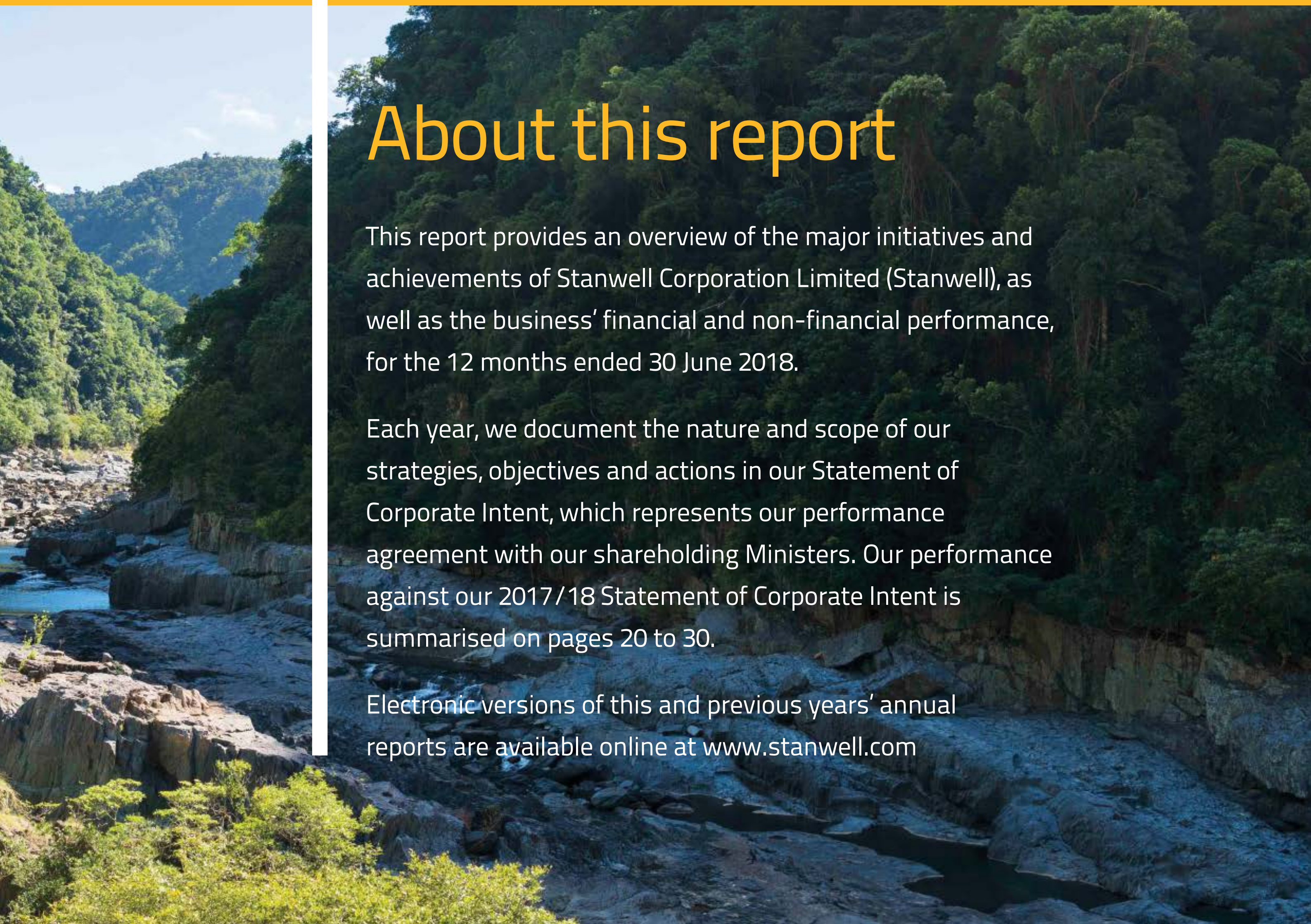
Together we create energy solutions

Annual Report
2017/18

stanwell

Table of contents



About this report

This report provides an overview of the major initiatives and achievements of Stanwell Corporation Limited (Stanwell), as well as the business’ financial and non-financial performance, for the 12 months ended 30 June 2018.

Each year, we document the nature and scope of our strategies, objectives and actions in our Statement of Corporate Intent, which represents our performance agreement with our shareholding Ministers. Our performance against our 2017/18 Statement of Corporate Intent is summarised on pages 20 to 30.

Electronic versions of this and previous years’ annual reports are available online at www.stanwell.com

Our performance

Our safest year on record, with a

25% reduction

in the number of injuries,
from 119 in 2016/17 to 88 in 2017/18.

We invested

$120.7M

in our power stations to ensure we operated as efficiently and as reliably as possible.

We provided a secure supply of electricity for Queenslanders, with more than

19,756 GWh

of electricity delivered.

We are one of Australia's most reliable energy providers in the National Electricity Market, with our assets operating at

96.7%

availability during the 2017/18 summer.

We completed the feasibility study and commenced the business case into the

Burdekin Hydro Power Station,

which has the potential to power 30,000 Queensland homes with clean energy.

We returned

Swanbank E Power Station

to service to place downward pressure on electricity prices and ensure there was additional generation in the market to meet summer demand.

75% of our revenue came from competitively priced electricity contracts to give our customers price certainty.

We powered

80,000 Queensland homes

with clean energy from our Kareeya and Barron Gorge hydro-electric power stations.

Together we create energy solutions

Our vision

We are working to find smart solutions and promote partnerships that will help build the energy market of the future. In 2017/18, we launched our new company vision:

Together we create energy solutions.

We fulfil our vision by:

- ensuring security of electricity supply by flexibly providing our highly reliable plant to the market when required;
- supporting the transition to a lower carbon energy market, by supporting the development of renewable energy proponents in Queensland; and
- providing affordable energy to customers by developing innovative and tailored energy products.

Our values

At Stanwell, we are:

- Safe – Everyone is a safety leader. We seek to achieve Zero Harm Today in all our workplaces.
- Responsible – We are reliable, we are accountable for our actions, we make a positive contribution to our community and we are here for the long-term.
- Commercial – Every one of us contributes to Stanwell's financial stability and performance through our decisions and actions.

Our story

Stanwell is a diversified energy business. Our revenue comes from a variety of sources. We generate electricity, we have an electricity retail business, and we trade gas and coal. We also provide services to the electricity market to keep energy secure and reliable.

Having a variety of revenue sources allows us to achieve the best possible returns for our owners, the people of Queensland. Around 75 per cent of our revenue comes from energy contracts. The other major contributors to our total income were the delivery of energy services, such as network and environmental certificate charges, representing 15 per cent of our revenue, in addition to coal and gas sales (including exports) which accounted for approximately 8.7 per cent.

We have a responsibility to produce and deliver energy for Queensland that's reliable, affordable and sustainable. We take this responsibility seriously.

We are helping to keep Queensland electricity affordable. In 2017/18, Queensland's contract and spot market electricity prices were, on average, the lowest and most stable in the National Electricity Market. This year, our low cost power stations delivered 19,756 GWh, increasing supply to the market and putting downward pressure on prices. We have also worked closely with our customers to provide them with more affordable contracts which protect them from price volatility in the market. Further, we have carefully managed our costs so that our business is sustainable into the future – allowing us to continue to deliver solutions which will meet the transforming needs of our customers.

We make sure Queenslanders have a secure supply of electricity. Throughout the 2017/18 summer, our power stations played a major part in keeping the lights on when the market was dealing with record electricity demand. We have proven ourselves to be one of Australia's most reliable energy providers, with our assets achieving 96.7 per cent availability during the 2017/18 summer. Following the closure of several old coal-fired power stations in southern states, we returned our gas-fired Swanbank E Power Station to service to ensure the network had enough supply to meet peak summer demand. Swanbank E Power Station provided additional reliability to the National Electricity Market and performed exceptionally, delivering 99 per cent availability throughout the 2017/18 summer.

We consider the well-being of our environment, as well as the need to keep energy affordable, in the decisions we make, every day. Several state and federal regulations outline how the energy industry should perform. Just complying with regulations is not enough for us. We are proud to support the communities we serve and we are committed to preserving our environment, by operating beyond baseline compliance requirements. This year, we launched a new Environmental Sustainability Policy which outlines how we are preparing for a low-carbon future, including a $2.0 million investment in another continuous emissions monitoring system for one of our power stations. We will continue to deliver energy solutions that balance the needs of the environment and our communities, with our obligation to deliver reliable and affordable energy.

We make a difference in the communities in which we operate. At Stanwell, we understand that our ability to generate electricity is, in large part, dependent on the support of the communities in which we operate. This year, we invested around $288,000 in our local communities to support a variety of initiatives which will deliver long-term value to our host regions. In addition, as at 30 June 2018, we employed 685 (FTE) people at our sites and offices, the majority of whom are located throughout regional Queensland (30 June 2017: 650). We also indirectly employ thousands of contractors, through our business partners, in the local communities in which we operate.

stanwell energy

About Stanwell Energy

Stanwell Energy is the retail brand of Stanwell Corporation Limited. Through Stanwell Energy, we sell electricity to large commercial and industrial customers in Queensland, New South Wales, Victoria and the Australian Capital Territory.

Our customers include some of Australia's major infrastructure, resources and service companies. The success of Stanwell Energy is driven by our ability to listen to our customers and tailor innovative and competitively priced products which are supported by one of the most diverse and reliable electricity generation portfolios in Australia.

We are proud of our reliable and proactive customer service and our high customer retention rate.

How the electricity market works

As an electricity generator, Stanwell participates in the National Electricity Market through the physical electricity spot market and the electricity contract market.

The electricity spot market

The electricity spot market is a highly regulated, highly competitive market, in which electricity supply and demand are instantaneously matched in real time.

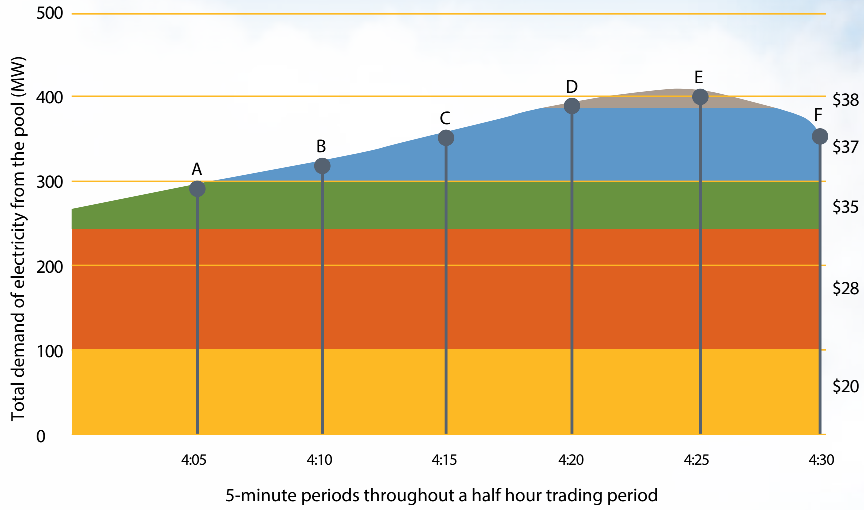
Generators, like Stanwell, offer to supply the market with specific amounts of electricity at particular prices. These offers are stacked in ascending price order and then progressively scheduled into production to meet demand, starting with the least-cost generation option.

The spot price is calculated on a half-hour basis and is the average of the six, five-minute dispatch periods. This is the price all generators receive for production during this period.

There are more than 50 market participants in the National Electricity Market, any of which can set the price.

Want to know more about the electricity spot market? Watch our video on Stanwell's website.

AN EXAMPLE BID STACK



For example, if demand for the period is 200 MW, then the price is set at $28 and Generators One and Two are put into production. They are both paid $28/MWh. Alternatively, if demand was 400 MW, the price would be set at $38/MWh and every generator would be put into production to deliver the required demand and paid $38/MWh.

- Generator One (eg. Stanwell)
- Generator Two
- Generator Three
- Generator Four
- Generator Five

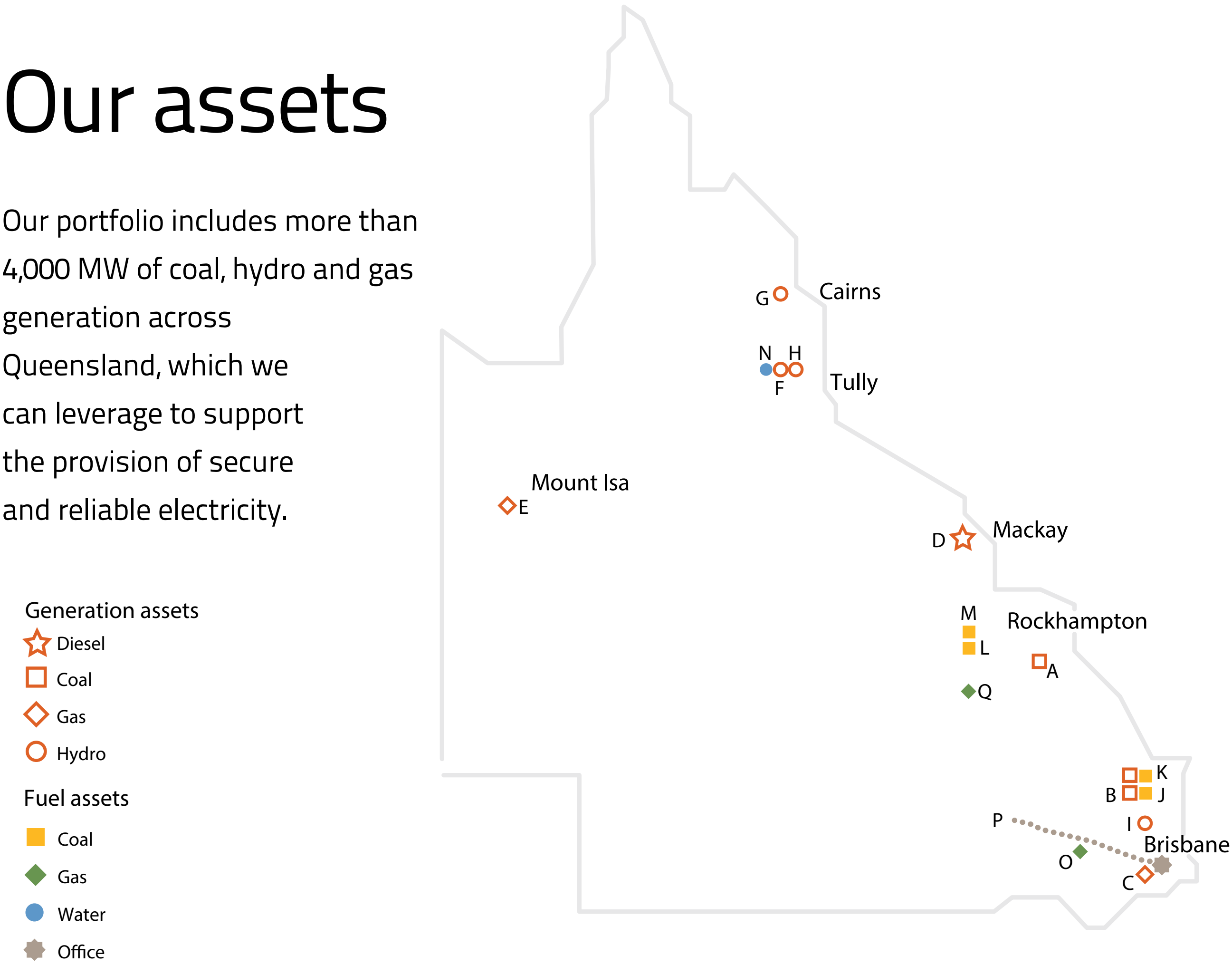
The electricity contract market

Stanwell manages the financial risks associated with spot price volatility by participating in the contract market to lock in firm prices for longer periods of time.

In the contract market, Stanwell sells electricity hedge contracts to large energy users and retailers. These contracts accounted for about 75 per cent of our total income in 2017/18. These contracts provide revenue certainty for Stanwell and cost certainty for our customers. As a large diverse portfolio owner, Stanwell is able to offer a broad range of electricity contracts that can be tailored to meet customers requirements – it's not one size fits all.

Our assets

Our portfolio includes more than 4,000 MW of coal, hydro and gas generation across Queensland, which we can leverage to support the provision of secure and reliable electricity.



GENERATION ASSETS

A. **STANWELL POWER STATION**, Central Queensland – 1,460 MW (coal)

B. **TARONG POWER STATIONS**, Southern Queensland – 1,843 MW (coal)

C. **SWANBANK E POWER STATION**, South East Queensland – 385 MW (gas)

D. **MACKAY GAS TURBINE**, Central Queensland – 34 MW (diesel)

E. **MICA CREEK POWER STATION**, North West Queensland – 115 MW (gas)

F. **KAREEYA HYDRO**, Far North Queensland – 88 MW (hydro)

G. **BARRON GORGE HYDRO**, Far North Queensland – 66 MW (hydro)

H. **KOOMBOOLOOMBA HYDRO**, Far North Queensland – 7.3 MW (hydro)

I. **WIVENHOE SMALL HYDRO**, South East Queensland – 4.3 MW (hydro)

COAL ASSETS

J. **MEANDU MINE**, Southern Queensland – long-term coal supply to the Tarong Power Stations

K. **KUNIOON COAL RESOURCE**, Southern Queensland – potential future fuel supply for the Tarong Power Stations

L. **CURRAGH NORTH MINE**, Central Queensland – long-term agreement with Coronado Curragh which provides low-cost coal to Stanwell Power Station, and a revenue stream for coal exports

M. **MINERAL DEVELOPMENT LICENCE 306,** Central Queensland – coal resource located near the Curragh North Mine

WATER ASSETS

N. **KOOMBOOLOOMBA DAM**, Far North Queensland – captures water for use at Koombooloomba Hydro and Kareeya Hydro power stations

GAS ASSETS

O. **KOGAN NORTH JOINT VENTURE**, South East Queensland – provides up to four petajoules per annum of gas to Swanbank E Power Station via the Roma to Brisbane Gas Pipeline

P. **ROMA TO BRISBANE GAS PIPELINE** – contracted capacity of 52 terrajoules per day

Q. **COMET RIDGE AGREEMENT**, Central Queensland – option to secure long-term gas or to exit agreement for an agreed payment to Stanwell of $20 million

Chairman's statement

This year, the Board and senior leadership team worked with Stanwell's workforce to develop a new vision for Stanwell. Our vision, *Together we create energy solutions*, encapsulates Stanwell's role in a rapidly changing energy industry. It commits us to working with our customers, business partners, communities, shareholders and regulators to transition Stanwell's generation portfolio to a lower carbon future, and to find smart new ways of doing business that benefits Queensland.

WHAT STANWELL IS DOING TO SUPPORT ENERGY AFFORDABILITY AND SECURITY

Energy policy indecision at the national level has created uncertainty in the National Electricity Market, affecting investment decisions and therefore prices and reliability.

As numerous reports have observed, radical changes are occurring in both the demand requirements and supply mix in the National Electricity Market. The demand for power on the grid is flattening due to the growth of rooftop solar, the increasing use of storage, and deployment of energy efficiency technologies. However, what is not changing is the criticality of affordable and reliable energy to the overall economic wellbeing of Australia.

Bringing prices down will require a whole-of-industry response from the networks, generators and retailers. Stanwell has taken action to put downward pressure on prices by boosting generation from our reliable, low cost generators and returning the gas-fired Swanbank E Power Station to service. We are also continuing to focus on reducing costs across our energy production value chain.

Throughout this financial year, Queensland's wholesale electricity prices were, on average, the lowest and most stable in Australia, with the time weighted average price decreasing from $93.12/MWh in 2016/17 to $72.87/MWh in 2017/18.

There has been significant growth in the renewable energy pipeline, with a number of large variable renewable energy projects coming online. As synchronous generation (coal or gas fired) is replaced by non-synchronous generation (renewable) it is changing the characteristics of the power system. To ensure power system stability and reliability, either firming contracts or an increase in the flexibility of synchronous generation, is required.

Ensuring that our power stations are reliable, and can flexibly respond to meet changes in electricity demand, is a priority for our business.

We have commenced low load trials at the Stanwell and Tarong power stations as part of our strategy to have a flexible and competitive portfolio, capable of meeting the challenges of the future energy market.

In early 2018, very hot weather conditions throughout Queensland led to a record peak demand of 9,840 MW (the previous peak demand record set in 2017 was 9,369 MW). Throughout the summer period, Stanwell's generation assets delivered availability of 96.7 per cent. Comparatively, the average availability across the National Electricity Market was 84.6 per cent for the same period.

Coming into summer 2018/19, Stanwell's priority is to ensure our portfolio meets electricity demand and continues to provide a secure supply of electricity for Queenslanders.

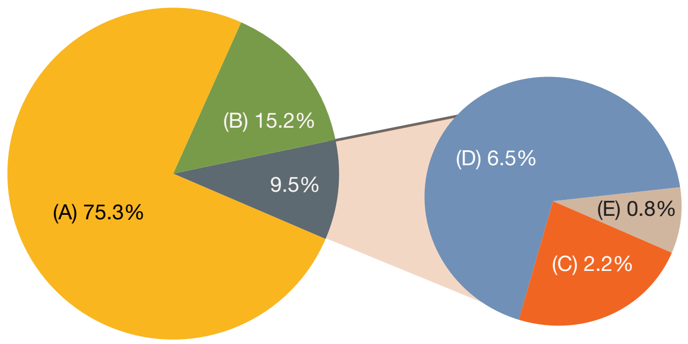
STRONG FINANCIAL PERFORMANCE FOR THE BENEFIT OF QUEENSLANDERS

Stanwell's diversified business model delivered a strong financial result for the 2017/18 financial year, returning a Net Profit after Tax of $490.8 million (2016/17: $353.0 million) and paying a total dividend of $494.2 (2016/17: $260.6 million).

Coal and gas sales accounted for approximately 8.7 per cent of Stanwell's total income.

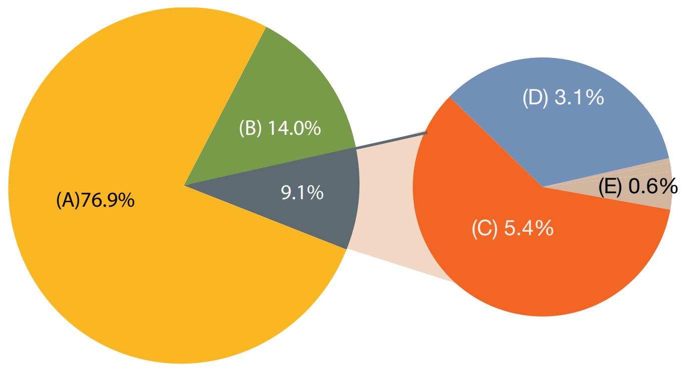
Prudent contracting strategies with many large commercial, industrial and retail businesses, along with

REVENUE 2017/18



- A. Electricity sales through contracts
- B. Energy services revenue
- C. Gas sales
- D. Coal revenue sharing arrangements
- E. Other

REVENUE 2016/17



our hedging strategies, accounted for approximately 75 per cent of Stanwell's total income. These contracts provide benefits for both parties. For large businesses, energy can be one of their biggest operating costs and key to their profitability. By locking in their future energy costs, large businesses are able to achieve cost certainty. For Stanwell, these contracts represent revenue certainty, which underpins our operating costs and capital projects.

One hundred per cent of the profits Stanwell makes are delivered to the people of Queensland via a dividend stream. These are then used by the Queensland Government to pay for a range of public programs and services, such as education and health.

OUR NUMBER ONE PRIORITY IS THE SAFETY OF OUR WORKERS

The safety of our people is Stanwell's number one priority and reflects our belief that all injuries and occupational illnesses can be prevented. Our continued focus on improving safety performance is reflected in our Total Recordable Injury Frequency Rate for 2017/18 of 3.61, which is the lowest ever recorded. This is a great achievement and demonstrates our workforce's commitment to our shared goal of Zero Harm Today.

ACKNOWLEDGEMENTS

I thank my fellow Board members, our Chief Executive Officer Richard Van Breda, his highly committed leadership team and the team members at our sites and corporate office. All these valued individuals have contributed to the outstanding operational and financial performance of the business during the 2017/18 financial year.

I would also like to thank our shareholding Ministers for their ongoing support of Stanwell's strategy and business operations.

Stanwell is well positioned for the challenges our industry is facing. We will continue to advocate for energy policy certainty that delivers reliable electricity generation for households and businesses, stimulates investment in new and existing power stations and delivers a genuine reduction in electricity prices for Australians.

Dr Ralph Craven
Non-executive Chairman

Chief Executive Officer's review

Here for Queensland

This year, Stanwell provided value for our shareholders, the people of Queensland, by delivering strong returns, ensuring reliable energy and working to put downward pressure on energy prices.

I'm pleased to report another successful year for Stanwell in 2017/18. The business achieved a strong financial result, returning a Net Profit after Tax of $490.8 million (2016/17: $353.0 million) and paying a total dividend to the people of Queensland of $494.2 million (2016/17: $260.6 million). The majority of our revenue came from energy contracts with large commercial, industrial and retail businesses, with whom we continue to engage closely, to design contracts which provide price certainty and affordability.

Rising energy prices are a significant issue for Australian households and businesses. While generation only accounts for a small proportion of a household energy bill, as a government owned corporation with the generation capacity to deliver 40 per cent of the State's peak energy demand, we can play some part in putting downward pressure on Queensland energy prices, by keeping our generation costs down.

Our portfolio includes more than 4,000 MW of coal, hydro and gas generation which provides secure and reliable electricity to Queensland and Australia. Stanwell was one of the most secure and reliable suppliers of dispatchable power on Australia's eastern seaboard throughout the 2017/18 summer, achieving world-class availability of 96.7 per cent. During the same period, the average availability across all other generators in the National Electricity Market was 84.6 per cent.

While supply and demand continues to be tight, we have taken several steps to put downward pressure on prices, including increasing our generation output, returning Swanbank E Power Station to service and working to reduce our energy production costs. As a result, it is pleasing to see that throughout the majority of the 2017/18 year, in addition to delivering Australia's most secure and reliable supply of dispatchable power, Queensland has maintained the lowest wholesale electricity prices in the National Electricity Market.

OUR SAFEST YEAR ON RECORD

We continue to demonstrate our commitment to our goal of Zero Harm Today. We improved our industry-leading performance this year, further reducing the total number of injuries by 25 per cent, from 119 in 2016/17 to 88 in 2017/18 – resulting in our safest year on record. However, we recognise the need to remain vigilant and continuously look for opportunities to prevent workplace injuries and occupational illnesses.

STRATEGIC ACHIEVEMENTS

This year's results are an outcome of Stanwell's strategy, which is based on four complementary elements, designed to address the energy market priorities of security, affordability and sustainability.

The four elements of our strategy are:

- Innovative energy products
- Flexible and competitive portfolio
- Participate in low carbon energy
- Enablers

We have made significant progress in putting our strategy into action.

INNOVATIVE ENERGY PRODUCTS

Through our retail arm, Stanwell Energy, we work with large energy users, such as mines and national retailers, to offer bespoke and innovative energy solutions. Our customers are spread throughout Queensland, New South Wales, Victoria and the Australia Capital Territory.

Wholesale electricity prices have increased throughout the National Electricity Market, as a result of the withdrawal of dispatchable fossil fuel generation and national policy uncertainty. In response, Stanwell Energy has developed innovative models which allow us to offer longer-term retail contracts to large energy user customers to provide them with competitive energy pricing and future cost certainty.

Our continued focus on innovative energy products will ensure we continue to provide reliable energy today, while preparing for the energy market of tomorrow.

FLEXIBLE AND COMPETITIVE PORTFOLIO

The flexible and competitive portfolio element to our strategy enables us to face changes in electricity consumption patterns, and address the growing presence of variable renewable energy resources, so we can maintain a reliable and secure supply of electricity for Queensland.

Our coal-fired plant has to be flexible to meet the changing demands of the market, as a higher proportion of variable renewable generation comes online. With increased availability of solar energy throughout the day, our assets need to shift from delivering fairly constant outputs to peaking plant-style operation – capable of cycling up and down, and running at lower output. In preparation for this shift, this year we commenced our low load trials to test the ability of our plant to flexibly ramp up and down beyond its designed capacity. We are also working with several power stations in the United States, academics and our business partners, to learn from their experiences in meeting the changing demands of the electricity market.

During the year, we invested more than $120.7 million in projects at our power stations to improve the efficiency of our assets and maintain their market-leading performance. We also successfully returned our gas-fired Swanbank E Power Station to full operational capacity. The return to service of Swanbank E Power Station improved energy security by delivering additional generation supply to the National Electricity Market – placing downward pressure on energy prices.

