stanwell

ENERGY for Queensland

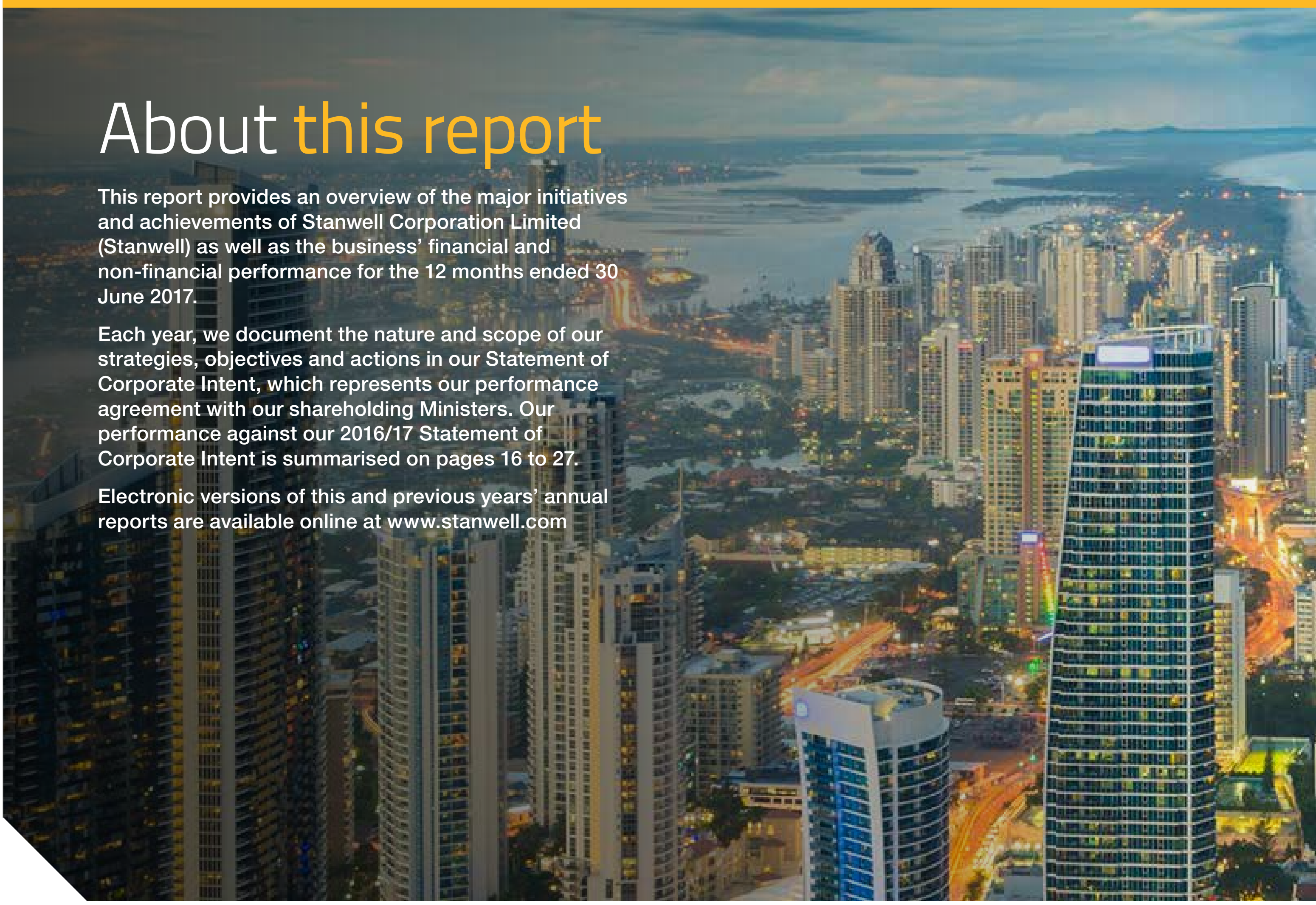
ANNUAL REPORT 2016/17

TABLE OF CONTENTS

Our highlights

Our safest year yet with a **45% reduction** in the number of injuries, from 220 in 2015/16 to 119 in 2016/17.

More than **20,000 GWh** of electricity generated, providing a secure supply of electricity for Queenslanders – a record high generation level.



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 2017.

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 2016/17 Statement of Corporate Intent is summarised on pages 16 to 27.

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

98.0% reliability

for the 2016/17 year,

including a world-class reliability factor of 99.2% during summer, ensuring Queenslanders are provided with the electricity they can depend on.

Commenced feasibility study into the Burdekin hydro-electric project which has the potential to power

30,000 Queensland homes with clean energy.

$145.0m

invested in our power stations

to ensure we operate as efficiently and as reliably as possible.

Successful return to service of the Mica Creek Power Station

to provide electricity for the Dugald River zinc mine.

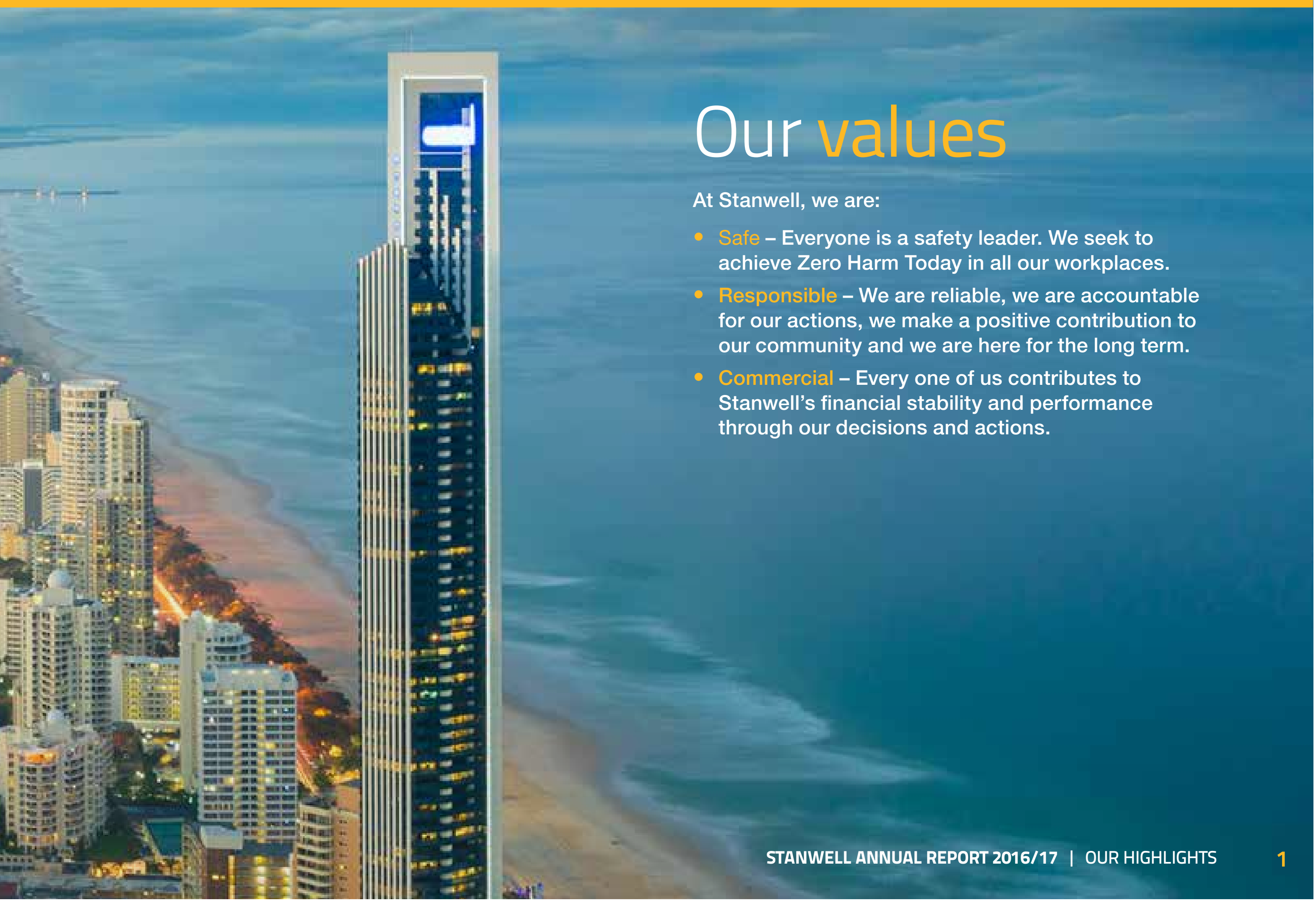
$260.6m

dividend paid to the people

of Queensland.

Commenced work on returning Swanbank E Power Station to service

by 1 January 2018.



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.

Here for Queensland

We are an energy business with a diversified portfolio of coal, hydro and gas-fired electricity generation facilities throughout Queensland. We are a major provider of electricity to Queensland and the National Electricity Market.

We own Meandu Mine which fuels the Tarong power stations and we have access to competitively-priced fuel, including a coal supply agreement with a major Australian mining company, which provides for the sharing of revenue from its coal exports.

We are owned by the people of Queensland. Providing a secure, affordable and environmentally-sustainable supply of energy for all Queenslanders is at the heart of everything we do.

As at 30 June 2017, we employed 650 people at our sites and offices (30 June 2016: 694). In addition, through our partnerships and alliances with major suppliers, many more people work on our sites.

AFFORDABLE

Our portfolio of low cost, efficient and reliable power stations means we can offer longer term and competitively priced electricity contracts. This provides our customers with certainty, reducing their exposure to market price fluctuations and supporting continued economic growth in Queensland.

Stanwell derives the majority of its revenue from its contracts with large energy users and retailers, with on average, a smaller portion derived from the spot market.

SECURE AND RELIABLE

Our geographically dispersed portfolio of baseload and peaking power stations, with a combined capacity of more than 4,000 MW can reliably provide up to one-third of Queensland's peak electricity demand. During the summer of 2016/17, when peak electricity demand reached a new record, our generation portfolio within the National Electricity Market achieved a world class reliability factor of more than 99 per cent.

We continue to improve our asset performance and find the most flexible and cost effective solutions to meet the challenges of the new energy market.

SUSTAINABLE

We are a proud generator of environmentally-responsible energy. Through our portfolio of hydro power stations, we have the capacity to generate more than 160 MW of electricity with no greenhouse gas emissions.

We also operate two of Australia's most efficient coal-fired power stations: the supercritical 443 MW Tarong North Power Station and the sub-critical 1,460 MW Stanwell Power Station.

In the past year we have invested more than $145.0 million to ensure our sites operate as efficiently as possible and meet statutory and environmental compliance requirements.

We are also reinvigorating investigations into the Burdekin hydro-electric power station in North Queensland, which would deliver additional renewable energy to the National Electricity Market.

ABOUT STANWELL ENERGY

Stanwell Energy is the retail brand of Stanwell Corporation Limited.

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

Spot market

Stanwell bids its available generation into the National Electricity Market (NEM) – a wholesale market for the supply and purchase of electricity managed by the Australian Energy Market Operator (AEMO). Through this wholesale market, supply and demand are instantaneously matched in real-time through a centrally-coordinated dispatch process. Generators offer to supply the market with specific amounts of electricity at particular prices. Offers are submitted every five minutes of every day. Bids to produce electricity received by AEMO are stacked in ascending price order for each dispatch period. Generators are then progressively scheduled into production to meet prevailing 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.

