000	2008 $'000
Aggregate at-risk performance incentive remuneration[1]	**4,548**	3,848
Aggregate remuneration (including at-risk performance incentive remuneration) paid/payable to employees to whom a performance payment is paid or payable[2]	**51,754**	42,395
Number of employees to whom a performance payment is paid or payable	**490**	405

1 Performance payments accruing in respect of the relevant year, regardless of the payment date.

2 Total remuneration includes base salary, overtime payments, motor vehicle and other work related allowances and performance payments but excludes superannuation and non-cash benefits.

32 EMPLOYEE BENEFITS (continued)

The terms and conditions for each category of at-risk performance incentive remuneration in this or future reporting periods are set out below:

Employee category	Grant date[1]	Nature of remuneration granted
Chief Executive Officer	Board approval	At-risk performance incentive payable in cash (cap of 15% of total fixed remuneration)
Senior Executives	Board approval	At-risk performance incentive payable in cash (cap of 15% of total fixed remuneration)
Contract employees	19 August 2009	At-risk performance incentive payable in cash (cap of 15% of base salary)
EBA employees	19 August 2009	At-risk performance incentive payable in cash (cap of 12% of base salary)

1 Approval of 2008/09 incentive payments for all employees will be sought at the Board meeting held on 19 August 2009.

At-risk performance incentive payments are provided for annually and align with the Economic Entity's financial year ending 30 June. All employees are eligible for participation but a minimum service period of 3 months is required before entitlement commences. For employees with a service period of less than one year, full year incentive amounts are pro-rated based on the proportion of the financial year in employment with the Economic Entity. The amount of a contract or EBA employee's incentive payment is determined as a percentage of base salary, capped at the percentages provided in the preceding table. The amount of the Chief Executive Officer's and Senior Executives' incentive payments are determined as a percentage of total fixed remuneration (base salary, motor vehicle allowance, superannuation and parking benefit where applicable), capped at the percentages provided in the preceding table. The incentive percentage is calculated by reference to actual performance compared to predetermined targets, with weightings for corporate results, business unit results, personal/team results and for non-EBA employees, a personal assessment as part of the annual performance review process.

There has been no alteration to the terms or conditions of the incentive payments to be paid for the 2008/09 year since the grant date.

33 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Parent Entity:

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
(a) Assurance services				
Audit services				
Auditor-General of Queensland				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	241	210	241	210
Prior year underprovision	46	-	46	-
Total remuneration for audit services	**287**	210	**287**	210

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

34 CONTINGENCIES

Claims

A number of claims by or against the Economic Entity are pending as at 30 June 2009. It is not practical to estimate the potential effects of these claims however the Economic Entity has concluded that any asset or liability that may arise from these claims will not be significant.

Contingent consideration

Tarong Energy acquired Meandu Mine on 31 January 2008. In the event that the actual electricity pool price differs to the forecast electricity pool price used in the consideration calculations, additional consideration may be payable/receivable in February 2011. If it becomes probable that additional consideration will be payable or receivable it will initially be brought to account as a component of goodwill arising on the acquisition, and when goodwill is utilised in full it will be brought to account in the income statement. A receivable of $19,814,000 has been recognised, of which $3,562,000 (2008: $1,721,000) is recorded as a reduction in goodwill and $14,531,000 has been recorded in the income statement.

Guarantees

Cross guarantees given by Tarong Energy Corporation Limited, TN Power Pty Ltd, Tarong Fuel Pty Ltd, TEC Coal Pty Ltd and Glen Wilga Coal Pty Ltd are described in note 39.

These guarantees may give rise to liabilities in the Parent Entity if the subsidiaries do not meet their obligations under the terms of the overdrafts, loans, leases or other liabilities subject to the guarantees.

Bank Guarantees

The Economic Entity has provided a bank guarantee to the State of Queensland in respect of mining tenements issued under the *Mineral Resources Act 1989* (Qld). The maximum amount payable under the guarantee is $44,931,000 (2008: $44,931,000).