PARTICIPATE IN LOW CARBON ENERGY

This year, Stanwell has taken several significant steps to increase its participation in renewable energy, as we transition to a lower carbon future. We progressed the detailed business case for the proposed Burdekin Falls Hydro Power Station in North Queensland, which has the potential to power 30,000 homes with clean energy. We also entered into negotiations with a range of renewable project proponents.

ENABLERS

Our continued focus on our 'enablers' allows our business to deliver on its strategy by providing a safe workplace and retaining a high-performing team.

Throughout the year, we committed to initiatives which aim to improve our culture and awareness of diversity and inclusion. To help attract more diverse applicants, we refreshed our recruitment branding and partnered with Work180 and the Queensland University of Technology's (QUT) Women In Business program, resulting in a six per cent increase in female applicants to our job advertisements. Significantly, we conducted an out-of annual-cycle gender pay gap review. I'm proud to report that we increased the salaries of 16 of our female employees who were being paid less than colleagues in like-for-like roles. We will continue this review process as we work to further reduce Stanwell's gender pay gap.

We also continued our partnership with QUT for our Trusted Mentor and QUT Career Mentoring schemes and commenced a new leadership program – Leading for the Future. Further, we delivered on key technology simplification initiatives, which enabled the retirement of one Enterprise Resource Planning system and two safety systems.

I am pleased to report this was the first year we have utilised data from our continuous emissions monitoring system at Stanwell Power Station to gain more accurate, real-time insights into our carbon footprint. To this end, we approved a $2 million investment in a continuous emissions monitoring system at our Tarong power stations as part of our commitment to acting beyond our environmental obligations.

OUR FORWARD FOCUS

Stanwell is contributing to discussions on the evolution of the National Electricity Market and associated regulatory framework across our industry. We are also playing a key role in an Industry Working Group in which 19 energy businesses, from across the electricity supply chain, have joined forces to develop a whole-of-sector Energy Charter to address changing customer expectations and deliver tangible customer benefits. The Energy Charter will ensure energy businesses are transparent and accountable to their commitments to the Charter's principles. These collaborative initiatives are an important example of our vision in action.

As we look to the future, we are also exploring our fuel supply requirements as the market shifts. We have locked-in several competitive long-term agreements to ensure we can continue to put downward pressure on energy prices into the future.

SPECIAL THANKS

As highlighted in the new vision we launched this year, *Together we create energy solutions*, collaboration is the key to our success. I would like to thank our shareholding Ministers for their continued support of Stanwell's strategy and business operations.

I would also like to acknowledge our Chairman, Dr Ralph Craven, and our directors who have been tremendous in their focus throughout the year, and I thank them for their support, advice and the expertise they have provided in guiding Stanwell.

Additionally, I would like to commend the efforts of all of our people across the business, whose dedication and professionalism drove our strong business results.

As I look back on the 2017/18 year, I remain as confident as ever in our vision for a collaborative energy future and the strategy we are executing to get there. Together, with our people, our communities, our customers, our industry partners and our shareholders, we are committed to creating energy solutions for the benefit of the people of Queensland.

Richard Van Breda
Chief Executive Officer

The Energy Charter

Energy Charter Group

Stanwell is proud to be among a group of businesses from across the energy supply chain, working together to develop a consumer charter. The charter will help the industry deliver energy in ways which are aligned with community expectations.

The Energy Charter will be a principles-based disclosure regime, in which businesses like ours will publicly identify how they are delivering against the Charter Principles and providing positive outcomes for customers.

The Energy Charter Group's vision is that together, we will deliver energy for a better Australia.

This is the first whole-of-sector initiative to bring the delivery of energy in line with customer expectations.

Public consultation on the detailed content of the charter is expected to take place in September 2018.

For more information, visit theenergycharter.com.au

Performance indicators

In 2017/18, Stanwell committed to achieving the following financial and non-financial targets.

MEASURE	2017/18 actual	2017/18 target	2016/17 actual
Operating profit ($M)	598.5	450.3	508.4
Earnings before interest and tax (EBIT) ($M)	742.0	592.8	547.7
Earnings before interest, tax, depreciation, amortisation, impairment and fair value movements (EBITDAIF) ($M)	857.7	652.2	783.0
Net profit after tax ($M)	490.8	369.6	353.0
Free cash flow ($M)	682.4	660.3	763.5
Capital expenditure ($M)	141.7	143.0	160.8
Return on equity (%)	36.2	26.2	28.7
Total recordable injury frequency rate	3.6	0.0	5.3
Environmental enforcement actions	0	0	1

ASSET PERFORMANCE

Year	Energy sent out (GWh)	Capacity factor (%)	Targeted availability (%)	Availability (%)	Planned[1] outage factor (%)	Forced outage factor (%)
Tarong power stations – coal – 1,843 MW						
2017/18	11,171	74.97	93.5	89.6	2.9	7.5
2016/17	11,380	76.25	92.7	92.7	4.6	2.7
Stanwell Power Station – coal – 1,460 MW						
2017/18	8,120	68.73	89.1	93.9	5.7	0.4
2016/17	8,560	72.37	89.2	93.4	5.6	1.0
Swanbank E Power Station – gas – 385 MW						
2017/18	616	30.19	80.6	99.6	0	0.4
2016/17	0	0	0	0	0	0
Hydros – water – 164 MW						
2017/18	605	42.33	86.8	88.3	10.6	1.1
2016/17	618	43.2	84.8	81.6	17.9	0.5
Mica Creek Power Station – gas – 115 MW						
2017/18	120	13.84	87.9	69.5	12.4	18.1
2016/17	5	2.2	92.8	87.8	0.9	11.3

[1]Includes planned and maintenance outage factors.

Swanbank E calculations take into account the cold storage of the power station from 1 December 2014 to 31 December 2017.

Mica Creek calculations take into account the phased withdrawal, cold storage and subsequent restart of generation units from September 2016 to November 2017.

Once loss factors during transmission are taken into account, the total energy sent out by Stanwell, is more than the total delivered.

Strategic direction

MARKET OVERVIEW

The National Electricity Market is adjusting to changes in supply and demand conditions, with the closure of older coal-fired generation in recent years and more variable renewable energy coming online.

The summer of 2017/18 was the second warmest on record across Australia. While this was a key driver of electricity demand across the National Electricity Market, Queensland was the only state to set a new peak electricity demand record. This was set on three consecutive days in February 2018, reaching 9,840 MW (the previous record was 9,369 MW set in February 2017).

There was sufficient electricity generation available to meet this new peak demand record and to ensure that Queensland's wholesale electricity prices were, and remain, the lowest and most stable in the National Electricity Market.

A key driver of this reliable supply was dispatchable, fossil fuel generation, which performed at one of their highest availability rates for the past 10 summers. Coal-fired power stations generated at their highest levels since 2008 and increased average output by 580 MW when compared to the same period in 2017.

MARKET OUTLOOK

After a period of intense focus on the potential design and implementation of the National Energy Guarantee, the change in leadership of the Federal Government means the market is once again faced with uncertainty over the integration of national climate and energy policy.

This is important to instil confidence in investors and businesses looking to build new energy assets and invest in existing power stations in Australia.

In addition, there are a number of challenges which government, industry and consumers will need to solve:

- The way people consume and source electricity continues to change. Electricity demand in Australia is peaking and declining more dramatically throughout the day. Energy efficiency has resulted in people using less electricity overall but a lot more electricity is being used on just a few days or even for just a few hours each year. The challenge is to design a market that can ensure enough generation capacity to supply this peak demand for just a few days or hours.
- Policies restricting or banning the exploration and development of gas in various states have contributed to the general tightening of gas supply across the National Electricity Market. This is resulting in increased costs for gas-fired generation. Cost competitive gas-fired generation could assist in the transition to a lower carbon economy. It has lower emissions than coal-fired generation and is able to quickly respond to changes in electricity demand.
- Ensuring a reliable supply of electricity as the generation mix changes is paramount. There is already close to 13,000 MW of renewable energy in the National Electricity Market, with another 4,000 MW of committed projects and 40,000 MW in proposed projects. The proportion and generation profile of renewable energy, along with the rate at which the 'take up' of batteries and other technology occurs, will change the supply and demand dynamics of the National Electricity Market. The ability to manage the risks associated with variable renewable energy by pairing it with firming generation is a critical next step.

Ultimately, the challenge is to balance the energy mix to deliver least cost, reliable and lower emission electricity to customers.

STANWELL'S STRATEGIC RESPONSE

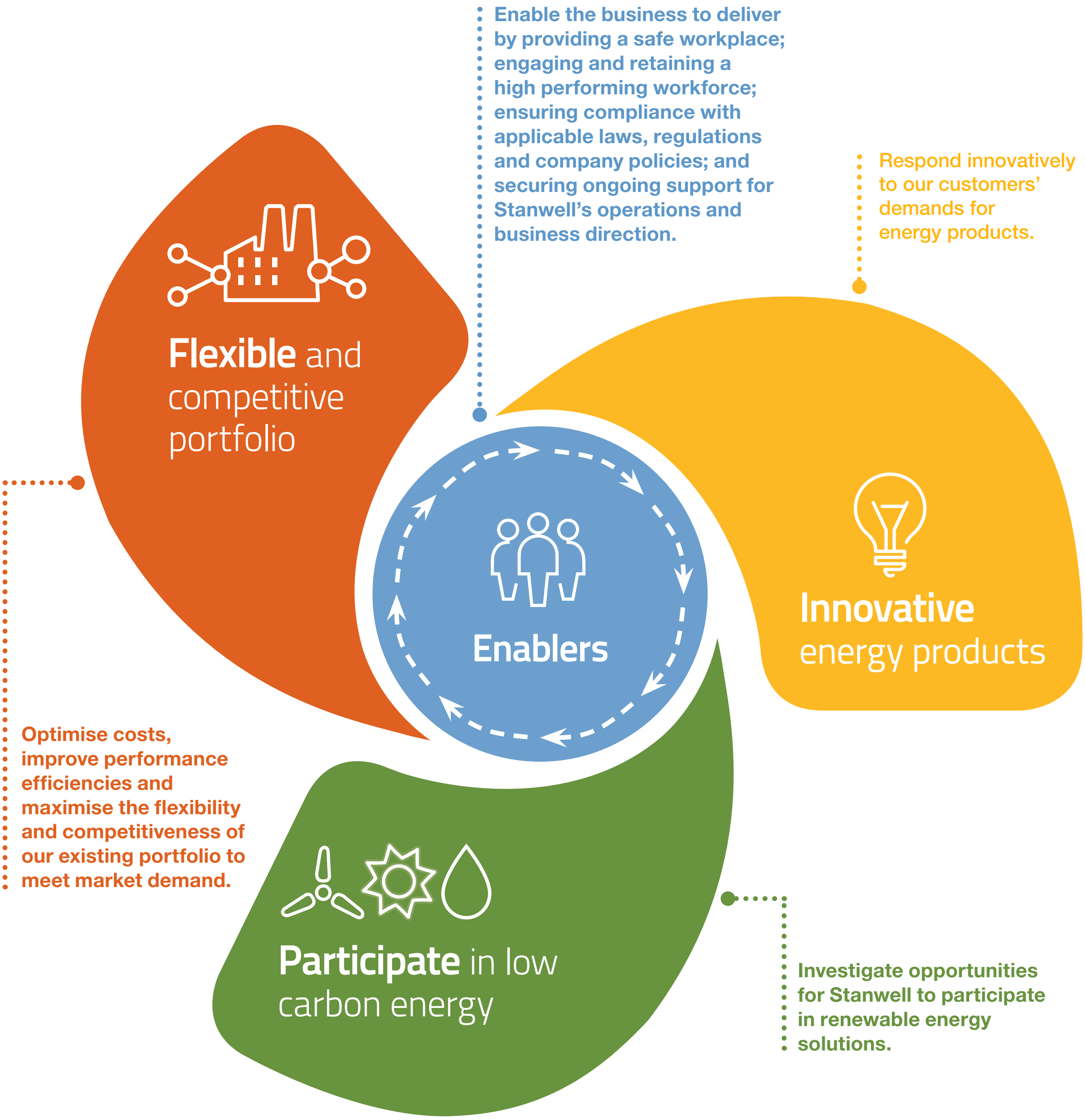
The changes in the energy market provide both challenges and opportunities for our business. Stanwell has an important role to play as the market transitions to a lower carbon future.

Our strategy is designed to address the challenges facing the electricity industry. Working with our stakeholders (including our employees, customers and business partners), we seek to create energy solutions that will help transition to lower carbon sources of energy but in a way which safeguards energy affordability and security.

For this to happen, we will:

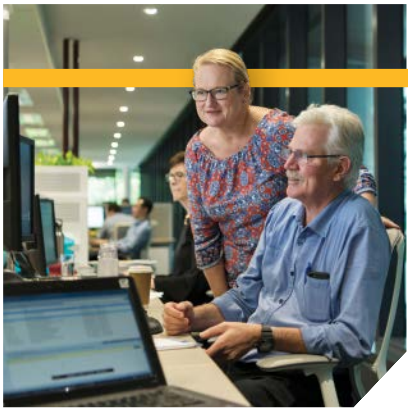
- work closely with our customers to develop innovative energy products to meet the changing needs of the market;
- provide generation that is flexible to meet the demand patterns of a market in transition to a higher proportion of variable renewable energy;
- be part of a renewable energy future. We will do this in many ways. We may trade the output from renewable assets or we may purchase the electricity directly from renewable generators; and
- make our business as cost competitive, streamlined and efficient as possible.

Our strategy has four complementary elements designed to address the energy market priorities of security, affordability and sustainability.



Our five year plan

To deliver on our short-term goals and to position the business for its long-term future, Stanwell will focus on the following strategic objectives over the next five years. As part of our five year plan, we have developed detailed initiatives, success measures and assigned accountabilities to ensure we achieve the following objectives under each element of our strategy.



Innovative energy products

Over the next five years, we will work to achieve the following objectives:

- deliver commercial value through the Stanwell Energy retail business;
- investigate retail opportunities through partnerships and wholesale support; and
- develop products and energy solutions to support current loads and facilitate new and existing load growth.

We know we are successful when:

- our customers are our strongest advocates;
- our product and service offering is well regarded and sought after by market customers and other participants; and
- our retail operations mean that business and industry growth are enabled by great energy deals, not hampered by high power prices.

Flexible and competitive portfolio

As part of our focus on delivering a flexible and competitive portfolio, we will work to achieve the following objectives:

- ensure flexible generation plant that meets market demand;
- optimise plant costs;
- secure commercial water supply arrangements;
- realise best value from our coal portfolio; and
- realise best value from our gas portfolio.

We know we are successful when our asset performance is optimised to:

- maintain security of electricity while supporting a transition to a lower carbon future;
- provide low cost dispatchable generation to support affordable electricity to consumers; and
- ensure a sustainable impact on the environment.

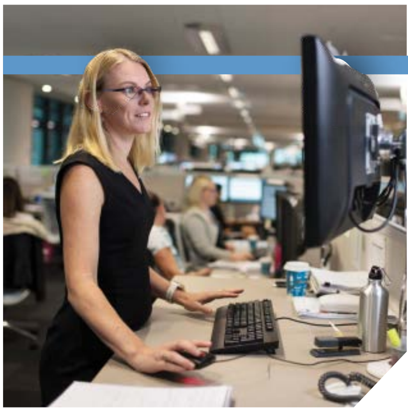
Participate in low carbon energy

As part of our focus on participating in low carbon energy, we will work to achieve the following objectives:

- engage in the transition to lower emissions from the electricity industry and protect long-term market share; and
- explore opportunities to be a facilitator, manager or aggregator of market interface for renewable projects and services.

We know we are successful when:

- we have integrated renewable energy projects into our portfolio at an affordable price;
- our portfolio emissions track or better national targets; and
- our business is sustainable and profitable, in the short, medium and longer term.



Enablers

In order to ensure we provide a safe workplace, engage and retain a high performing workforce and secure ongoing support for our operations, we will work to achieve the following objectives:

- achieve operational efficiencies;
- provide a safe workplace;
- engage and retain a high performing workforce;
- ensure compliance with applicable laws, regulations and company policies;
- implement Stanwell's Environmental Sustainability Policy;
- secure information technology and operational technology assets from cyber security threats; and
- secure ongoing support for Stanwell's strategy and operations.

We know we are successful when:

- our business is simple, safe and smart – it's easy to work at Stanwell;
- we take charge of our future and create it; and
- our stakeholders, communities and employees advocate for our activities now and into the future.

Our 2017/18 strategic performance

Throughout 2017/18 Stanwell achieved and commenced work on the following strategic objectives as part of our strategy to deliver innovative energy products, provide a flexible and competitive portfolio, participate in low carbon energy and support a high-performing workforce.

Innovative energy products

Our stable cost base and customer focus mean we can offer energy products that meet our customers' needs and provide them with certainty in relation to energy prices.

Objectives	How we performed in 2017/18
Deliver commercial value through the Stanwell Energy retail business	Achieved
Develop products and energy solutions to defend current loads and facilitate new and existing load growth	Achieved
Manage Stanwell's underlying exposure to global commodity markets	In progress
Develop expanded commodity trading in line with customer requirements	In progress

THE INNOVATIVE ENERGY PRODUCTS ELEMENT OF STANWELL'S STRATEGY SEEKS TO DELIVER:

- value for our customers by tailoring energy solutions to their needs and providing them with price certainty;
- value for our business by ensuring we have a future market for our energy products; and
- economic development and regional growth, by ensuring Queensland remains an attractive place for investment, with affordable and reliable energy.

For 2017/18, Queensland's wholesale electricity prices were on average, the lowest and most stable in the National Electricity Market (NEM), as shown in Chart 1.

This year, wholesale electricity prices across the NEM receded, with a time-weighted average price in Queensland of $72.87/MWh, compared to $93.12/MWh in 2016/17 (see Chart 2).

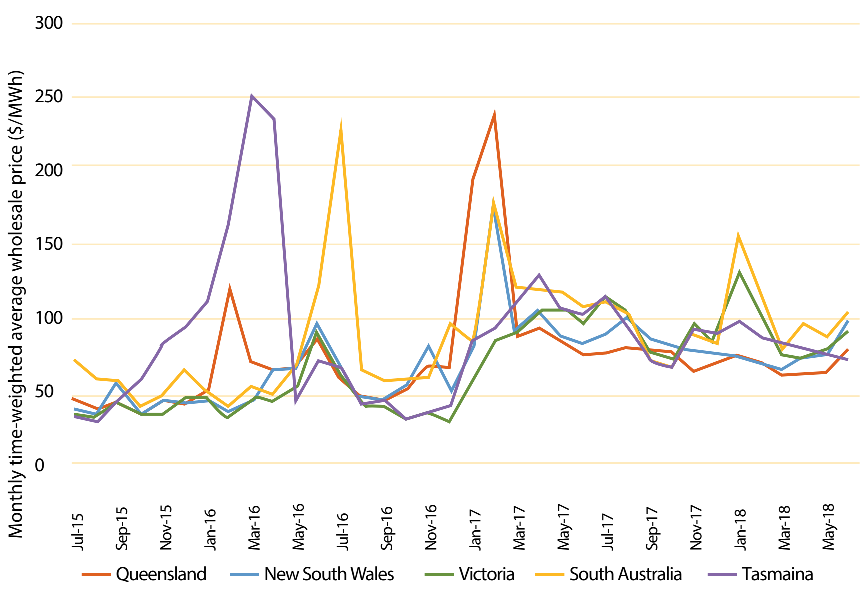
This is despite the 2017/18 summer being the second warmest on record and a new record peak electricity demand being set in Queensland on three consecutive days in February, reaching 9,840 MW.

During this time, there was sufficient generation to meet demand, with no customer supply interruptions.

There were a number of factors which contributed to lower wholesale electricity prices in Queensland, including:

- A reduction in average demand in Queensland. Growth in rooftop solar continues to reduce demand for electricity from the grid during the day. Queensland rooftop solar PV generation capacity grew from 1,326 GWh in 2013/14 to 2,554 GWh in 2017/18 (see Chart 3).
- At the same time that overall average demand is falling, peak demand is reaching new record highs. Stanwell placed downward pressure on wholesale prices by running its low cost and reliable power stations at sustained high capacities, particularly during summer (refer to 'Flexible and competitive portfolio' for more details). During the summer peak period of high demand, where demand was greater than 9,000 MW on five consecutive days (12 to 16 February 2018), generation from the Stanwell portfolio averaged 3,139 MW, which equates to 83 per cent of Stanwell's available capacity. At times, Stanwell was generating as high as 97 per cent of available capacity. This high level of output contributed to energy security and a peak spot price of only $113.80/MWh. Building a power system that can meet continued growth in peak demand at a time when average demand is falling remains a challenge for all electricity industry participants.
- High plant availability. This includes the return to service of Stanwell's gas-fired Swanbank E Power Station in late December 2017 following three years in cold storage. The decision to return the power station to service ensured additional significant generation capacity for the high demand summer period. At the time of the new peak demand record of 9,840 MW in February 2018, the Queensland region had 728 MW of excess capacity.

CHART 1: MONTHLY AVERAGE WHOLESALE ELECTRICITY PRICE BY NATIONAL ELECTRICITY MARKET STATE.



The softening of spot electricity prices has continued to impact forward prices across the NEM. Prices for 2018/19 forward contracts have fallen by between 13.7 per cent and 20.7 per cent from their peak on 24 April 2017 to the end of June 2018.

It is against this backdrop that Stanwell recorded positive outcomes in the electricity market.

DELIVER COMMERCIAL VALUE THROUGH THE STANWELL ENERGY RETAIL BUSINESS

Stanwell has a retail business, Stanwell Energy, which specialises in selling electricity to large commercial and industrial customers along the eastern seaboard of Australia.

Since its formation in 2014, Stanwell Energy has continued to build a customer base in key sectors including mining, industrial, retail, healthcare, government, education and commercial. The geographical reach of our retail operations means we can service large customers who have multiple sites across the eastern states of Australia.

In 2017/18, we focused on offering longer-term deals to our customers, providing them with cost certainty for their businesses. We also worked closely with them to structure energy products which reflected the energy needs of their business. This included green products, billing options and different pricing structures.

For Stanwell, our retail business is important because it locks in a portion of our future revenue and provides an additional channel through which we can sell our generation (in addition to the spot and contract markets for electricity).

DEVELOP PRODUCTS AND ENERGY SOLUTIONS TO SUPPORT CURRENT LOADS AND FACILITATE NEW AND EXISTING LOAD GROWTH

In 2017/18, Stanwell negotiated a number of long-term energy deals with major Queensland businesses.

For many of these major businesses, energy is one of their largest operating costs and a key factor driving their profitability.

Being able to finalise long-term deals with these businesses is not only good for Stanwell (as it locks in future revenue) but it also provides certainty to these businesses, many of which are significant regional employers and drivers of economic growth.

There has been significant growth in the renewable energy pipeline in 2017/18, with a number of large renewable energy projects coming online during the year in Queensland. As renewable energy capacity increases, so too does the variability in renewable energy generation. To ensure network security and reliability, either firming contracts or increased flexibility of low cost coal-fired generation will be required. A growing part of our energy offering is working with industrial customers to integrate renewable energy into their businesses and using our portfolio to provide important back up energy.

We are also helping customers understand the value in demand side management activities, such as curtailing load or using onsite generation to support their energy needs, particularly at times of high wholesale electricity prices.

CHART 2: QUEENSLAND CONTRACT PRICES ARE THE LOWEST IN THE NATIONAL ELECTRICITY MARKET.

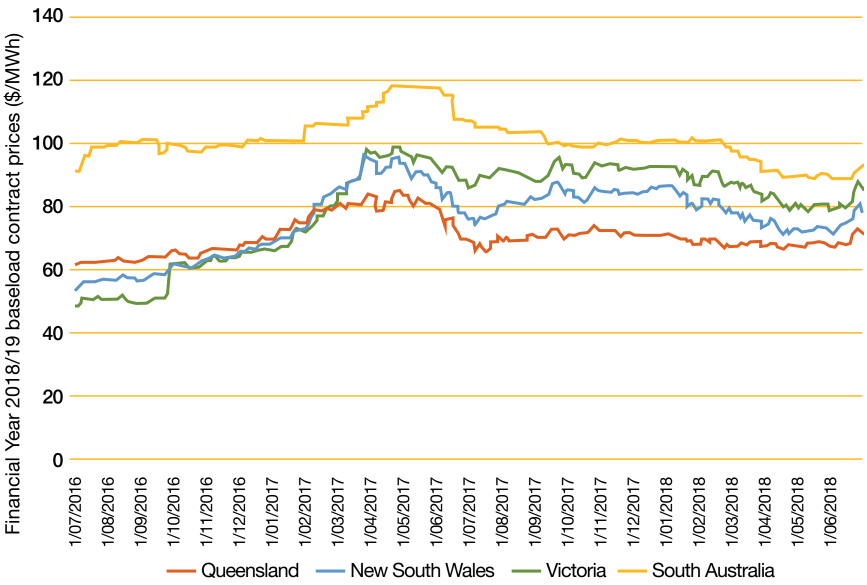
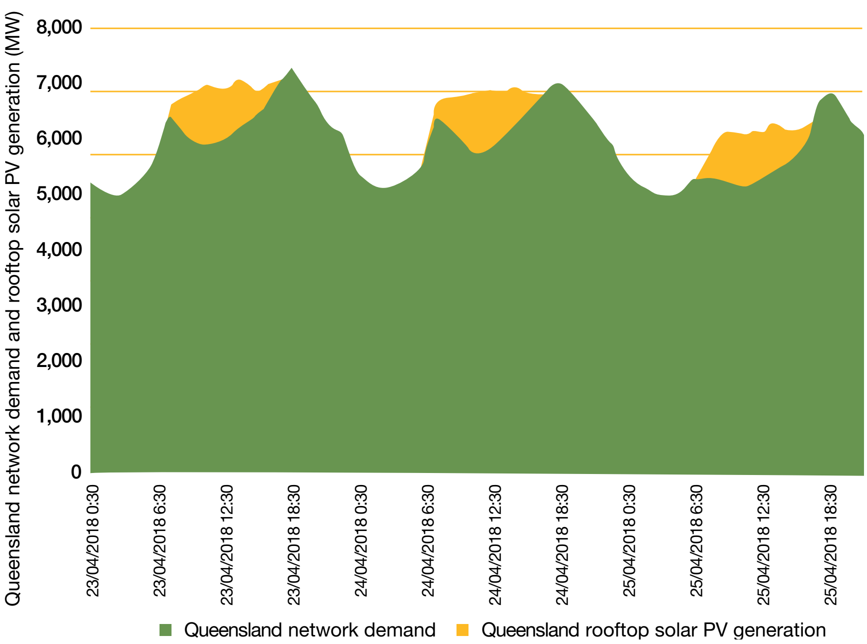


CHART 3: THE RISE IN SOLAR GENERATION IS REDUCING THE DEMAND FOR ELECTRICITY FROM THE GRID DURING THE DAY.



MANAGE STANWELL'S UNDERLYING EXPOSURE TO GLOBAL COMMODITY MARKETS

Stanwell continues to manage its exposure to energy commodity markets such as diesel, oil and gas. These are significant operating expenses for Stanwell. By monitoring these markets, Stanwell is able to lock-in hedge contracts that protect the business from price fluctuations for these commodities.

Flexible and competitive portfolio

Our flexible and cost competitive portfolio of high performing assets will assist in responding to changes in demand for electricity, as more variable renewable energy enters the market. We can provide the baseload and essential services to ensure a secure supply of electricity to Queensland.

Objectives	How we performed in 2017/18
Ensure flexible generation plant that meets market demand	Achieved
Optimise plant costs	Achieved
Reduce fuel and mine costs	Achieved
Secure commercial water supply arrangements	Achieved
Realise best value from our coal portfolio	Achieved
Realise best value from our gas portfolio	Achieved

THE FLEXIBLE AND COMPETITIVE PORTFOLIO ELEMENT OF STANWELL'S STRATEGY SEEKS TO:

- ensure our generation plant is flexible to meet changing market demands as more variable renewable energy enters the market;
- optimise and reduce our plant, fuel and water costs to ensure we are putting downward pressure on energy generation costs, while delivering a reliable, secure supply of electricity; and
- continue to realise best value from our coal and gas portfolios as they are a strong contributor to Stanwell's commercial results.

ENSURE FLEXIBLE GENERATION PLANT THAT MEETS MARKET DEMAND

Ensuring our power stations are reliable and can meet changes in demand for electricity is a priority for our business.

In 2017/18, our generation portfolio within the National Electricity Market achieved average availability and reliability factors of 91.9 per cent and 96.0 per cent, respectively.

During the year, we invested more than $120.7 million in capital projects at our sites to improve efficiency or maintain performance, ensuring our assets can respond when needed by the market. As part of this, three overhauls were delivered within the past 12 months across the Tarong and Stanwell power stations.