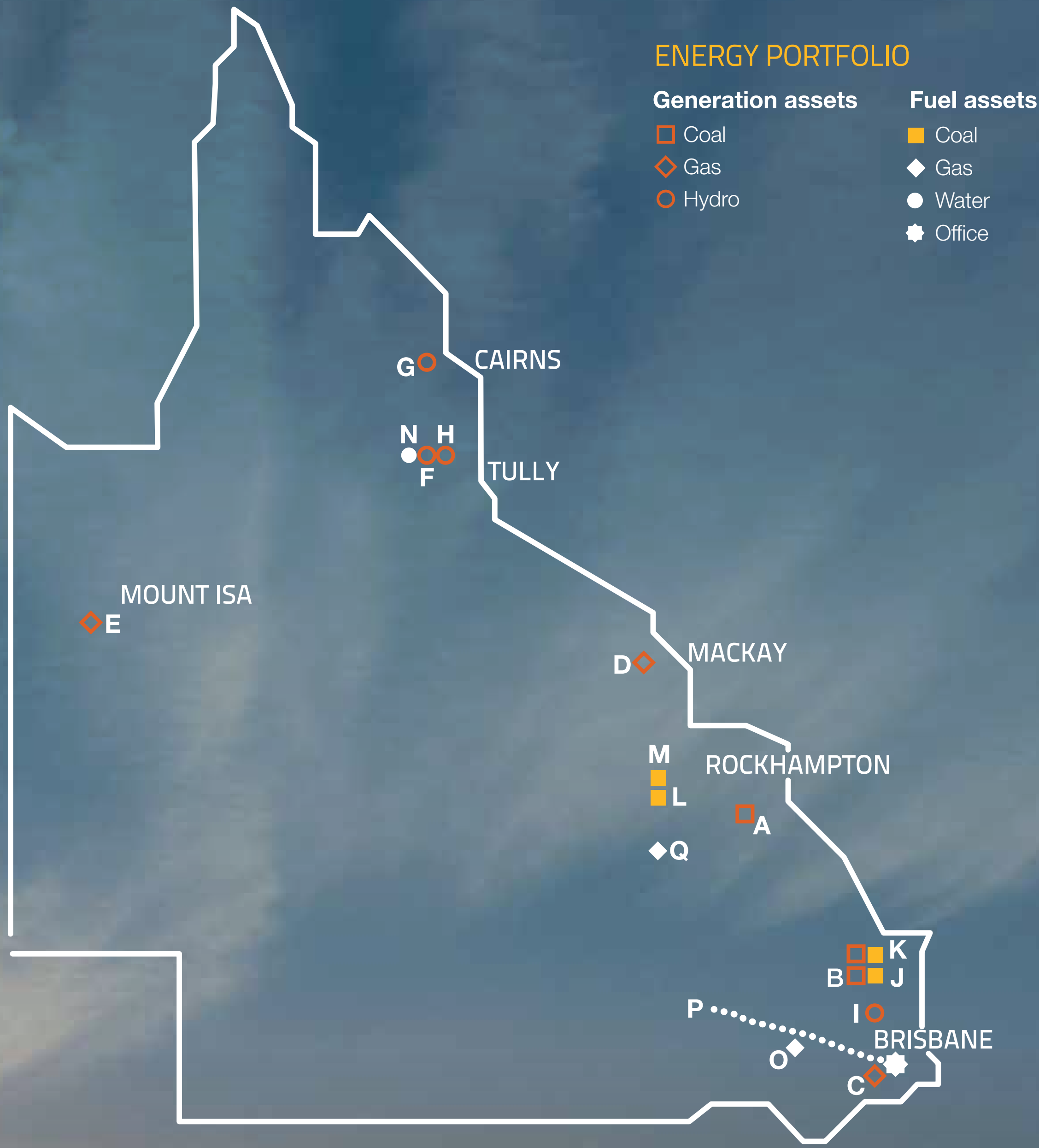
The participants in the spot market are generators, retailers and some large energy users.

Contract market

Participants in the NEM can manage the financial risks associated with spot price volatility. This is achieved by using financial contracts that lock in a firm price for electricity that will be produced or consumed at a given time in the future. These contracts serve to substantially reduce the financial exposure of market participants and contribute to spot market stability. They are known as derivatives, and include swaps or hedges, options and futures contracts.

The majority of Stanwell's revenue is from these contracts with large energy users and retailers, with on average, a smaller portion derived from the spot market.

Energy portfolio



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 – 218 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 Wesfarmers 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

On behalf of the Board, I am pleased to report another successful year for Stanwell in 2016/17. The business achieved a strong financial result, returning a net profit after tax of $375.2 million (2015/16: $170.2 million) and paying a total dividend of $260.6 million (2015/16: $311.6 million). Stanwell's diverse revenue streams have continued to underpin its profitability.

The total dividend payable excludes $100.0 million that has been retained to investigate the potential to generate hydro-electric power at the Burdekin Falls Dam, as part of the State Government's priorities to expand renewable generation capacity in Queensland.

Since the restructure of the Queensland Government owned electricity generators in July 2011, we have focused on ensuring our plant achieves world class reliability standards, optimising our hedge books, streamlining business processes and right-sizing the workforce to enable Stanwell to participate efficiently and effectively in all aspects of the National Electricity Market. Our commercial results are also a reflection of the success of these initiatives.

THE MARKET

Coal and gas-fired generation retiring as an increasing amount of intermittent generation comes online; the need for expensive, short-term generation to fill supply gaps; and energy policy uncertainty at a national level are driving high wholesale prices. Additionally, an extended period of very high temperatures during summer led to higher electricity demand in Queensland (which set a new peak demand record) at a time when the availability of supply from other states was limited.

These conditions would historically provide a clear signal for investment in new baseload generation capacity; however potential investors remain reluctant to make long-term investments in a market where no clear policy parameters exist.

Balancing the electricity market trilemma of security, affordability and sustainability is now a central focus of Federal and State governments, the market operator and market participants. Recent policy announcements at a State and Federal level have sought to balance the trilemma. However, these policies will take some time to have a measurable impact on the current market situation.

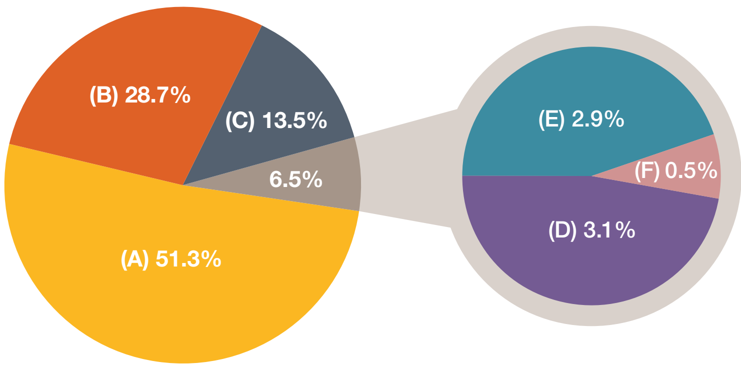
OUR GOAL IS ZERO HARM TODAY

Our firm commitment to the health and safety of all our employees and contractors remains a priority, and continues to underpin our approach to our business operations. We have seen a 45 per cent reduction in the number of injuries, from 220 in 2015/16 to 119 in 2016/17. While this positive result is encouraging and reflects the commitment of our people to achieving our goal of Zero Harm Today, we recognise the need to remain vigilant and seek continual improvement in this area to prevent the occurrence of workplace injuries and occupational illnesses.

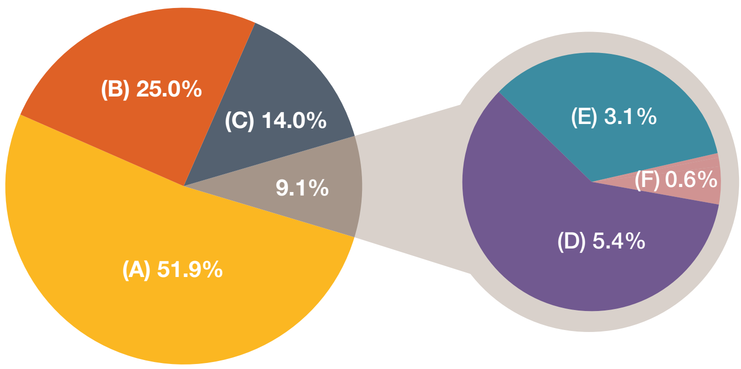
ENSURING A LONG-TERM FUTURE FOR THE BUSINESS

With more than 4,000 MW of coal, hydro and gas generation capacity throughout Queensland, Stanwell's portfolio is substantial and diverse. Stanwell's strategy seeks to leverage these attributes to support the provision of secure and reliable electricity supply to all Queenslanders.

REVENUE 2016/17



REVENUE 2015/16



- A. Sale of electricity – wholesale
- B. Sale of electricity – retail
- C. Energy services revenue
- D. Gas sales
- E. Coal revenue sharing arrangements
- F. Other

Our strategy seeks to:

- ensure our plant can flex to meet the demand patterns of a market with a higher proportion of renewable energy;
- participate in renewable energy, through direct involvement with renewable projects and via power purchase agreements with renewable project proponents; and
- work with large customers and renewable project proponents to develop innovative energy products to meet the rapidly changing needs of the market.

During 2016/17, Stanwell made important advances in all of these areas.

We began the pre-feasibility study for a hydro power station on the Burdekin Dam in North Queensland. If the results of this pre-feasibility study are positive Stanwell is expecting to complete the business case by mid-2018 and providing all development approvals and agreements with landholders are in place, construction of the hydro generation plant would commence in 2020.

We also initiated a program of work to ensure Stanwell is positioned to continue to provide baseload electricity in a market with a high proportion of intermittent generation. There are a range of areas we are exploring, one of which includes seeking an understanding of the full capabilities of our generation assets, in terms of their operating flexibility and their related fuel supply requirements. Stanwell is also contributing to discussions on the evolution of the National Energy Market and associated regulatory framework across our industry.

Stanwell continues to engage closely with large users of electricity to design long-term contracts which provide price certainty and affordability. We are also working closely with large industrial customers to explore their long-term energy requirements and together develop options (which in some instances involve partnerships with renewable energy proponents) to meet those needs.

ACKNOWLEDGMENTS

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

My fellow directors 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.

I would also like to commend the efforts of our Chief Executive Officer, Richard Van Breda, his executive leadership team and all Stanwell's employees for their dedication and commitment in delivering the strong operational and financial performance of the business.

Technology and the associated regulatory and market opportunities are moving rapidly, and market participants will need to be agile to respond to them. With our proven track record of successful business transformation, diverse portfolio and organisational capability, Stanwell is well positioned to respond to and prosper in, the energy market of the future.

Dr Ralph Craven
Non-executive Chairman

Chief Executive Officer's review

The unprecedented change within the energy market continues. There is a need for clear and consistent policy settings to facilitate this change and this will require strong, forward-thinking leadership – both politically and from within the industry.

As a Government Owned Corporation with a high performing and diverse portfolio of thermal and renewable generation assets, Stanwell is well-positioned to contribute to a secure, affordable and sustainable energy sector for the benefit of Queenslanders.

Throughout the year, we have continued to focus on the reliability of our assets with the primary objective of providing security of electricity supply. As a result of prudent investment in asset management, and the expertise and dedication of our operations and trading teams, our plant was able to operate efficiently and reliably in response to the market. During the 2016/17 summer, we achieved a world-class reliability factor of more than 99 per cent.

Despite the significant change facing our business, our number one priority remains the health, safety and wellbeing of our people.

SAFETY PERFORMANCE

Our unrelenting focus on safety has led to an improving trend in our safety performance across the business. In 2016/17, we achieved a record low in the number and frequency of serious injuries. This was achieved during a period of unprecedented activity at our sites and was the result of the consistent and passionate focus on safety by all of our people.

One of our many measures of safety performance is Total Recordable Injury Frequency Rate (TRIFR). At the end of 2016/17 we recorded a TRIFR of 5.32. This is our lowest TRIFR on record and a significant reduction on the previous year's result of 10.11.

While this result is pleasing and confirms that we are focusing on the right things, we can not afford to be complacent as we strive to achieve our goal of Zero Harm Today. The achievement of Zero Harm is transient, requiring a reset and new perspective every day in our quest for an injury free workplace.

In the past 12 months, our emphasis on safety has been expanded to include improving the physical and mental wellbeing of our people. In this regard, we offered a voluntary wellness program to all our people, which included access to health checks and body composition scans; and we have taken steps to tackle the issue of domestic and family violence by partnering with White Ribbon. We were awarded a seven-star rating from the Services Union for our efforts to provide support to our people dealing with domestic and family violence.

FINANCIAL PERFORMANCE

On the back of our strong electricity market contract position, and effective cost management and plant reliability initiatives, the business delivered a net profit after tax of $375.2 million in 2016/17. This enables the business to return a total dividend to shareholders of $260.6 million. The total dividend excludes the retention of $100.0 million as an investment towards the cost of developing the Burdekin Hydro-electric power plant, in keeping with the direction received from our shareholders on 13 June 2017.

The National Electricity Market is a very competitive, highly regulated market and wholesale prices in 2016/17 reflect the outcomes of changing supply and demand but also the uncertainty of energy and climate change policy.
High wholesale electricity prices were the result of a range of factors: the closure of large, baseload power stations; increased electricity demand in Queensland as a result of extreme weather events and industrial demand from the liquefied natural gas projects; and gas supply constraints. In the first quarter of 2017, the east coast of Australia experienced record high temperatures increasing demand significantly. During February, Queensland experienced its highest maximum electricity demand on record of 9,369 MW, well exceeding the record set in 2016 of 9,097 MW.