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

35 COMMITMENTS

Capital commitments

Capital expenditure (GST exclusive) contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Payable:				
Within one year	**41,880**	22,081	**36,744**	20,730
Later than one year but not later than five years	**3,428**	1,634	**3,428**	1,437
Later than five years	-	-	-	-
	45,308	23,715	**40,172**	22,167

35 COMMITMENTS (continued)

Operating leases

The Economic Entity leases property and motor vehicles under operating leases with terms ranging from one to four years. Leases generally provide the Economic Entity with a right of renewal, at which time all terms are renegotiated. Property lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on movements in the Consumer Price Index.

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Payable:				
Within one year	**3,177**	1,607	**2,959**	1,607
Later than one year but not later than five years	**10,539**	7,912	**10,264**	7,912
Later than five years	**12,755**	14,937	**12,755**	14,937
	26,471	24,456	**25,978**	24,456

Other commitments

Other operating expenditure (GST exclusive) contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Payable:				
Within one year	**50,412**	30,011	**23,783**	26,183
Later than one year and not later than five years	**65,676**	70,364	**46,770**	54,713
Later than five years	**93,450**	113,150	**63,200**	77,001
	209,538	213,525	**133,753**	157,897

36 RELATED PARTY TRANSACTIONS

(a) Parent Entity

Ultimate control of the Economic Entity resides with the State of Queensland. The ultimate Parent Entity within the Economic Entity is Tarong Energy Corporation Limited.

(b) Directors

The names of persons who were directors of the company at any time during the financial year are as follows:
Mr R A Barton, Ms L K Bond, Mr G J Carpenter, Ms K L Collins, Ms E M Jameson, Mr J H Pegler and Ms K E Smith-Pomeroy.

(c) Subsidiaries

Interests in subsidiaries are set out in note 38.

(d) Key management personnel compensation

Disclosures relating to key management personnel are set out in note 31.

(e) Transactions with related parties

Tarong Energy Corporation Limited is a Queensland Government Owned Corporation, with all shares held by the shareholding Ministers on behalf of the State of Queensland. All State of Queensland controlled entities meet the definition of a related party of Tarong Energy Corporation Limited.

The Economic Entity transacts with other State of Queensland controlled entities. All transactions are negotiated on normal terms and conditions offered by the respective related party.

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

36 RELATED PARTY TRANSACTIONS (continued)

The following transactions occurred with related parties:

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Sales—State of Queensland controlled entities				
Settlements relating to electricity derivatives	**73,847**	50,907	**73,847**	50,907
Expenses—State of Queensland controlled entities				
Raw materials and consumables used	11,239	7,595	11,239	7,595
Employee benefits expense	2,666	2,254	2,666	2,254
Finance costs	30,592	22,025	26,202	22,025
Income tax	33,406	27,032	26,444	15,464
Other expenses	19,405	3,607	10,782	3,607
	97,308	62,513	**77,333**	50,945
Loans to related parties				
Loans advanced to:				
Subsidiaries	-	-	22,573	112,206
Loan repayments from:				
Subsidiaries	-	-	-	183,182
Loans from related parties				
Loans advanced from:				
State of Queensland controlled entities	101,374	72,904	101,374	72,904
Loan repayments to:				
State of Queensland controlled entities	49,476	49,573	49,476	49,573
Interest revenue				
Subsidiaries	-	-	16	-
Superannuation contributions				
Contributions to superannuation funds on behalf of employees	5,722	5,544	5,722	5,544
Dividend revenue				
Subsidiaries	-	-	-	8,883
Other transactions				
Dividends paid to the State of Queensland	50,750	-	50,750	-