In early 2018, very hot weather conditions throughout Queensland led to record peak electricity demand of 9,840 MW. Throughout summer, Stanwell's generation assets maintained availability of 96.7 per cent. Comparatively, the average availability across the National Electricity Market was 84.6 per cent for the same period.

Coming into summer 2018/19, our priority is ensuring our portfolio of assets meets electricity demand and continues to provide a secure supply of electricity to Queenslanders.

Longer term, as generation from variable energy sources increases, our coal-fired power stations will continue to play a role in maintaining security and affordability of electricity supply. Importantly, this year we have commenced our low load trials at Stanwell and Tarong power stations to ensure our plant is capable of meeting the market's changing needs.

SWANBANK E POWER STATION RETURN TO SERVICE

In response to an oversupplied electricity market, Stanwell made a decision in 2014 to place the 385 MW gas-fired Swanbank E Power Station into cold storage for up to three years or until there was a market need for it to return.

On 30 May 2017, shareholding Ministers issued a direction to Stanwell to return Swanbank E Power Station to service on or before January 2018.

Stanwell successfully returned Swanbank E Power Station to service on 27 December 2017. The return to service of Swanbank E Power Station has increased electricity supply (most importantly in time for the 2018 summer) and put downward pressure on energy prices in Queensland.

MICA CREEK DEAL LOCKED-IN

In June 2018, Stanwell signed a deal with another mining customer to deliver an additional 35 MW of energy until January 2021, adding extra generation output to Stanwell's Mica Creek Power Station. Stanwell is exploring further opportunities to maximise Mica Creek's generating capacity with existing and potential new customers.

OPTIMISE PLANT COSTS

Stanwell continues to invest in its assets to meet current and future operating requirements. Throughout 2017/18 this included an outage on Stanwell Power Station's Unit 3 to undertake a major overhaul, which involved a complete control system upgrade and replacement of the condenser tubes at a total cost of approximately $55.0 million. The overhaul saw an additional 600 people working at the site during the 77-day program, and added an estimated $11.0 million to the local Rockhampton economy.

Approximately $17.5 million was also invested in the Meandu Mine coal handling and preparation plant to improve coal yield and reduce tailings. Other major maintenance activities included a mini overhaul at Tarong North Power Station and the return to service inspections of Swanbank E Power Station.

REDUCE FUEL AND MINE COSTS

Fuel costs are our highest operating expense and we have worked hard to reduce these at the Tarong and Stanwell power stations by optimising the mine plan at Meandu Mine and accessing cost-competitive fuel sources for Stanwell Power Station.

Throughout the year, Meandu Mine delivered an additional 250,000 tonnes of coal to Tarong power stations to bolster coal stockpile levels in advance of expected increased demand for coal-fired generation.

Stanwell also renegotiated its explosives supply agreement with Orica, resulting in significant savings (compared to existing pricing) over the remainder of the extended contract term.

REALISE BEST VALUE FROM OUR COAL PORTFOLIO

At Stanwell Power Station, coal is currently supplied by the Curragh Mine under an agreement with Coronado Coal LLC. The agreement also provides Stanwell with a revenue stream based on coking coal exported from Curragh Mine. In 2017/18, this contributed more than $220.0 million to our pre tax result.

Stanwell has also commenced early investigations into long-term coal supply arrangements for Stanwell Power Station, following expiry of the current agreement with Coronado in 2026/27.

SECURE COMMERCIAL WATER SUPPLY ARRANGEMENTS

Water is a critical input for the generation of electricity. Ensuring we have secure water at commercial rates is a key objective of our business.

As a result of falling water levels at Boondooma Dam, Stanwell re-instated the Wivenhoe Pipeline in September 2017, to ensure water security for the Tarong power stations.

At present, the majority of water supply for generation at the Tarong power stations is being sourced from Boondooma Dam, as it is more expensive to source water from Wivenhoe Dam. Stanwell continues to monitor the Boondooma Dam level so we can respond to any potential water shortages by increasing our consumption from Wivenhoe Dam.

Stanwell also has a bulk water supply agreement in place with Seqwater for the Tarong, Tarong North and Swanbank power stations. In late 2017, Stanwell agreed on a new single bulk water supply agreement for the supply of raw water or purified recycled water in the event of a prolonged drought.

In Far North Queensland, our Barron Gorge Hydro Power Station utilises run of river water from the Barron River and water releases from Tinaroo Dam (under a Water Release Agreement with SunWater) to generate renewable energy. In mid 2017, Stanwell and SunWater extended the existing agreement for five years, ensuring the delivery of economic and clean energy to the State.

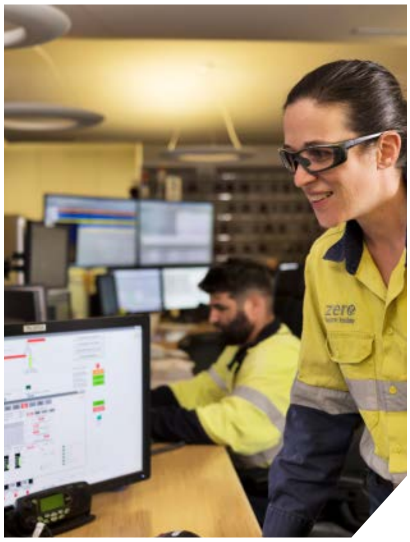
REALISE BEST VALUE FROM OUR GAS PORTFOLIO

Gas sales were a solid contributor to our financial result in 2017/18.

Stanwell was an active participant in the Wallumbilla Hub and the Brisbane Short Term Trading Market. We also had a number of gas sales agreements with private counterparties.

In 2017/18, we sold more than 5.8 petajoules of gas through bilateral sales agreements, traded approximately 590 terajoules of gas through the Wallumbilla Hub and sold more than 200 terajoules of gas transport capacity on the Roma to Brisbane pipeline. This represents a slight decrease on 2016/17 sales. This was as a result of Swanbank E Power Station's return to service, as Stanwell required more gas to operate the power station.

During the financial year we entered into a number of gas supply and transport arrangements, and invested further in our joint venture with Arrow Energy at Kogan North, to enable the successful return to service of Swanbank E Power Station.



Participate In low carbon energy

Stanwell is exploring opportunities to evolve and renew our portfolio in response to the market and to assist Queensland in the transition to a lower carbon future. Our participation in renewable energy includes direct involvement in renewable projects and through power purchase agreements with project proponents.

Objectives	How we performed in 2017/18
Engage in the transition to lower emissions for the electricity industry and protect long-term market share	In progress
Explore opportunities to be a facilitator, manager or aggregator of market interface for renewable projects	Achieved
Negotiate with renewable project proponents in relation to providing land, operations and maintenance, and other support services for a commercial return	In progress

STANWELL HAS A RENEWABLE ENERGY STRATEGY WHICH SEEKS TO:

- integrate commercially-attractive power purchase agreements into our portfolio;
- work with existing and prospective customers to develop energy supply arrangements involving renewable energy, large-scale generation certificates and other energy services; and
- respond to customer-led enquiries for renewable projects on Stanwell-owned potential development sites.

RENEWABLE ENERGY POWER PURCHASE AGREEMENTS

Stanwell's large and diverse portfolio and trading function allows us to facilitate the introduction of renewables into the electricity grid while also providing reliability and security.

Stanwell will support the integration of renewable energy into the market through commercially-attractive power purchase agreements, providing a means of managing the impact of variability on both the physical and financial markets.

Throughout 2017/18, Stanwell progressed negotiations with a range of renewable project proponents in relation to purchasing electricity and, large-scale generation certificates associated with developing renewable projects.

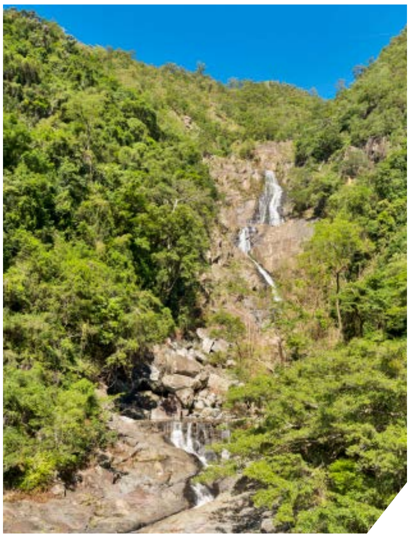
BURDEKIN HYDRO POWER STATION

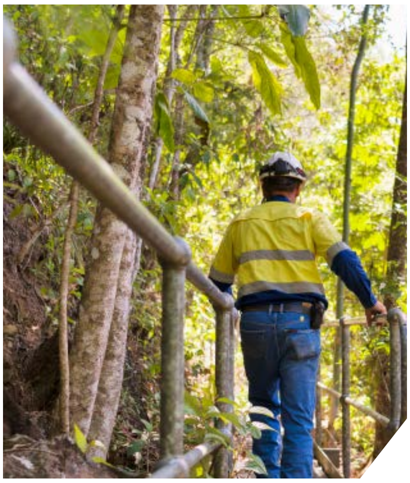
On 30 April 2017, the Premier and Minister for the Arts, the Honourable Annastacia Palaszczuk, announced that the State Government would invest to develop a business case for a hydro-electric power station at the Burdekin Dam.

Stanwell has been developing a business case for the project in conjunction with SunWater and expects to complete this by the end of 2018.

Should the project proceed, the Burdekin Hydro Power Station will deliver dispatchable renewable energy to the grid.

The project complements Stanwell's existing Barron Gorge, Kareeya and Koombooloomba hydro power stations in far north Queensland.





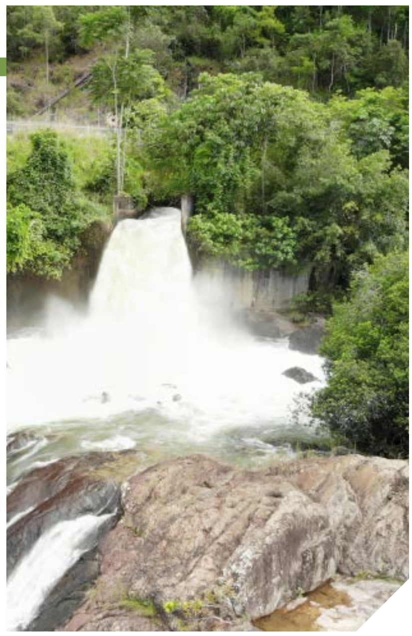
A provider of green energy

Through our portfolio of hydro-electric generators, Stanwell can generate more than 160 MW of clean energy.

We continue to invest in these long-life renewable energy assets, ensuring Far North Queensland continues to benefit from secure and environmentally responsible energy.

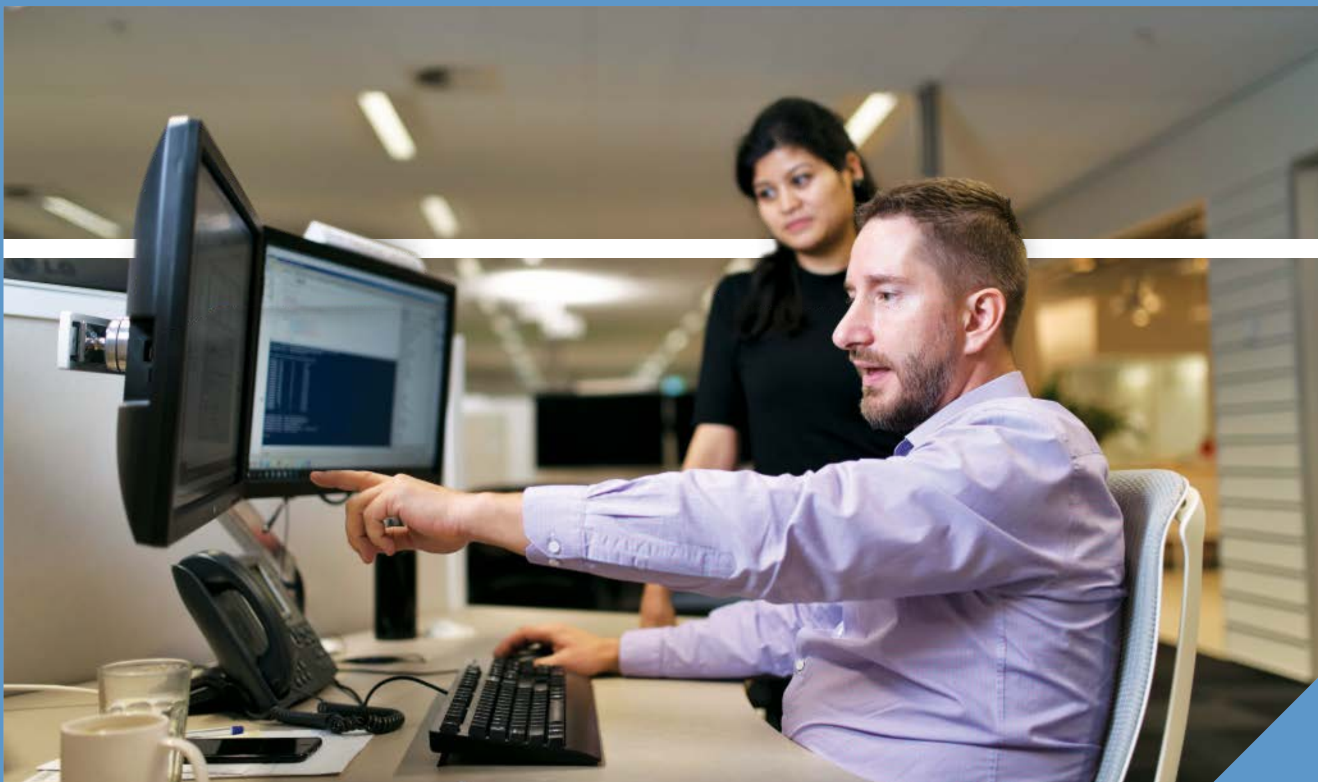
The ability of these power stations to start up quickly means they play an important role in ensuring a secure, reliable power supply.

Our hydro power stations generated more than 605 GWh of electricity in 2017/18 – that is enough energy to power 80,000 Queensland homes.



Enablers

At Stanwell, providing a safe workplace, engaging and retaining a high performing workforce and securing ongoing support for our operations are key to our success.



Objectives	How we performed in 2017/18
Achieve operational efficiencies	Achieved
Provide a safe workplace	Achieved
Engage and retain a high performing workforce	Achieved
Ensure compliance with applicable laws, regulations and company policies	Achieved
Ensure Stanwell's environmental right to operate	Achieved
Improve and simplify business systems	Achieved
Secure ongoing support for Stanwell's strategy and operation	Achieved

TO ENABLE THE SUCCESSFUL EXECUTION OF STANWELL'S CORPORATE STRATEGY, STANWELL SEEKS TO:

- take a holistic approach to ensuring a safe workplace, where people take personal ownership for the safety of themselves and others;
- encourage constructive working relationships with our employees, unions, government departments, shareholders and regulators; and
- simplify our business systems and provide efficient and transparent information communication technology services across the business.

ACHIEVE OPERATIONAL EFFICIENCIES

In 2017/18, Stanwell continued to deliver operational efficiencies across the business. This has been driven by a range of management initiatives, including efficiencies in mining operations which reduced fuel costs, a business-wide focus on reducing operating and corporate costs and reductions in capital expenditure, particularly in relation to the deferral of capital projects.

PROVIDE A SAFE WORKPLACE

At Stanwell, our highest priority is the safety of our people. To us, our goal of Zero Harm Today means we act to keep all of our people and our work partners safe and well every day.

This year, we continued to implement our five-year Health and Safety Strategy (2017-2022) with a range of initiatives under our six key strategic themes: Leadership, Culture and Capabilities, Health and Wellbeing, Exposure Reduction, Contractor Management, and Consultation and Collaboration.

The success of our Health and Safety Strategy is reflected in our lowest Total Recordable Injury Frequency Rate (TRIFR) on record of 3.6 which is an improvement on the 2016/17 result of 5.3 (which was previously the lowest result).

We also successfully deployed a standardised safe work system at all our generation sites, except Mica Creek, where it will be rolled out in August 2018. This will ensure a consistent, structured and disciplined work authorisation process with safe and predictable decisions when planning for, and executing work.

Further, Tarong power stations were named the winner of the Most Significant Improvement to Work Health and Safety Performance category at the Queensland Safe Work Awards in October 2017, for their efforts in improving site safety during major overhauls.

We also continue to offer our employees an extensive program of health and wellbeing initiatives, spanning across four focus areas – mental, physical, musculoskeletal and core health.

ENGAGE AND RETAIN A HIGH PERFORMING WORKFORCE

Stanwell actively encourages constructive working relationships with our employees, site delegates and the unions that are party to our enterprise agreements. We encourage feedback from employees and unions in formal consultation processes and other forums, including site consultative committees and working parties. This year, we have commenced negotiations with our people and the unions for new Tarong Power Stations and Corporate Office enterprise agreements, which are both due to expire in 2018.

We also recognise that diversity and inclusion are key enablers to delivering on our goals and strategic objectives. As such, we have a formalised Diversity and Inclusion Strategy which strives to achieve our goal of having a culture of inclusion where all our people feel comfortable to be themselves and contribute to the business.

This year, we have also been working with White Ribbon Australia to complete a Workplace Accreditation Program incorporating workplace violence prevention, awareness and education initiatives.

During the year, we also launched a leadership program to engage our leaders in business improvement, strategic outcomes and to further enrich our culture.

In 2017/18, we hosted a total of 37 apprentices and six trainees, including nine new apprentices and five new trainees. We also appointed three graduates in health and safety, environment and mechanical engineering.

ENSURE STANWELL'S ENVIRONMENTAL RIGHT TO OPERATE

In early 2018, Stanwell transitioned its Environment Policy into an Environmental Sustainability Policy, providing a public statement regarding Stanwell's environmental position and values, performance intentions and direction. When making business decisions at Stanwell, we give due consideration to environmental consequences and opportunities, in conjunction with social and commercial imperatives.

To support decision makers in the early identification and assessment of environmental and social opportunities within a commercial context, an Environmental Sustainability Assessment Tool has been developed, piloted and successfully implemented.

Stanwell continues to foster a positive relationship with regulators, including the Department of Environment and Science, the Department of Natural Resources, Mines and Energy, and the Wet Tropics Management Authority.

LAND REHABILITATION AND ENVIRONMENTAL MONITORING

This year at Meandu Mine, 43.1 hectares (ha) of rehabilitation was completed against a target of 42.6 ha. As part of Meandu Mine's commitment to assess the quality of completed mine rehabilitation, external consultants were engaged to monitor a number of rehabilitation areas across the mine again this year. This monitoring indicates that the rehabilitation is progressing extremely well towards the native ecosystem completion criteria outlined in the Mine's Environmental Authority.

Meandu Mine's commitment to being a good neighbour is supported by a real-time environmental monitoring network that measures air, noise and vibration at various locations around the site. Although the data collected demonstrates its operations are well within the limits of its Environmental Authority, continued analysis and improvements to network has assisted the site to better understand its impacts and consider proactive strategies to manage these responsibly. Furthermore, water management strategies have been implemented to improve water quality on site.

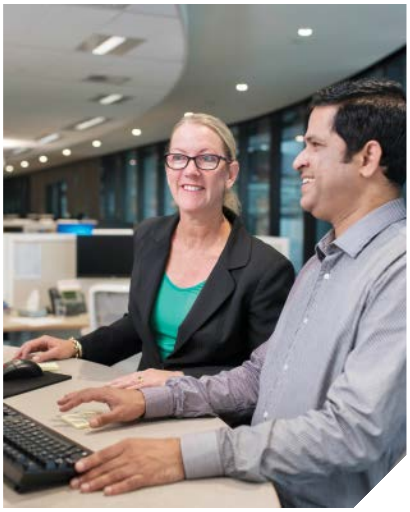
Learn more on our website – **www.stanwell.com**

IMPROVE AND SIMPLIFY BUSINESS SYSTEMS

We have made significant progress in delivering on our information and communication strategy. The revised ICT workforce and governance structures have stabilised, improving service efficiency and transparency.

Throughout the year, we delivered on key technology simplification initiatives, which enabled the retirement of one enterprise resource planning system and two safety systems. Additionally, significant ICT infrastructure was simplified, releasing valuable resources and reducing management overheads.

Our business operations are increasingly reliant on technology, making Stanwell vulnerable to cyber security threats. We have invested in cyber security capabilities and implemented a business wide cyber security governance model to manage threats and maintain best practices. Additionally, we have developed an Information Technology Security Strategy and Security Policy to guide future cyber security efforts.



Corporate governance

KEY AREAS OF GOVERNANCE FOCUS AND ACHIEVEMENT IN 2017/18

Stanwell's governance arrangements are subject to continuous review by the Stanwell Board and relevant Board Committees. During the year, the following activities were undertaken to enhance Stanwell's governance arrangements:

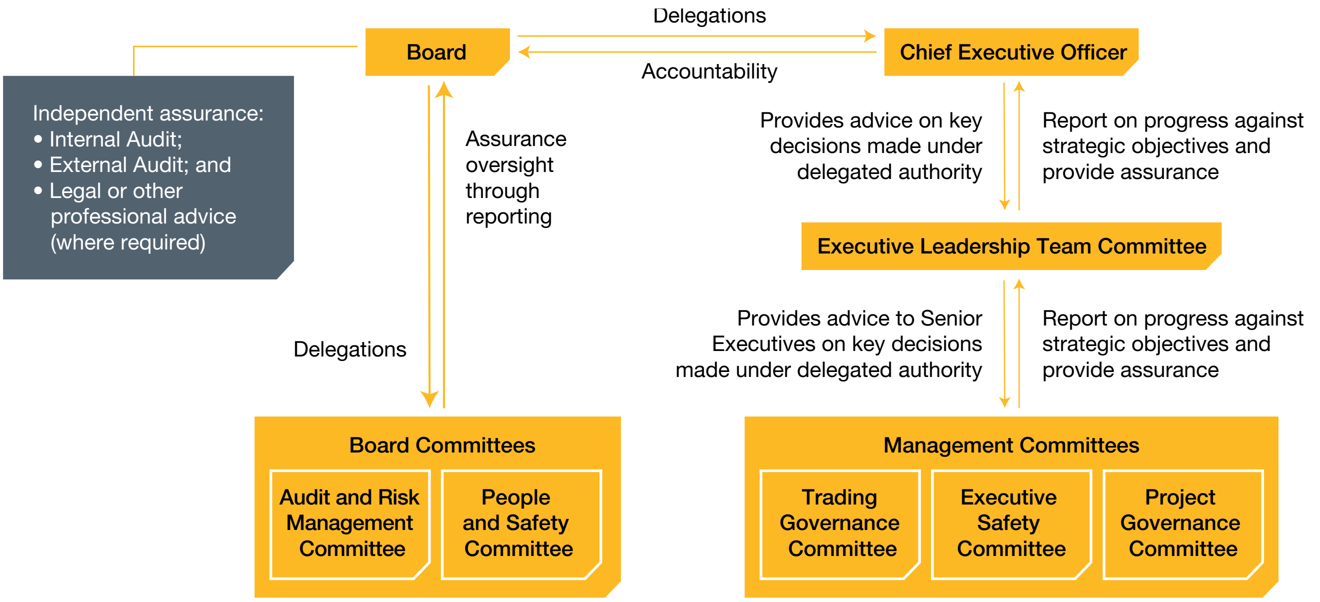
- the Board Charter, the Board Committee Charters, the Board Handbook and the Delegations Framework were all reviewed to ensure that Stanwell's governance arrangements remain appropriate as Stanwell's circumstances change;
- commenced a consultation and benchmarking exercise on Stanwell's Enterprise Risk Evaluation Matrix to ensure that it was effective, designed to support the requirements of the organisation and aligned to existing risk appetite statements;
- in response to recent updates to the various Risk Management Standards that Stanwell conforms to (ISO 31000:2018 and COSO: Enterprise Risk Management Integrating with Strategy and Performance (2017)), a review of Stanwell's risk management framework occurred. The review identified a number of continuous improvement opportunities that will further enhance Stanwell's approach to risk management. These will be embedded progressively across the organisation during the 2018/19 financial year;
- reviewed the framework by which Stanwell manages the risks arising from its energy market trading activities;
- reviewed and confirmed that Stanwell's Risk Appetite Statement continues to support the achievement of its strategic objectives;
- monitored, measured and assessed Stanwell's Compliance and Regulatory Management System to ensure that it continues to reflect best practice and is relevant and appropriate for Stanwell's business activities;
- established a security management framework for the protection of Stanwell's employees, assets, information systems and reputation. The key focus of the framework is the application of security best practice to mitigate against security threats, identify and eliminate vulnerabilities and to demonstrate Stanwell's intent to comply with relevant regulatory and compliance requirements;
- provided assurance that Stanwell's information technology infrastructure, communication networks and business systems can operate in the event of a significant service interruption by successfully conducting a physical fail-over from Stanwell's primary data-centre to its secondary data centre;
- participated in the biennial Grid Security Exercise (GridEx IV) coordinated by the North American Electric Reliability Corporation. Stanwell's involvement allowed it to test its business continuity response to concurrent physical and cyber attacks on the communications and control networks of its business operations and, of the wider Queensland electricity market;
- designed, developed and implemented a new hedge accounting system to ensure Stanwell's compliance with new Australian Accounting Standards AASB 9 Financial Instruments. The application of this new standard will apply to Stanwell from 1 July 2018;
- confirmed that the strategy in relation to capital and funding remains appropriate and that financial risk activities are undertaken within an appropriate compliance framework;
- established a comprehensive and integrated diversity and inclusion strategy that articulates Stanwell's aspirations and demonstrates its care, commitment and imperative to valuing, and achieving value from a more diverse workforce; and
- refreshed the Stanwell Code of Conduct and the underlying policy framework.

APPROACH TO CORPORATE GOVERNANCE

Stanwell defines governance as *'the system by which the Corporation is directed, managed and held to account'*. It incorporates culture, structure 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 Stanwell;
- the strategies and goals of Stanwell are set and agreed;
- the key risks to Stanwell are identified and managed; and
- ethical values and behaviours and responsible decision-making are promoted through a fair and just culture.

GOVERNANCE FRAMEWORK



The diagram above shows Stanwell's current governance framework, including the Committees of the Board.

The Executive Leadership Team, Executive Safety, Project Governance and Trading Governance committees sit beneath the Chief Executive Officer (CEO) to implement Board-approved strategies, policies and manage risks across the organisation.

Further information on Stanwell's corporate governance practices, including key policies and copies of the Board and Board Committee Charters, is available on the Stanwell website (www.stanwell.com).

Stanwell has adopted all of the principles outlined in the Corporate Governance Guidelines for Government Owned Corporations and the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council (where applicable) and believes that, throughout the reporting period, its governance arrangements have been consistent with these principles.

This Corporate Governance Statement sets out each of these principles and how Stanwell has addressed them.

PRINCIPLE 1 – FOUNDATIONS OF MANAGEMENT AND OVERSIGHT

Role and function of the Board

The Board's primary function is to ensure that Stanwell and its controlled entities have an appropriate corporate governance structure which creates and protects shareholder value. The Board derives its authority to act from Stanwell's Constitution.

The Board's responsibilities are set out in a formal Charter which the Board reviews annually.

These responsibilities include but are not limited to:

- monitor the progress of Stanwell's commitment to the elimination of work-related injuries and occupational illnesses;
- review and approve the corporate strategy, the annual budget and financial plans;
- make decisions in relation to major corporate initiatives above the CEO's approval threshold;
- oversee and monitor organisational performance and the achievement of Stanwell's strategic goals and objectives;
- ensure the adequacy and effectiveness of key aspects of Stanwell's financial management, reporting and accounting practices;
- oversee the review and update of corporate governance arrangements and processes as necessary to support Stanwell's commitment to best practice corporate governance;
- monitor and influence Stanwell's culture, values, reputation and ethical standards;
- appoint and assess the performance of the CEO and senior executives;
- approve Stanwell's Risk Appetite Statement and risk management strategy;
- review and oversee systems of risk management, internal control and legal compliance;
- oversee the process for identifying and managing Stanwell's business critical risks and the control, monitoring and reporting mechanisms in place; and
- report to and communicate with Stanwell's shareholding Ministers.

Delegation of authority

Stanwell's Constitution allows the Board to delegate any of their Director powers as permitted by the *Corporations Act 2001 (Cth)* and the *Government Owned Corporations Act 1993 (Qld)*, including delegation to a committee of Directors or any other person on the terms and subject to any restrictions that the Board may decide.

The delegation of the Board's specific standing powers and limits of authority are documented in the Board Delegations of Authority Policy, the Audit and Risk Management Committee Charter and the People and Safety Committee Charter.

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

- decisions related to specific matters are reserved for the Board;
- certain powers and limits of authority are delegated to specified persons; and
- subject to the above, the Board delegates its power and authority to manage and supervise the management of the day-to-day operations of Stanwell to the CEO and, through the CEO, to other senior executives and employees.