Importantly, we continued to have a strong focus on cost leadership throughout the year, and delivered significant savings by reducing our operating costs and optimising our capital expenditure. The settlement of the Wesfarmers' dispute ($34.0 million) and the resolution of an insurance claim relating to a lightening strike at Tarong North Power Station ($10.0 million) also contributed to our strong financial performance.

STRATEGY ACHIEVEMENTS

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

1. Innovative energy products
2. Flexible and competitive portfolio
3. Participate in renewables
4. Enablers

Innovative energy products

Through our retail arm, Stanwell Energy, we offer innovative and tailored energy solutions to our growing portfolio of large commercial and industrial customers across Queensland, New South Wales and Victoria.

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

Flexible and competitive portfolio

During the year, we invested more than $145.0 million in projects at our power stations to improve the efficiency of our assets and maintain their performance. The strong performance of our power stations is reflected in the world-class reliability factor of 99.2 per cent which we achieved during summer 2016/17.

As generation from variable energy sources increases, coal-fired power stations will continue to play a role in maintaining security of electricity supply. We are undertaking work to ensure our portfolio can deliver flexible and competitive generation to meet the energy needs of the future.

During the year, we started preparations to return our gas-fired Swanbank E Power Station to full operational capacity on, or before, 1 January 2018 to help ensure security of supply. The return to service of Swanbank E Power Station will improve energy security by ensuring that there is additional generation in the National Electricity Market to respond to increased market demand.

Participate in renewables

Through our portfolio of hydro power stations, we can generate more than 160 MW of clean energy. Hydro-electric generation has an important role to play in Queensland's future energy mix. As such, we have started work on a pre-feasibility study into a hydro-electric power station on the Burdekin Falls Dam. This project has the potential to contribute to the security of electricity supply, while also helping to transition to a lower carbon energy market.

We are also working with potential customers to secure the supply of electricity and large-scale generation certificates from renewable projects in Queensland.

Enablers

At Stanwell, engaging and retaining a high performing workforce is key to our success. Throughout the year, we committed to initiatives which aimed to improve our culture and awareness of diversity and inclusion. We launched a mentoring program to connect people with different skills across the business, and we hosted a total of 30 apprentices, five trainees and two graduates.

OUTLOOK

The Australian energy market is at a turning point as it seeks to address the competing priorities of energy security, affordability and sustainability.

Stanwell has a robust, flexible strategy in place, which we'll use to adapt our business to the energy market of the future.

Our exceptional engineering skills and asset management expertise will be a competitive advantage for the business as the energy mix evolves and our assets flex to meet changes in demand. This will be supported by our strong trading capabilities, which enable us to offer innovative and tailored energy products to meet the changing needs of our customers.

We are well-positioned to play a key role in the transformation of the energy industry and we will strive to ensure a secure, affordable and environmentally-sustainable supply of energy for all Queenslanders.

SPECIAL THANKS

I would like to thank Stanwell's Non-executive Chairman, Dr Ralph Craven, and the Board of Directors for their unwavering support throughout the year. Their passion and dedication has ensured we are well-positioned for the future.

Thank you to our shareholding Ministers and their representatives. We have enjoyed a close and co-operative working relationship.

I am proud of the strong, productive relationships we have with our local communities and I would like to thank them for their ongoing support of our operations.

Finally, I thank our people for their professionalism and dedication to the business. It is because of them that the business has performed so well throughout the year and I look forward to the year ahead when our people will drive changes to the business to ensure our continued success.

Richard Van Breda
Chief Executive Officer

Performance indicators

In July 2016, Stanwell received a Shareholder Mandate from shareholding Ministers. The mandate articulates shareholding Ministers' expectations regarding strategic direction and performance of the business. In 2016/17, Stanwell committed to achieving the following financial and non-financial targets.

KEY MEASURES

	2016/17 TARGET	2016/17 ACTUAL	2015/16 ACTUAL
Operating profit ($M)	**315.9**	540.1	**287.0**
Earnings before interest and tax (EBIT) ($M)	**350.0**	579.4	**300.4**
Earnings before interest, tax, depreciation, amortisation, impairment and fair value movements (EBITDAIF) ($M)	**480.0**	785.3	**479.8**
Net profit after tax ($M)	**192.3**	375.2	**170.2**
Free cash flow ($M)	**307.1**	763.5	**113.3**
Capital expenditure ($M)	**189.8**	160.8	**203.3**
Return on equity (%)	**15.5**	30.4	**12.9**
Total recordable injury frequency rate	**0**	5.3	**10.1**
Environmental enforcement actions	**0**	1	**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						
2016/17	11,380	76.3	92.7	92.7	4.6	2.7
2015/16	9,659	71.6	88.0	83.6	14.3	2.1
Stanwell Power Station – coal – 1,460 MW						
2016/17	8,560	72.4	89.2	93.4	5.6	1.0
2015/16	8,409	70.9	92.7	95.5	3.0	1.5
Swanbank E Power Station – gas – 385 MW						
2016/17	0	0	0	0	0	0
2015/16	0	0	0	0	0	0
Hydros – water – 163.7 MW						
2016/17	618	43.2	84.8	81.6	17.9	0.5
2015/16	419	29.3	86.5	92.0	7.6	0.4
Mica Creek Power Station – gas – 58 MW						
2016/17	5	2.2	92.8	87.8	0.9	11.3
2015/16	191	18.0	93.1	85.6	8.4	6.0

[1]Includes planned and maintenance outage factors.
Swanbank E calculations take into account the cold storage of the power station from 1 December 2014.
Mica Creek calculations take into account the phased withdrawal and subsequent cold storage of generation units from September 2016 to April 2017.

Strategic direction

MARKET OVERVIEW

The Australian energy industry is undergoing unprecedented change.

Increasing consumer choice and influence, an evolving energy mix, the growth of digital technology and support for carbon reduction is radically changing the energy market.

Recent high wholesale electricity prices experienced across the eastern seaboard of Australia have been driven by policy uncertainty at a national level; the ongoing closure of large, baseload power stations; increased electricity demand; and gas exploration regulation in New South Wales and Victoria (impacting the gas available for generation).

In Queensland in particular, a number of variables are impacting the energy market:

- The commissioning and operation of three liquefied natural gas projects in Central Queensland over the past three years have seen an underlying increase in demand for both gas and electricity. This has resulted in Queensland being the only region in the National Electricity Market to experience growth in electricity demand in recent years.
- In the first quarter of 2017, the east coast experienced record high temperatures (increasing cooling load and pushing up electricity demand as a result). On Sunday 12 February 2017, a new Queensland record was set, with demand peaking at 9,369 MW in the late afternoon.
- The increase in demand and the diversion of gas to the liquefied natural gas projects rather than into gas-fired electricity generation has resulted in an increase in wholesale electricity prices. While generators have benefited from these improved market conditions, it also poses a challenge for customer affordability and therefore retaining industrial load and encouraging growth in Queensland.
- The Queensland Government has committed to investigating a renewable energy target for Queensland of 50 per cent by 2030. The type of renewables in the generation mix along with the rate at which the 'take up' of batteries and other technology occurs, will determine the daily demand profile. Stanwell's ability to remain competitive under these conditions, as well as its ability to adapt to other market changes, will determine the future role of its assets.

MARKET OUTLOOK

For 2017/18, the Australian Energy Market Operator has forecast that any further growth in Queensland demand from the liquefied natural gas industry will be offset by a reduction in demand from other sectors.

Balancing the energy market trilemma of security, affordability and sustainability is now the central focus of governments, the market operator and market participants.

There have been several recent policy announcements at a State and Federal level which seek to address the current tight market conditions. These include the Powering Queensland Plan (which includes the creation of a Queensland Energy Security Taskforce), the Queensland Renewable Energy Expert Panel report into credible pathways for up to 50 per cent renewable energy generation by 2030, the South Australia Power Plan, and policies encouraging gas production for domestic use. These policies will take some time for the market to absorb, and in the absence of a clear federal pathway to achieve Australia's Paris agreement targets, it is unclear what the impacts on the energy trilemma will be.

Queensland's relatively young, emissions efficient generation assets, combined with the State's abundant coal resources, means it will play an important role in supporting the National Electricity Market as it transitions to a lower carbon economy.

This has become particularly important as older coal-fired power stations in other states are retired, including the closure in March 2017 of Hazelwood Power Station in Victoria.

Also, Queensland's abundance of gas, recent policy announcements to open up further gas exploration areas and a fleet of flexible gas-fired generators will ensure the State assets can 'ramp up' quickly if required by the market.

The rise in energy storage and renewable generation will bring with it the need for a modern approach to managing essential services to ensure the stability and security of electricity to customers.

STANWELL'S STRATEGIC RESPONSE

Stanwell has transformed its business since the merger of Stanwell Corporation Limited, Tarong Energy Limited and various CS Energy operating sites in 2011.

The business has implemented a disciplined process of simplification, value creation and market adaptation, in relation to its core generation business and the development of a strategically aligned retail business.

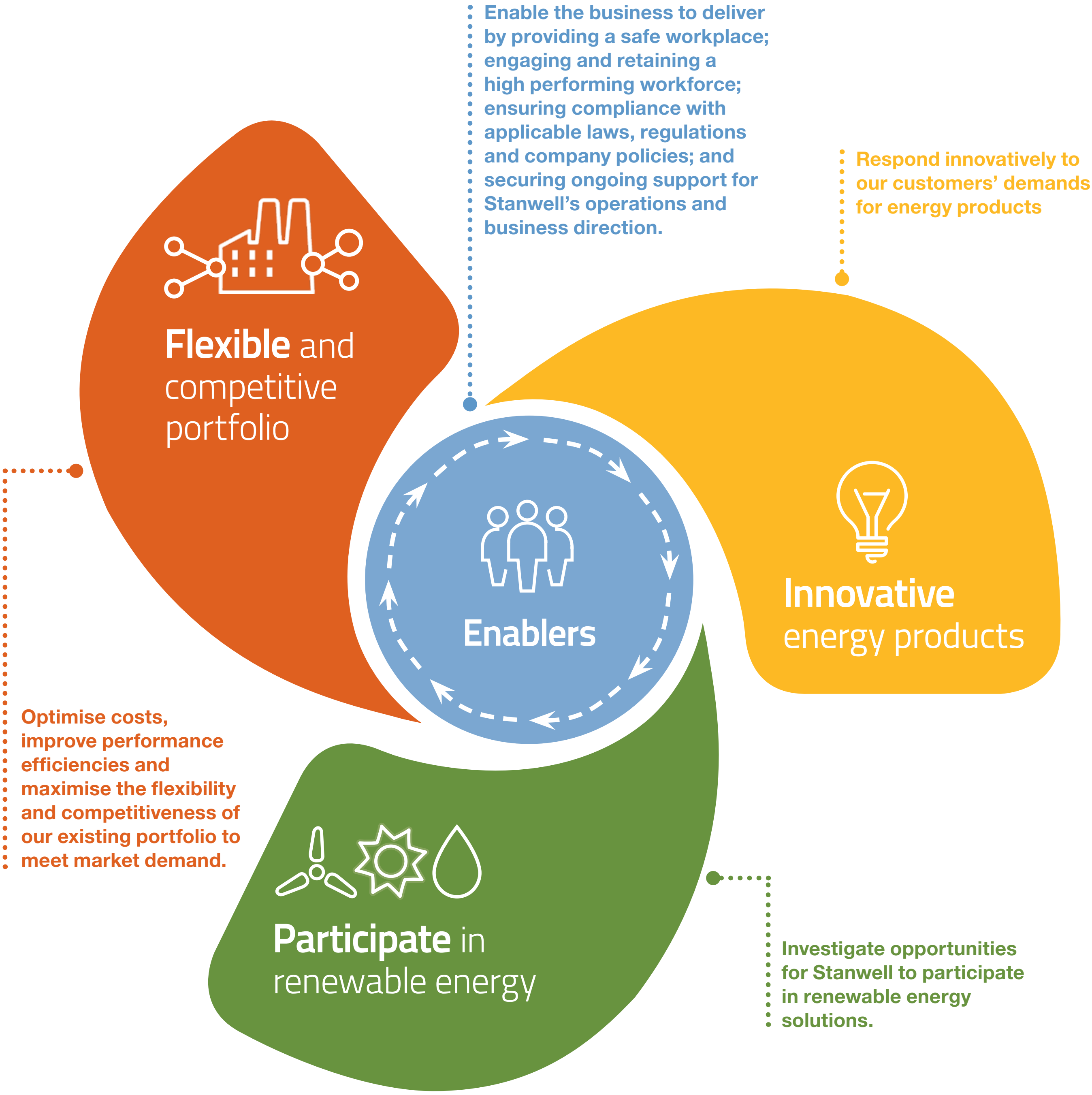
To respond to unprecedented global change in energy markets, Stanwell will continue to monitor, anticipate and adapt.