36 RELATED PARTY TRANSACTIONS (continued)

(f) Outstanding balances arising from sales/purchases of goods and services

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

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Current receivables				
Subsidiaries	-	-	506	215
State of Queensland controlled entities — current tax asset	-	4,395	-	4,395
State of Queensland controlled entities — other	8,496	1,207	8,496	1,207
	8,496	5,602	**9,002**	5,817
Non-current receivables (loans)				
Subsidiaries	-	-	306,954	306,954
Current payables				
State of Queensland controlled entities — current tax liabilities	2,448	-	2,448	-
State of Queensland controlled entities — other	1,570	839	1,570	839
State of Queensland controlled entities — dividend provision	45,541	50,750	45,541	50,750
Subsidiaries	-	-	9,498	10,670
	49,559	51,589	**59,057**	62,259
Non-current payables				
State of Queensland controlled entities — loans	**445,009**	393,111	**445,009**	393,111

No expense has been recognised in respect of bad or doubtful debts due from related parties.

37 BUSINESS COMBINATION

(a) Summary of acquisition

On 31 January 2008 TEC Coal Pty Ltd acquired the assets and rehabilitation liabilities of the Meandu Coal Mine and the Kunioon Development site. The coal mine operates solely to provide coal to the Tarong Energy power stations.

The acquired business did not contribute any external revenue or net profit to the group for the period 1 February 2008 to 30 June 2009.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	2009 $'000
Purchase consideration	
Cash paid	143,393
Amount payable	6,488
Direct costs relating to the acquisition	12,999
Total purchase consideration	**162,880**
Movement in net present value of contingent consideration receivable (note 34)	15,158
Fair value of net identifiable assets acquired	162,253
Total net identifiable assets	**171,411**
Gain on acquisition	**(14,531)**

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

37 BUSINESS COMBINATION (continued)

(b) Purchase consideration

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Outflow of cash to acquire business, net of cash acquired				
Cash consideration	-	151,365	-	-

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	$'000
Coal inventory	9,919
Deferred stripping	39,050
Property, plant and equipment	99,019
Stores inventory	8,336
Prepayments	370
Long service leave receivable[1]	-
Closure and rehabilitation provision	(83,073)
Deferred tax assets	24,922
Intangible asset: mining information	4,785
Intangible asset: mining lease	62,037
Employee entitlements[1]	(3,112)
Net assets	162,253
Net identifiable assets acquired	**162,253**

1 The fair values have been adjusted as part of the finalisation of the allocation of the purchase price. Refer to note 19.

Tarong Energy acquired Meandu Mine on 31 January 2008. Additional consideration may be payable/receivable in February 2011, in the event that the actual electricity pool price differs to the forecast electricity pool price used. If it becomes probable that additional consideration will be payable or receivable it will initially be brought to account as a component of goodwill arising on the acquisition, and when goodwill is utilised in full it will be brought to account in the income statement.

At 30 June 2009 the movement in the net present value of contingent consideration in excess of goodwill is $14,531,000. This amount is recognised in the income statement (note 6).

38 SUBSIDIARIES AND ASSOCIATES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding 2009 %	Equity holding 2008 %
TN Power Pty Ltd[1,2]	Australia	Ordinary	**100**	100
Tarong Fuel Pty Ltd[2]	Australia	Ordinary	**100**	100
Glen Wilga Coal Pty Ltd[2]	Australia	Ordinary	**100**	100
TEC Coal Pty Ltd[2]	Australia	Ordinary	**100**	100

1 TN Power Pty Ltd holds 50% (2008: 50%) of the ordinary shares in Tarong North Pty Ltd, the management company associated with the Tarong North joint venture. Since the Corporation has no direct control over Tarong North Pty Ltd it is deemed to be an associate.