The principles by which the CEO sub-delegates the power and authority vested by the Board are documented in the Stanwell CEO Manual of Authorities.

These principles govern decision-making and ensure that the financial transactions of Stanwell are executed within the scope of delegated authorities and balance effective oversight by the Board with appropriate empowerment and accountability of Stanwell's senior executives and employees.

Committees of the Board

The Board has established two committees: the People and Safety Committee and the Audit and Risk Management Committee. These committees assist in the execution of the Board's role and 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 their respective committee charters. Each year, the charters are reviewed and, where appropriate, updated to take account of changes and other developments in the committees' areas of responsibility.

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

People and Safety Committee

As at 30 June 2018, the People and Safety Committee comprised the following directors:

- Jacqueline King (Chairman)
- Adam Aspinall
- Dr Ralph Craven

The committee's primary function is to assist the Board to oversee the development and monitoring of policies and practices which relate to:

- health, wellbeing and safety of Stanwell's workers;
- the Board's performance of its governance of Stanwell;
- the work environment, conditions and performance of employees; and
- relationships with external stakeholders.

Audit and Risk Management Committee

As at 30 June 2018, the Audit and Risk Management Committee comprised the following directors:

- Karen Smith-Pomeroy (Chairman)
- Adam Aspinall
- Dr Ralph Craven

The committee's primary function is to assist the Board to:

- review and monitor Stanwell's financial management and reporting processes;
- review and oversee systems for risk management, internal control and legal compliance;
- oversee the process for:
  - identifying and managing significant business risks; and
  - implementing appropriate and adequate control, monitoring and reporting mechanisms; and
- monitor and assess the performance of the internal and external audit functions (to the extent relevant).

Executive remuneration and performance review

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

Further details about the CEO and senior executive remuneration are disclosed in the Remuneration Report on page 92.

PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE

At the date of this report, the Board consisted of four 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 set out on page 44.

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

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

The Board held nine meetings between 1 July 2017 and 30 June 2018. The table on page 46 of this report details the number of Board and Board committee meetings held during the year that each director was eligible to attend and the number of meetings attended by each director.

Director induction and continuing education

Stanwell has a comprehensive director induction program in place, which 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.

Stanwell provides continuing education to the Board through a combination of internal and external presentations, workshops with management and site visits. These educational activities assist directors to gain a broader understanding of Stanwell's business. Directors are also encouraged to keep up to date on topical issues and to participate in professional and self-development activities. Activities undertaken by directors that assist their responsibilities to Stanwell are paid for by the Corporation.

Director independence

The Board has considered the associations of each of the directors and is of the view that all directors are independent. The basis for this decision is that all directors are independent of management or any material business or other interest that could interfere with:

- the exercise of objective, unfettered or independent judgement; and
- the director acting in the best interests of Stanwell.

The materiality of any relationship between a director and Stanwell or any other interest which may impact a director's independence will be judged according to the significance of the relationship to the director in the context of their activities as a whole. The Board applies a conservative assessment of the significance of any relationship when determining materiality.

Access to independent professional advice

Directors are entitled to seek independent professional advice at Stanwell's expense. The process for obtaining such advice requires the relevant director to consult with the Chairman, or the Company Secretary where the Chairman 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.

Access to management

Each director has access to the CEO in the event that they require additional information. Each director is encouraged to contact the CEO or Company Secretary prior to a Board meeting to discuss any matters that require clarification.

Board evaluation

The Board evaluates its performance, the performance of individual directors, the Chairman and the Board committees at regular periods. The People and Safety Committee is responsible for assessing the framework and the processes used for conducting the performance evaluations.

During the year, performance evaluations of the Board's committees were undertaken. The results of these evaluations were returned to the Board for discussion.

As part of the Board's commitment to continuously improving its governance practices, the last agenda item of every Board meeting is a critique of the Board's performance.

PRINCIPLE 3 - PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Code of Conduct - the way we work at Stanwell

Stanwell has a Code of Conduct that applies to its directors, employees and contractors. The code promotes ethical and responsible decision-making and requires high standards of honesty, integrity, fairness and equity in all aspects of employment with Stanwell - the behaviour this fosters is integral to supporting Stanwell's values and governance practices.

The principles underlying Stanwell's Code of Conduct are:

1. We contribute to a safe workplace and strive to achieve Zero Harm Today.
2. We act ethically at all times.
3. We treat others with fairness and respect and value diversity.
4. We identify conflicts of interest and manage them responsibly.
5. We respect and maintain privacy and confidentiality.
6. We comply with this code, the law, Stanwell's contractual commitments and Stanwell's policies and procedures.
7. We immediately report any breaches of this code, the law or Stanwell's policies and procedures.

The code is supported by the following detailed policies that together form the Stanwell Code of Conduct Policy Framework:

- Confidential Information Policy;
- Conflict of Interest Policy;
- Fair Treatment Policy;

- Fraud Prevention Policy;
- Gifts and Benefits Policy;
- Health and Safety Policy;
- Information Systems Usage Policy;
- Compliance and Regulatory Management Policy;
- Privacy Policy;
- Trading in Securities Policy; and
- Whistle-blower Protection Policy.

When commencing work with Stanwell and thereafter on a biennial basis, all Stanwell employees, contractors and directors are required to complete a training course that takes them through the seven principles of the Code of Conduct and a summary of their obligations under each of the policies in the Code of Conduct Policy Framework.

Whistle-blower Protection Policy

Stanwell's Whistle-blower Protection Policy is designed to encourage employees, contractors, service providers (such as consultants) and suppliers to raise concerns about activities or behaviour that may be unlawful or unethical. The policy formalises Stanwell's commitment to protecting the confidentiality, dignity and career of anyone who raises serious concerns that affect the integrity of Stanwell.

When a whistle-blower raises a concern, they may choose to involve the Whistle-blower Protection Officer, who is responsible for protecting the whistle-blower against personal disadvantage as a result of making a report.

Stanwell investigates reported concerns in a manner that is confidential, fair and objective. If the investigation shows that wrongdoing has occurred, Stanwell is committed to taking action against those parties who have not met its standards of behaviour.

The Board through the Audit and Risk Management Committee monitors the progress of investigations on concerns raised by whistle-blowers.

Avoidance of conflicts of interest

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 Stanwell and their other interests and duties.

All directors are required to provide written disclosure on appointment of any business or other relationship that he or she has directly, or as a partner, shareholder or officer of a company or other entity that has an interest in Stanwell or another related entity. At least annually, or when relevant changes occur, directors are required to update these disclosures. The Company Secretary ensures that copies of all disclosures, including updated disclosures, are provided to each director.

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

Diversity and inclusion

Stanwell believes in the inherent strength of a vibrant, diverse and inclusive workforce in which the backgrounds, perspectives and life experiences of its people help Stanwell to forge stronger connections with its stakeholders and make better decisions for its business.

For Stanwell, diversity and inclusion covers both the visible and invisible differences that make its employees unique, whether that be gender, gender identity, age, ethnicity, accessibility requirements, cultural background, sexual orientation or religious beliefs, and the differences they have based on their experiences, insights and perspectives.

Stanwell has established a comprehensive and integrated diversity and inclusion strategy that articulates its objectives and demonstrates its care, commitment and imperative to valuing, and achieving value from, a more diverse workforce. The strategy includes a road map of initiatives and pragmatic and aspirational targets to be achieved by 2022.

The implementation of these initiatives is overseen by the Stanwell Diversity and Inclusion Working Party and the Board's People and Safety Committee.

Trading in securities

The Trading in Securities Policy deals with the manner in which Stanwell'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* (Cth), to ensure Stanwell personnel understand these requirements and the restrictions on trading while in possession of price-sensitive information.

PRINCIPLE 4 - SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Audit and Risk Management Committee assists the Board in overseeing the reliability and integrity of financial reporting practices, accounting policies, auditing and external reporting. The Committee provides advice to the Board on financial statements, financial systems integrity and business critical risks. It also oversees compliance with applicable laws, regulations and corporate policies.

The internal audit function is established by the Stanwell Board and its responsibilities are defined by the Audit and Risk Management Committee. The Audit and Risk Management Committee is responsible for assessing whether the internal audit function is independent of management and is adequately resourced and funded.

The overall objective of Stanwell's internal audit function is to assist the Stanwell Board and all levels of management to discharge their responsibilities in maintaining Stanwell as a well-controlled, economic, efficient and effective Corporation that complies with statutory obligations.

The internal audit function operates under the terms of the Internal Audit Charter. The charter is reviewed annually by the Audit and Risk Management Committee and formalises and communicates the purpose, role, authority, responsibilities, scope and operational framework of the internal audit function.

Authority has been granted to the internal audit function for full, free and unrestricted access to any and all of Stanwell's records, physical properties and personnel relevant to any function under review.

To provide for the independence of the internal audit function, its personnel report to the Group Manager Internal Audit, who reports functionally to the Audit and Risk Management Committee and administratively to the Chief Financial Officer (CFO).

Following the conclusion of audits, the Group Manager Internal Audit prepares and issues to management a formal Internal Audit Report of findings and recommendations.

A summary of the final report, together with management's agreed actions and implementation dates, is presented to the Audit and Risk Management Committee for consideration. The Group Manager Internal Audit monitors the implementation of audit recommendations and maintains the Audit Issues Register, which is presented to the Audit and Risk Management Committee for approval.

As a Government Owned Corporation, Stanwell's external audit is performed by or on behalf of, the Queensland Auditor-General. The external auditor's role is to provide an independent opinion that Stanwell's financial reports are true and fair and comply with applicable regulations. The Auditor-General has unfettered access and can examine and report to Parliament on the efficiency and effectiveness of any aspect of public sector finances and administration.

Internal audit and external audit operate, perform and report as separate, independent functions.

The Group Manager Internal Audit and representatives of the Queensland Auditor-General meet periodically with the Audit and Risk Management Committee without management present.

In accordance with the *Corporations Act 2001* (Cth), when presenting financial statements for approval, the CEO and the CFO provide a written statement to the Board to the effect that:

- the financial records of Stanwell for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001* (Cth); and
- Stanwell's financial statements and notes to the financial statements comply in all material respects with the Australian Accounting Standards and present a true and fair view of the company's financial position and performance.

In addition, the CEO and CFO state to the Board in writing that:

- the assurances given above and the integrity of Stanwell's financial statements are founded on a sound system of risk management, compliance and internal control which implements, in all material respects, the policies and processes adopted by the Board; and
- to the extent that they relate to financial reporting, the risk management, compliance and internal control systems are operating effectively in all material respects and that nothing has occurred since 30 June 2018 that would materially change the above statements.

As at 30 June 2018, the Audit and Risk Management Committee consisted of three members.

Other directors who are not members of the committee, the auditors and other senior executives attend meetings by invitation.

PRINCIPLE 5 - MAKE TIMELY AND BALANCED DISCLOSURES

In line with the requirements of the *Government Owned Corporations Act 1993*, shareholding Ministers are advised in a timely manner of all issues likely to have a significant financial, operational, employee, community or environmental impact.

Stanwell also regularly assesses the key information requirements of its stakeholders.

Release of Information Publication Scheme

Stanwell is committed to providing the public with information about Stanwell in a timely and open manner.

As a Queensland Government Owned Corporation, Stanwell has adopted the Queensland Government's 'push' model for the routine and proactive release of information into the public domain via Stanwell's Release of Information Publication Scheme, which can be viewed at www.stanwell.com.

PRINCIPLE 6 - RESPECT THE RIGHTS OF SHAREHOLDERS

Stanwell is committed to ensuring that its shareholding Ministers are continually and appropriately informed of its performance and activities. Communication is undertaken through a number of forums. These include:

- **Statement of Corporate Intent, Corporate Plan** and **Quarterly Reports**. The Statement of Corporate Intent and Corporate Plan provide a transparent set of agreed performance criteria and strategic objectives on which to report to shareholding Ministers and their representatives via the Quarterly Report. The Statement of Corporate Intent (with commercially sensitive information deleted) is tabled in Parliament and published on Stanwell's website;
- an **Annual Report** (containing those matters outlined in section 120 of the *GOC Act*) is prepared

and issued to shareholders and interested stakeholders and is published on Stanwell's website; and

- **briefings** to **shareholding Ministers** and their **representatives** are conducted on a regular basis for the purpose of disclosing business activities and performance against agreed targets.

PRINCIPLE 7 - RECOGNISE AND MANAGE RISK

Risk management originates at Board level and cascades through the Corporation via policies, delegated authorities and committee structures. The Board sets the foundation for risk management via its articulated Risk Appetite Statement. It is also responsible for overseeing the establishment of systems for risk management including the key frameworks and policy components.

Stanwell's Risk Appetite Statement enunciates the level of risk the Board is willing to accept in pursuit of Stanwell's strategic objectives. The Risk Appetite Statement considers the most significant risks to which Stanwell is exposed and provides guidance on the approach to managing these risks. These guiding principles are based on the key drivers of value creation and value destruction and include a mixture of both qualitative and quantitative measures.

At an aggregate level, Stanwell's risk appetite is qualitatively defined as 'conservative'. However, as the electricity market within which Stanwell operates is characterised by a propensity for high price volatility often driven by unforeseen events and external factors that drive supply/demand imbalance, it is consequentially exposed to and accepts, a higher level of risk in order to achieve its gross profit targets.

Stanwell's Trading Risk Management Policy provides the governance framework that ensures that electricity market and credit risk exposures are measured, managed and controlled within the parameters of Stanwell's risk appetite.

All breaches of Stanwell's risk appetite are reported through to the Board via the Stanwell compliance breach reporting mechanism and/or the reporting mechanisms contained within each underlying policy framework.

Stanwell has a robust system of risk management and internal control which, together with its governance structure, is designed to ensure that the material risks of conducting its business are effectively managed.

The Audit and Risk Management Committee provides advice and assistance to the Board by regularly monitoring Stanwell's systems of risk management, internal control and compliance and regulatory management.

Stanwell's Business Resilience and Risk Management Policy, Risk Management Framework and Risk Evaluation Matrix are based upon ISO 31000:2018 *Risk Management Principles and Guidelines* and COSO: Enterprise Risk Management Integrating with Strategy and Performance (2017).

The Risk Management Framework clearly communicates and provides the necessary foundations and organisational arrangements for managing risk across the business. The Framework outlines how Stanwell ensures that it manages risk consistently within its risk appetite. It illustrates how risk management is embedded in Stanwell's organisational systems to ensure it is integrated at all levels and work contexts. It describes the elements and processes that guide all levels of the organisation in effectively managing risk, making it part of day-to-day decision-making and business practices.

Risk controls and associated actions are captured and monitored using an organisation-wide information technology tool which integrates reporting of events, audits, risks and compliance obligations and breach reporting.

Stanwell conducts reviews of its business interruption risks and implements appropriate planning to mitigate those risks. These plans are tested by periodic business continuity and disaster recovery exercises that are designed to provide a sound degree of resilience should Stanwell need to respond to, and recover from, a crisis while continuing to maintain business critical operations.

Stanwell's response to the risk of fraud is consistent with the Crime and Corruption Commission's guide to best practice in fraud and corruption control and includes regular fraud risk assessments, the annual review of the fraud control plan and the effective operation of fraud prevention and detection controls. In addition, the internal audit function performs forensic data analysis, unannounced audits and a rolling program of audits focusing on the effectiveness of fraud prevention and detection controls.

Stanwell's Compliance and Regulatory Management System is based upon the International Standard ISO 19600:2014 *Compliance management systems – Guidelines*. The Board approved Compliance and Regulatory Management Policy outlines Stanwell's commitment to ensuring that the organisation is able to meet all of its compliance obligations and appropriately respond to any compliance and/or regulatory issues. Any compliance issue and/or breach is recorded, monitored and escalated using an organisation-wide information technology tool, which ensures prompt attention and analysis.

PRINCIPLE 8 - REMUNERATE FAIRLY AND RESPONSIBLY

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

The People and Safety Committee oversee, and provide advice to the Board on, employment strategies and frameworks. It makes recommendations to the Board on Enterprise Agreement (EA) frameworks as well as remuneration settings for non EA employees and the remuneration and other terms of employment for senior executives. When increasing senior executive remuneration or awarding incentive payments, the Board must comply with the *Policy for Government Owned Corporations Chief and Senior Executive Employment Arrangements Version 2*.

At 30 June 2018, the People and Safety Committee consisted of three members. Other directors who are not members of the committee and other senior executives attend meetings by invitation.

Details of the remuneration paid to directors and senior executives are set out in note 91 on page 92 of this report.

Government Owned Corporations Act requirements

Government directions and notifications

Section 120(e) of the *GOC Act 1993* requires Stanwell to provide in its Annual Report particulars of any directions and notifications given to Stanwell by shareholding Ministers that relate to the relevant financial year. During the 2017/18 financial year, Stanwell's shareholding Ministers issued the following formal directions:

On 27 October 2017, The Honourable Curtis Pitt MP, Treasurer and Minister for Trade and Investment and The Honourable Mark Bailey MP, Minister for Main Roads, Road Safety and Ports and Minister for Energy, Biofuels and Water Supply issued a direction pursuant to section 257 of the *Electricity Act 1994* requiring Stanwell, during the direction period:

- to offer to the Australian Energy Market Operator the directed offer volume at bid bands of no greater than the directed amount;
- to dispatch the Swanbank E Power Station during the direction period; and
- to consult with the Under Treasurer and Director-General Energy and Water Supply on Stanwell's strategy to comply with the Direction and to keep them reasonably informed on progress.

On 29 March 2018, The Honourable Michael de Brenni MP, Acting Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships and The Honourable Dr Anthony Lynham MP, Minister for Natural Resources, Mines and Energy issued a direction pursuant to section 257 of the *Electricity Act 1994* requiring Stanwell, during the direction period:

- to offer the Australian Energy Market Operator the directed offer volume at bid bands no greater than the directed amount; and
- to consult with the Under Treasurer and Director-General Energy on Stanwell's strategy to comply with the Direction and to keep them reasonably informed on progress.

On 4 June 2018, The Honourable Jackie Trad MP, Deputy Premier, Treasurer, Minister for Aboriginal and Torres Strait Island Partnerships and The Honourable Dr Anthony Lynham MP, Minister for Natural Resources, Mines and Energy issued a direction pursuant to section 257 of the *Electricity Act 1994* requiring Stanwell to:

- operate Swanbank E Power Station during the direction period;
- undertake the Swanbank E Power Station C4 unit major inspection currently scheduled to commence in October 2019;
- incur all reasonably necessary costs and expenses associated with that operation and C4 unit inspection; and
- consult with the Under Treasurer and Director-General Energy on Stanwell's strategy to comply with the Direction and to keep them reasonably informed on progress.

Dividend Policy

Stanwell's Dividend Policy takes into account the return that shareholders expect from their investment and the cash requirements of the business.

On 19 March 2018, the Board of Stanwell recommended to shareholders a dividend amount equivalent to 100 per cent of Stanwell's net profit after tax adjusted for:

- unrealised gains on the revaluation of derivative financial instruments (where applicable);
- asset impairments resulting from the testing of asset carrying values;
- year-end adjustments relating to rehabilitation and other provisions as a result of the review of those balances; and
- any other relevant adjustments that may arise resulting in unrealised gains.

Overseas travel

During the 2017/18 financial year:

- the Chief Operating Officer attended the Power Gen Board meeting in Thailand to gain exposure to key industry leaders from the Asia Pacific region and knowledge on the integration of renewable technologies and current technologies for energy optimisation.
- The Manager Health and Safety, the Site Manager Stanwell Power Station and the Leader Development and Engagement Specialist travelled to America to attend the Western Energy Coordinating Council meeting and to undertake the Human Performance Practitioners' course to gain an understanding on how human performance principles can align with and strengthen Stanwell's business practices.
- The Site Manager Meandu and Asset Manager Mining travelled to Japan to review opportunities within the broader Hitachi business that may assist in delivering the Meandu Mine's five year business plan including data analytics, augmented reality and robotics.
- The Financial Controller and Insurance Specialist travelled to the United Kingdom to present to London-based insurers offering Industrial and Special Risk cover and Combined Liability cover.
- The General Manager Asset Services and Operational Risk, Principal Performance Engineer and Operations Manager – Tarong travelled to America to tour a number of power stations to gain knowledge of the operating modifications that can be made to coal fired units to enable low load and fast ramping capability.
- The Site Manager Swanbank and Mechanical Engineer travelled to Austria to meet with the original equipment manufacturer's technical specialists to discuss upgrades and cost saving opportunities that could be implemented for the Swanbank E Power Station.

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

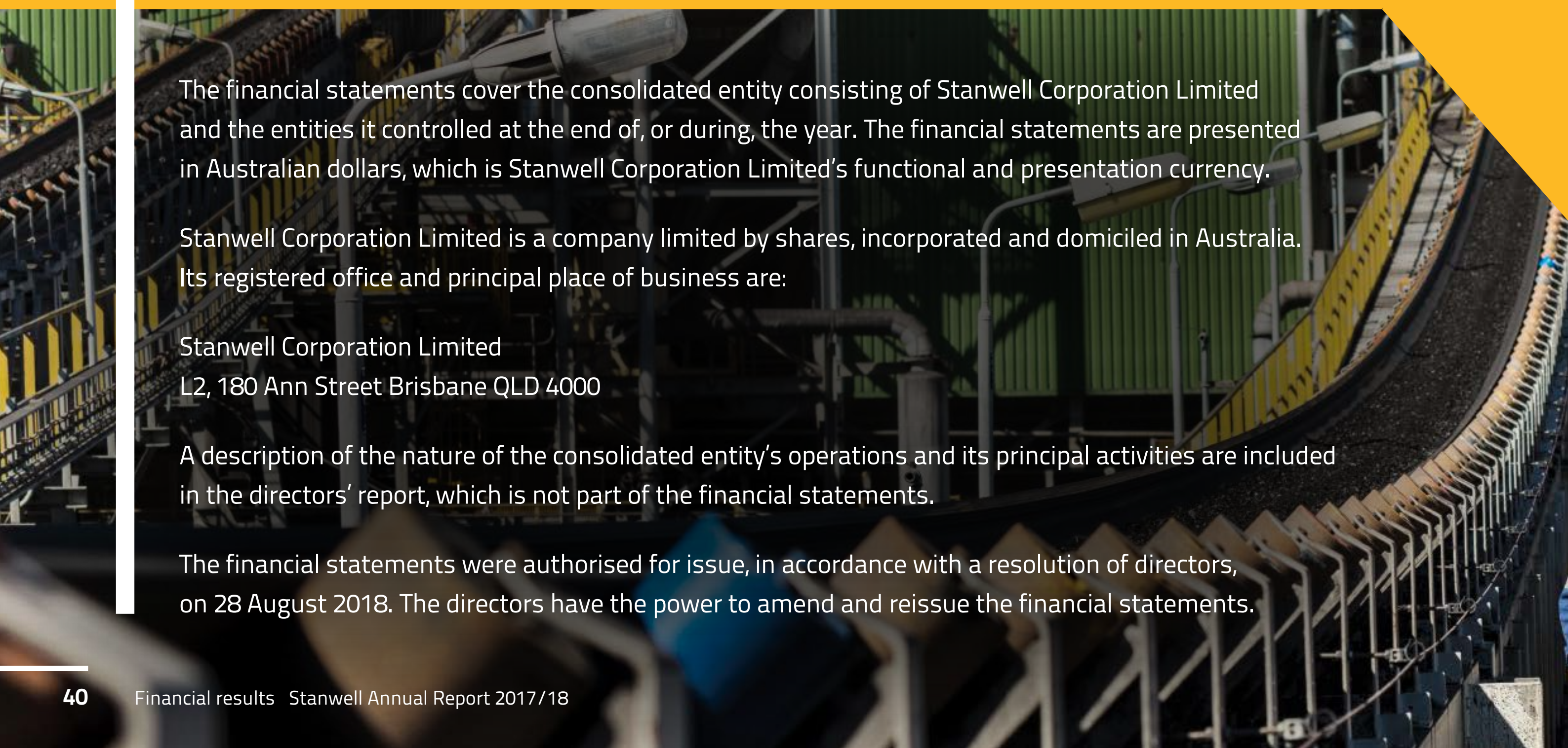
EVENT
Energy Trading and Commercial Strategy Annual Charity Fundraising Bowls Day

DATE
30/11/2017

COST ($)
6,317

Financial results

Stanwell Corporation Limited
ABN 37 078 848 674 30 June 2018



The financial statements cover the consolidated entity consisting of Stanwell Corporation Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Stanwell Corporation Limited's functional and presentation currency.

Stanwell Corporation Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Stanwell Corporation Limited
L2, 180 Ann Street Brisbane QLD 4000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 August 2018. The directors have the power to amend and reissue the financial statements.

Stanwell Corporation Limited

Directors' report

The directors present their report on the consolidated entity consisting of Stanwell Corporation Limited and its subsidiaries (together referred to as the 'Group') at the end of the 2018 financial year.

PRINCIPAL ACTIVITIES

The Group's principal activity during the 2018 financial year was the operation of a diversified energy portfolio which included:

- the generation and sale of electricity; and
- the trading of gas, coal and electricity products.

FINANCIAL RESULTS

	2018 $'000	Restated 2017 $'000
Profit before income tax	700,800	493,886
Profit after income tax	490,824	353,009
Profit attributable to members of the Group	490,824	353,009

DIVIDENDS - STANWELL CORPORATION LIMITED

The directors recommend that a dividend of 53.5 cents be paid in respect of the 2018 financial year (2017: 28.2 cents).

YEAR IN REVIEW

National Electricity Market

As numerous reports have observed, radical changes are occurring in both the demand requirements and supply mix in the National Electricity Market (NEM). The demand for power on the grid is flattening due to the growth of rooftop photovoltaic, the increasing use of storage, as well as increases in energy efficiency technology deployment. These changes collectively are impacting on generators, networks and retailers. However, what is not changing is the criticality of affordable and reliable energy to the overall economic wellbeing of Australia.

The Group's relatively young, reliable fossil fuel synchronous generation assets, combined with its Meandu resource and long–term competitively priced coal, gas and water supply contracts means that Stanwell will play an important role in supporting the orderly transition to the power system of the future.

Stanwell will continue to advocate for energy policy certainty that delivers reliable electricity generation to supply households and business, stimulates investment in new supply and delivers a genuine reduction in prices for Australians.

Queensland Market

The summer of 2017/18 was the second warmest on record across Australia. While this was a key driver of electricity demand across the NEM, Queensland was the only state to set a new peak electricity demand record. This was set on three consecutive days in February 2018, reaching 9,840 MW (the previous record was 9,369 MW set in February 2017).

Even with this new demand record, there was sufficient generation capacity and Queensland wholesale electricity prices were, and currently remain, the lowest and most stable in the NEM.

In 2017/18, wholesale electricity prices across the NEM receded, with a time-weighted average price in Queensland of $72.87/MWh, compared to $93.12/MWh in 2016/17.

There were a number of factors which contributed to lower wholesale electricity prices in Queensland. These included the continued growth of rooftop photovoltaic generation capacity (which has grown from 1,326 GWh in 2013/14 to 2,554 GWh in 2017/18).

Retail Electricity Business

The Group's retail electricity business was established in 2014 and since that time, has continued to build a customer base in key sectors including mining, industrial, healthcare, government, education and commercial. The geographical spread of the Group's retail operations allows it to service large commercial and industrial customers who have multiple sites across the eastern states of Australia.

In 2017/18, the Group negotiated a number of long-term energy contracts with major businesses. Long term deals provide certainty to these businesses and as for many businesses, electricity is one of their largest operating costs and a key factor driving their profitability.

Stanwell is also assisting customers understand the value of demand side management activities, such as curtailing load or using onsite generation to support their electricity needs, particularly in times of high electricity prices.

Strategy

Regulation that increases the proportion of renewable energy in the power systems, prices carbon emissions or regulates synchronous generation plant, has the potential to impact the Group's financial returns.

It is for these reasons that the Group's strategy has been developed in the context of the following drivers:

- to contribute to the security and affordability of the NEM;
- to adapt to and support the NEM's orderly transition to a higher proportion of non-synchronous (renewable) generation by ensuring the Group's synchronous (fossil fuel) power stations can flex to meet changing demand patterns;
- to assist with the orderly transition of the NEM to a higher proportion of non-synchronous generation by providing firming contracts to manage the impact of variability on both the physical and financial markets; and
- to provide affordable energy to large commercial and industrial customers by developing innovative, tailored and bespoke energy solutions.

The strategy has four complementary elements designed to address the energy market priorities of security, affordability and sustainability:

- respond innovatively to customer demand for energy products;
- optimise costs, improve performance efficiencies and maximise the flexibility and competitiveness of the Group's existing portfolio of assets to meet market demand;
- investigate opportunities for the Group to participate in renewable energy projects; and
- enable the business to deliver its strategy by providing a safe, diverse and inclusive workplace; ensuring compliance with applicable laws, regulations and company policies; and securing ongoing support for the Group's operations and business direction.