Our business strategy has been developed in the context of the following business drivers:

- to contribute to security of electricity supply, in view of the increasingly intermittent nature of supply and demand;
- to adapt to and support the transition to a low carbon energy market by integrating renewables into its portfolio, in line with the Shareholder Mandate; and
- to provide affordable energy to customers by developing innovative and tailored products.

Strategic direction (continued)

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



QUEENSLAND GOVERNMENT'S POWERING QUEENSLAND PLAN

In late May and early June 2017, the Queensland Government announced key elements under its Powering Queensland Plan to address the energy market priorities of affordability, security and sustainability.

Key policy initiatives include:

Return to service of Swanbank E Power Station

On 30 May 2017, shareholding Ministers issued a direction to Stanwell under the *Electricity Act 1994*. Citing its concern about the impact of increasing wholesale and retail electricity prices, the Queensland Government directed Stanwell to return Swanbank E Power Station to service from 1 January 2018.

Stanwell has implemented a return to service plan, which encompasses staffing, fuel, trading, financials and operations.

Burdekin Hydro Power Station business case

On 2 June 2017, the Queensland Government announced its Powering North Queensland Plan that includes a $100.0 million reinvestment of Stanwell dividends to help fund a proposed hydro-electric power station at Burdekin Falls Dam.

Stanwell is working closely with SunWater to progress the pre-feasibility study into the Burdekin Hydro Power Project. Depending on the results of the pre-feasibility study, Stanwell is aiming to finalise the business case for the project by mid 2018.

Electricity bidding

On 6 June 2017, shareholding Ministers issued a direction to Stanwell under the *Electricity Act 1994* in relation to offers of electricity generation to the Australian Energy Market Operator during peak periods by Stanwell.

Stanwell is at all times managing its offers according to the spirit and intent of the Direction and within National Electricity Market rules.

Investigations into the restructure of Government owned generators

On 6 June 2017, the Queensland Government announced that it will investigate a restructure of Government owned generators to deliver improved market outcomes.

The Government is considering establishing a separate 'CleanCo' generator to operate Queensland's existing renewable and low-emissions energy generation assets and develop new renewable energy projects.

The investigation will provide recommendations to the Queensland Government in the first half of 2018.

The year ahead

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 in 2017/18:

Innovative energy products

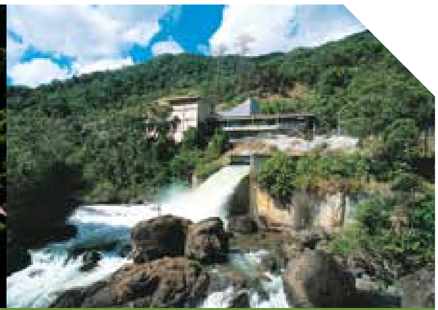
OBJECTIVES	INITIATIVES
Deliver commercial value through the Stanwell Energy retail business	Targeted growth of Stanwell's retail business
	Monitor the changing industrial landscape and seek value creation opportunities in partnership with customers
	Evolve the Stanwell Energy brand, in terms of both offering and customer relationships
Develop products and energy solutions to defend current loads and facilitate new and existing load growth	Target commercial medium to long-term retail and wholesale contracts
	Further develop alternative commercial energy solutions
Manage Stanwell's underlying exposure to global commodity markets	Participate in commodity markets where we have an underlying exposure, as appropriate
Develop expanded commodity trading in line with customer requirements	Provide commercial packaged offering to customers

Flexible and competitive portfolio

OBJECTIVES	INITIATIVES
Ensure flexible generation plant that meets market demand	Understand the cost and complexity of opportunities to modify coal-fired stations to improve ramping rates and load ranges
	Understand the cost and complexity of energy storage to provide ramp rate boost and low load ranges for existing machines
	Revise asset life plans in line with technology developments and changing market conditions
	Investigate opportunities to enable thermal generation units to operate at full capacity during extreme hot weather events (to help ensure security of supply)
Optimise plant costs	Re-assess plant efficiency opportunities and identify potential modifications, including those providing auxiliary power savings
	Optimise overhaul costs
Reduce fuel and mine costs	Secure fuel supplies for future operations
	Investigate flexible coal quality to optimise generation costs
Secure commercial water supply arrangements	Implement strategies to secure a commercial water supply for Stanwell's generation assets
	Continue to optimise generation and water consumption at the Tarong power stations
Realise best value from our coal portfolio	Preparatory work on strategic plan for coal supply for Stanwell Power Station post-2025
Realise best value from our gas portfolio	Investigate upstream gas options and opportunities as the cornerstone of long-term fuel supply strategy for Swanbank E Power Station
	Ongoing monitoring and development of commercial opportunities for sales of gas into domestic or liquefied natural gas markets

The year ahead (continued)





Participate in renewable energy

OBJECTIVES	INITIATIVES
Engage in the transition to lower emissions from the electricity industry and protect long-term market share	Negotiate with renewable project proponents in relation to providing land, operations and maintenance, and other support services for a commercial return
	Investigate the feasibility of a hydro power station on the Burdekin Dam
Explore opportunities to be a facilitator, manager or aggregator of market interface for renewable projects	In response to market conditions, assess commercial opportunities for Stanwell to realise value from its expertise in trading and engineering functions to maximise the value from its current assets. Identify and participate in suitable, commercial external projects



Enablers

OBJECTIVES	INITIATIVES
Achieve operational efficiencies	Achieve annual efficiency savings, targeting $110.0 million over the five-year period from 2015/16 to 2019/20
Provide a safe workplace	Improve safety culture, performance, systems and processes
	Continue to reduce our Total Recordable Injury Frequency Rate year on year
	Deliver improvement in contractor safety through the facilities, overhauls and asset maintenance and management contract
Engage and retain a high performing workforce	Communicate our clear strategy for Stanwell's adaptation and role in the changing energy market
	Further strengthen the Stanwell way (values, culture, leadership and behaviours) through initiatives that drive awareness, learning and improvement
	Ensure our behaviour, practices and processes are aligned to deliver on our business strategy, increase efficiency and commercial returns and progress towards cultural improvement and alignment
	Partner with our leaders to drive a high performing and diverse workforce that is engaged, innovative and flexible
	Continue to optimise structures and team functioning to support delivery of business objectives

OBJECTIVES	INITIATIVES
Ensure compliance with applicable laws, regulations and company policies	Ensure ongoing compliance with national legislation, standards and licences, with no material breaches
Ensure Stanwell's environmental right to operate	Ensure compliance with national legislation, standards and licences, with no material breaches
Improve and simplify business systems	Implementation of a five-year information technology strategy and roadmap to: • maintain cost effective business system platforms that are fit-for-purpose • maintain a prioritised schedule of work to reduce the risk, cost and complexity of information and business systems • maintain assets (hardware and software) in line with vendor maintenance and support agreements
Secure ongoing support for Stanwell's strategy and operations	Secure support for our business objectives and activities through ongoing consultation with shareholders and their advisors
	Build each asset's links with its local community to ensure our key opinion leaders: • have a relationship of trust with the management of their local Stanwell asset • perceive the asset benefits the community
	Maintain relationships with traditional owners
	Engagement with stakeholders, including peak organisations which represent customers, relevant departments and employee representative organisations to ensure common goals are pursued
	Secure environmental approvals that align with commercial operating requirements
	Monitor and, through appropriate channels, seek to influence changes to the National Electricity Market that deliver secure, responsible and sustainable outcomes

Innovative energy products

Affordability:

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.

A tightening of supply and demand conditions, particularly during the summer of 2017, drove higher wholesale electricity prices in Queensland in 2016/17. The average Queensland 30-minute spot price was $93.12/MWh (2015/16: $59.99/MWh).

A number of supply and demand factors have contributed to these higher prices.

On the supply side, a series of baseload power stations (most notably Hazelwood Power Station) closed across the National Electricity Market. The moratoria on gas exploration in New South Wales and Victoria impacted the amount of gas available for electricity generation.

At the same time, demand has increased in Queensland, partly due to liquefied natural gas (LNG) plants. In the first quarter of 2017, record high temperatures across the east coast of Australia pushed up electricity demand. In February 2017, Queensland recorded a new maximum electricity demand of 9,369 MW. The Portland aluminium smelter in Victoria remained online when many expected that it would close at the same time as Hazelwood power station.

These factors have significantly increased electricity spot and forward curve prices for the whole east coast of Australia.

OBJECTIVES	HOW WE PERFORMED IN 2016/17
Deliver commercial value through the Stanwell Energy retail business	Achieved
Manage Stanwell's underlying exposure to global commodity markets	Ongoing
Develop expanded commodity trading in line with customer requirements	Further work required
Develop products and energy solutions to facilitate new or existing load growth	Achieved

When combined with the world class reliability of our power stations, Stanwell recorded positive outcomes in wholesale and contract sales.

On 6 June 2017, shareholding Ministers issued a direction to Stanwell under the *Electricity Act 1994* to alter its bidding strategies to help put as much downward pressure on wholesale electricity prices as possible. Electrcity forward prices have fallen since the implementation of this direction, as illustrated in the 2017/18 contract prices graph shown below.

Stanwell has taken steps to operationalise the direction and will at all times manage offers according to the spirit and intent of the Direction and within National Electricity Market rules.

DELIVER COMMERCIAL VALUE THROUGH THE STANWELL ENERGY RETAIL BUSINESS

Through Stanwell Energy, our electricity retail business, we have continued to attract and retain commercial and industrial customers by providing tailored energy solutions.

> Through Stanwell Energy, our electricity retail business, we have continued to attract and retain commercial and industrial customers by providing tailored energy solutions.

Our retail operations span Queensland, New South Wales, Victoria and the Australian Capital Territory which allows us to serve large, national customers.

Selling retail energy solutions to commercial and industrial energy users locks in a portion of our future revenue and provides an additional channel to market for Stanwell's energy business.

We have focused on longer-term deals in 2016/17 as these offer strategic benefits to Stanwell and our customers. For our customers, in a tightening market overlayed with political and regulatory uncertainty, these longer-term contracts provide them with cost certainty, reduced exposure to market fluctuations, security of supply and continuity of their business operations. For Stanwell, as an operator of long-life assets, longer term deals provide certainty of returns. This certainty contributes to continued economic prosperity in Queensland.

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. By monitoring these markets, Stanwell is able to lock in hedge contracts that protect us from price fluctuations in these significant business inputs.

DEVELOP PRODUCTS AND ENERGY SOLUTIONS TO FACILITATE NEW OR EXISTING LOAD GROWTH

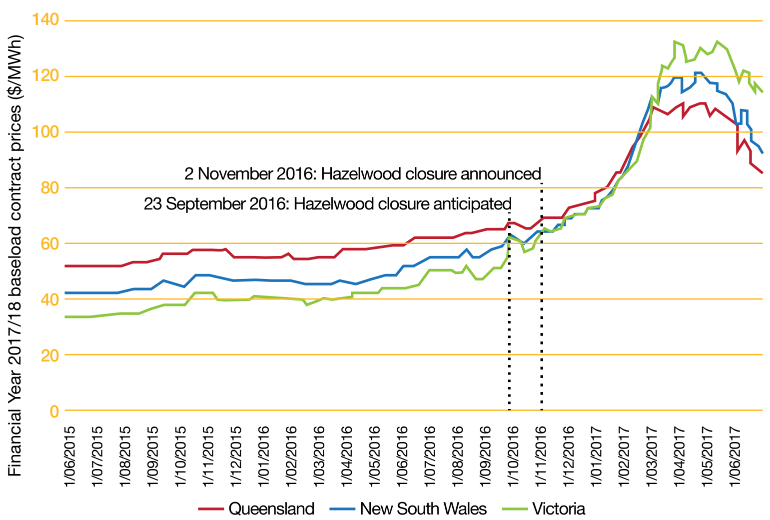
In 2016/17, Stanwell pursued a number of longer-term bespoke deals with major Queensland energy users, including:

- partnering with large industrial users to offer energy solutions that allow them to integrate variable energy sources into their industrial load;
- electricity agreements that include demand side management facilities. These can take the form of the customer curtailing load or using their on-site generation capabilities to supply into the market at times of peak demand;
- providing energy market interfaces and back office services for smaller renewable energy participants; and
- investigations into power purchase agreements with bio-fuelled energy producers.

These opportunities are at varying stages of negotiation.

2017/18 CONTRACT PRICES

Queensland forward prices now significantly lower than in Victoria or New South Wales.



Flexible and competitive portfolio

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

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 2016/17, our generation portfolio within the National Electricity Market achieved average availability and reliability factors of 92.4 per cent and 98.0 per cent, respectively.