2 These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the ASIC.

38 SUBSIDIARIES AND ASSOCIATES (continued)

The financial results of the subsidiaries are detailed below:

	Revenue $'000	Expenses $'000	Total Assets $'000	Total Liabilities $'000	Equity $'000
2009					
TN Power Pty Ltd	52,306	(48,132)	165,161	(176,475)	(11,314)
TEC Coal Pty Ltd	169,989	(157,130)	122,398	(112,098)	10,300
2008					
TN Power Pty Ltd	73,593	(50,729)	177,908	(193,396)	(15,488)
TEC Coal Pty Ltd	34,674	(37,232)	137,387	(139,945)	(2,558)

Tarong Fuel Pty Ltd is a holding company and Glen Wilga Coal Pty Ltd is dormant and, as such, no results are shown.

39 DEED OF CROSS GUARANTEE

The Corporation has entered into a Deed of Cross Guarantee with its subsidiaries, TN Power Pty Ltd, Tarong Fuel Pty Ltd, TEC Coal Pty Ltd and Glen Wilga Coal Pty Ltd, under which each company guarantees the debts of the others.

By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Class Order, and, as there are no other parties to the Deed of Cross Guarantee that are controlled by Tarong Energy Corporation Limited, they also represent the 'Extended Closed Group'.

40 INTERESTS IN JOINT VENTURES

The Corporation holds a 20.94% (2008: 20.55%) interest in the output of a Joint Venture named Private Forestry Plantation Joint Venture whose principal activity is the commercial production of timber from plantations.

The Corporation has an interest in the TN Power unincorporated Joint Venture. The Joint Venture, whose participants are TN Power Pty Ltd (50% interest), a subsidiary of the Corporation and TM Energy (Australia) Pty Ltd, owns the Tarong North Power Station. The principal activity is the generation of electricity. Tarong North Pty Ltd, an associated entity of the Corporation (50% interest), manages the operation of the Tarong North Power Station as agent for the Joint Venture.

On 8 June 2005, the Centre for Low Emission Technology Joint Venture was established. The term of the Joint Venture Agreement (the Agreement) was for four years and was due to expire on 8 June 2009. At a meeting of the Centre for Low Emission Technology Board on 5 December 2008 it was agreed that the term of the Agreement would be extended to 31 July 2009. The Corporation ultimately holds a 7.7% interest in the Joint Venture, whose principal activity is to facilitate research and other activities directed to the generation of electricity from coal with lower greenhouse gas emissions.

NOTES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

40 INTERESTS IN JOINT VENTURES (continued)

The Economic Entity's interest in the assets employed in Joint Ventures are in the consolidated balance sheet, in accordance with the accounting policy described in note 1(b)(ii), under the following classifications:

	Consolidated		Parent	
	2009 $'000	2008 $'000	**2009** $'000	2008 $'000
Current assets				
Cash and cash equivalents	770	445	294	206
Receivables	5,500	51	-	-
Inventories	2,842	2,455	-	-
Other	1,224	148	-	-
Total current assets	**10,336**	3,099	**294**	206
Non-current assets				
Property, plant and equipment — carrying value	152,727	159,715	1,027	1,027
Total non-current assets	**152,727**	159,715	**1,027**	1,027
Share of assets employed in joint venture	**163,063**	162,814	**1,321**	1,233

41 ECONOMIC DEPENDENCY

The Economic Entity relies upon Australian Energy Market Operator (AEMO), formerly NEMMCO, to determine the Regional Reference Price used in calculating the Economic Entity's electricity sales revenue.

The Economic Entity's Tarong, Tarong North and Wivenhoe customers are predominantly Queensland-based due to limitations of physical delivery to other Australian Energy Market regions (States).

The Economic Entity is reliant on Queensland Electricity Transmission Corporation Limited (Powerlink Queensland) to provide fully available and functioning transmission lines to enable physical delivery of electricity.

The Economic Entity's Tarong and Tarong North Power Stations are dependent upon the supply of water for the production of demineralised water as cooling water, for the production of drinking water and for water for general use such as hosing down. Wivenhoe Power Station is dependent upon a supply of water to operate as a pumped storage hydro electric power station, but this water is returned to the natural waterways.