Operations

Safety

Safety is a core value and reflects the Group's belief that all injuries and occupational illnesses can be prevented. The Group's continued focus on improving its safety performance is reflected in the Total Recordable Injury Frequency Rate for 2017/18 of 3.61 which is the lowest ever recorded.

While this improving trend in safety performance is pleasing, the Group recognises that it must not become complacent. The initiatives contained within the five year health and safety strategy, structured under six key objectives (Leadership, Culture and Capabilities; Health and Wellbeing; Exposure Reduction, Contractor Management; and Consultation and Collaboration) are continuing to be implemented across the organisation.

Plant

During 2017/18, the Group invested more than $120.7 million in its portfolio of assets to improve efficiency and maintain their performance. This included an outage on Stanwell Power Station's Unit 3 to undertake a major overhaul involving a complete control system upgrade and replacement of condenser tubes at a total cost of approximately $55 million. The overhaul saw an additional 600 people working at the site over the 77-day program and added an estimated $11 million to the local Rockhampton economy.

Approximately $17.5 million was also invested in the Meandu mine coal preparation plant to improve coal yield and reduce tailings. Other major maintenance activities included a mini overhaul of the Tarong North Power Station and the return to service inspections for the Swanbank E Power Station.

During the March quarter, the Group's generation portfolio within the NEM delivered 96.0 per cent availability. Comparatively, the average availability across the NEM was approximately 83.0 per cent for the same period.

Fuel

Fuel costs are the Group's largest operating expense.

Coal for the Tarong Power Station is supplied from the Group's Meandu Mine. In 2017/18, the Mine delivered an additional 250,000 tonnes of coal to the Tarong power stations to bolster coal stockpile levels in advance of an expected increased demand for generation capacity.

At Stanwell Power Station, coal is supplied by the Curragh Mine under an agreement with Coronado Coal LLC. This agreement also provides the Group with a revenue stream based on coking coal exported from the Curragh Mine. In 2017/18, this contributed more than $200 million to the Group's pre-tax result.

Water is critical to the production of electricity. As a result of falling water levels at the Boondooma Dam, the Group re-instated the Wivenhoe Pipeline in September 2017 to ensure water security for the Tarong power stations.

In Far North Queensland, the Barron Gorge Hydro utilises run of water from the Barron River and water releases from the Tinnaroo Dam (under a Water Release Agreement with SunWater) to generate power. The Group and SunWater extended this agreement in mid 2017.

Gas sales were a solid contributor to the Group's 2017/18 financial result. In 2017/18, the Group sold more than 5.8 petajoules of gas through bi-lateral sales agreements, traded approximately 590 terajoules of gas through the Wallumbilla Hub and sold more than 200 terajoules of gas transport capacity on the Roma to Brisbane pipeline.

Diversity and inclusion

Stanwell believes in the inherent strength of a vibrant, diverse and inclusive workforce in which the backgrounds, perspectives and life experiences of its people helps Stanwell to forge stronger connections with its stakeholders and make better decisions for its business.

During 2017/18, the Group established a comprehensive and integrated diversity and inclusion strategy that articulates Stanwell's aspirations and demonstrates its care, commitment and imperative for valuing and achieving value from a more diverse workforce. The strategy includes a roadmap of initiatives and pragmatic and aspirational targets to be achieved by 2022.

Leadership capability

The Group recognises that to be a high-performing organisation, it must have high-performing leaders. During 2017/18, a new leadership program, 'Leading for the Future' was launched. This program provides leaders with business improvement, strategic outcome and cultural enrichment training so that they are equipped to solve business challenges and development and deliver business solutions.

Simplify and strengthen information technology systems

The Group delivered on key technology simplification initiatives which enabled the retirement of one Enterprise Resource Planning system and two safety systems. Additionally, significant Information, Communication and Technology (ICT) infrastructure was simplified, releasing valuable resources and reducing management overheads.

The Group's business operations are reliant on technology, making them vulnerable to cyber security threats. The Group has invested in cyber security capabilities and implemented an organisation-wide cyber security governance framework to manage known threats and maintain best practice.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group during the 2018 financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

After the end of the reporting period the Group has entered into a transaction with a counterparty to exchange a future option to a reversionary right over a coal resource for a long-term coal supply agreement.

Apart from the above, there has been no matter or circumstance which has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years;
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

ENVIRONMENTAL REGULATION

The Group is subject to a broad range of environmental regulation under both Commonwealth and State legislation. The primary environmental Commonwealth legislation governing the Group's activities in Queensland is the *Wet Tropics of Queensland World Heritage Area Conservation Act 1994* and the primary State legislation is the *Environmental Protection Act 1994, Mineral Resources Act 1989 and the Wet Tropics World Heritage Protection and Management Act 1993.*

The Group operates under an Environmental Management System and a Compliance and a Regulatory Management System. Together, these systems provide the framework and guidance for the management of environmental activities, enabling the effective and efficient provision of environmental advice, and ensure that the appropriate monitoring and reporting of environmental compliance occurs. As a result, during the period covered by the report, the directors have remained fully informed of any breaches of environmental regulation that required notification to a regulator.

The Group is subject to the reporting requirements of the *National Greenhouse and Energy Reporting Act 2007 (NGER Act).* The *NGER Act* requires the Group to report its annual greenhouse gas emissions and energy production and use. The Group began reporting under the *NGER Act* during the 2009 financial year and is now in its tenth reporting year. The Group has implemented systems and processes for the collection and calculation of the data required and submits annual reports to the Clean Energy Regulator.

The Group is also subject to the reporting requirements of the National Pollutant Inventory (NPI) as implemented by the *Environmental Protection Regulation 2008*. The NPI requires the Group to report on emissions and transfers of toxic substances to air, land and water each financial year. The Group has implemented systems and processes for the collection and review of the required data required and submits its reports via a third party.

DIRECTORS

The following persons were non-executive directors of the Group during the whole of the financial year and up to the date of this report:

- Dr Ralph Craven
- Adam Aspinall
- Jacqueline King
- Karen Smith-Pomeroy

The following persons were directors of the Group during part of the financial year:

- Dominic Condon was a non-executive director for the period 1 July 2017 until 8 September 2017; and
- Allison Warburton was a non-executive director for the period 1 July 2017 until 31 January 2018.

INFORMATION ON DIRECTORS

Dr Ralph Craven
BE PhD, FIEAust, FIPENZ, FAICD
Independent Non-executive Chairman and Director

Dr Craven was appointed a non-executive Chairman and director of Stanwell on 1 October 2015 and is a member of the Audit and Risk Management Committee and People and Safety Committee.

Dr Craven has been a full time non-executive director for over 10 years. He has broad experience in energy, resources, infrastructure and agribusiness. He has served on the boards of many companies, both listed and unlisted. His professional background encompasses electricity and gas businesses, mining, commodities trading, the management of large scale system operations at the national level and the delivery of major infrastructure projects.

Dr Craven is currently a non-executive director and Chairman of Genex Power Limited (ASX:GNX), a non-executive director of Senex Energy Limited (ASX:SXY), AusNet Services Limited (ASX:AST) and non-executive director of MultiCom Resources Pty Ltd . Some of his previous roles include being a non-executive director and Chairman of Invion Limited and Ergon Energy Corporation Limited, non-executive Deputy Chairman of Arrow Energy Limited, non-executive director of Windlab Limited, Mitchell Services Limited and for six years, a non-executive director on the Council Board of the International Electrotechnical Commission.

Dr Craven has international experience from roles in Switzerland, Canada and as Chief Executive Officer of Transpower New Zealand Limited. Other senior executive roles include being General Manager of Shell Coal Pty Ltd and Executive Director of NRG Asia Pacific Limited.

Adam Aspinall
B.ENG (Mech), MIEAust, GAICD
Independent Non-executive Director

Mr Aspinall was appointed a non-executive director of Stanwell on 15 November 2016 and is a member of the People and Safety Committee.

Mr Aspinall is a mechanical engineer with more than 36 years' experience in the electricity and energy industries and is a leading advisor in the power industry, having consulted globally to the private and government sectors on power generation projects and issues. His experience includes electricity and gas infrastructure development, generation and transmission procurement, electricity trading and regulatory compliance.

He is currently undertaking international assignments as a Special Advisor for the energy advisory firm Advisian, a wholly owned subsidiary of the WorleyParsons Group, having previously led the Power engineering practice of Advisian Asia Pacific and before that, Evans & Peck.

Mr Aspinall is regularly engaged to assist in international mergers & acquisitions activities as well as international arbitrations in the role of Independent Expert.

He began his career working for the Queensland Electricity Commission in 1981 and was employed by the generation sector in Queensland for over 24 years prior to becoming a consultant.

He has previously been a Non-Executive Director on the Board of Ergon Energy and Chairman of SPARQ Solutions.

Jacqueline King
MBA, WHS, TDD, GAICD
Independent Non-executive Director

Ms King was appointed a non-executive director of Stanwell on 1 October 2015 and is Chairman of the People and Safety Committee.

Ms King has extensive industrial relations, work health and safety, workforce skilling and training experience across the energy, power and construction sectors. She currently provides specialist consultancy services primarily focused on vocational education, training and, workforce skilling programs.

Ms King is a director of Energy Skills Queensland and was the former Chief Executive Officer of Future Skills Limited.

She is a Graduate Member of the Australian Institute of Company Directors, holds a Master of Business Administration and is currently studying for a Bachelor of Laws (Honours) at Queensland University of Technology.

Karen Smith-Pomeroy
FIPA, FFin, GIA(Cert), GAICD
Independent Non-executive Director

Ms Smith-Pomeroy was appointed a non-executive director of Stanwell on 1 October 2015 and is Chairman of the Audit and Risk Committee.

Ms Smith-Pomeroy has more than 30 years' experience in the financial services sector, and was most recently a senior executive with Suncorp Group, including a period as Chief Risk Officer of Suncorp Bank.

She specialises in risk management and governance and has broad experience across a number of industry sectors.

Ms Smith-Pomeroy is currently a member of Queensland Treasury Corporation Capital Markets Board, a non-executive director of Kina Securities Limited (ASX/KSL), InFocus Wealth Management Limited and National Affordable Housing Consortium Limited.

In addition, she is a Queensland Advisory board member of Australian

Super and an independent audit committee member of the Queensland Department of Local Government, Racing and Multicultural Affairs and of South Bank Corporation.

Ms Smith-Pomeroy is a former director of Tarong Energy Corporation Limited and CS Energy Limited.

Dominic Condon

B.Com, B.Econ, GAICD

Independent Non-executive Director

Mr Condon was appointed a non-executive director of Stanwell on 11 December 2014 and was a member of the Audit and Risk Management Committee. Mr Condon resigned as a director of Stanwell on 8 September 2017.

Allison Warburton

BA, LLB, MAICD, MQLS

Independent Non-executive Director

Ms Warburton was appointed a non-executive director of Stanwell on 15 December 2016 and was a member of the Audit and Risk Committee. Ms Warburton resigned as a director Stanwell on 31 January 2018.

INFORMATION ON OFFICERS

Richard Van Breda

BCompt (Hons), CA(Z), CA(Aus), Dip. Fin. Serv. GAICD

Chief Executive Officer

Mr Van Breda was appointed Chief Executive Officer in July 2012 and he has been involved in the energy industry since 2001.

Mr Van Breda originally joined Stanwell in 2002 and was appointed Chief Financial Officer in 2005. He joined Tarong Energy Corporation Limited in the role of Chief Financial Officer in April 2008.

After the restructure of the Queensland Government owned electricity generators in July 2011, Mr Van Breda was appointed Chief Financial Officer at Stanwell.

Mr Van Breda is a non-executive Director of the Australian Energy Council.

Prior to this, Mr Van Breda was a partner with Deloitte Zimbabwe and spent three years with Anglo American Zimbabwe, which held a diverse range of mining and manufacturing interests.

Jennifer Gregg

MBA, BA, Grad Cert (BAdmin), GAICD

Executive General Manager Business Services

Before the restructure of the Queensland Government owned electricity generators in July 2011, Ms Gregg worked with Tarong Energy Corporation Limited in the role of General Manager People and Communication.

Throughout her diverse career, Ms Gregg has gained experience in the utilities, human services and health sectors in broader leadership and executive roles and within the human resources field.

Ms Gregg was appointed to her current role of Executive General Manager Business Services in September 2012.

Her responsibilities include community and stakeholder engagement, information and communications technology and people and culture.

Michael O'Rourke

LLB, BCom, GDip AppFin, GDip CSA

Chief Financial Officer

Mr O'Rourke joined Stanwell in 1998 and has held a number of management positions in the areas of corporate strategy, marketing and trading, corporate services and internal and external corporate communications.

In September 2012, Mr O'Rourke was appointed to the position of Chief Financial Officer.

As Stanwell's Chief Financial Officer, Mr O'Rourke is responsible for the internal functions of financial risk and services, business reporting and commercial analysis, secretariat, land and property, legal, internal audit and supply chain management.

Stephen Quilter

BEng (Mech), MBA

Executive General Manager, Energy Trading and Commercial Strategy

Mr Quilter joined Stanwell in February 2012 as Manager Swanbank Power Station. In May 2013, he was appointed General Manager of Stanwell's gas and hydro generation portfolio, leading the operation of two hydro and two gas turbine power stations.

In a career spanning more than 20 years in the energy industry both in Queensland and New South Wales, Mr Quilter has worked in various operational roles including senior engineering and management positions.

Mr Quilter was appointed Executive General Manager of Energy Trading and Commercial Strategy at Stanwell Corporation Limited in July 2016.

In this role, he is responsible for the trading of Stanwell's generation in the National Electricity Market and the Stanwell Energy retail business activities serving commercial and industrial customers.

The development and delivery of commercial strategies targeted at diversifying revenue streams are a key function of his role. This includes developing innovative energy products and responsibility for Stanwell's participation in a low carbon energy future.

Andrew Richardson

FCMI CMgr FIET DMS

Chief Operating Officer

Mr Richardson was appointed Chief Operating Officer in December 2016.

He is a Chartered Fellow and qualified Engineer, specialising in portfolio development and organisational performance.

Mr Richardson has over 20 years' experience across various energy sectors in regulated environments including experience in business leadership from a supplier, original equipment manufacturer and client side.

His senior leadership positions have taken him across the world, working with numerous global organisations in Nuclear, Thermal Generation, Oil & Gas, Petrochemicals, specialty Chemicals and Renewables.

Prior to joining Stanwell, Mr Richardson was an Executive Director for the global energy company EDF, responsible for their thermal and renewable portfolio in the United Kingdom.

COMPANY SECRETARY

Karen Buckley
BA, Grad Cert Law, FGIA, FCIS, GAICD

Ms Buckley was appointed company secretary on 1 July 2011. Ms Buckley has extensive governance experience of both listed companies and Government Owned Corporations' statutory and regulatory compliance obligations.

Michael O'Rourke
LLB, BCom, GDip AppFin, GDip CSA.

Mr O'Rourke was appointed company secretary in 2002. Mr O'Rourke is the Chief Financial Officer of Stanwell Corporation Limited.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of directors and of each Board committee held during the 2017/18 financial year, and the numbers of meetings attended by each director were:

	Board		People & Safety Committee		Audit & Risk Management Committee	
	A	B	A	B	A	B
Dr Ralph Craven	9	9	3	3	4	4
Adam Aspinall	9	9	3	3	1	1
Jacqueline King	9	8	3	3		
Karen Smith-Pomeroy	9	9			4	4
Dominic Condon	2	2			1	1
Allison Warburton	5	5			2	2

A = Number of meetings held during the time the director held office or was a member of the committee during the year. (This includes two meetings held at short notice).
B = Number of meetings attended.

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification and insurance

In accordance with its Constitution, the Group has entered into a standard form Deed of Access, Insurance and Indemnity with the current directors of the Group 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 Group, except for a liability for a pecuniary penalty order or a compensation order under the Corporations Act 2001.

The indemnity is made available to current and former directors of the Group 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 Group has, during the 2017/18 financial year, paid an insurance premium in respect of the directors and executive officers of the Group. 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 Group 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 47.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Instrument 2016/191, 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 Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Dr Ralph Craven
Non-executive Chairman

Karen Smith-Pomeroy
Non-executive Director

28 August 2018
Brisbane

Stanwell Corporation Limited

Auditor's independence declaration

To the Directors of Stanwell Corporation Limited

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

Independence declaration

As lead auditor for the audit of Stanwell Corporation Limited for the financial year ended 30 June 2018, 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

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

Damon Olive
as delegate of the Auditor-General of Queensland
28 August 2018

Queensland Audit Office
Brisbane

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2018

	Note	Consolidated 2018 $'000	Restated 2017 $'000
Revenue	3	3,429,502	3,058,712
Other income		17,064	54,731
Expenses			
Electricity and energy services expense		(1,563,074)	(1,486,679)
Fuel costs		(445,565)	(378,959)
Depreciation and amortisation expense	4	(228,634)	(236,835)
Employee benefits expense		(113,699)	(117,687)
Other expenses		(83,127)	(116,624)
Raw materials and consumables used		(80,960)	(76,723)
Finance costs	4	(72,816)	(74,327)
Impairment	10	(67,101)	(8,384)
Gas purchases		(47,064)	(43,641)
Non hedge accounted change in fair value of derivative instruments		(43,726)	(79,698)
Profit before income tax equivalent expense		**700,800**	**493,886**
Income tax equivalent expense	22	(209,976)	(140,877)
Profit after income tax equivalent expense for the year attributable to the owners of Stanwell Corporation Limited		**490,824**	**353,009**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gain on revaluation of biological assets		-	233
Remeasurement of retirement benefit obligation	12	4,978	7,908
Income tax equivalent relating to these items	22	(1,493)	(2,442)
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	20	233,790	(11,253)
Income tax equivalent relating to these items	22	(70,137)	3,376
Other comprehensive income for the year, net of tax		**167,138**	**(2,178)**
Total comprehensive income for the year attributable to the owners of Stanwell Corporation Limited		**657,962**	**350,831**

Refer to note 2 for detailed information on Restatement of comparatives.

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Stanwell Corporation Limited

Balance sheet

As at 30 June 2018

		Consolidated	
	Note	2018 $'000	Restated 2017 $'000
Assets			
Current assets			
Cash and cash equivalents	5	63,304	549,727
Trade and other receivables	6	1,087,256	209,465
Inventories	7	204,033	149,876
Other current assets	8	12,574	66,377
Derivative financial instruments	13	106,439	202,879
Total current assets		**1,473,606**	**1,178,324**
Non-current assets			
Derivative financial instruments	13	110,961	164,507
Property, plant and equipment	10	2,224,498	2,401,561
Intangibles	11	96,537	100,133
Exploration and evaluation		11,709	8,865
Retirement benefit surplus	12	21,213	17,828
Other non-current assets	9	26,584	27,318
Total non-current assets		**2,491,502**	**2,720,212**
Total assets		**3,965,108**	**3,898,536**
Liabilities			
Current liabilities			
Trade and other payables	15	274,864	233,941
Derivative financial instruments	13	102,571	479,152
Current tax liabilities	22	105,121	107,787
Current provisions	16	526,266	290,453
Other current liabilities		7,005	2,000
Total current liabilities		**1,015,827**	**1,113,333**
Non-current liabilities			
Borrowings	18	821,866	822,104
Derivative financial instruments	13	78,339	132,158
Deferred tax equivalent liabilities	22	253,871	225,288
Non-current provisions	17	350,921	330,735
Other non-current liabilities		5,587	-
Total non-current liabilities		**1,510,584**	**1,510,285**
Total liabilities		**2,526,411**	**2,623,618**
Net assets		**1,438,697**	**1,274,918**
Equity			
Contributed equity	19	1,214,693	1,214,693
Reserves	20	24,389	(139,101)
Retained earnings		199,615	199,326
Total equity		**1,438,697**	**1,274,918**

Refer to note 2 for detailed information on Restatement of comparatives.

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

Stanwell Corporation Limited

Statement of changes in equity

For the year ended 30 June 2018

Consolidated	Contributed equity $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2016	**1,214,693**	**(131,387)**	**93,376**	**1,176,682**
Adjustment for change in accounting policy (note 2)	-	-	7,972	7,972
Balance at 1 July 2016 - restated	**1,214,693**	**(131,387)**	**101,348**	**1,184,654**
Profit after income tax equivalent expense for the year	-	-	353,009	353,009
Other comprehensive income for the year, net of tax	-	(7,714)	5,536	(2,178)
Total comprehensive income for the year	-	(7,714)	358,545	350,831
Transactions with owners in their capacity as owners:				
Dividends paid (note 21)	-	-	(260,567)	(260,567)
Balance at 30 June 2017	**1,214,693**	**(139,101)**	**199,326**	**1,274,918**
Balance at 1 July 2017	**1,214,693**	**(139,101)**	**199,326**	**1,274,918**
Profit after income tax equivalent expense for the year	-	-	490,824	490,824
Other comprehensive income for the year, net of tax	-	163,653	3,485	167,138
Total comprehensive income for the year	-	163,653	494,309	657,962
Transfer from reserve	-	(163)	163	-
Transactions with owners in their capacity as owners:				
Dividends paid (note 21)	-	-	(494,183)	(494,183)
Balance at 30 June 2018	**1,214,693**	**24,389**	**199,615**	**1,438,697**

Refer to note 2 for detailed information on Restatement of comparatives.

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

Statement of cash flows

For the year ended 30 June 2018

	Note	Consolidated 2018 $'000	Consolidated Restated 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		3,329,777	3,530,528
Payments to suppliers and employees (inclusive of GST)		(2,297,306)	(2,522,309)
Interest received		15,997	5,314
Interest paid		(57,184)	(58,919)
Income tax equivalents paid		(255,688)	(115,191)
Net cash inflow from operating activities	**29**	**735,596**	**839,423**
Cash flows from investing activities			
Payments for property, plant and equipment	**10**	(126,425)	(155,220)
Payments for intangibles	**11**	(6,495)	(11,058)
Advances paid		(829,252)	-
Proceeds from disposal of property, plant and equipment		957	787
Net cash outflow from investing activities		**(961,215)**	**(165,491)**
Cash flows from financing activities			
Dividends paid	**21**	(260,567)	(311,629)
Repayment of borrowings		(237)	(30,502)
Net cash outflow from financing activities		**(260,804)**	**(342,131)**
Net (decrease)/increase in cash and cash equivalents		**(486,423)**	**331,801**
Cash and cash equivalents at the beginning of the financial year		549,727	217,926
Cash and cash equivalents at the end of the financial year	**5**	63,304	549,727

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

1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB'), the *Corporations Act 2001* and the *Queensland Government Owned Corporations Act 1993 (GOC Act)*.

Stanwell Corporation Limited is a for-profit entity for the purpose of preparing the financial statements.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, financial assets and liabilities at fair value through profit or loss. Inventory (environmental certificates) is also held at fair value.

Going concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 31.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Stanwell Corporation Limited ('Company' or 'Parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Stanwell Corporation Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Parent has control. The Parent entity controls an entity when the Parent entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Intercompany transactions, balances and unrealised gains on transactions between entities 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 consolidated entity.

Interests in Subsidiaries

Stanwell Corporation Limited had 100% (2017:100%) ordinary equity holding in the following subsidiaries. All of them were incorporated in Australia.

Mica Creek Pty Ltd*
SCL North West Pty Ltd*
Energy Portfolio 1 Pty Ltd
Glen Wilga Coal Pty Ltd
Goondi Energy Pty Ltd
Tarong Energy Corporation Pty Ltd
Tarong Fuel Pty Ltd*
Tarong North Pty Ltd
TEC Coal Pty Ltd*
TN Power Pty Ltd*

** These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.*

Tarong Fuel Pty Ltd is a holding company.

Glen Wilga Coal Pty Ltd, Energy Portfolio 1 Pty Ltd and Tarong Energy Corporation Pty Ltd are dormant.

1. Significant accounting policies (continued)

Deed of Cross-Guarantee

The Company has entered into a Deed of Cross Guarantee with its subsidiaries 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 Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The companies listed above represent a 'Closed Group' for the purposes of the Corporations Instrument, and, as there are no other parties to the Deed of Cross Guarantee that are controlled by the Company, they also represent the 'Extended Closed Group'.

Current and non-current classification

Assets and liabilities are presented in the balance sheet based on current and non-current classification.

An asset is classified as current when:

- it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected to be realised within 12 months after the reporting period; or
- the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- it is either expected to be settled in the consolidated entity's normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets equivalent and liabilities equivalent are always classified as non-current.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

1. Significant accounting policies (continued)

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

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 tax authority. In this case it is recognised as part of the cost of the 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 tax authority is included in other receivables or other 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 tax authority, are presented as operating cash flows.

Rounding of amounts
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Presentation of comparative amounts
During the year, the Group has changed the presentation of deferred stripping costs to property, plant and equipment. This was previously disclosed as other assets. The presentation was changed to better reflect the requirements of IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* and to be consistent with mining industry peers. Comparative amounts in the balance sheet (including the earliest of the comparative balance sheet) and relevant notes have been restated for consistency. Refer to Notes 2 and 10.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments
AASB 9 issued in December 2009 introduced new requirements for the classification and measurement of financial assets. AASB 9 was subsequently amended in December 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in December 2013 to include the new requirements for general hedge accounting. Another revised version of AASB 9 was issued in December 2014 mainly to include:

(a) Impairment requirements for financial assets.

(b) Limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

AASB 9 has been adopted by the Group from 1 July 2018.

Key requirements of AASB 9:

1. Significant accounting policies (continued)

- All recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value. Specifically:

  (a) Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.

  (b) Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI.

  (c) All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under AASB 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, AASB 9 requires that the amount of change in fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under AASB 139 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model, as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in AASB 139. Under AASB 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Group's financial assets and financial liabilities as at 30 June 2018 on the basis of the facts and circumstances that exist at that date, the Group has assessed the impact of AASB 9 to the Group's consolidated financial statements as follows:

Classification and measurement

All financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under AASB 139.

Impairment

Financial assets measured at amortised cost will be subject to the impairment provisions of AASB 9. The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables and amounts due from customers under construction contracts as required or permitted by AASB 9. As regards to the cash collateral as disclosed in note 8, the Group considers that the counterparties have low credit risk given their strong external credit rating and hence expect to recognise 12 month expected credit losses for these items.

1. Significant accounting policies (continued)

In general, the Group anticipates that the application of the expected credit loss model of AASB 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items, however the quantum of this loss is not expected to be material.

Hedge accounting

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of AASB 9. Similar to the Group's current hedge accounting policy, the Group does not intend to exclude the forward element of foreign currency forward contracts from designated hedging relationships. Moreover, the Group has already elected to basis adjust non-financial hedged items with gains/losses arising from effective cash flow hedges under AASB 139, which is mandatory under AASB 9.

The Group's assessment did not indicate that the application of the AASB 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

Disclosures

AASB 9 will require new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group is currently implementing changes to its systems and processes that will enable it to capture the required data and information for reporting purposes.

AASB 15 Revenue from Contracts with Customers
The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 *Revenue* which covers revenue arising from the sale of goods and the rendering of services and AASB 111 *Construction Contracts* which covers construction contracts and the related Interpretations when it becomes effective.

The core principle of AASB 15 *Revenue from Contracts with Customers* is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The standard also requires the disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group has identified material revenue streams and reviewed a representative sample of sales contracts to identify potential changes in timing of revenue recognition, measurement of the amount of revenue and note disclosures between the current standard, AASB 18, and AASB 15. The following points were noted:

- Wholesale electricity sales – electricity is sold to the wholesale market managed by the Australian Energy Market Operator (AEMO). On adoption of AASB 15 the Group will continue to recognise revenue at a point-in-time i.e. on dispatch of electricity to the grid.

1. Significant accounting policies (continued)

- Retail electricity sales – on adoption of AASB 15 the Group will continue to recognise revenue when performance obligations are satisfied over time i.e. when electricity units are delivered.

  AASB 15 requires any non-cash consideration received from the customer as fulfilment of the contract to be accounted for as revenue and measured at fair value. The Group has assessed the non-cash considerations received and has concluded that there was no material impact on opening retained earnings as at 1 July 2018.

- Energy services revenue – on adoption of AASB 15 the Group will continue to recognise revenue when performance obligations are satisfied over time i.e. when energy services are delivered.

- Gas sales – the Group must sell and make available gas for delivery to the customer at the delivery point specified in the agreement. On adoption of AASB 15, the Group will recognise gas sales revenue over time using an output-based method i.e. units delivered as measured using metering equipment.

- Coal revenue – on adoption of AASB 15 revenue from coal sales will be recognised at a point-in-time i.e upon shipment of coal to the customer. Whilst this may result in the Group recognising revenue earlier than when it is currently recognised, the impact of this change was immaterial to the Group for the year ending 30 June 2018.