During the year, we invested more than $145.0 million in capital projects at our sites to improve efficiency or maintain performance, ensuring our assets can respond when needed by the market.

Five overhauls have been delivered within the past 18 months across the Tarong and Stanwell power stations. This represents the largest overhaul program in our history and included one of our safest overhauls on record.

In early 2017, very hot weather conditions throughout Queensland led to record high electricity demand. During this time, all of Stanwell's generation assets were available, with no significant plant, fuel or water supply issues. The strong performance of our power stations is reflected in a world class summer reliability factor of 99.2 per cent.

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

OBJECTIVES	HOW WE PERFORMED IN 2016/17
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

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. We are investigating a range of initiatives to ensure our coal-fired power stations are as flexible and cost competitive as possible to support a pathway to a lower emissions future. A detailed engineering assessment of the potential unit operating scenarios will be completed over the next 12 months to evaluate potential risks and improvement opportunities.

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 under the *Electricity Act 1994* to return Swanbank E Power Station to service from 1 January 2018.

Stanwell has implemented a return to service plan for Swanbank E Power Station, which encompasses staffing, fuel supply, plant maintenance and recommissioning, operations, trading and financials.

The return to service of Swanbank E Power Station will increase electricity supply, most importantly for the 2018 summer.

Mica Creek return to service

Mica Creek Power Station is a 218 MW gas-fired power station in Mount Isa. Its generation units were progressively placed in cold storage between February and September 2016 after its sole remaining customer ceased mining operations.

Flexible and competitive portfolio (continued)

Mica Creek returned one unit to service in April 2017 when this customer began a new mining project.

Stanwell is exploring opportunities to maximise Mica Creek's generating capacity with existing and potential new customers.

OPTIMISE PLANT COSTS

After 20 years of service, the condensers in the four generating units at Stanwell Power Station were approaching the end of their serviceable life. Since 2015 and ending in 2018, Stanwell is investing in a $30.7 million project to replace the condensers in the four generating units.

The control system is also being upgraded to ensure the long-term commercial viability of Stanwell Power Station. The $68.0 million control system upgrade project on the four units at the power station is being progressively implemented and will be completed in 2019.

Both of these projects are critical in ensuring Stanwell Power Station can operate reliably into the future.

REDUCE FUEL AND MINE COSTS

The extension of Meandu Mine's surface rights is a key project to deliver lower cost fuel to the Tarong power stations. In late 2016, Stanwell received the final regulatory approval for the project and early works have commenced. It is expected that overburden removal will commence in the new area in September 2017.

Optimisation of the mine plan and improved equipment utilisation and productivity resulted in an additional 650,000 tonnes of coal being delivered to the Tarong power stations for the original budgeted cost.

Stanwell is also upgrading the Meandu Mine coal handling and preparation plant to improve coal yield and tailings management at a cost of $17.5 million, with the work to be completed by early 2018.

REALISE BEST VALUE FROM OUR COAL PORTFOLIO

Coal for Stanwell Power Station is currently supplied from the Curragh Mine under an agreement with Wesfarmers. The agreement also provides for Stanwell to receive a revenue stream based on the coal exported from Curragh Mine. In 2016/17, this contributed more than $89.6 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 Wesfarmers in 2025/26.

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.

Boondooma Dam is the primary source of water supply for the Tarong power stations and Meandu Mine.

Under a Water Supply Agreement with SunWater, Stanwell has access to high priority water allocations from Boondooma Dam.

In late 2016, in response to falling dam levels at Boondooma, Stanwell implemented water conservation strategies at the Tarong power stations.

This has enabled the Tarong power stations to limit water usage to less than its annual water allocation, while still operating five generation units.

Stanwell completed works on the Wivenhoe pipeline (which had been out of service since the 2011 floods) so that it will be available to supply water from Lake Wivenhoe to the Tarong power stations when the level in Boondooma Dam falls below 34 per cent.

Stanwell also has a bulk water supply agreement in place with Seqwater for the Tarong, Tarong North and Swanbank power stations. In 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, Barron Gorge Hydro 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 June 2017, Stanwell and SunWater reached agreement on new water charges and an extension of the existing agreement for five years, guaranteeing the delivery of economic and clean energy to the State.

Gas sales were a strong contributor to our financial result in 2016/17.

REALISE BEST VALUE FROM OUR GAS PORTFOLIO

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 2016/17, we sold more than 9.7 petajoules of gas through bilateral sales agreements, traded approximately 730 terajoules of gas through the Wallumbilla Hub and sold more than 1.4 petajoules of gas transport capacity on the Roma to Brisbane pipeline.

We have invested further in our joint venture with Arrow Energy at Kogan North to maintain gas field production in readiness for the return to service of Swanbank E Power Station.

Participate in renewable energy

Sustainability:
By integrating renewable energy into our large portfolio of baseload energy, Stanwell can support the development of renewable projects in the State. This energy diversity will help to maintain a secure supply of electricity to Queenslanders and provide customers with attractive hedge products, while transitioning to a lower carbon future.

Stanwell has a renewable energy strategy which seeks to:

- integrate renewable power purchase agreements (PPAs) into our portfolio;
- work with potential 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 is capable of providing a balanced contract offering in support of variable energy generation.

This year, Stanwell began working with various companies to determine the supply of electricity and large-scale generation certificates from renewable projects in Queensland.

Stanwell intends to support the integration of renewable energy into the market through commercial power purchase agreements, providing a means of managing the impacts of variability on both the physical and financial markets.

OBJECTIVES	HOW WE PERFORMED IN 2016/17
Engage in the transition to lower emissions from the electricity industry and protect long-term market share	Ongoing
Explore opportunities to be a facilitator, manager or aggregator of market interface for renewable projects	Ongoing
Negotiate with renewable project proponents in relation to providing land, operations and maintenance, and other support services for a commercial return	Ongoing

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 working with SunWater (the owners of the Burdekin Dam) on the pre-feasibility study into the project. The pre-feasibility study is anticipated to be completed by September 2017.

Stanwell and SunWater are working closely together on the key commercial principles to build, own and operate the project, and to utilise water already released from the Burdekin Dam. The two organisations are jointly identifying and considering the key risks of the project.

Subject to the pre-feasibility study outcome, Stanwell will proceed to the feasibility stage and finalise the business case. Project construction is targeted to commence from 2020.

Should the project proceed, the Burdekin Hydro Power Station could generate 150 gigawatt hours a year – equivalent to the annual energy use of 30,000 homes.

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

OTHER RENEWABLE ENERGY OPPORTUNITIES

Stanwell is responding to customer inquiries to determine the commercial viability of electricity and large-scale generation certificates from renewable (predominately solar) projects in Queensland, ranging from 50 MW to 100 MW.

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 615 GWh of electricity in 2016/17.

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.

ACHIEVE OPERATIONAL EFFICIENCIES

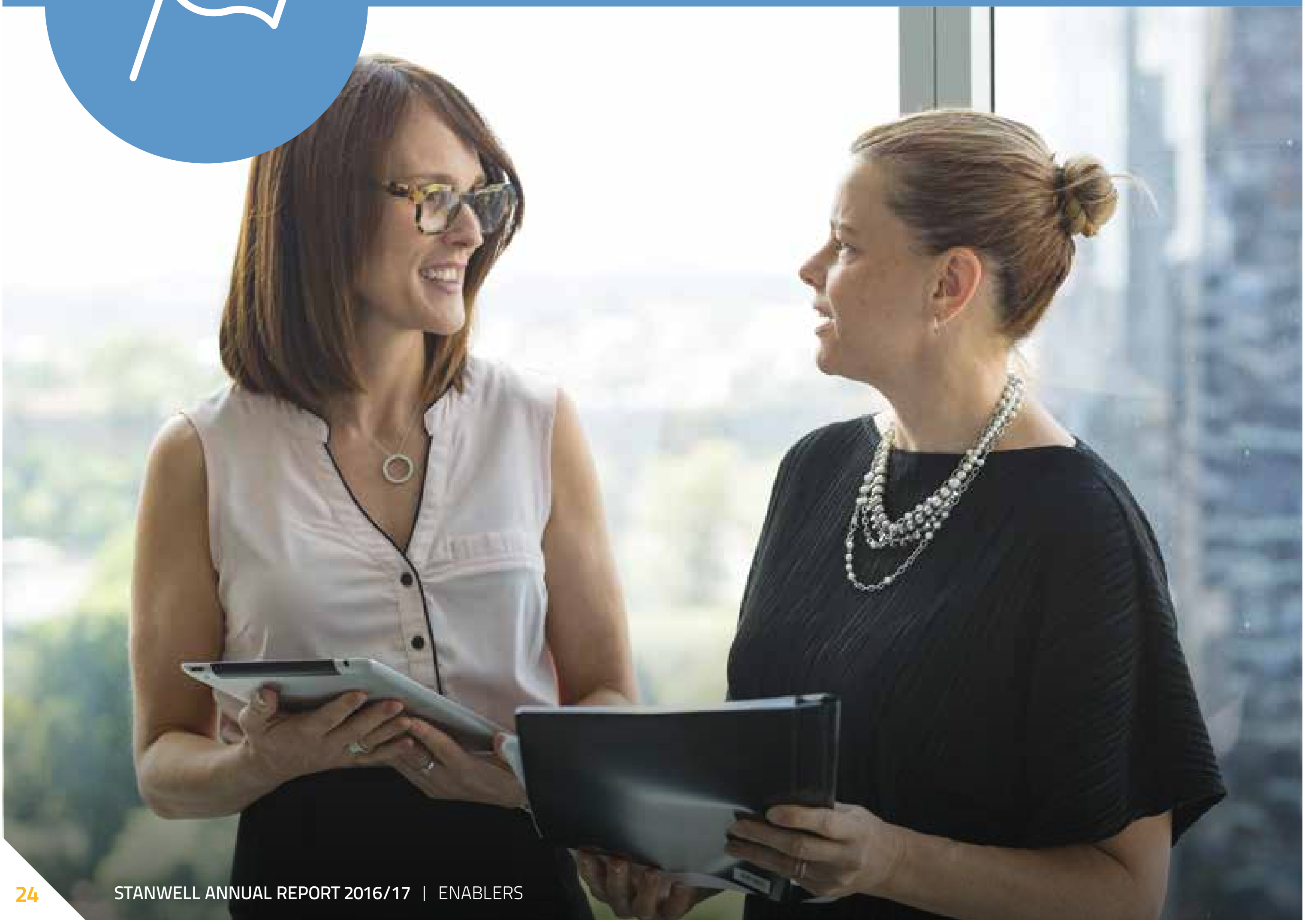
In 2016/17, we set ourselves the challenge of delivering additional value from our business over the next four years. This business wide efficiency program has delivered significant savings through reducing our operating costs and optimising spend on our capital expenses. This efficiency drive will continue to be central to how we manage our business into the future, to ensure we are efficient and cost competitive.

PROVIDE A SAFE WORKPLACE

Our goal of Zero Harm Today reflects our belief that all injuries and occupational illnesses can be prevented. Central to this is a focus on continuous learning and improvement.

This is reflected in our Total Recordable Injury Frequency Rate for 2016/17 of 5.32. This is lower than our 2015/16 result of 10.11 and is our safest year on record.

During the year, we implemented a strategy to ensure that any event that could potentially lead to a serious injury or fatality (known as a SIF) had the appropriate controls to reduce the consequence or likelihood of an event.



OBJECTIVES	HOW WE PERFORMED IN 2016/17
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	Ongoing
Ensure Stanwell's environmental right to operate	Ongoing
Improve and simplify business systems	Ongoing

Since the implementation of this strategy, Stanwell has experienced:

- a reduction in the number of actual and potential SIF events from 51 (actual: 2 and potential: 49) in 2015/16 to 18 (actual: 0 and potential: 18) in 2016/17;
- an increase in the identification of precursor events and situations that if left uncontrolled could lead to a serious injury or fatality; and
- an increase in the responsiveness, leadership attention and level of investigation of potential SIF events.

This year, we launched our Health and Safety Strategy 2017/22, which comprises of a range of initiatives, under six key strategic themes for Stanwell:

- Leadership – People at all levels have personal commitment, active involvement and demonstrate accountability for health and safety.
- Culture and capability – We have a work environment where our people take personal ownership for the safety of themselves and the people they work with.
- Health and wellbeing – Effective management of our key health risks with positive impacts on our people and their families.
- Exposure reduction – Continued emphasis on risk reduction with a focus on reducing potential serious injury and fatality, and process safety events.
- Contractor management – Our contracting partners work to our safety values and standards and proactively seek opportunities to reduce safety risks.