From 1 July 2008, the Economic Entity, on a directive from the Queensland Government, has entered into contractual agreements with the South East Queensland Water Grid Manager for long-term water supply from the water grid for both the Tarong North and Tarong Power Stations. Grid water will include dam water and recycled water.

Annual maximum contract volumes and contract charges for the first ten years to 2017/18 have been set by the Queensland Government. The Economic Entity will be able to continue sourcing water from Boondooma dam.

42 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

- the Economic Entity's operations in future financial years;
- the results of those operations in future financial years; or
- the Economic Entity's state of affairs in future financial years.

43 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Profit for the year	85,103	178,369	67,495	175,458
Depreciation	88,527	80,846	70,593	67,961
Non-cash retirement benefits expense	465	50	465	50
Write down of Kunioon asset	9,775	-	9,775	-
Net loss/(gain) on sale of non-current assets	211	162	36	(89)
Purchase price allocation adjustment to employee provisions (note 19)	4,549	-	-	-
Revenue share agreement adjustment to goodwill (note 19)	3,562	-	-	-
Net gain on contingent consideration	14,531	-	-	-
Unrealised fair value gain on derivative financial instruments through the income statement	(18,362)	(73,942)	(18,362)	(73,942)
Gain on sale of wind farms	-	(114,935)	-	(129,400)
Change in operating assets and liabilities, net of effects from sale of controlled entity				
(Increase)/decrease in inventories	(13,424)	197	(12,013)	(7,628)
(Increase)/decrease in receivables	(49,415)	152,598	(27,243)	152,662
Decrease in prepayments	-	2,674	-	2,465
Decrease/(increase) in deferred stripping	862	(20,382)	-	-
(Decrease)/increase in deferred income	(722)	(2,066)	(170)	170
(Decrease)/increase in payables	(2,812)	(135,224)	10,938	(166,851)
(Decrease)/increase in other current liabilities	(343)	421	(273)	419
Decrease in current tax asset	4,395	8,526	4,395	8,526
Increase in current tax liabilities	2,448	-	2,448	-
Increase/(decrease) in deferred tax liabilities	30,966	27,033	31,421	(13,791)
Increase in rehabilitation provisions	8,922	-	3,937	-
Increase in other provisions	2,006	3,465	2,027	2,609
Net cash inflow from operating activities	**171,244**	107,792	**145,469**	18,619

DIRECTORS' DECLARATION
30 JUNE 2009

In the directors' opinion:

(a) the financial statements and notes set out on pages 54 to 110 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the Corporation's and Economic Entity's financial position as at 30 June 2009 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 39 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 39.

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

Mr G J Carpenter
Director

Ms K E Smith-Pomeroy
Director

Brisbane
19 August 2009

INDEPENDENT AUDITOR'S REPORT
30 JUNE 2009

To the Members of Tarong Energy Corporation Limited

Matters relating to the Electronic Presentation of the Audited Financial Report

The auditor's report relates to the financial report of Tarong Energy Corporation Limited for the financial year ended 30 June 2009 included on Tarong Energy Corporation Limited's website. The directors are responsible for the integrity of the Tarong Energy Corporation Limited's website. I have not been engaged to report on the integrity of the Tarong Energy Corporation Limited's website. The auditor's 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 Tarong Energy Corporation Limited, to confirm the information included in the audited financial report presented on this website.

Report on the Financial Report

I have audited the accompanying financial report of Tarong Energy Corporation Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility to express an opinion on the financial report based on the audit is prescribed in the *Auditor-General Act 2009*. This Act, including transitional provisions, came into operation on 1 July 2009 and replaces the previous requirements contained in the *Financial Administration and Audit Act 1977.*

The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards,* which incorporate the Australian Auditing Standards. These auditing standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The Auditor-General Act 2009 promotes the independence of the Auditor General and QAO authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

In conducting the audit, the independence requirements of the *Corporations Act 2001* have been complied with. I confirm that the independence declaration required by the *Corporations Act 200*1, provided to the directors of Tarong Energy Corporation Limited on 19 August 2009 would be in the same terms if provided to the directors, as at the date of this auditor's report.