- Environmental certificate revenue – the Group currently recognises revenue for environmental certificates upon creation of the certificates. The Group has assessed the impact of AASB 15 on various environmental certificate schemes that the Group was involved in to meet its environmental obligations and has concluded that there was no material impact under AASB 15.

Based on the above, the Group has determined that that the application of AASB 15 will not have a significant impact on the financial position and/or financial performance of the Group, and the impact of adoption of AASB 15 on opening retained earnings as of 1 July 2018 is not expected to be material.

While the adoption of this new standard is not expected to have a material impact on either the timing or amount of revenue recognised in the Group's financial statements, Stanwell anticipates additional disclosures around the nature, amount, timing and uncertainty of the Group's revenue arising from contracts with customers. Stanwell continues to evaluate what information will be most useful for users of the financial statements, including information already provided in disclosures outside of the financial statement notes.

The group intends to adopt the standard from 1 July 2018 using the modified retrospective approach which means that the cumulative impact of the adoption, if applicable, will be recognised in retained earnings as of 1 July 2018 as if the standard had always been in effect, and that comparatives will not be restated.

In addition, disclosures, if applicable, include a comparison to what would have been reported for the year ending 30 June 2019 under the previous revenue recognition rules to assist financial statement users in understanding how revenue recognition has changed as a result of this standard and to facilitate comparability with prior year reported results, which are not restated under the modified retrospective approach as described above.

AASB 16 Leases
AASB 16 was issued in February 2016 and will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Upon adoption of the new standard, a lessee is required to:

- recognise all right of use assets and lease liabilities on the balance sheet, with the exception of short term (less than 12 months) and low value leases. The liability is initially measured at the present value of future lease payments for the lease term. This includes variable lease payments that depend on an index or rate but excludes other variable lease payments. The right of use asset reflects the lease liability, initial direct costs, any lease payments made before the commencement date of the lease, less any lease incentives and, where applicable, provision for dismantling and restoration.

- recognise depreciation of right of use assets and interest on lease liabilities in the profit and loss over the lease term.

- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest portion (which the Group presents as operating activities) in the cash flow statement.

1. Significant accounting policies (continued)

AASB 16 will primarily affect the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of $29,354,000 see note 26. The group estimates that office building rentals, properties and leased motor vehicles would be capitalised under the new standards. It is intended that the standard will be applied retrospectively, either by the restatement of comparatives or with the cumulative impact upon application recognised under the modified retrospective approach.

AASB 16 contains a number of practical expedients, one of which permits the classification of existing contracts as leases under current accounting standards to be carried over to AASB 16.

Under the modified retrospective approach, on a lease-by-lease basis, the right of use of an asset may be deemed to be equivalent to the liability at transition or calculated retrospectively as at inception of the lease.

Under AASB 16, the present value of the Group's operating lease commitments as defined under the new standard, excluding low value leases and short term leases, will be shown as right of use assets and as lease liabilities on the balance sheet. Information on the undiscounted amount of the Group's operating lease commitments under AASB 117 *Leases*, the current leasing standard, is disclosed in note 26. The Group is considering the available options for transition.

To date, work has focused on the identification of the provisions of the standard which will most impact the Group. Across subsequent periods, work on these issues and their resolution will continue, and work on the detailed review of contracts and financial reporting impacts will commence in conjunction with an assessment of likely changes to information systems.

Critical accounting estimates and judgements

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

2. Restatement of comparatives

Change in accounting policy
The group capitalised the costs of developing the open cut pits as pre production stripping costs in accordance with AASB 116 *Property, plant and equipment* until commercial production has commenced. When a pit reaches commercial production, any future stripping costs relating to the pit needs to be accounted for as 'post production stripping costs' in accordance with IFRIC 20 *Stripping costs in the production phase of a surface mine* for costs.

The group integrated the Ramp 5 and Boundary Pits to create a "super pit" so that it provided full access into the new Boundary pit areas. Consequently, a portion of pre-production stripping cost was reclassified to post production stripping costs. The post production stripping costs would be then amortised on a systematic basis over the expected useful life of the identified component of the ore body of the integrated pit that becomes more accessible as a result of the stripping activity.

Amortising the stripping costs over the reserve base of the resulting Ramp 5 pit and subsequent first strips of Boundary pit would provide more relevant information to meet the economic decision–making needs of users and make the financial statements more reliable.

The impact of these changes in the Company's accounting policy on individual line items in the prior year financial statements can be summarised as follows:

Notes to the financial statements (continued)

30 June 2018

2. Restatement of comparatives (continued)

Statement of profit or loss and other comprehensive income

	Consolidated		
Extract	2017 $'000 Previous policy	$'000 Adjustment	2017 $'000 Restated
Expenses			
Fuel costs	(376,739)	(2,220)	(378,959)
Depreciation and amortisation expense	(207,343)	(29,492)	(236,835)
Profit before income tax equivalent expense	525,598	(31,712)	493,886
Income tax equivalent expense	(150,391)	9,514	(140,877)
Profit after income tax equivalent expense for the year attributable to the owners of Stanwell Corporation Limited	375,207	(22,198)	353,009
Other comprehensive income for the year, net of tax	(2,178)	-	(2,178)
Total comprehensive income for the year attributable to the owners of Stanwell Corporation Limited	373,029	(22,198)	350,831

2. Restatement of comparatives (continued)

Balance sheet at the beginning of the earliest comparative period

	Consolidated		
Extract	2016 $'000 Previous policy	$'000 Adjustment	2016 $'000 Restated
Assets			
Current assets			
Other current assets	281,237	(113,858)	167,379
Total current assets	1,008,295	(113,858)	894,437
Non-current assets			
Property, plant and equipment	2,327,164	139,677	2,466,841
Other non-current assets	38,505	(15,227)	23,278
Total non-current assets	2,536,367	124,450	2,660,817
Total assets	3,544,662	10,592	3,555,254
Liabilities			
Current liabilities			
Trade and other payables	215,143	(797)	214,346
Total current liabilities	917,533	(797)	916,736
Non-current liabilities			
Deferred tax equivalent liabilities	257,244	3,417	260,661
Total non-current liabilities	1,450,447	3,417	1,453,864
Total liabilities	2,367,980	2,620	2,370,600
Net assets	1,176,682	7,972	1,184,654
Equity			
Retained earnings	93,376	7,972	101,348
Total equity	1,176,682	7,972	1,184,654

2. Restatement of comparatives (continued)

Balance sheet at the end of the earliest comparative period

	Consolidated		
Extract	2017 $'000 Revised	$'000 Adjustment	2017 $'000 Restated
Assets			
Non-current assets			
Property, plant and equipment	2,431,053	(29,492)	2,401,561
Total non-current assets	2,749,704	(29,492)	2,720,212
Total assets	3,928,028	(29,492)	3,898,536
Liabilities			
Current liabilities			
Trade and other payables	231,721	2,220	233,941
Total current liabilities	1,111,113	2,220	1,113,333
Non-current liabilities			
Deferred tax equivalent liabilities	234,802	(9,514)	225,288
Total non-current liabilities	1,519,799	(9,514)	1,510,285
Total liabilities	2,630,912	(7,294)	2,623,618
Net assets	1,297,116	(22,198)	1,274,918
Equity			
Retained earnings	221,524	(22,198)	199,326
Total equity	1,297,116	(22,198)	1,274,918

The change in accounting policy did not have a material impact on the cash flow statement of 2017.

3. Revenue

	Consolidated 2018 $'000	Consolidated 2017 $'000
Sales revenue		
Sale of electricity - wholesale	1,511,846	1,568,463
Sale of electricity - retail	1,068,206	877,278
Energy services revenue	522,291	412,709
	3,102,343	2,858,450
Other revenue		
Coal revenue sharing arrangements	223,694	89,546
Gas sales	77,031	95,058
Environmental certificate revenue	8,655	2,868
Coal on-sale	1,577	2,914
Other items	16,202	9,876
	327,159	200,262
Revenue	**3,429,502**	**3,058,712**

Application of accounting policies

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group. Recognition occurs when significant risks and rewards of ownership have passed to the buyer and can be measured reliably. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Sale of electricity

Revenue from the sale of electricity traded in the NEM is recognised upon dispatch or in the period the electricity is generated. Fair value gains and losses on electricity derivatives deferred in equity as effective hedges are included as sale of electricity in the same period as the hedged electricity is recognised (refer to note 13). Revenue from electricity sold on the NEM is based on electricity spot prices and is calculated by the AEMO, the body responsible for administering and operating the wholesale spot electricity market and managing the security of the power system.

Revenue from the sale of electricity also includes revenue from retail contracts. Retail contract revenue is calculated based on the terms of the individual contracts and is recognised when the electricity is consumed by the counterparty.

Energy services revenue

Energy services revenue is received in relation to the recharge of transmission and other operating costs directly attributable to retail operations. Revenue is recognised when the electricity is consumed by the counterparty.

Other revenue

Revenue from coal revenue sharing arrangements is recognised when the coal is exported by the coal supplier. Revenue from gas sales is recognised upon delivery at the nominated delivery point. The Group is involved in various environmental certificate schemes to meet its environmental obligations and for trading purposes. Until sale, the environmental certificates are recorded as Inventory (refer to note 7). The revenue is recognised when the creation of certificate occurs. Revenue from coal on-sale is recognised at the time of delivery of the goods to the customer.

Notes to the financial statements (continued)

30 June 2018

4. Expenses

	Consolidated 2018 $'000	Restated 2017 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Land and buildings	(3,766)	(3,706)
Generation assets	(143,658)	(137,278)
Operational mining assets	(59,146)	(68,735)
Other plant and equipment	(11,800)	(11,704)
Total depreciation	**(218,370)**	**(221,423)**
Amortisation		
Software	(9,806)	(8,712)
Exploration and evaluation	(173)	(6,623)
Mining information	(285)	(77)
Total amortisation	**(10,264)**	**(15,412)**
Total depreciation and amortisation	**(228,634)**	**(236,835)**
Finance costs		
Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss	(57,167)	(59,097)
Unwinding of the discount on provisions	(15,649)	(15,230)
Finance costs expensed	**(72,816)**	**(74,327)**
Amounts included in other expenses		
Services and consultants	(42,082)	(37,297)
Net loss on change in rehabilitation provisions	-	(57,134)
Employee benefits expense		
Defined contribution superannuation expense	(8,847)	(8,358)
Defined benefit plan expense	(1,664)	(2,081)

Audit and other assurance services

During the financial year, $446,000 (2017: $390,000) was paid/payable to the Queensland Audit Office, for the audit of the financial statements. No other services were provided by the auditor.

5. Cash and cash equivalents

	Consolidated	
	2018 $'000	2017 $'000
Cash at bank and in hand	63,076	67,429
Deposits at call	-	482,262
Other cash and cash equivalents	228	36
	63,304	**549,727**

Cash at bank is bearing an interest rate of 1.2% (2017: 1.3%). The carrying amount for cash and cash equivalents reasonably equates to their fair value.

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

Deposits at call are held with Queensland Treasury Corporation (QTC) and disclosed as advances. Refer to Note 6.

6. Trade and other receivables

	Consolidated	
	2018 $'000	2017 $'000
Trade receivables	253,568	184,572
Less: Provision for impairment of receivables	(37)	(37)
	253,531	184,535
Advances facility	829,252	-
Other receivables	4,473	24,930
	1,087,256	**209,465**

Impaired trade receivables
As at 30 June 2018, trade receivables of $1,719,097 were past due but not impaired (2017: $4,607,341).

Advances

Under the Queensland Government's cash management regime, Government Owned Corporations (GOC's) are required to advance surplus cash to Queensland Treasury.

GOC access to the advances is generally subject to notification periods of 24 to 48 hours. The deposits at call yielded floating interest rates between 2.2% to 2.9% during the year ended 30 June 2018 (2017: 2.4% to 3.0%).

Because of the short term nature of the advances, their carrying amount is assumed to represent fair value.

Application of accounting policies

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30-90 days depending on the nature of the agreement. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date. Trade and other receivables are stated at the gross values.

6. Trade and other receivables (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Application of accounting estimates and judgements

A provision is made for impairment of receivables based on management's estimate of the prospect of recovering the debt. Where management has determined that the recovery of the debt is doubtful, the amount is provided for immediately.

7. Inventories

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Stores - at cost	60,435	58,271
Less: Provision for obsolescence	(20,640)	(17,486)
	39,795	40,785
Fuel	68,222	40,068
Environmental certificates at fair market value	96,016	69,023
	204,033	**149,876**

Application of accounting policies

Fuel and stores

Fuel and stores are carried at the lower of weighted average cost per individual item of inventory and net realisable value. Cost for stores and fuel is their purchase price and for partly processed and saleable products is generally the cost of production. For this purpose, the cost of production includes 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 of inventory are determined after deducting associated rebates and discounts.

Provision for obsolescence

The Group provides for inventory obsolescence based on the ageing of stock items held and changes in technology that would render parts obsolete.

7. Inventories (continued)

Environmental certificates

The Group is subject to various regulatory environmental schemes and as such accrues environmental liabilities as part of its general business operations. To meet these liabilities, the Company acquires environmental certificates on the wholesale market and surrenders these to the scheme administrators periodically. A number of the Group's operating assets are also accredited to create environmental certificates which can be used to either acquit the mandatory renewable energy liability of the Group or alternatively can be realised through the market. The environmental certificates are created through various Commonwealth and State legislation.

Environmental certificates are recognised in the financial statements at fair market value where fair value is determined by reference to observable market prices at reporting date.

Application of critical accounting estimates and judgements

Environmental certificates

As per AASB 13 *Fair Value Measurement*, the environmental certificates are classified as Level 1 as these instruments are traded in active markets and the valuation is based on quoted market prices at the end of the reporting period.

8. Other current assets

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Cash collateral	8,239	61,719
Prepayments	4,105	4,070
Other current assets	230	588
	12,574	**66,377**

Application of accounting policies

Cash collateral

Cash collateral is provided to support the margin requirements that are required to be held to cover positions traded on the Australian Securities Exchange.

9. Other non-current assets

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Investments	20,000	20,000
Other non-current assets	6,584	416
Listed securities	-	6,902
	26,584	**27,318**

Investments

On 20 October 2014, the Company relinquished its 5% interest in the Mahalo Gas Project and the Sales and Purchase option it held. In return, the Company received an option, exercisable at the Company's election at the Final Investment Decision, to either enter into a long term gas sale agreement or receive cash consideration in respect of its investment.

9. Other non-current assets (continued)

Listed securities

The listed equity securities related to a holding (2017: 7.7%) in Blue Energy Limited (ASX:BUL) shares that were sold during the year. At 30 June 2017, the market value of the shares was 7.9 cents. The gain on the sale of shares was recognised in the Statement of profit and loss and other comprehensive income.

10. Property, plant and equipment

	Consolidated	
		Restated
	2018	**2017**
	$'000	**$'000**
Land and Buildings - cost or recoverable amount	159,890	158,200
Less: Accumulated depreciation	(69,798)	(62,185)
	90,092	96,015
Generation assets - cost or recoverable amount	3,916,901	3,888,538
Less: Accumulated depreciation	(2,363,967)	(2,211,484)
	1,552,934	1,677,054
Operational mining assets - cost or recoverable amount	1,482,253	1,282,605
Less: Accumulated depreciation	(1,091,871)	(859,200)
	390,382	423,405
Other plant & equipment - cost or recoverable amount	151,840	147,339
Less: Accumulated depreciation	(121,178)	(110,882)
	30,662	36,457
Mining development assets - cost or recoverable amount	74,249	95,432
Capital work in progress - cost or recoverable amount	86,179	73,198
	2,224,498	**2,401,561**

10. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Land and Buildings $'000	Generation assets $'000	Operational mining assets $'000	Other plant and equipment $'000	Mining development assets $'000	Capital work in progress $'000	Total $'000
Balance at 1 July 2016	**96,779**	**1,653,171**	**449,224**	**38,833**	**95,432**	**133,126**	**2,466,565**
Additions	-	524	14,860	2,232	-	137,604	155,220
Disposals	(124)	(1,090)	(74)	(46)	-	-	(1,334)
Impairment of assets	(2,512)	(676)	-	(234)	-	(4,962)	(8,384)
Rehabilitation asset adjustment	-	10,482	435	-	-	-	10,917
Transfers in/(out)	5,578	151,921	27,695	7,376	-	(192,570)	-
Depreciation expense	(3,706)	(137,278)	(68,735)	(11,704)	-	-	(221,423)
Balance at 30 June 2017	**96,015**	**1,677,054**	**423,405**	**36,457**	**95,432**	**73,198**	**2,401,561**
Additions	-	-	466	992	-	121,950	123,408
Disposals	(175)	(848)	(33)	(731)	-	-	(1,787)
Write down of previously capitalised amount	-	-	-	-	(21,183)	-	(21,183)
Impairment of assets	(3,846)	(55,651)	-	(169)	-	(7,435)	(67,101)
Rehabilitation asset adjustment	-	9,647	(1,677)	-	-	-	7,970
Transfers in/(out)	1,864	66,390	27,367	5,913	-	(101,534)	-
Depreciation expense	(3,766)	(143,658)	(59,146)	(11,800)	-	-	(218,370)
Balance at 30 June 2018	**90,092**	**1,552,934**	**390,382**	**30,662**	**74,249**	**86,179**	**2,224,498**

Application of accounting policies

Property, plant and equipment is stated at historical cost less accumulated depreciation/amortisation and accumulated impairment charges. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include the costs of dismantling and removing the items and restoring the site on which they are located, capitalised borrowing costs and transfers from other comprehensive income of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment (refer to note 20).

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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced asset is derecognised. The costs of day to day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the profit or loss.

10. Property, plant and equipment (continued)

Stripping costs

(i) Pre production stripping costs

Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development stripping and the directly attributable costs, inclusive of an allocation of relevant overhead expenditure, are capitalised as development costs. Capitalisation of development stripping costs ceases and amortisation of those capitalised costs commences upon commercial extraction of ore. Amortisation of capitalised development stripping costs is determined on a unit of production basis for each area of interest. Development stripping costs are considered in combination with other assets of an operation for the purpose of undertaking impairment assessments.

(ii) Post production stripping costs

Overburden and other mine waste materials continue to be removed throughout the production phase of the mine. This activity is referred to as production stripping, with the associated costs charged to profit and loss, as operating cost, except when all three criteria below are met:

- Production stripping activity provides improved access to the specific component of the ore body, and it is probable that economic benefit arising from the improved access will be realised in future periods;
- The Group can identify the component of the ore body for which access has been improved; and
- The costs relating to the production stripping activity associated with that component can be measured reliably.

If all of the above criteria are met, production stripping costs resulting in improved access to the identified component of the ore body are capitalised as part of post production stripping costs and are amortised over the life of the component of the ore body. The determination of components of the ore body is individual for each pit. The allocation of costs between production stripping activity and the costs of ore produced is performed using relevant production measures, typically strip ratios. Changes to the mine design, technical and economic parameters affecting life of the components and strip ratios, are accounted for prospectively.

Depreciation

Depreciation is recorded over the useful life of the asset, or over the remaining life of the mine or power station if shorter. Assets are depreciated from the date they become available for use. Land is not depreciated. Operational mining assets are depreciated on either a units of use or straight-line basis. Other major categories of property, plant and equipment are depreciated on a straight-line basis. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the depreciation or amortisation period or method, as appropriate, which is a change in accounting estimate.

Units of use basis

Where operational mining assets are depreciated on units of use basis, depreciation is normally calculated using the equipment hours extracted from the mine in the period as a percentage of the total equipment hours for the relevant asset.

Development expenditure which is capitalised represents initial or up front development mining costs that create future benefits, by providing access to coal in new pits. These are proportionally depreciated over the Run of Mine tonnes for the life of the pit as the coal is mined

10. Property, plant and equipment (continued)

Straight-line basis

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings	15 - 50 years
Generation assets (including overhauls)	2 - 30 years
Operational mining assets	2 - 24 years
Other plant and equipment	2 - 30 years

Impairment

In 2018, the impairment loss of $67,101,000 represented the write-down to recoverable amount for the Swanbank Power Station Cash Generating Unit (CGU).

The carrying amount was reduced to nil, reflecting the negative value in use and fair value less costs of disposal of the CGU. The write-down is recognised in the statement of profit or loss as an impairment expense.

In determining the value in use for the CGU, the cashflows reflected:
- the return to service of Swanbank in 2018 to supply additional generation into the market, and the expectation that Swanbank will continue to operate into the future during certain periods of the year;
- higher fuel costs than prior periods;
- inspection costs as a result of the return to service; and
- a discount rate of 5.0%.

Key assumptions

In prior periods, Swanbank's carrying amount was supported by a fair value less costs of disposal, having regard to several valuation points and factors which were assessed in joint consideration.

The return to service of Swanbank in 2018, the requirements to provide additional generation into the market for future periods, and expiration of contracts have resulted in a decline in the fair value less costs of disposal to nil.

Application of critical accounting estimates and judgements

Stripping costs

These assets 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.

Depreciation and amortisation

Estimates of residual values and remaining useful lives are reassessed annually, and any change in estimate is taken into account in the determination of future depreciation charges. The estimation of the useful lives of assets has been based on historical experience as well as the manufacturers' design life. Adjustments to useful life are made when considered necessary.

Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

10. Property, plant and equipment (continued)

The recoverable amount is calculated based on either the fair value of the asset less costs to sell or value-in-use. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The value-in-use calculation is determined on the future cash flows based on the continuing use of the assets, discounted to a present value using an appropriate market based pre-tax discount rate. The discount rate reflects the current market assessment of the time value of money and asset specific risks for which the cash flow estimates have not been adjusted.

Assets that have previously been impaired are assessed annually to determine if there has been a reversal in impairment. Where this exists, the impairment is reversed through the profit or loss only to the extent that the carrying value does not exceed the original carrying value net of depreciation and amortisation should the asset not have been impaired.

Reviews are undertaken on an asset by asset basis except where these assets do not generate cash flows independent of other assets. Where assets do not generate cash flows independent of each other, the impairment assessment is based on the cash generating unit.

The Group assesses impairment at the end of each reporting period by evaluating conditions specific to it that may lead to indicators of impairment of assets. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Key estimates and assumptions are made in determining the recoverable amount of assets including, but not limited to, electricity demand, wholesale electricity prices, a discount rate, cost of fuel and achievable market values for asset disposal.

The sources for the key estimates and assumptions include:

- Market pricing and dispatch are based on the most recent management endorsed forecast. Longer term modelling is developed on a portfolio approach, based around recent observable peak/energy demand forecasts provided by AEMO and other sources, available at the time of evaluation, combined with internally developed assumptions around forecast gas prices, new entrants and retirements and the impact of renewable energy targets.
- All other costs are based on the most recent management endorsed forecast.
- Capital expenditure is based on asset life plans.
- Escalation, taxation and discounting were applied in accordance with the Group's assumptions at the time of evaluation.
- The Group assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represented a weighted average cost of capital (WACC) for comparable companies operating in similar industries. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of the risks related to the projected cash flows.

11. Intangibles

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Mining Information - at cost	83,434	80,225
Less: Accumulated amortisation	(362)	(77)
	83,072	80,148
Software - at cost	100,636	97,350
Less: Accumulated amortisation	(87,171)	(77,365)
	13,465	19,985
	96,537	**100,133**

11. Intangibles (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Mining information $'000	Software $'000	Total $'000
Balance at 1 July 2016	**75,278**	**22,586**	**97,864**
Additions	4,947	6,111	11,058
Amortisation expense	(77)	(8,712)	(8,789)
Balance at 30 June 2017	**80,148**	**19,985**	**100,133**
Additions	3,209	3,286	6,495
Amortisation expense	(285)	(9,806)	(10,091)
Balance at 30 June 2018	**83,072**	**13,465**	**96,537**

Application of accounting policies

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the profit or loss in the year in which the expenditure is incurred.

Mining lease and information

Mining information and mining leases acquired are carried at the net fair value at date of acquisition less amortisation and impairment losses.

Software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and services as well as direct payroll and payroll related costs of employees' time spent on the project.

Amortisation of software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being 2 - 10 years.

Application of critical accounting estimates and judgements

Estimates of useful lives are reassessed annually, and any change in estimate is taken into account in the determination of future amortisation charges. Adjustments to useful life are made when considered necessary.

Impairment of intangible assets is considered along with property, plant and equipment. Refer to note 10.

12. Retirement benefit surplus

Superannuation plan

The Group contributes on behalf of its employees to a number of defined contribution funds as well as participating in the industry multiple employer superannuation fund, Energy Super (the 'Fund'), which consists of a defined contribution section and a defined benefit section. The defined contribution section receives fixed contributions from the Group, which are recognised as an expense as they become payable. The Group's legal or constructive obligation is limited to these contributions. The defined benefit section, which is closed to new members, provides lump sum benefits based on years of service and average salary.

Energy Super is managed by a trustee company, Electricity Supply Industry Superannuation (Qld) Ltd. The Trustee is responsible for managing the Fund for the benefit of all members, in accordance with the trust deed and relevant legislation. The Fund is regulated by the Australian Prudential Regulation Authority under the *Superannuation Industry (Supervision) Act 1993*.

The following sets out details in respect of the defined benefit section only. The expense recognised in relation to the defined contribution plan is disclosed in note 4.

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

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Present value of the defined benefit obligation	(53,582)	(56,160)
Fair value of defined benefit plan assets	74,795	73,988
Net asset in the balance sheet	**21,213**	**17,828**

Application of accounting policies

The present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs, is recognised as a liability or asset in the balance sheets.

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 an independent actuary 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 at the reporting date using market yields of high quality corporate 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 recognised directly in other comprehensive income, in the period in which they occur. Future taxes that are funded by the Group and are part of the provision of the existing benefit obligation (e.g. taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

12. Retirement benefit surplus (continued)

Categories of plan assets
The major categories of plan assets are as follows:

	Consolidated 2018 $'000	Consolidated 2017 $'000
Cash and cash equivalents	3,738	3,699
Equity instruments	37,398	36,994
Debt instruments	7,480	7,399
Property	7,480	7,399
Alternative assets	18,699	18,497
	74,795	**73,988**

Reconciliations

	2018 $'000	2017 $'000
Reconciliation of the present value of the defined benefit obligation, which is fully funded:		
Balance at the beginning of the year	56,160	57,361
Current service cost	2,266	2,416
Interest cost	2,217	1,895
Experience (gain)/loss	(1,971)	678
Loss/(gain) from change in financial assumptions	523	(3,474)
Contribution by plan participants	606	635
Benefit payments, insurance and tax plus net transfers	(6,219)	(3,351)
Balance at the end of the year	**53,582**	**56,160**
Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	73,988	68,616
Experience (loss)/gain	3,530	5,112
Contribution by Group companies	71	746
Contribution by Plan participants	606	635
Benefit payments, insurance and tax plus net transfers	(6,219)	(3,351)
Expected return on plan assets	2,819	2,230
Balance at the end of the year	**74,795**	**73,988**

Amounts recognised in the statement of profit or loss and other comprehensive income
The amounts recognised in the statement of profit or loss and other comprehensive income are as follows:

	2018 $'000	2017 $'000
Current service cost	(2,266)	(2,416)
Interest cost	(2,217)	(1,895)
Expected return on plan assets	2,819	2,230
Total amount recognised in profit or loss	**(1,664)**	**(2,081)**
Experience gain/(loss)	5,501	4,434
(Loss)/gain from change in financial assumptions	(523)	3,474
Total amount recognised in other comprehensive income	**4,978**	**7,908**

12. Retirement benefit surplus (continued)

Significant actuarial assumptions

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

	Consolidated	
	2018 %	2017 %
Discount rate	3.8%	3.9%
Return on plan assets	3.8%	3.9%
Future salary increases	3.7%	3.7%

Employer contributions and risk exposure

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 2016 by Sunsuper Financial Services Pty Ltd.

The method used to determine the employer contribution recommendations at the last actuarial review was the aggregate method. The method adopted affects the timing of the cost to the employer.

Under the aggregate method, the future contribution rates are determined, and are expected to be sufficient to fund the difference between the value of future benefits for existing defined benefit members and the value of the plan assets attributable to defined benefit members, over the future working lifetime of the existing defined benefit members.

An aggregate financing method can be expected to produce a higher level of volatility in recommended employer contribution rates, particularly as the defined benefit membership ages and reduces in size. Variations between actual and expected experience have a greater financial effect on future employer contribution rates as the future working lifetime of the existing defined benefit members reduces.

Energy Super does not impose a legal liability on the Group to cover any deficit that exists in the Fund. If the Fund were wound up, there would be no legal obligation on the Group to make good any shortfall. The Trust Deed of the Fund states that if the Fund winds up, after the payment of all costs and the payment of all member benefits in respect of the period up to the date of termination, any remaining assets are to be distributed by the Trustee of the Fund, acting on the advice of an actuary, to the participating employers.