In 2016/17, we set ourselves the challenge of delivering additional value from our business over the next four years.

- Collaboration – Working together across workgroups, sites and industries to share learnings and identify opportunities for improvement.

We continue to offer comprehensive voluntary health checks to all employees and held awareness programs on health and wellbeing, highlighting aspects such as mental health, and physical and musculoskeletal wellbeing.

Our employees and contractors were also provided with updates, support and advice on potential industry health issues such as black lung and our dust management system and health monitoring program.

ENGAGE AND RETAIN A HIGH PERFORMING WORKFORCE

Fostering positive relationships with our people and unions

This year, we engaged and consulted with our people and the unions that are party to our enterprise agreements on a number of projects. These include the relocation of our Rockhampton office, changes to our Safe Work System, the use of external resources at the Tarong power stations and the return to service of Swanbank E Power Station. We have encouraged feedback in formal consultation processes and other forums, including our site consultative committees and working parties.

Celebrating diversity and inclusion

At Stanwell, being a diverse and inclusive business is core to our success.

In January 2017, our Chief Executive Officer, Richard Van Breda joined the Queensland Public Sector Inclusion Champions of Change—a sub group of the Queensland Male Champions of Change established to make a public stand on gender diversity. In February 2017, Stanwell's senior leaders formally committed to initiatives aimed at improving our culture and awareness of diversity and inclusion.

We have also extended funding for superannuation, death and total and permanent disablement, and income protection insurance for people taking parental leave. This is our way of making a positive impact on the retirement savings for those employees who take time off work to care for their loved ones.

Taking action on domestic violence

In December 2016, we introduced special leave provisions for people who may be experiencing domestic violence. Leave may be granted for medical appointments, legal proceedings and other activities directly related to domestic violence.

In May 2017, the Services Union awarded Stanwell a seven-star rating for our efforts to provide support to employees dealing with domestic and family violence.

Over the next 12 to 18 months, we are partnering with White Ribbon Australia to complete a Workplace Accreditation Program incorporating workplace violence prevention, awareness and education initiatives.

Enablers (continued)

Leadership development and mentoring

During the year, we focused on improving our people's interactions through higher trust relationships. Nearly 50 per cent of teams have completed the in-house Speed of Trust training. In February 2017, we rolled out the Trusted Coach program to all team leaders.

Stanwell is also partnering with the Queensland University of Technology to support students as part of their Career Mentor Scheme. Fifteen of our people have volunteered their time for the program.

Internally, we launched the Trusted Mentor, our new mentoring program where we connect people with different experiences, knowledge and skills across our business.

Supporting apprentices and graduates

In 2016/17, we hosted a total of 30 apprentices and five trainees, including 11 new apprentices and three new trainees. We also appointed two graduates in electrical engineering and mechanical engineering. These people initially joined Stanwell through a university placement program and successfully progressed to our graduate program.

ENSURE STANWELL'S ENVIRONMENTAL RIGHT TO OPERATE

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

Our open and transparent interactions are reflected in the proactive reporting of events during the year which were predominantly administrative and resulted in no environmental harm. All events are diligently investigated to identify the underlying causes and to ensure appropriate corrective and preventive actions are put in place.

In September 2016, the Department of Environment and Heritage Protection conducted a routine compliance inspection at the Tarong power stations. No non-compliances were identified and the regulator acknowledged recent site improvements that had made a noticeable impact on environmental activities. The department also conducted a pre-wet season preparedness inspection at Meandu Mine in October 2016 and found that the site had readiness measures in place to manage water events such as rainfall runoff during the wet season.

In December 2016, the Department of Environment and Heritage Protection issued an Environmental Evaluation Notice to conduct an investigation into acid mine drainage at Meandu Mine. Elevated electrical conductivity exceedances were first reported in 2014/15 with follow up investigations confirming in 2015/16 that acid mine drainage was the cause. At all times, water with elevated salinity and acidity was entirely contained within the Stanwell site and did not flow into watercourses outside of the site.

As part of the notice requirements, Stanwell provided a formal update to the regulator in May 2017, with the department noting there were no off-site impacts identified and that Stanwell was on track to meet the requirements of the notice within the allocated timeframes. A final report is due to be submitted to the regulator by September 2018.

Ensuring environmental compliance

Following a number of minor, administrative environmental breaches (none of which resulted in environmental harm) at our Tarong and Meandu sites in recent years, we engaged an independent auditor to conduct an environmental compliance audit and systems review.

To action the recommendations from the review, we established a dedicated project team, ensuring a structured, rigorous and system-based platform was implemented to manage and monitor environmental compliance. In March 2017, an independent review was conducted to assess the effectiveness of the project. The audit findings showed a significant improvement in compliance and system effectiveness.

Managing our ash

During the period, Stanwell established new contracts for the removal of coal combustion products from Stanwell and Tarong power stations. Coal combustion products are a by-product of coal-fired power generation and can be used in a number of products, including concrete. Removal of coal combustion products allows for more sustainable environment planning around the life of our ash storage facilities.

Land rehabilitation

This year, rehabilitation of more than 33 hectares was completed against a target of 30.5 hectares. 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.

This monitoring indicates that the rehabilitation is progressing extremely well towards the "self-sustaining native ecosystem" outlined in the mine's Environmental Authority. Field data collected also indicates that we are achieving our targets of species diversity and abundance with minimal erosion and scouring identified. This is a positive sign that our rehabilitation practices are working, and are allowing us to achieve the desired rehabilitation outcome.

IMPROVE AND SIMPLIFY BUSINESS SYSTEMS

A new information and communication technology strategy was developed this year, outlining our vision for a simplified technology landscape. This vision is underpinned by a progressive investment roadmap and a revised workforce structure that improves efficiency and transparency.

We have made significant progress with key technology consolidation initiatives, including a new single Safe Work System enabling the consolidation of three safety systems.

We completed the business case and implementation plan to replace the Enterprise Resource Planning system (ERP) used at Stanwell Power Station and the hydro power stations, which saw the consolidation of three platforms into two. Investment to further consolidate into a single program across the organisation is planned for the near future.

Corporate governance

KEY AREAS OF FOCUS AND ACHIEVEMENT IN 2016/17

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;
- performed an internally facilitated evaluation of the Board's performance to establish whether the current governance practices enabled the Board to maximise its effectiveness and to provide direction on areas of potential improvement;
- consistent with Stanwell's Fraud Prevention Policy, commissioned an independent and objective fraud risk and control assessment (Fraud Vulnerability Survey). The survey confirmed that Stanwell has no extreme or high residual fraud risks;
- reviewed the framework by which Stanwell manages the risks arising from its energy trading activities;
- reviewed the framework by which the Board delegates its power and authority and confirmed that the financial transactions of Stanwell are being executed within the scope of delegated authority and that there is an appropriate control framework over expenditure and commitments;
- confirmed that Stanwell's Risk Appetite Statement continues to support the achievement of its strategic objectives;
- continued with an independent review of the daily rebids submitted by Stanwell's spot traders to ensure compliance with the National Electricity Rules;
- refreshed the Stanwell Code of Conduct and the underlying policy framework;
- reviewed, tested and refreshed Stanwell's Business Resilience Framework and responses to business interruption events to ensure that Stanwell has the ability to respond to, and recover from, an event while still continuing to maintain critical business operations; and
- confirmed that the strategy in relation to capital and funding remains appropriate and that financial risk activities are undertaken within an appropriate compliance 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.

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 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 Chief Executive Officer's (CEO) 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

The Constitution allows the Board to delegate any of their Directors' 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 2017, the People and Safety Committee comprised the following directors:

- Jacqueline King (Chairman);
- Adam Aspinall; and
- 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 employees and contractors;
- 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 2017, the Audit and Risk Management Committee comprised the following directors:

- Karen Smith-Pomeroy (Chairman);
- Dominic Condon;
- Ralph Craven; and
- Allison Warburton.

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.

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 corporation, business division and individual performance targets.

Corporate governance (continued)

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 94.

PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE

At the date of this report, the Board consisted of six 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 pages 39 to 41.

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 10 meetings between 1 July 2016 and 30 June 2017. The table on page 42 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, the Board undertook an internally managed evaluation of its performance to establish whether the current governance practices enabled the Board to maximise its effectiveness and to provide direction on areas of potential improvement. The evaluation process involved:

- directors completing an internally generated questionnaire which surveyed the Board's performance of its role, function and responsibilities and an assessment by each director of their individual performance;
- the Chairman and Company Secretary meeting with each director to discuss the findings of the evaluation and potential improvement opportunities; and
- the development of a 'road map' for the implementation of actions arising from the evaluation process.

Also 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
- Whistleblower 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.

Stanwell's Whistleblower Protection Policy is designed to support and protect employees and contractors who disclose illegal, unethical or non-compliant conduct by other employees. The policy formalises Stanwell's commitment to protecting the confidentiality and position of its employees and contractors who wish to raise serious matters that affect the integrity of Stanwell.

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.

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.

Corporate governance (continued)

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 periodically 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 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 2017 that would materially change the above statements.

As at 30 June 2017, the Audit and Risk Management Committee consisted of four 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 *GOC Act*, 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 31000:2009 *Risk Management Principles and Guidelines.*

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.

Corporate governance (continued)

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

Stanwell conducts annual 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 Organization for Standardization (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 a corporation-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 2017, 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 15 on page 94 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 2016/17 financial year, Stanwell's shareholding Ministers issued the following formal directions:

On 30 May 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 1993* requiring Stanwell:

- to return Swanbank E Power Station to service on or before 1 January 2018; 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 6 June 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 1993* 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; 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 13 June 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 131(3)(b) of the *Government Owned Corporations Act 1993* requiring Stanwell and its Board to pay a dividend to shareholders being 100 per cent of adjusted net profit after tax less $100,000,000 (one hundred million) in respect of the 2016/17 financial year.

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 3 May 2017, 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;
- asset impairments resulting from the testing of asset carrying values; and
- year-end adjustments relating to rehabilitation and other provisions.

As detailed above, Stanwell and its Board have been directed to pay a dividend to shareholders being 100 per cent of adjusted net profit after tax less $100,000,000 (one hundred million) in respect of the 2016/17 financial year.

Overseas travel

During the 2016/17 financial year:

- the Manager Hydros attended the Hydro Power Engineering Exchange Conference in New Zealand to collaborate and share learnings with a wide range of hydro operators with generating units of the same age as the Barron Gorge and Kareeya units; and
- 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.

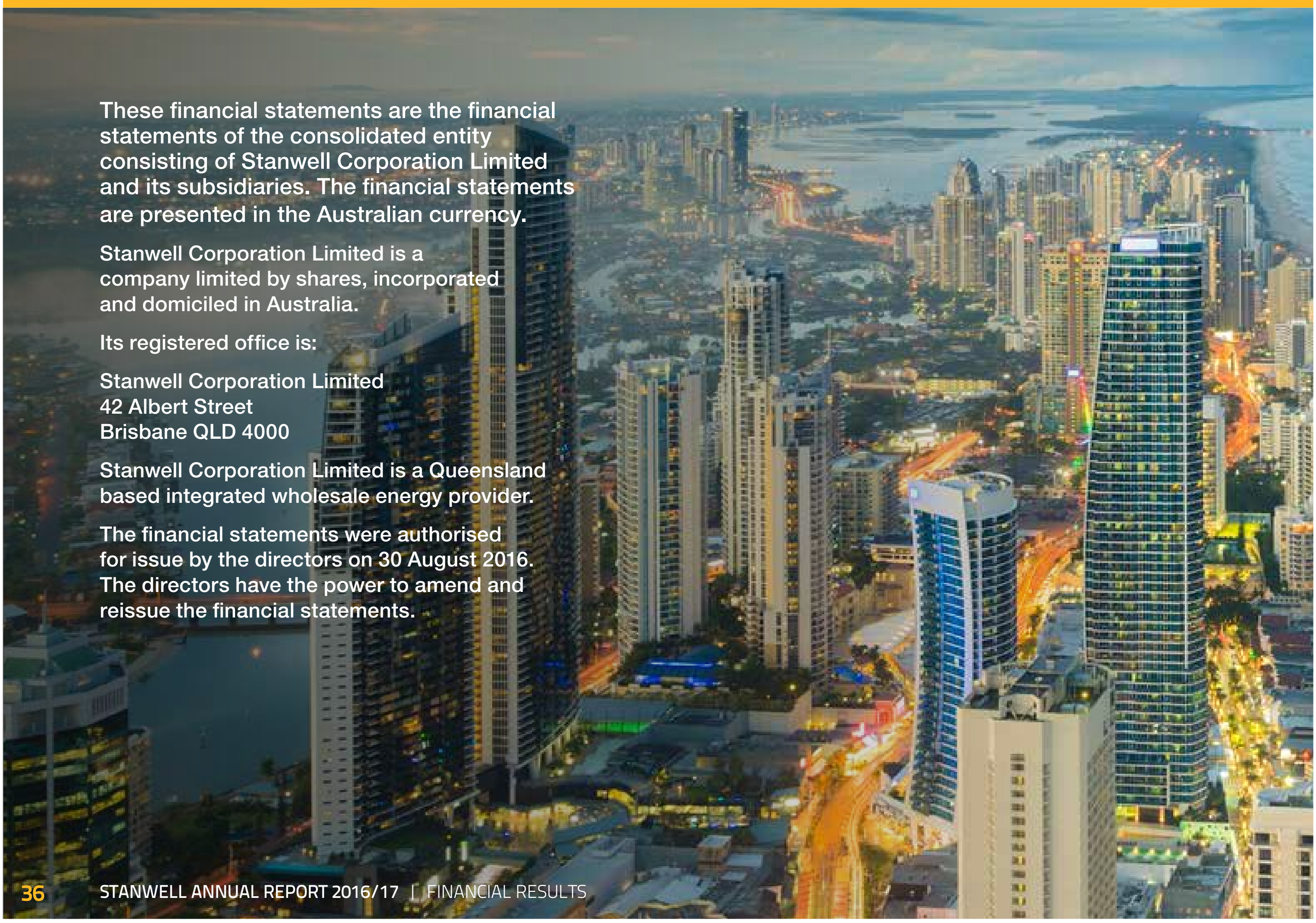
Corporate entertainment and hospitality (individual events over $5,000)