Auditor's Opinion

In my opinion—

(a) the financial report of Tarong Energy Corporation Limited is in accordance with the *Corporations Act 2001,* including—

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of Matter—Significant Uncertainty regarding the proposed introduction of the Carbon Pollution Reduction Scheme

Without qualification to the opinion expressed above, I draw attention to the following matter. As disclosed in Note 3 to the financial statements, there is significant uncertainty in relation to the impact of the introduction of the proposed Carbon Pollution Reduction Scheme on the future cash flows of Tarong Energy Corporation Limited. It is likely that the carrying amounts of non-current assets will be impaired if the draft legislation is approved in its current form or includes more extreme emission reduction targets. As the outcome of this matter is uncertain, the impact on the recoverable amount of Tarong Energy Corporation Limited's non-current assets could not be reliably estimated in the preparation of the financial statements for the year ended 30 June 2009.

AUDITOR GENERAL
20 AUG 2009
OF QUEENSLAND

G G POOLE FCPA
Auditor-General of Queensland

Queensland Audit Office
Brisbane

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GLOSSARY

Availability	The total energy available to the system, allowing for planned maintenance and breakdowns, as a percentage of maximum possible energy available
Hedge contract	A contract between two or more parties affording one or each of them protection against certain financial risks
Output	Dispatched generation
Pool price	The average half-hour trading price of five minute dispatch prices set by marginal generation
Spot market	The physical market managed by NEMMCO until 30 June 2009 and AEMO from 1 July 2009 for the dispatch of generating units and dispatchable loads

CALCULATIONS

Dividend Payout Ratio

$$\frac{\text{Dividends Paid}}{\text{Operating Profit After Tax}} \times 100$$

Return on Average Productive Assets

$$\frac{\text{Earnings Before Interest and Tax}}{\text{Average Total Assets - Average Total Capital Projects in Progress}} \times 100$$

Return on Average Equity

$$\frac{\text{Operating Profit After Tax}}{\text{Average Total Equity}} \times 100$$

Gearing

$$\frac{\text{Debt}}{\text{Debt + Equity}} \times 100$$

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ABBREVIATIONS

AASB	Australian Accounting Standards Board
ACICC	Aboriginal Community Interest Consultative Committee
AEMO	Australian Energy Market Operator
AIFR	All Injury Frequency Rate
AS/NZS	Australian Standard
CEO	Chief Executive Officer
CFO	Chief Financial Officer
cLET	Centre for Low Emission Technology
CO_2	carbon dioxide
CPRS	Carbon Pollution Reduction Scheme
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DEWHA	Department of the Environment, Water, Heritage and the Arts
EBA	Enterprise Bargaining Agreement
EIS	Environmental Impact Statement
EMS	Environmental Management System
EPC	Exploration Permit for Coal
ERT	Emergency Response Team
GEC	Gas Energy Certificate
GOC	Government Owned Corporation
HSEQ	Health, Safety, Environment and Quality
HSE	Health, Safety and Environment
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
ILUA	Indigenous Land Use Agreement
LTI	Lost Time Injury
MDL	Mineral Development Licence
ML	megalitre (one ML = one million litres)
MW	megawatt (one MW = one million watts)
MWh	megawatt of energy produced per hour
NGAC	New South Wales Greenhouse Abatement Certificate
NGERS	National Greenhouse and Energy Reporting System
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company. Superseded by AEMO on 1 July 2009
NO_x	nitrogen oxide
PCC	post-combustion capture
QAO	Queensland Audit Office
QTC	Queensland Treasury Corporation
REC	Renewable Energy Certificate
TEPCO	Tokyo Electricity Power Company

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