The Group may at any time by notice to the Trustee terminate its contributions. The employer has a liability to pay the monthly contributions due prior to the effective date of the notice, but there is no requirement for an employer to pay any further contributions, irrespective of the financial condition of the Fund.

The Group may benefit from any surplus in the Fund in the form of a contribution reduction or contribution holiday. Any reduction in contributions would normally be implemented only after advice from the Fund's actuary.

Based on the actuary's recommendations in the actuarial review as at 30 June 2016, a contribution rate of 0% of defined benefit members' salaries has been adopted from 1 May 2017 to 30 June 2018. Prior to 1 May 2017, a rate of 6% was applied. In the event that further funding is required, the Group will immediately contribute that funding as required.

Total employer contributions expected to be paid by the Group for the year ended 30 June 2019 are $nil.

12. Retirement benefit surplus (continued)

Defined benefit obligation maturity profile

The weighted average duration of the defined benefit obligation is 9 years (2017 - 9 years). The expected maturity analysis of undiscounted defined benefit obligations is as follows:

	Consolidated	
	2018 $'000	2017 $'000
Within one year	3,407	3,980
One to two years	4,033	3,004
Two to five years	14,464	14,853
Over five years	86,802	94,675
	108,706	**116,512**

13. Derivative financial instruments

	Consolidated	
	2018 $'000	2017 $'000
Current assets		
Electricity contracts - cash flow hedges	29,961	33,071
Electricity contracts - held for trading	61,968	161,953
Foreign currency contracts - cash flow hedges	104	137
Environmental contracts - held for trading	8,961	7,511
Oil contracts - held for trading	5,445	207
	106,439	**202,879**
Non-current assets		
Electricity contracts - cash flow hedges	63,685	57,087
Electricity contracts - held for trading	24,693	88,650
Foreign currency contracts - cash flow hedges	359	47
Environmental contracts - held for trading	18,488	18,723
Oil contracts - held for trading	3,736	-
	110,961	**164,507**
Current liabilities		
Electricity contracts - cash flow hedges	(43,337)	(312,589)
Electricity contracts - held for trading	(43,959)	(153,529)
Foreign currency contracts - cash flow hedges	(85)	(199)
Environmental contracts - held for trading	(15,190)	(11,817)
Oil contracts - held for trading	-	(1,018)
	(102,571)	**(479,152)**
Non-current liabilities		
Electricity contracts - cash flow hedges	(14,497)	(14,540)
Electricity contracts - held for trading	(47,485)	(100,970)
Foreign currency contracts - cash flow hedges	(47)	(291)
Environmental contracts - held for trading	(16,310)	(16,204)
Oil contracts - held for trading	-	(153)
	(78,339)	**(132,158)**
Net derivative financial instrument assets/(liabilities)	**36,490**	**(243,924)**

Refer to note 28 for further information on financial risk management.

13. Derivative financial instruments (continued)

Refer to note 14 for further information on fair value measurement.

Instruments used by the Group

The Parent entity is party to derivative financial instruments in the normal course of business primarily to hedge exposure to fluctuations in the spot price of electricity and forward currency exchange rates in accordance with the Group's risk management policies (refer to note 28). All derivative financial instruments were entered into by the Parent entity.

Application of accounting policies

Derivatives and hedging activities

Derivatives are classified as held for trading unless they are designated as hedges of a particular risk associated with highly probable forecast transactions (cash flow hedges). Certain derivatives do not qualify for hedge accounting but have been entered into for the risk management objective of economically hedging a risk. These derivatives are classified as held for trading and recognised through profit and loss.

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 the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is classified as held for trading or is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Parent entity documents at the inception of the hedging transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Parent 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 cash flows of hedged items.

Derivative financial instruments spanning both current and non-current periods are split into their current and non-current components prior to valuation. The fair value of these components is then classified as a current asset or liability when the maturity profile is less than 12 months, and classified as a non-current asset or liability when the maturity profile is greater than 12 months.

Change in fair value recognised in the profit or loss

Gains and losses that are recognised in the statements of profit or loss and other comprehensive income from remeasuring the fair value of derivatives that do not qualify as effective hedging instruments are classified as "non hedge accounted change in fair value of derivative instruments".

Hedge accounted change in fair value of derivative instruments

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. An ineffective gain is recognised immediately in profit or loss within "non hedge accounted change in fair value of derivative instruments".

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss is recognised in profit or loss within the same line as the hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, plant and equipment) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as depreciation or impairment in the case of non-financial 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 profit or loss within the same line as the hedged item. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss within "non hedge accounted change in fair value of derivative instruments".

14. Fair value measurement

Application of accounting estimates and judgements

The fair value of derivative financial instruments must be estimated for recognition and measurement or for disclosure purposes. Valuation policies and procedures are developed by Quantitative Risk and Analytics, reviewed by Portfolio Modelling and approved by the General Manager Quantitative Risk and Analytics. Changes in fair values of financial instruments are reported to management and the Board monthly.

Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards, being:

Level 1: The fair value of derivative financial instruments traded in active markets (publicly traded derivatives) is based on quoted market prices at the end of the reporting period. The quoted market price used for these derivatives is the last settled price.

Level 2: The fair value of derivative financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. All significant inputs required to fair value an instrument are observable.

Level 3: One or more of the significant inputs is not based on observable market data.

The following tables present the fair value of the Group's financial derivative instruments classified into the three levels:

Consolidated - 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurement				
Assets				
Current derivative financial instrument assets	16,358	89,918	163	106,439
Non current derivative financial instrument assets	10,991	82,518	17,452	110,961
Total assets	**27,349**	**172,436**	**17,615**	**217,400**
Liabilities				
Current derivative financial instrument liabilities	(23,779)	(78,181)	(611)	(102,571)
Non current derivative financial instrument liabilities	(11,913)	(41,751)	(24,675)	(78,339)
Total liabilities	**(35,692)**	**(119,932)**	**(25,286)**	**(180,910)**

Consolidated - 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Assets				
Current derivative financial instrument assets	53,556	136,718	12,605	202,879
Non current derivative financial instrument assets	46,914	107,010	10,583	164,507
Total assets	**100,470**	**243,728**	**23,188**	**367,386**
Liabilities				
Current derivative financial instrument liabilities	(96,050)	(378,903)	(4,199)	(479,152)
Non current derivative financial instrument liabilities	(63,498)	(60,812)	(7,848)	(132,158)
Total liabilities	**(159,548)**	**(439,715)**	**(12,047)**	**(611,310)**

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels 1 and 2 for derivative financial instrument fair value measurements during the year. The following tables present the changes in level 3 derivative financial instruments for the years ended 30 June 2017 and 30 June 2018.

14. Fair value measurement (continued)

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Recurring fair value measurements $'000
Balance at 1 July 2016	(1,423)
Transfers out level 3	(25,627)
Gains recognised in profit or loss	6,050
Gains recognised in other comprehensive income	32,573
Purchases	4,262
Sales	(4,694)
Balance at 30 June 2017	11,141
Losses recognised in profit or loss	(12,477)
Gains recognised in other comprehensive income	4,327
Purchases	1,045
Sales	(1,047)
Settlements	(10,660)
Balance at 30 June 2018	(7,671)
Total unrealised losses for the current year included in profit or loss that relate to level 3 assets held at the end of the current year	**(10,707)**

In the prior year, unrealised gains and losses for the year recognised in profit and loss that relate to level 3 assets and liabilities held at 30 June 2017 were a net gain of $12,441,000.

Transfers out of level 3 were into level 2 as a result of the availability of additional observable forward prices.

The significant valuation techniques and processes used to value derivative financial instruments categorised within level 2 and level 3 are:

- Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments;
- Adjusted market comparison technique: Broker quotes are adjusted using extrapolation, translation and scalar factor techniques to determine the fair value where a product does not have an observable market price;
- Option valuation model using implied volatility where terms are not identical to market quoted prices; and
- Credit risk factors applied to adjust fair values for non-performance risk.

There have been no material changes in the above valuation techniques used since 30 June 2017.

The significant inputs used in these valuation techniques are:

- Published over-the-counter forward prices;
- Exchange traded market prices;
- Extrapolation rates;
- Scalar and translation factors;
- Market volatilities;
- Credit risk factors
- Forward Curve Decomposition Methodology; and
- Forecast generation.

14. Fair value measurement (continued)

Master netting arrangement – not currently enforceable

Agreements with derivative counterparties are based on an International Swaps and Derivatives Association (ISDA) Master Agreement and similar agreements. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the consolidated entity does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in the following tables:

Consolidated 2018	Amounts presented in the balance sheet $'000	Amounts subject to master netting arrangements $'000	Financial instrument collateral $'000	Net amount $'000
Financial assets				
Current derivative financial instrument assets	106,439	(64,674)	(397)	41,368
Cash collateral	8,239	-	(8,239)	-
Non current derivative financial instrument assets	110,961	(51,632)	-	59,329
Total	**225,639**	**(116,306)**	**(8,636)**	**100,697**
Financial liabilities				
Current derivative financial instrument liabilities	(102,571)	64,674	7,328	(30,569)
Other current liabilities	(4,250)	-	397	(3,853)
Non current derivative financial instrument liabilities	(78,339)	51,632	911	(25,796)
Total	**(185,160)**	**116,306**	**8,636**	**(60,218)**

Consolidated 2017	Amounts presented in the balance sheet $'000	Amounts subject to master netting arrangements $'000	Financial instrument collateral $'000	Net amount $'000
Financial assets				
Current derivative financial instrument assets	202,879	(157,465)	(505)	44,909
Cash collateral	61,719	-	(59,078)	2,641
Non current derivative financial instrument assets	164,507	(84,656)	(3)	79,848
Total	**429,105**	**(242,121)**	**(59,586)**	**127,398**
Financial liabilities				
Current derivative financial instrument liabilities	(479,152)	157,465	42,494	(279,193)
Other current liabilities	(934)	-	508	(426)
Non current derivative financial instrument liabilities	(132,158)	84,656	16,584	(30,918)
Total	**(612,244)**	**242,121**	**59,586**	**(310,537)**

15. Trade and other payables

	Consolidated 2018 $'000	Consolidated Restated 2017 $'000
Trade payables	79,399	76,143
Accrued expenses	195,465	157,798
	274,864	**233,941**

Refer to note 28 for further information on financial risk management.

15. Trade and other payables (continued)

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting date.

Application of accounting policies

The Group recognises an amount payable where contractually obliged or where there is a past practice that has created a constructive obligation. The Group accrues an expense for bonuses based on a formula that takes into consideration, amongst other factors, the profit attributable to the Company's shareholders after certain adjustments.

16. Current provisions

	Consolidated	
	2018 $'000	2017 $'000
Employee benefits	21,708	19,859
Dividends	494,183	260,567
Restoration, rehabilitation and decommissioning	9,948	6,586
Restructuring costs	427	3,441
	526,266	**290,453**

Dividends
Refer to note 21 for further information.

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes long service leave. The entire amount of the provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of 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.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated	
	2018 $'000	2017 $'000
Employee benefits obligation expected to be settled after 12 months	14,100	16,281

Application of accounting policies

A provision is recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

17. Non-current provisions

	Consolidated 2018 $'000	Consolidated 2017 $'000
Employee benefits-long service leave	1,686	2,134
Restoration, rehabilitation and decommissioning	336,211	319,743
Other provisions	13,024	8,858
	350,921	**330,735**

Financial guarantee in respect of the Meandu Mine

The Group has a financial guarantee with State of Queensland pursuant to section 292 of the *Environmental Protection Act 1994* in respect of the Meandu mine. The purpose of the guarantee is to ensure costs associated with the restoration and rehabilitation of the Meandu mine site can be met as required, at a future date. The Group's exposure to the liability is Guaranteed by QTC for an amount of $171,553,555 as at 30 June 2018 (2017: $171,553,555).

Consolidated - 2018	**Total Restoration, Rehabilitation and decommissioning $'000**
Carrying amount at the start of the year	326,329
Payments	(3,954)
Movement in estimates	10,767
Unwinding of discount	15,649
Unused amounts reversed	(2,632)
Carrying amount at the end of the year	346,159

Long-term employee benefit obligations

The liability for long service leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service 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 end of the reporting period 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 at the end of the reporting period using appropriate market based pre-tax discount rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheets if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Superannuation

A defined contribution plan receives fixed contributions from the Group and the Group's legal or constructive obligation is limited to these contributions. The contributions are recognised as an expense as they become payable.

17. Non-current provisions (continued)

Restoration, rehabilitation and decommissioning

Future costs associated with the rehabilitation of power station sites, close down and restoration of coal mines, and the make good of corporate office space are estimated and provided for. 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 as a finance cost. The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the profit or loss in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost.

Application of accounting estimates and judgements

Employee benefits

Provisions for employee benefits are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Restoration, rehabilitation and decommissioning

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. This calculation requires the use of key assumptions including the timing of restoration work, legal requirements and a discount rate.

Provisions for Restoration, rehabilitation and decommissioning obligations are based on risk adjusted cash flows. These estimates have been discounted to their present value at a pre-tax risk free rate, based on an estimate of the long term, risk free, pre-tax cost of borrowing. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. For the year ended 30 June 2018, the Group has used a pre-tax discount rate of 5.0%.

18. Borrowings

	Consolidated	
	2018 $'000	2017 $'000
Unsecured borrowings	821,866	822,104

Refer to note 28 for further information on financial risk management.

Unsecured borrowings

The unsecured borrowings are provided by QTC. The borrowings have no fixed repayment date however the facility is assessed by QTC annually.

In addition to the unrestricted access to funds as noted above, the Company has a $120,000,000 Working Capital Facility with QTC which meets short-term funding requirements. At 30 June 2018, the facility was not utilised (2017: $Nil).

18. Borrowings (continued)

Fair value

The fair value of unsecured borrowings for the Group and Parent entity at 30 June 2018 was $921,298,740 (2017: $937,193,027) compared to a carrying amount of $821,866,303 (2017:$822,103,575). Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes.

Application of accounting policies

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 profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of borrowing facilities are recognised as transaction costs of the borrowings to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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.

Where the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period, these are classified as non current liabilities.

19. Contributed equity

	Consolidated			
	2018 Shares	**2017 Shares**	**2018 $'000**	**2017 $'000**
Ordinary shares (A class) - fully paid	4	4	-	-
Ordinary shares (B class) - fully paid	924,568,658	924,568,658	1,214,693	1,214,693
	924,568,662	**924,568,662**	**1,214,693**	**1,214,693**

Ordinary shares
The Company is wholly owned by the State of Queensland.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and holders of A class shares are entitled to one vote per share at a shareholders' meeting. B class shares have non-voting rights at a shareholders' meeting.

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

Capital risk management

The Group's and the Parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to maintain the required credit rating for a Government Owned Corporation generator operating in a deregulated electricity market, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group and the Parent entity monitors capital on the basis of their gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt is calculated as total borrowings. Total capital is calculated as 'equity' as shown in the balance sheets plus debt.

19. Contributed equity (continued)

The gearing ratio at the reporting date was as follows:

	Consolidated 2018 $'000	Consolidated Restated 2017 $'000
Unsecured borrowings (note 18)	821,866	822,104
Total equity	1,438,697	1,274,918
Total capital	2,260,563	2,097,022
Gearing ratio	**36.4%**	**39.2%**

20. Reserves

	Consolidated 2018 $'000	Consolidated 2017 $'000
Reserves	24,389	(139,101)

Reserve
The reserve is used to recognise increments and decrements in the fair value of biological assets and the effective portion of the gain or loss on derivatives designated as cash flow hedges.

Movements in reserves
Movements in reserve during the current and previous financial year are set out below:

Consolidated	**Reserves $'000**
Balance at 1 July 2016	**(131,387)**
Revaluation of biological assets	233
Income tax equivalent relating to revaluation of biological assets	(70)
Effective portion of changes in fair value of cash flow hedges	(356,432)
Net change in fair value of cash flow hedges transferred to revenue from sale of electricity - wholesale	349,102
Net change in fair value of cash flow hedges transferred to revenue from gas sales	(3,667)
Net change in fair value of cash flow hedges transferred to property, plant and equipment	(256)
Income tax equivalent relating to cash flow hedges	3,376
Balance at 30 June 2017	**(139,101)**
Effective portion of changes in fair value of cash flow hedges	235,451
Net change in fair value of cash flow hedges transferred to revenue from sale of electricity - wholesale	(1,600)
Net change in fair value of cash flow hedges transferred to property, plant and equipment	(61)
Income tax equivalent relating to cash flow hedges	(70,137)
Transfer to retained earnings	(163)
Balance at 30 June 2018	**24,389**

21. Dividends

Dividends paid/payable during the financial year were as follows:

	Consolidated 2018 $'000	2017 $'000
Final dividend for the year ended 30 June 2018 of 53.5 cents (2017: 28.2 cents) per fully paid share	494,183	260,567

Application of accounting policies

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

22. Income tax

	Consolidated 2018 $'000	Restated 2017 $'000
Income tax equivalent expense		
Current tax equivalent	253,177	190,314
Deferred tax equivalent	(43,187)	(49,440)
Adjustments for current tax equivalent of prior periods	(14)	3
Aggregate income tax equivalent expense	209,976	140,877
Deferred tax included in income tax equivalent expense comprises:		
Increase in deferred tax assets	97,103	(73,256)
Increase in deferred tax liabilities	(140,149)	38,817
Under provision in prior year	(141)	(15,001)
Deferred tax equivalent	(43,187)	(49,440)
Numerical reconciliation of income tax equivalent expense and tax at the statutory rate		
Profit before income tax equivalent expense	700,800	493,886
Tax at the statutory tax rate of 30%	210,240	148,166
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Deferred tax equivalent asset adjustment in period	(288)	(7,305)
Non-deductible expenses	38	13
	209,990	140,874
Adjustments for current tax equivalent of prior periods	(14)	3
Income tax equivalent expense	**209,976**	**140,877**

The Company and its wholly owned Australian controlled entities form a tax consolidated group.

The Company as head entity in the tax consolidated group is required to make income tax equivalent payments to the State Government and is not liable to pay Commonwealth tax that would be payable if it were not a Government Owned Corporation.

22. Income tax (continued)

These payments are made pursuant to section 129(4) of the *Government Owned Corporations Act 1993* and are based upon rulings set out in the Treasurer's Tax Equivalents Manual. The National Tax Equivalents Regime gives rise to obligations which reflect in all material respects those obligations for taxation which would be imposed by the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997*.

Income tax equivalent expense is made up of current tax equivalent expense and deferred tax equivalent expense. Current tax equivalent expense represents the expected tax payable on the taxable income for the year, using current tax rates and any adjustment to the tax payable in respect of previous years. Deferred tax equivalent expense represents change in temporary differences between the carrying amount of an asset or liability in the balance sheets and its tax base.

	Consolidated	
		Restated
	2018	2017
	$'000	$'000
Deferred tax liability		
Net deferred tax equivalent asset/(liability) comprises temporary differences attributable to:		
Employee benefits	16,359	14,623
Derivatives	52,511	180,120
Provisions	109,660	103,358
Other	42,292	19,824
Property, plant and equipment	(345,209)	(342,223)
Defined benefits plan	(6,364)	(5,348)
Derivatives	(63,193)	(108,977)
Inventories	(39,840)	(60,817)
Exploration, evaluation and development	(4,774)	(4,646)
Other	(15,313)	(21,202)
Deferred tax liability	**(253,871)**	**(225,288)**
Movements:		
Opening balance	(225,287)	(260,661)
Charged to profit or loss	43,046	34,439
Gains on revaluation of biological assets	-	(70)
Cash flow hedges	(70,137)	3,376
Actuarial (losses)/gains on defined benefit plans	(1,493)	(2,372)
Closing balance	**(253,871)**	**(225,288)**

Net deferred tax equivalent balances

Tax effect accounting

The Group adopts the balance sheet approach to accounting for income tax equivalent payments.

Deferred tax equivalent balances arise when there are temporary differences between carrying amounts and the tax bases of assets and liabilities, other than for the following:

- Where the difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit nor taxable profit or loss;
- Where the temporary difference relates to investments in subsidiaries, associates and interests in joint arrangements to the extent the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Where the temporary difference arises on the initial recognition of goodwill.

22. Income tax (continued)

Deferred tax equivalent 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 equivalent assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled based on the tax rates and the tax laws that have been enacted or substantively enacted at the balance sheet date.

Tax equivalent assets and 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 equivalent balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity.

	Consolidated	
	2018	2017
	$'000	$'000
Current tax equivalent liabilities	105,121	107,787

Tax consolidation

As a consequence of the establishment of the tax consolidated group, the current and deferred tax equivalent amounts for the tax consolidated group are allocated among the entities in the Group using a stand-alone taxpayer approach whereby each entity in the tax consolidated group measures its current and deferred taxes as if it continued to be a separate taxable entity in its own right. Deferred tax equivalent assets and deferred tax equivalent liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheets and their tax values under consolidation.

The tax consolidated group has entered into a tax sharing agreement and tax funding agreement. The tax funding agreement requires each wholly owned controlled entity to pay to the Company the current tax equivalent liability (or asset) and any unused tax losses assumed by the Company. The tax sharing agreement sets out the allocation of income tax equivalent liabilities amongst the entities should the Company default on its tax obligations and the treatment of entities exiting the tax consolidated group.

In accordance with the tax funding agreement and *Interpretation 1052 Tax Consolidation Accounting*, any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses from the wholly owned controlled entities in the tax consolidated group are recognised by the Company. To the extent that the amounts recognised by the Company and its wholly owned entities are equivalent, amounts payable to (receivable by) the Company are accounted for through inter-company loan accounts. Any differences between these amounts are recognised by the Company as an equity contribution to or distribution from the wholly owned controlled entities. Distributions firstly reduce the carrying amount of the investment in the wholly owned controlled entities and are then recognised as revenue.

23. Key Management Personnel

(a) Directors

The following persons were Directors of the Company and its subsidiaries during the financial year.

Chairman - non-executive director
Dr Ralph Craven

Non-executive directors
Adam Aspinall
Allison Warburton (1 July 2017 to 31 January 2018)
Dominic Condon (1 July 2017 to 8 September 2017)
Jacqueline King
Karen Smith-Pomeroy

23. Key Management Personnel (continued)

(b) Other key management personnel

The following management personnel, all of whom were employed by the Company, had the authority and responsibility for planning, directing and controlling the activities of the Group during the financial year:

Chief Executive Officer - Richard Van Breda
Chief Financial Officer - Michael O'Rourke
Chief Operating Officer - Andrew Richardson
Executive General Manager Business Services - Jennifer Gregg
Executive General Manager Energy Trading and Commercial Strategy - Stephen Quilter

(c) Remuneration of key management personnel

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 Directors' fees, committee fees and superannuation contributions.

Directors' compensation does not include insurance premiums paid by the Company or related parties in respect of Directors' and officers' liabilities and legal expenses, as the insurance policies do not specify premiums paid in respect of individual directors. Further, the Directors do not receive any performance related compensation.

Other key management personnel

Remuneration policy

The Company's Board approved *Senior Executive - Recruitment, Appointment and Remuneration Policy* provides that:

- recruitment and appointment of Senior Executives will be based on the principles of merit and equity;
- remuneration of Senior Executives will be aligned to the Company's Corporate Plan and organisational objectives and reviewed regularly to ensure that strategic business requirements are supported; and
- remuneration arrangements will be consistent with the *Queensland Government's Policy for Government Owned Corporations Chief and Senior Executive Arrangements Version 2*

Remuneration packages for the Chief Executive Officer and other key management personnel comprise the following components:

- base salary, which is payable in cash and based on an applicable market rate, as assessed by independent remuneration consultants;
- retirement benefits delivered under defined contribution superannuation funds nominated by the key management personnel;
- at-risk performance incentives, which are payable annually in cash or superannuation, or a combination of both, depending upon the satisfaction of key criteria; and
- other benefits, which may include private health insurance, access to a pool car park, Qantas club membership or equivalent, mobile device and associated costs and residential internet connection for remote access.

Link between remuneration paid and performance of the Group

Directors' remuneration is not directly linked to the performance of the Group, with any remuneration increases being determined by the shareholding Ministers in accordance with section 84 of the *Government Owned Corporations Act 1993*. Directors do not receive any performance related remuneration.

In accordance with the *Senior Executive - Recruitment, Appointment and Remuneration Policy*, remuneration increases for the Chief Executive Officer and other key management personnel are determined on an annual basis taking into account:

23. Key Management Personnel (continued)

- the outcome of individual performance reviews;
- movement in market rates;
- government policy;
- the Company's capacity to pay; and
- advice from shareholding ministers.

Where the Chief Executive Officer and other key management personnel are not currently remunerated at the market median for their role, increases may be awarded up to 10% of their total fixed remuneration. Where they are remunerated above the market median (except in cases where this remuneration has been approved by the shareholding Ministers), increases may be in line with either the All Groups Brisbane Consumer Price Index or the Australian Bureau of Statistics Wages Price Index (Queensland - All sectors - excluding bonuses) for the March quarter each year. Increases of the total fixed remuneration (including annual performance reviews) for the Chief Executive Officer and other key management personnel are approved 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 and superannuation). The amounts payable are tied to the achievement of pre-determined corporate, divisional, individual performance targets and a values assessment as approved by the Board.

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 Chief Executive Officer's remuneration contract is a fixed term of contract, initially for a period of three years commencing in July 2012 and was extended for a further two year period, concluding in July 2017. The option to reappoint under a new fixed term contract for a further three year period was exercised by the Board and the Chief Executive Officer. This contract concludes in July 2020 (following this there is an option to extend for a further two year period).

The termination benefits applicable to the Chief Executive Officer include:

- payment of termination benefit on early termination by the Group, except for serious misconduct, bankruptcy, serious offence, unsatisfactory performance or incapacity is equal to two weeks' salary for each year of continuous service (with a minimum of 13 weeks' and a maximum of 52 weeks' salary), 20% of residual salary value of the contract (with a minimum of 13 weeks salary) and any accrued entitlements; or
- where employment terminates on contract expiry and the Group does not offer further employment, a severance payment equal to two week's salary for each year of continuous service (with a minimum of 13 weeks' and a maximum of 52 weeks' salary) and any accrued entitlements.

Senior Executive appointments are approved by the Board. The remuneration and other terms of employment for these roles are specified in employment contracts. Senior Executive appointments continue to be made in accordance with the *Queensland Government's Policy for Government Owned Corporation Chief and Senior Executive Employment Arrangements Version 2* unless otherwise determined by shareholding Ministers.

Contract dates for the Senior Executives are as follows:

- Chief Financial Officer - initial fixed term employment contract for a period of three years commencing in January 2009 and extended for a further two year period concluding in January 2014; the option to reappoint under a new contract for a further three years was exercised and became effective in January 2014, and was extended for a further two year period concluding in January 2019.
- Chief Operating Officer - employed on an on going (tenured) basis commencing in December 2016.
- Executive General Manager Business Services - initial fixed term contract for a period of three years commencing in March 2009 was extended for a further two year period, concluding in December 2013; the option to reappoint under a new contract for another three years was exercised and became effective in December 2013, and was extended for a further two year period concluding in December 2018.
- Executive General Manager Energy Trading and Commercial Strategy - employed on an on going (tenured) basis commencing in July 2016.

23. Key Management Personnel (continued)

The termination benefits applicable to Senior Executives, depending upon individual employment arrangements, include:

Fixed term contract:

- payment of a termination benefit on early termination by the Group, except for serious misconduct, bankruptcy, serious offence, unsatisfactory performance, or incapacity equal to two weeks' salary for each year of continuous service (with a minimum of four weeks' and a maximum of 52 weeks' salary), separation payment of 20% of the residual salary value of the contract and any accrued entitlements; or
- where the employment terminates on contract expiry and the Group does not offer further employment, a severance payment comprising 2 weeks' salary for each year of continuous service (with a minimum of four weeks' and a maximum of 52 weeks' salary) and any accrued entitlements.

On going (tenured) basis contract:

- any accrued leave entitlements;
- total fixed remuneration for the balance of the notice period, if the employment is terminated by the GOC immediately or during the notice period; and
- a termination payment, except for serious misconduct, bankruptcy, serious offence, unsatisfactory performance or incapacity, equal to three months' base salary.