EVENT	DATE	COST ($)
Energy Trading and Commercial Strategy Annual Charity Fundraising Bowls Day	24/11/2016	5,887

Financial results

Stanwell Corporation Limited ABN 37 078 848 674 ▪ 30 June 2017

TABLE OF CONTENTS



These financial statements are the financial statements of the consolidated entity consisting of Stanwell Corporation Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Stanwell Corporation Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:

Stanwell Corporation Limited
42 Albert Street
Brisbane QLD 4000

Stanwell Corporation Limited is a Queensland based integrated wholesale energy provider.

The financial statements were authorised for issue by the directors on 30 August 2016. The directors have the power to amend and reissue the financial statements.

Stanwell Corporation Limited
Directors' report
2017

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 2017 financial year.

FINANCIAL RESULTS

	2017 $'000	2016 $'000
Profit before income tax equivalents	525,598	243,204
Profit after income tax equivalents	375,207	170,235
Profit attributable to members of the Group	375,207	170,235

DIVIDENDS - STANWELL CORPORATION LIMITED

The directors recommend that a dividend of $260,567,000 be paid in respect of the 2017 financial year (2016: $311,629,000).

PRINCIPAL ACTIVITIES

The Group's principal activity during the 2017 financial year was the operation of a diversified energy portfolio which included:

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

REVIEW OF OPERATIONS

Safety

Safety is a core value and reflects the Group's belief that all injuries and occupational illnesses can be prevented. Central to this, during the 2017 financial year, has been the Group's focus on continuous learning and improvement.

This strong focus on safety is reflected in the Total Recordable Injury Frequency Rate for 2017 financial year of 5.32. This is lower than the rate for the 2016 financial year of 10.11 and is the safest year the Group has recorded since 1 July 2011, when the Queensland Government restructured its generators.

While this improving trend in safety performance is pleasing, the Group recognises that it must not become complacent. Since the generator restructure in July 2011, the Group's focus has been on harmonising and then embedding safety systems and processes across all of Stanwell's operating sites and corporate offices. The substantial completion of this body of work has provided the catalyst for the development of the Stanwell Health and Safety Strategy 2017-22 . The Strategy's objective is to achieve the next level of safety culture maturity.

Strategy

The Group's strategy has been developed in the context of the following drivers:

- to contribute to the security of electricity supply, in view of the increasingly intermittent nature of supply and demand;
- to adapt to and support the transition to a low carbon electricity market by integrating renewables into its portfolio, in line with its Shareholder Mandate; and
- to provide affordable electricity to customers by developing innovative and tailored products.

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 maximize the flexibility and competitiveness of the Group's existing portfolio of assets to meet market demand;
- investigate opportunities for the Group to participate in the renewable energy market where there is a commercial benefit to do so; and
- enable the business to deliver its strategy by providing a safe workplace; engaging and retaining a high performing workforce; ensuring compliance with applicable laws, regulations and company policies; and securing ongoing support for the Group's operations and business direction.

National electricity market

The recent high electricity wholesale prices experienced across the eastern seaboard of Australia have been driven by policy uncertainty at a national level; the closure of large, baseload power stations; increased electricity demand in Queensland; high Summer temperatures and gas exploration regulation in New South Wales and Victoria (which has resulted in less gas being available for electricity generation).

Balancing the electricity market trilemma of security, affordability and sustainability is now a central focus of Federal and State governments, the market operator and market participants. Recent policy announcements at a State and Federal level have sought to balance the trilemma, however, these policies will take some time for the market to react.

Queensland's relatively young, emissions efficient generation assets, combined with the State's abundant coal resources, means that Queensland will play an important role in supporting the National Electricity Market as it transitions to a lower carbon generation future.

Queensland region

For 2018 financial year, the Australian Energy Market Operator has forecast that any further growth in Queensland demand from the liquefied natural gas industry will be offset by a reduction in demand from other sectors.

During the 2017 financial year, the tightening of supply and demand conditions, particularly during the summer period, drove higher wholesale electricity prices. As a result, the average Queensland 30-minute spot price was $93.12/MWh (2016: $59.99/MWh).

When combined with the world class reliability of our power stations, the Group recorded positive outcomes in wholesale and contract sales. For the 2017 financial year, trading revenue was $2,246 million, compared to $1,525 million in prior year.

Retail electricity business

The Group's retail electricity business, has continued to attract and retain commercial and industrial customers by providing tailored energy solutions.

During the 2017 financial year, the retail electricity business has focussed on securing longer term contracts as these offer strategic benefit to the Group and its customers. For customers, in a tightening market overlayed with political and regulatory uncertainty, longer term contracts provide cost certainty, reduced exposure to market fluctuations, security of supply and continuity for their business operations. For the Group, as an operator of long term assets, longer term contracts provide certainty of returns.

Operations

During the 2017 financial year, the Group invested more than $145 million in its portfolio of assets to improve efficiency and maintain their performance.

In early 2017, very hot weather conditions throughout Queensland led to record high electricity demand. During this time, the Group's generation assets were available with no significant plant, fuel or water supply issues. The strong performance of the Group's generation assets resulted in a world class summer reliability factor of 99.2 per cent.

The Group is investing $30.7 million to replace the condensers and $68 million to upgrade the control systems in the four generation units at the Stanwell Power Station. Both of these projects are critical in ensuring that Stanwell Power Station is able to operate reliably into the future.

Mica Creek Power Station's generation units were progressively placed in cold storage between February and September 2016 after its sole remaining customer ceased mining operations. The Group returned one Mica Creek unit to service in April 2017 when this customer began a new mining project.

In the 2017 financial year, the Group sold more than 9.7 petajoules of gas through bilateral sales agreements, traded approximately 730 terajoules of gas through the Wallumbilla Hub and sold more than 1.4 petajoules of gas transport capacity on the Roma to Brisbane pipeline.

The Group have invested further in the joint venture with Arrow Energy at Kogan North to maintain gas field production in readiness for the return to service of Swanbank E Power Station.

The Group has commenced early investigations into long-term coal supply arrangements for Stanwell Power Station following expiry of the current agreement with Wesfarmers in approximately 2025/26.

The Meandu Mine's surface rights extension project received its final regulatory approval in late 2016 and mining in this area will commence in September 2017.

The Group has commenced an upgrade of the Meandu Mine coal handling preparation plant to improve coal yield and tailings management at a cost of $17.5 million.

Queensland Government's Powering Queensland plan

In June 2017, the Queensland Government announced its plan to guide the State through the short-term and long-term challenges occurring in the National Electricity Market.

Key initiatives in the plan in relation to the Group:

- directing the Group to undertake all actions necessary in order to return Swanbank E Power Station to service from 1 January 2018. The Group has implemented a return to service plan which encompasses staffing, fuel supply, plant maintenance and recommissioning, trading and financials;
- directing the Group to reinvest $100 million of its dividend for the 2017 financial year to help fund a proposed hydro-electric power station at Burdekin Falls Dam. The Group expects to complete the pre-feasibility study of the Burdekin Hydro Power Project by 30 September 2017 and subject to the results of the pre-feasibility study, finalise the business case for the project in mid 2018;
- directing the Group, during the Direction period, to offer the Australian Energy Market Operator the Directed Offer Volume at bid bands of no greater than the Directed amount. The Group will at all times, manage its offers according to the spirit and intent of the Direction and within the National Electricity Market rules; and

- plans by the Government to investigate a restructure of Government owned generators to deliver improved market outcomes. The investigation will provide recommendations to the Queensland Government in the first half of 2018.

SIGNIFICANT CHANGES TO THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group during the 2017 financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There has been no matter or circumstance which has arisen since 30 June 2017 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 results of those operations 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 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.

In December 2016, the Department of Environment and Heritage Protection issued an Environmental Evaluation Notice to conduct an investigation into acid mine drainage at Meandu Mine. Elevated electrical conductivity exceedances were first reported in the 2015 financial year with follow up investigations confirming in the 2016 financial year that acid mine drainage was the cause.

As part of the notice requirements, the Group provided a formal update to the Regulator in May 2017, with the Department of Environment and Heritage Protection noting there were no off-site impacts identified and that the Group was on track to meet the requirements of the notice within allocated timeframes. A final report is due to be submitted to the Regulator by September 2018.

CARBON EMISSIONS REPORTING

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 eighth 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.

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
- Dominic Condon
- Jacqueline King
- Karen Smith-Pomeroy

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

- Adam Aspinall was non-executive director for the period 15 December 2016 and up to the date of this report;
- Russell Kempnich was a non-executive director for the period 1 July 2016 until 30 September 2016; and
- Allison Warburton was a non-executive director for the period 15 December 2016 and up to the date of this report.

Information on directors

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

Dr Craven was appointed Chairman and independent non-executive 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) and a non-executive director of Senex Energy Limited (ASX:SXY) and AusNet Services Limited (ASX:AST). 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 generation 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.

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 is a member of the Audit and Risk Management Committee.

Mr Condon is managing director and founding partner of Chase Commercial, a commercial real estate agency specialising in industrial, commercial and retail property in the wider South East Queensland market.

Prior to entering the commercial property market more than 12 years ago, Mr Condon worked as an accountant in Brisbane.

Mr Condon is a fellow of the Urban Development Institute of Australia, Graduate Member of the Australian Institute of Company Directors and member of the Real Estate Institute of Queensland.

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 worked across the energy, power and construction sectors of industry for over twenty years, with an extensive background in industrial relations, work health and safety, and skills and training.

She currently provides management consultancy services, primarily to organisations' in the area of vocational education and training and workforce skilling programs.

Ms King is also a director of Energy Skills Queensland, which is the leading, independent, not-for-profit organisation facilitating workforce skilling initiatives and enabling a skilled and safe energy industry for the energy, gas and telecommunication sectors in Queensland.

She is a Graduate Member of the Australian Institute of Company Directors and is currently studying her 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 has a specialty in risk and governance and a detailed understanding of several industry sectors.

Ms Smith-Pomeroy is currently a member of Queensland Treasury Corporation Capital Markets Board, and a non-executive director of Kina Securities Limited, InFocus Wealth Management Group 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 Queensland Department of Infrastructure, Local Government and Planning, and of South Bank Corporation.

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

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 is a member of the Audit and Risk Committee.

Ms Warburton is a leading private and government sector advisor across the energy, resources and power generation industries, having worked in the sector for more than 20 years.

Her experience includes electricity and gas, mining, procurement, project development, energy trading and regulatory compliance.

Ms Warburton is currently a Partner with law firm Minter Ellison and is co-head of that firm's climate change practice. In 2016, Ms Warburton was appointed by the Queensland Government to its Renewable Energy Expert Panel to advise the Government on credible pathways to achieving its renewable energy target.

Ms Warburton is also member of the Law Council of Australia's Climate Change committee.

Russell Kempnich
BEng (Mech), MAICD
Independent Non-executive Director

Mr Kempnich was appointed a non-executive director of Stanwell on 1 July 2011 and was Chairman of the People and Safety Committee. Mr Kempnich's appointment as a director of Stanwell expired on 30 September 2016.