(d) Details of remuneration

Details of the remuneration of each Director of the Company and each of the other key management personnel of the Group are set out in the following tables:

Directors of Stanwell Corporation Limited

Name	**Short-term employee benefits**		**Post employment**	
	Cash salary $'000	Committee Fees $'000	Superannuation $'000	Total $'000
2018				
Dr Ralph Craven *Chair*	**79**	**8**	**9**	**97**
Adam Aspinall	**31**	**6**	**4**	**41**
Allison Warburton	**18**	**3**	**2**	**23**
Dominic Condon	**6**	**1**	**1**	**8**
Jacqueline King	**31**	**6**	**4**	**41**
Karen Smith-Pomeroy	**31**	**6**	**4**	**41**
2017				
Dr Ralph Craven *Chair*	79	9	9	97
Adam Aspinall	17	2	2	21
Allison Warburton	17	2	2	21
Dominic Condon	31	4	3	38
Jacqueline King	31	5	4	40
Karen Smith-Pomeroy	31	6	4	41
Russell Kempnich	8	1	1	10

23. Key Management Personnel (continued)

Other key management personnel of the Group

Position	Short-term employee benefits			Post employment	Long-term employee benefits	
2018	Cash salary $'000	Bonus $'000	Non-monetary benefits $'000	Superannuation $'000	Long service leave $'000	Total $'000
Chief Executive Officer	**644**	**96**	**28**	**74**	**16**	**858**
Chief Financial Officer	**341**	**48**	**23**	**39**	**9**	**460**
Chief Operating Officer	**392**	**32**	**66**	**42**	**10**	**542**
Executive General Manager Business Services	**339**	**48**	**24**	**39**	**8**	**458**
Executive General Manager Energy Trading and Commercial Strategy	**341**	**46**	**19**	**39**	**8**	**453**
Total	**2,057**	**270**	**160**	**233**	**51**	**2,771**
2017						
Chief Executive Officer	625	96	25	72	16	834
Chief Financial Officer	326	48	25	37	8	444
Chief Operating Officer	222	32	42	25	5	326
Executive General Manager Business Services	322	48	26	37	8	441
Executive General Manager Energy Trading and Commercial Strategy*	318	46	13	36	8	421
Acting Executive General Manager, Safety and Asset Services	180	21	-	20	4	225
Acting Executive General Manager, Production**	198	24	22	3	4	251
Total	2,191	315	153	230	53	2,942

** Stephen Quilter performed the role of Executive General Manager, Energy Trading and Commercial Strategy in an acting capacity until his appointment on 12 July 2016.*
***Superannuation contributions (excluding for higher duties allowances and bonus payments) for Philips David have been made as part of the defined benefits superannuation plan.*

(e) Other transactions with key management personnel

A number of key management personnel of the Group are or were also Directors of other organisations which have or had transactions with the Group. All transactions in the years ended 30 June 2017 and 30 June 2018 between the Group and Directors or other key management personnel, including their related parties, were on normal commercial terms and conditions.

The Company's shareholding Ministers are identified as part of the Company's key management personnel. During the year, these Ministers were:

- The Treasurer, Minister for Trade and Investment, The Honourable Curtis Pitt MP (1 July 2017 to 11 December 2017);
- The Minister for Main Roads, Road Safety and Ports, Minister for Energy, Biofuels and Water Supply, The Honourable Mark Bailey MP (1 July 2017 to 11 December 2017);
- The Deputy Premier, Treasurer and Minister for Aboriginal and Torres Strait Islander Partnerships, The Honourable Jacklyn Trad MP (12 December 2017 to 30 June 2018); and
- The Minister for Natural Resources, Mines and Energy, The Honourable Anthony Lynham MP (12 December 2017 to 30 June 2018).

Ministerial remuneration entitlements are outlined in the Legislative Assembly of Queensland's Members' Remuneration Handbook. The Company does not bear any cost of remuneration of Ministers. The majority of Ministerial entitlements are paid by the Legislative Assembly, with the remaining entitlements being provided by the Ministerial Services Branch within the Department of Premier and Cabinet. As all Ministers are reported as key management personnel of the Queensland Government, aggregate remuneration expenses for all Ministers are disclosed in the Queensland General Government and Whole of Government Consolidated Financial Statements for the 2018 financial year, which are published as part of Queensland Treasury's Report on State Finances.

24. Joint Operations

The Company has a 50% (2017: 50%) interest in the Kogan North Joint Venture, a gas development joint operation in the Surat Basin with Australian CBM Pty Ltd, a wholly-owned subsidiary of Arrow Energy NL. The principal activity of the joint operation is the exploration and development of commercial coal seam gas assets.

In the prior year, the Company terminated the Joint Venture Agreement with HQPlantations Pty Ltd. The Company had a 20.8% interest in the Tarong Hoop Pine Joint Venture prior to purchasing HQPlantations Pty Ltd's interest in the Woodlands Hardwood Plantation.

(a) Summarised financial information for joint operations

The net assets for the joint operations of the Group are $7,429,452 (2017: $7,499,790). The Group's share in these joint operations and the amount at which they are carried is $3,714,726 (2017: $3,749,895).

(b) Commitments and contingent liabilities in respect of joint operations

The contingencies and commitments in relation to the joint arrangements are set out with all contingencies and commitments in notes 25 and 26 respectively.

Application of accounting policies

Under AASB 11 *Joint Arrangements*, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Stanwell Corporation Limited recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

25. Contingencies

Guarantees

All guarantees are provided in the form of unconditional undertakings provided by QTC and all except for one are secured through indemnity agreements.

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

The fair value of the above guarantees is $Nil (2017: $Nil).

Application of accounting policies

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, which is determined as the present value of the amount that would be payable to a third party for assuming the obligation, and subsequently at the higher of the amount of the obligation under the contract, as determined under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

26. Commitments

Lease commitments: Group as lessee

Non-cancellable operating leases

The Group leases various offices under non-cancellable operating leases expiring within 1 to 10 years. The leases have varying terms, escalation clauses and renewal rights.

The Group also leases motor vehicles under leases with an average term of 3 years with no renewal option included in the contracts.

	Consolidated	
	2018	**2017**
	$'000	**$'000**
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	2,909	2,073
One to five years	13,192	13,707
More than five years	13,673	17,648
	29,774	**33,428**
Other commitments		
Commitments relating to other operating expenditure payable is as follows:		
Within one year	176,718	179,601
One to five years	515,032	547,249
More than five years	573,913	510,991
	1,265,663	**1,237,841**

All commitments are shown exclusive of GST.

27. Related party transactions

Parent entity
Ultimate control of the Group resides with the State of Queensland. The ultimate Parent entity within the Group is Stanwell Corporation Limited.

Joint operations
Interests in joint operations are set out in note 24.

Key management personnel
Disclosures relating to key management personnel are set out in note 23.

27. Related party transactions (continued)

Other State of Queensland controlled entities and post employment benefit plans

All State of Queensland controlled entities meet the definition of a related party in AASB 124 *Related Parties*. The Group transacts with other State of Queensland controlled entities as part of its normal operations on terms equivalent to those that prevail in arms length transactions.

The following transactions occurred with related parties:

	Consolidated	
		Restated
	2018	2017
	$'000	$'000
Sales of electricity - wholesale	19,859	121,656
Sales of electricity - retail	91,059	96,052
Other revenue	15,983	5,148
Fuel costs	(18,247)	(17,885)
Employee benefits expense	(5,711)	(5,498)
Other expenses	(5,440)	(3,857)
Raw materials and consumables	(234,671)	(223,747)
Finance costs	(57,167)	(59,217)
Non hedge accounted change in fair value of derivative instruments	(4,814)	(27,366)
Dividends provided for or paid	(494,183)	(260,567)
Income tax equivalent expense	(209,976)	(140,878)

Outstanding balances

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

	Consolidated	
		Restated
	2018	2017
	$'000	$'000
Cash and cash equivalents	43,147	522,623
Trade and other receivables	838,097	15,052
Derivative financial instrument assets	42,002	49,913
Trade and other payables	(861)	(2,856)
Derivative financial instrument liabilities	(36,375)	(111,347)
Deferred tax equivalent balances	(253,871)	(225,287)
Current tax equivalent liabilities	(105,121)	(107,787)
Borrowings	(821,866)	(822,104)
Provision for dividends	(494,183)	(260,567)

Key management personnel

Disclosures relating to key management personnel are set out in note 23. A Director, Karen Smith-Pomeroy is currently a member of the Queensland Treasury Corporation Capital Markets Board. The outstanding balances reported for Cash and cash equivalents and Borrowings relate solely to QTC. Finance costs totalling $46,735,742 were paid to QTC during the year and interest revenue of $15,983,052 was earned from QTC. Transactions between the Group and QTC were on normal commercial terms and conditions.

All other transactions between the Group and Directors or other key management personnel, including their related parties, were immaterial in nature.

28. Financial Risk Management

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including commodity price risks, interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group'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 Group. The Group uses derivative financial instruments to hedge certain risk exposures. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analyses in the case of interest rate and electricity commodity price risks, a counterparty credit ratings analysis for credit risk and a contracts aging analysis for liquidity risk.

Financial risk management is carried out by the Finance, Governance and Commercial division under policies approved by the Board. The Energy Trading and Commercial Strategy division identifies, evaluates and hedges 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 surplus funds.

The Group holds the following financial instruments:

	Consolidated	
		Restated
	2018	2017
	$'000	$'000
Financial assets		
Cash and cash equivalents	63,304	549,727
Trade and other receivables	1,087,256	209,465
Cash collateral	8,239	61,719
Derivative financial instruments	217,400	367,386
Investments	20,000	20,000
Listed securities	-	6,902
	1,396,199	**1,215,199**
Financial liabilities		
Trade and other payables	(274,864)	(233,941)
Borrowings	(821,866)	(822,104)
Derivative financial instruments	(180,910)	(611,310)
Security deposits	(4,250)	(934)
	(1,281,890)	**(1,668,289)**

Market risk

Foreign currency exchange risk

Foreign currency exchange risk arises when future transactions are denominated in non-Australian currency or where future transaction values are calculated by reference to a non-Australian currency.

The Group's risk management policy is to hedge a proportion of anticipated transactions that are denominated in or calculated by reference to a foreign currency. Currency derivatives such as forward currency contracts are used to manage foreign currency exchange risk. These transactions relate to the contracted purchase of capital equipment and operating expenditure denominated in US Dollars, Japanese Yen and Euro.

All currency derivatives were entered into by the Parent entity. The carrying amounts of the financial assets and liabilities denominated in foreign currencies are disclosed in Note 13. For forward contracts designated as hedging instruments, the cash flows of the hedged foreign currency denominated transactions are expected to occur over the financial years to 30 June 2020. The hedge reserve reclassifications capitalised to property, plant and equipment are expected to impact the profit or loss as depreciation over the financial years to 30 June 2045.

28. Financial Risk Management (continued)

Commodity Price risk

Electricity contracts

The Parent entity is exposed to electricity price movements in the NEM. To manage its electricity price risk, the Group has entered into electricity sales contracts and a number of electricity derivatives (including over-the-counter and exchange traded swaps, caps and option contracts) in accordance with the Board approved Trading Risk Management Policy. For the majority of these derivatives, the Group receives from counterparties a fixed price per megawatt hour and in return pays the actual observed pool price. These contracts and derivatives assist the Group to provide certainty in relation to revenue received. Electricity price risk exposures are measured weekly through the review of the Group's mark-to-market exposure of the net derivative asset and liability position and relevant at-risk simulation methods.

Swaps currently in place are timed to settle as each cash flow is received from the NEM. For electricity contracts designated as hedging instruments, the cash flows of the hedged electricity purchases and sales are expected to occur over the next three financial years with the hedge reserve reclassifications to the profit or loss within the same financial years as the cash flows.

Electricity price risk exposures are measured weekly through the review of the Group's mark-to-market exposure of the net derivative asset and liability position and relevant at-risk simulation methods.

Environmental contracts

The Group is exposed to environmental certificate price movements through the requirement to comply with various regulatory environmental schemes as part of its normal business operations. The Parent entity creates environmental certificates which can then be traded in the open market.

To manage its environmental certificate price risk, the Group buys and sells these certificates in both the spot and forward markets. These certificates are classified as inventory. To derive additional income from environmental certificates, the Parent entity trades in environmental derivative contracts, such as forward contracts and options.

Oil contracts

The Group is exposed to oil price movements through operating its vehicle fleet and equipment and sales contracts linked to oil prices. To manage its oil price risk, the Group has entered into a number of over-the-counter forward fixed price contracts. These contracts assist the Group to provide certainty in relation to revenue received and fuel costs.

For oil contracts designated as hedging instruments, the cash flows of the hedged transactions occurred during the financial year ending 30 June 2017 with the hedge reserve reclassifications to the profit or loss within the same financial year as the cash flows.

Sensitivity Analysis

The following commentary and table summarises the sensitivity of the Group's derivative financial instruments to electricity and oil price risk. Analysis is performed on a pre-tax basis using similar information to that which would be provided to management and reflects the impact on the Group's financial position should certain price movements occur.

The sensitivity in the mark-to-market of the electricity and oil derivative portfolios at balance date was investigated by observing the price relative impact of annualised volatility in the forward curves over a selected period under observable market conditions. The analysis assumes upward and downward movements of electricity and oil prices of 30% (2017: 30%), which reflects the market sensitivity of positions held by the Group at balance date. The sensitivity of the Parent entity's financial instruments is not materially different to the amounts disclosed below.

28. Financial Risk Management (continued)

Consolidated - 2018	Average price increase % change	Effect on profit before tax $'000	Effect on equity $'000	Average price decrease % change	Effect on profit before tax $'000	Effect on equity $'000
Electricity price	30%	(34,511)	(274,729)	(30%)	66,724	254,422
Oil price	30%	12,813	-	(30%)	(12,813)	-
		(21,698)	**(274,729)**		**53,911**	**254,422**

Consolidated - 2017	Average price increase % change	Effect on profit before tax $'000	Effect on equity $'000	Average price decrease % change	Effect on profit before tax $'000	Effect on equity $'000
Electricity price	30%	(140,152)	(461,000)	(30%)	164,212	436,940
Oil price	30%	7,265	-	(30%)	(7,265)	-
		(132,887)	**(461,000)**		**156,947**	**436,940**

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. All long term borrowings are provided by QTC. Interest rates on the unsecured borrowings are at book rate which is reviewed and updated as necessary once per year to reflect the evolving market rate of interest that QTC pays to investors to service the underlying bond funding. 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 Company 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 Company and market changes to the relative cost of debt compared with a highly-rated government issuer.

For the Group the bank loans outstanding, totalling $821,866,303 (2017: $822,103,575), are interest only loans. An increase/decrease in interest rates of 100 (2017: 100) basis points would have an adverse/favourable effect as described in the following tables. The percentage change is based on the expected volatility of interest rates using QTC forecasts.

Sensitivity analysis

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

Consolidated - 2018	Basis points increase Basis points change	Effect on profit before tax $'000	Effect on equity $'000	Basis points decrease Basis points change	Effect on profit before tax $'000	Effect on equity $'000
Cash and cash equivalents	100	630	-	(100)	(630)	-
Advances facility	100	8,293	-	(100)	(8,293)	-
Borrowings	100	(545)	-	(100)	605	-
		8,378	**-**		**(8,318)**	**-**

Consolidated - 2017	Basis points increase Basis points change	Effect on profit before tax $'000	Effect on equity $'000	Basis points decrease Basis points change	Effect on profit before tax $'000	Effect on equity $'000
Cash and cash equivalents	100	5,497	-	(100)	(5,497)	-
Borrowings	100	(623)	-	(100)	645	-
		4,874	**-**		**(4,852)**	**-**

28. Financial Risk Management (continued)

Credit risk

Credit risk exposure refers to the situation where the Group may incur financial loss as a result of another party to a financial instrument failing to fulfil their contractual obligation.

The Group utilises industry practice credit review processes and security instruments to manage its credit risks. The Group's credit risk exposure for wholesale trading is managed by trading with energy industry counterparties under International Swaps and Derivatives Association (ISDA) agreements. The Group has a strict credit policy for all customers trading on credit terms and assesses counterparty creditworthiness using a range of quantitative and qualitative measures. Credit ratings determined by a recognised rating agency are considered where available. Particularly in instances where counterparties are not rated, the Group lowers the potential net credit impact by requiring credit support provision as appropriate. Receivable balances are monitored on an ongoing basis for the entity's exposure to potential bad debts.

The credit exposure of derivative contracts is calculated utilising value at risk methodology which takes into account the current market value, duration of exposure, diversification of the counterparty's market operations, likelihood of default of the counterparty, the expected loss given default, credit collateral and the volatility of market prices.

The Group manages its exposure to credit risk for certain derivative financial instruments on a net position basis for each of the counterparties. Accordingly the Group measures the fair value of those derivative financial instruments based on the net positions held with each of those counterparties.

Concentrations of credit risk exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Wholesale trading counterparty credit risk exposures are predominantly to financial institutions and energy market participants. Unrated entities and retail trading counterparties, which include large commercial and industrial customers, have ongoing credit evaluations performed on their financial condition and other qualitative measures to ensure all counterparty credit exposures remain within acceptable levels.

The Group transacts spot electricity and ancillary services with AEMO, which is a company limited by guarantee. AEMO was incorporated under the *Corporations Act 2001* and is owned by the Governments of the six jurisdictions who are members of the Australian Energy Market - Queensland, Victoria, South Australia, New South Wales, Australian Capital Territory and Tasmania. AEMO 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, support from all owners is assumed. As a result, credit risk with AEMO is not considered significant.

The carrying amounts of financial assets, which are summarised at the commencement of this note, best represent the Group's maximum exposure to credit risk at the reporting date.

Liquidity risk

The Group is subject to cash flow volatility and manages a substantial portion of that risk by entering into over-the-counter hedges. To the extent that volatility still arises, the Group manages liquidity risk by maintaining sufficient cash and undrawn facilities to meet unexpected volatility. The Group uses stress testing to measure extreme cash flow risk. The Group has access to QTC funds as required once shareholding Ministers' annual approval for the borrowing purpose has been received. The QTC borrowings have no fixed repayment date, however ongoing credit criteria and reporting requirements must be met and the facility is assessed by QTC annually.

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	Consolidated entity	
	2018	**2017**
	$'000	**$'000**
Expiring within one year (bank overdraft and working capital facility)	122,000	122,000

28. Financial Risk Management (continued)

The overdraft facility is with the Australia and New Zealand Banking Group Ltd and has an approved limit of $2,000,000 (2017: $2,000,000). The working capital facility is with Queensland Treasury Corporation and has an approved limit of $120,000,000 (2017: $120,000,000).

As at 30 June 2018, the Company had drawn down $Nil against the working capital facility (2017: $Nil).

The Group is wholly owned by the State of Queensland and has been subject to review by an international credit rating agency.

The public long-term rating of the Group is AA with a positive outlook (2017: AA with a stable outlook).

Remaining contractual maturities
The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the balance sheet.

Consolidated - 2018	**1 year or less $'000**	**Between 1 and 5 years $'000**	**Over 5 years $'000**	**Remaining contractual maturities $'000**
Non derivatives				
Trade and other payables	274,864	-	-	274,864
Borrowings	42,753	169,923	818,181	1,030,857
Security deposits and retentions	4,250	-	-	4,250
Total non-derivatives	**321,867**	**169,923**	**818,181**	**1,309,971**
Derivatives				
Derivatives	97,185	80,464	-	177,649
Total derivatives	**97,185**	**80,464**	**-**	**177,649**

Consolidated – 2017 restated	**1 year or less $'000**	**Between 1 and 5 years $'000**	**Over 5 years $'000**	**Remaining contractual maturities $'000**
Non derivatives				
Trade and other payables	233,941	-	-	233,941
Borrowings	45,999	183,014	818,181	1,047,194
Security deposits and retentions	934	-	-	934
Total non-derivatives	**280,874**	**183,014**	**818,181**	**1,282,069**
Derivatives				
Derivatives	478,239	128,374	-	606,613
Total derivatives	**478,239**	**128,374**	**-**	**606,613**

29. Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	2018 $'000	Restated 2017 $'000
Profit after income tax equivalent expense for the year	490,824	353,009
Adjustments for:		
Depreciation and amortisation	228,634	236,835
Impairment of non-current assets	67,101	8,384
Write off of non-current assets	34,970	6,505
Net loss on disposal of property, plant and equipment	828	547
Unwinding of discount on provision	15,649	15,230
Non-cash retirement benefits expense	4,452	1,335
Non-cash rehabilitation provision	-	57,134
Stock obsolescence provision	3,154	3,852
Net gain on sale of available-for-sale financial assets	-	(5,752)
Fair value (gain) on financial assets at fair value through profit and loss	(46,624)	(15,006)
Non-cash other provision	(620)	(8,047)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(48,539)	19,212
(Increase)/decrease in inventories	(52,714)	23,016
Decrease in other current assets	323	4,522
Decrease in current financial assets	53,480	96,959
Increase/(decrease) in rehabilitation provisions	3,954	(1,783)
Increase in trade and other payables	18,000	10,740
(Decrease)/increase in other provisions	(2,891)	7,374
(Decrease)/increase in current tax equivalent liabilities	(2,666)	60,125
Increase/(decrease) in deferred tax equivalent liabilities	28,584	(35,372)
Decrease in other non-current assets	7,085	917
Increase/(decrease) in other current liabilities	4,242	(1,247)
Deferred tax equivalents reserves movement	(71,630)	934
Net cash inflow from operating activities	**735,596**	**839,423**

30. Events after the reporting period

After the end of the reporting period, the Group has entered into a transaction with a counterparty to exchange a future option to a reversionary right over a coal resource for a long-term coal supply agreement.

Apart from the above, no matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Notes to the financial statements (continued)

30 June 2018

31. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2018 $'000	2017 $'000
Profit after income tax	421,581	245,959
Total comprehensive income	421,581	243,781

Balance sheet

	Parent	
	2018 $'000	2017 $'000
Total current assets	1,459,939	1,164,888
Total assets	3,506,232	3,592,519
Total current liabilities	933,619	1,055,462
Total liabilities	2,232,353	2,349,272
Equity		
Contributed equity	1,214,692	1,214,692
Reserves	24,389	(139,101)
Retained profits	34,798	167,656
Total equity	1,273,879	1,243,247

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The Company has entered into a Deed of Cross Guarantee with its subsidiaries under which each company guarantees the debts of the others.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2018 (2017: Nil).

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 (2017: Nil).

Application of accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for investments in subsidiaries which are accounted for at cost, less any impairment, in the parent entity.

Directors' declaration

30 June 2018

In the Directors' opinion:

(a) the financial statements and notes set out on pages 48 to 102 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 consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, 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 1 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 the corporate structure described in note 1.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of Directors.

Dr Ralph Craven
Non-executive Chairman

Karen Smith-Pomeroy
Non-executive Director

28 August 2018
Brisbane

Stanwell Corporation Limited

Independent auditor's report

To the Members of Stanwell Corporation Limited

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Stanwell Corporation Limited and its controlled entities (the group).

In my opinion, the financial report:

a) gives a true and fair view of the group's financial position as at 30 June 2018, and its financial performance and cash flows for the year then ended

b) complies with the *Corporations Act 2001*, the Corporations Regulations 2001 and Australian Accounting Standards.

The financial report comprises the balance sheet as at 30 June 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the directors' declaration.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*. I am also independent of the group in accordance with the auditor independence requirements of the *Corporations Act 2001*, and confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. I addressed these matters in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Measurement of derivative financial instruments and designation of hedging instruments

Refer to notes 13 and 14 in the financial report

Key audit matter	How my audit addressed the key audit matter
Stanwell measured some of its derivative financial instruments at fair value using complex valuation models. The models included the following key inputs that involved significant judgement due to an absence of observable market data: • market risk and option volatilities • scaling factors • credit default probabilities	I engaged a specialist and an auditor's expert to assist me in: • Obtaining an understanding of the valuation models, and assessing their design, integrity and appropriateness with reference to common industry practices. • Challenging management assumptions used in the valuation process and assessing the reasonableness of the key inputs by comparison to independently sourced external market data, market conditions at year end, Stanwell's generation activities and energy trading policy; and • For a sample of derivatives, testing the reasonableness of the valuation calculations by agreeing key terms to supporting documents (including contracts) and counter-party confirmations and recalculating the fair values for comparison to those calculated by the Group based on our understanding of generally accepted derivative valuation practices. In engaging a specialist and expert to assist us in addressing this key audit matter I have reviewed: • their qualifications, competence, capabilities, objectivity • the nature, scope and objectives of the work completed for appropriateness • the findings and conclusions for relevance, reasonableness and are consistency with the evidence obtained.
The accounting standards for hedge accounting are complex, and their application involved significant judgements about Stanwell's forecast generation profile to determine whether each derivative financial instrument fulfilled the conditions for classification as an effective hedge. Hedge accounting involves recording unrealised gains or losses on derivatives against equity if the derivatives are designated as effective hedges, or otherwise against profit or loss.	With the assistance of an external specialist, my procedures included, but were not limited to: • Assessing the Group's hedge accounting process for compliance with accounting standards. This included reviewing hedge accounting documentation and testing the methodology for calculating hedge effectiveness; • Assessing the appropriateness of the designation for a sample of derivatives by inspecting the hedge documentation, key terms of the hedging instrument and nature of the hedge relationship; • For cash flow hedges, assessing the reasonableness of forecast information used to support that hedged transactions are considered highly probable of occurring. • Testing reconciliations of the cash flow hedge reserve and assessing the appropriateness of the presentation of gains and losses in the income statement. • In engaging a specialist to assist us in addressing this key audit matter I have reviewed their qualifications, competence, capabilities, objectivity and work completed to ensure that: • The nature, scope and objectives of the work completed was appropriate; and • The findings and conclusions are relevant and reasonable and are consistent with the evidence obtained.

Measurement of the provision for restoration, rehabilitation and decommissioning

Refer to note 17 in the financial report

Key audit matter	How my audit addressed the key audit matter

The measurement of the provision for restoration, rehabilitation and decommissioning required significant judgements for:
• identifying locations where a present obligation for future restoration, rehabilitation, and decommissioning exists as a past event
• forecasting the cost of the required restoration, rehabilitation, and decommissioning in today's dollars
• estimating the timing of the required restoration, rehabilitation, and decommissioning
• estimating annual escalation cost factors
• setting the rate used to discount the forecast cost of restoration, rehabilitation, and decommissioning to present value.
 	
The provision relates to all of Stanwell's power station sites, mine sites, and ash dams.
Stanwell bases the provision on the cost of restoring sites to the minimum current legislative requirements.
	My procedures included, but were not limited to:
	• Assessing the competence, capability and objectivity of the internal and external experts Stanwell used in measuring the provision.
	• Evaluating management's estimates of the minimum cost for restoring sites for reasonableness against historical data from recent similar restoration projects.
	• Evaluating the timing used in the calculations of the provision for consistency with the proposed site closures disclosed in:
	  ○ the annual assessment of estimated useful lives
	  ○ management reports and Board reports
	  ○ correspondence between Stanwell and its external stakeholders and
	  ○ public announcements and media releases.
	• Assessing the completeness of the provision by reviewing relevant environmental and regulatory requirements.
	• Evaluating the annual escalation cost factor used for reasonableness relative to standard industry practices.
	• Evaluating whether discount rates were within a reasonable range, with reference to market data and industry research.

Impairment assessment and estimation of the recoverable amount of Stanwell's assets

Refer to note 10 in the financial report

Key audit matter	How my audit addressed the key audit matter

Stanwell used a complex discounted cash flow model for measuring the recoverable amount of property plant and equipment. The model involved significant judgements for:
• allocating assets to cash generating units (CGUs).
• estimating future cash inflows and outflows based on:
  o electricity demand
  o wholesale electricity prices
  o cost of fuel and
  o planned plant retirements.
• determining the rate used to discount the forecast cash inflows and outflows to present value.
	My procedures included, but were not limited to:
	• Obtaining an understanding of the discounted cash flow model, and assessing its design, integrity and appropriateness with reference to common industry practices.
	• Reviewing the accuracy and relevance of the input and data used, including reconciling input data to supporting evidence.
	• Assessing the reasonableness of cash flow forecasts relative to corporate plans, rehabilitation obligations, AEMO published data and other relevant internal and external evidence.
	• Reviewing management's assessment of future changes in market conditions by verifying against industry data.
	• Assessing the reasonableness of long term fuel prices by agreeing them to known contracts in place.
	• Reviewing the accuracy of Stanwell's financial internally generated financial forecasts by comparing historical budgets to actual results.
	• Performing a sensitivity analysis to assist in considering the potential impact of reasonably possible changes (downside/upside) in these key assumptions.
	• Verifying the mathematical accuracy of the net present value calculations.
	• Evaluating whether the discount rate applied was within a reasonable range, with reference to market data and industry research.

Other information

Other information comprises the information included in the group's annual report for the year ended 30 June 2018, but does not include the financial report and my auditor's report thereon.

The company's directors are responsible for the other information.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the company for the financial report

The company's directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Corporations Act 2001*, the Corporations Regulations 2001 and Australian Accounting Standards, and for such internal control as the company's directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The company's directors are also responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the group.
- Conclude on the appropriateness of the group's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the audit of the group. I remain solely responsible for my audit opinion.

I communicate with the company's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the company's directors, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Damon Olive
as delegate of the Auditor-General

28 August 2018
Queensland Audit Office
Brisbane

Queensland
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Better public services