INFORMATION ON OFFICERS

Richard Van Breda
BCompt (Hons), CA(Z), CA(Aus), Dip. Fin. Serv. (FM, GAICD,) AICD
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, human resource management and organisational development.

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 Swanbank Power Station Manager and was appointed General Manager of Stanwell's gas and hydro generation portfolio in May 2013.

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.

He also oversees the development of commercial strategies targeted at diversifying revenue streams and creating value from Stanwell's various fuel resources.

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 manufacturers 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, Speciality 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.

Phillips David
EMBA, MEng (Studies) BSc Engineering, GAICD, MIE (Aus), CAHRI
Acting Executive General Manager Production (1 July 2016 to 31 January 2017)

Mr David has had over 35 years of experience in the Queensland energy industry covering roles in range of fuel sources including coal, gas, biomass, hydro and wind.

Ian Gilbar
BEng (Electrical)
Acting Executive General Manager Safety and Asset Services (1 July 2016 to 31 January 2017)

Mr Gilbar has worked for Stanwell for Stanwell for more than 18 years and has had more than 30 years' experience in the electricity industry in various engineering and technical management roles.

COMPANY SECRETARY

Karen Buckley
BA, Grad Cert Law, GAICD, GIA (Cert)

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 year ended 30 June 2017, and the numbers of meetings attended by each Director were:

	Board		Meetings of committees			
			People & Safety Committee		Audit & Risk Management Committee	
	A	B	A	B	A	B
Dr Ralph Craven	10	10	3	3	4	4
Adam Aspinall	4	4	1	1		
Dominic Condon	10	9			4	4
Jacqueline King	10	10	3	3		
Karen Smith-Pomeroy	10	10			4	4
Allison Warburton	4	4			2	2
Russell James Kempnich	3	2	1	1		

A = Number of meetings held during the time the director held office or was a member of the committee during the year. (This includes one meeting 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 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 43.

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

Brisbane
29 August 2017

Stanwell Corporation Limited

Auditor's independence declaration

2017

To the Directors of Stanwell Corporation Limited

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

INDEPENDENCE DECLARATION

As lead auditor for the audit of Stanwell Corporation Limited for the financial year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

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

Rachel Vagg
as Delegate of the Auditor-General of Queensland

24 August 2017

Queensland Audit Office
Brisbane

Stanwell Corporation Limited

Statements of comprehensive income

For the year ended 30 June 2017

	Notes	Consolidated entity 2017 $'000	Consolidated entity 2016 $'000	Parent entity 2017 $'000	Parent entity 2016 $'000
Revenue from continuing operations	1	3,058,712	1,987,023	2,747,686	1,831,130
Other income	2	54,731	30,277	55,417	25,783
Electricity and energy services expense		(1,486,679)	(811,231)	(1,484,505)	(810,082)
Fuel costs		(376,739)	(326,265)	(333,214)	(311,945)
Depreciation and amortisation expense	6	(207,343)	(191,305)	(137,626)	(134,034)
Employee benefits expense		(117,687)	(99,201)	(112,030)	(92,977)
Other expenses		(129,838)	(83,843)	(124,210)	(73,550)
Raw materials and consumables used		(76,723)	(79,747)	(73,757)	(74,710)
Finance costs	2	(74,327)	(81,524)	(64,290)	(70,263)
Gas purchases		(43,641)	(43,903)	(43,641)	(43,903)
Non hedge accounted change in fair value of derivative instruments	9	(79,698)	(62,311)	(79,698)	(62,311)
Changes in inventories of finished goods and work in progress		13,214	(7,061)	-	-
(Impairment)/ impairment reversal	6	(8,384)	12,295	-	-
Profit before income tax		525,598	243,204	350,132	183,138
Income tax expense equivalent	14	(150,391)	(72,969)	(104,173)	(54,949)
Profit for the year		375,207	170,235	245,959	128,189
Other comprehensive income/(loss)					
Items that may be reclassified to profit or loss					
Changes in the fair value of cash flow hedges		(11,253)	(189,753)	(11,253)	(189,753)
Income tax equivalent relating to these items	14	3,376	56,926	3,376	56,926
Items that will not be reclassified to profit or loss					
Gain on revaluation of biological assets		233	-	233	-
Remeasurement of retirement benefit obligation	7	7,908	(10,575)	7,908	(10,575)
Income tax equivalent relating to these items	14	(2,442)	3,173	(2,442)	3,173
Other comprehensive income/(loss) for the period, net of tax equivalents		(2,178)	(140,229)	(2,178)	(140,229)
Total comprehensive income/(loss) for the period		373,029	30,006	243,781	(12,040)
Profit attributable to the owners of Stanwell Corporation Limited		375,207	170,235	245,959	128,189
Total comprehensive income/(loss) attributable to the owners of Stanwell Corporation Limited and arising from continuing operations		373,029	30,006	243,781	(12,040)

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

Stanwell Corporation Limited

Balance sheets

As at 30 June 2017

	Notes	Consolidated entity 2017 $'000	Consolidated entity 2016 $'000	Parent entity 2017 $'000	Parent entity 2016 $'000
ASSETS					
Current assets					
Cash and cash equivalents	3	549,727	217,926	549,050	217,268
Trade and other receivables	4	209,465	229,156	206,774	225,059
Inventories	5	149,876	173,790	139,957	159,488
Other current assets	8	176,982	281,237	66,228	167,341
Derivative financial instruments	9	202,879	106,186	202,879	106,186
Total current assets		1,288,929	1,008,295	1,164,888	875,342
Non-current assets					
Loans to subsidiaries		-	-	515,501	662,404
Derivative financial instruments	9	164,507	48,715	164,507	48,715
Property, plant and equipment	6	2,300,962	2,327,164	1,682,440	1,690,066
Intangible assets	6	100,133	97,864	19,986	22,522
Exploration and evaluation	6	8,865	12,864	51	-
Retirement benefit surplus	7	17,828	11,255	17,828	11,255
Other non-current assets	8	36,212	38,505	27,318	23,278
Total non-current assets		2,628,507	2,536,367	2,427,631	2,458,240
Total assets		3,917,436	3,544,662	3,592,519	3,333,582
LIABILITIES					
Current liabilities					
Trade and other payables	10	232,518	215,143	187,162	169,009
Finance lease liabilities	11	-	25,918	-	-
Derivative financial instruments	9	479,152	287,373	479,152	287,373
Current tax liabilities		107,787	47,662	107,787	47,662
Provisions	12	290,453	338,190	279,361	331,195
Other current liabilities		2,000	3,247	2,000	3,247
Total current liabilities		1,111,910	917,533	1,055,462	838,486
Non-current liabilities					
Finance lease liabilities	11	-	4,401	-	-
Borrowings	13	822,104	822,287	822,104	822,287
Derivative financial instruments	9	132,158	115,462	132,158	115,462
Deferred tax equivalent liabilities	14	231,385	257,244	186,515	191,074
Provisions	12	330,735	251,053	153,033	106,241
Total non-current liabilities		1,516,382	1,450,447	1,293,810	1,235,064
Total liabilities		2,628,292	2,367,980	2,349,272	2,073,550
Net assets		1,289,144	1,176,682	1,243,247	1,260,032
EQUITY					
Contributed equity		1,214,693	1,214,693	1,214,692	1,214,692
Reserves		(139,101)	(131,387)	(139,101)	(131,387)
Retained earnings		213,552	93,376	167,656	176,727
Capital and reserves attributable to owners of Stanwell Corporation Limited		1,289,144	1,176,682	1,243,247	1,260,032
Total equity		1,289,144	1,176,682	1,243,247	1,260,032

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

Stanwell Corporation Limited

Statements of changes in equity

For the year ended 30 June 2017

Consolidated entity	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
		Attributable to owners of Stanwell Corporation Limited			
Balance at 1 July 2015		**1,214,693**	**1,440**	**242,168**	**1,458,301**
Profit for the year		-	-	170,235	170,235
Net change in fair value of cash flow hedges transferred to profit or loss	9	-	128,354	-	128,354
Effective portion of changes in fair value of cash flow hedges	9	-	(317,416)	-	(317,416)
Net change in fair value of cash flow hedges transferred to property, plant and equipment	9	-	(691)	-	(691)
Actuarial gains/(losses) on defined benefit plan	7	-	-	(10,575)	(10,575)
Income tax equivalent relating to components of other comprehensive income	14	-	56,926	3,173	60,099
Other		-	-	4	4
Total comprehensive income for the period		**-**	**(132,827)**	**162,837**	**30,010**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid		-	-	(311,629)	(311,629)
Balance at 30 June 2016		**1,214,693**	**(131,387)**	**93,376**	**1,176,682**
Balance at 1 July 2016		**1,214,693**	**(131,387)**	**93,376**	**1,176,682**
Profit for the year		-	-	375,207	375,207
Net change in fair value of cash flow hedges transferred to profit or loss	9	-	345,435	-	345,435
Effective portion of changes in fair value of cash flow hedges	9	-	(356,432)	-	(356,432)
Net change in fair value of cash flow hedges transferred to property, plant and equipment	9	-	(256)	-	(256)
Actuarial gains/(losses) on defined benefit plan	7	-	-	7,908	7,908
Income tax equivalent relating to components of other comprehensive income	14	-	3,376	(2,372)	1,004
Revaluation of other non-current assets		-	233	-	233
Income tax equivalent relating to revaluation of other non-current assets	14	-	(70)	-	(70)
Total comprehensive income for the period		**-**	**(7,714)**	**380,743**	**373,029**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid		-	-	(260,567)	(260,567)
Balance at 30 June 2017		**1,214,693**	**(139,101)**	**213,552**	**1,289,144**

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

Stanwell Corporation Limited

Statements of changes in equity (continued)

For the year ended 30 June 2017

Parent entity	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2015		**1,214,692**	**1,440**	**367,569**	**1,583,701**
Profit for the year		-	-	128,189	128,189
Net change in fair value of cash flow hedges transferred to profit or loss	9	-	128,354	-	128,354
Effective portion of changes in fair value of cash flow hedges	9	-	(317,416)	-	(317,416)
Net change in fair value of cash flow hedges transferred to property, plant and equipment	9	-	(691)	-	(691)
Actuarial gains/(losses) on defined benefit plan	7	-	-	(10,575)	(10,575)
Income tax equivalent relating to components of other comprehensive income	14	-	56,926	3,173	60,099
Total comprehensive income for the period		**-**	**(132,827)**	**120,787**	**(12,040)**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid		-	-	(311,629)	(311,629)
Balance at 30 June 2016		**1,214,692**	**(131,387)**	**176,727**	**1,260,032**
Balance at 1 July 2016		**1,214,692**	**(131,387)**	**176,727**	**1,260,032**
Profit for the year		**-**	**-**	**245,959**	**245,959**
Net change in fair value of cash flow hedges transferred to profit or loss	9	**-**	**345,435**	**-**	**345,435**
Effective portion of changes in fair value of cash flow hedges	9	**-**	**(356,432)**	**-**	**(356,432)**
Net change in fair value of cash flow hedges transferred to property, plant and equipment	9	**-**	**(256)**	**-**	**(256)**
Actuarial gains/(losses) on defined benefit plan	7	**-**	**-**	**7,908**	**7,908**
Income tax equivalent relating to components of other comprehensive income	14	**-**	**3,376**	**(2,372)**	**1,004**
Revaluation of other non-current assets		**-**	**233**	**-**	**233**
Income tax equivalent relating to revaluation of other non-current assets	14	**-**	**(70)**	**-**	**(70)**
Total comprehensive income for the period		**-**	**(7,714)**	**251,495**	**243,781**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid		**-**	**-**	**(260,567)**	**(260,567)**
Balance at 30 June 2017		**1,214,692**	**(139,101)**	**167,655**	**1,243,246**

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

Statements of changes in equity (continued)

For the year ended 30 June 2017

	Consolidated entity and Parent entity		Consolidated entity and Parent entity	
	2017 Shares	2016 Shares	2017 $'000	2016 $'000
Ordinary shares				
Ordinary voting (A class), fully paid	4	4	-	-
Ordinary non-voting (B class), fully paid	924,568,658	924,568,658	1,214,693	1,214,693
Total Consolidated and Parent entity contributed equity	**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.

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

Dividends

	Consolidated entity and Parent entity	
	2017 $'000	2016 $'000
Final dividend for the year ended 30 June 2017 of 28.2 cents (2016: 17.5 cents) per fully paid share	260,567	161,629
Special dividend for the year ended 30 June 2017 of Nil cents (2016: 16.2 cents) per fully paid share	-	150,000
Total dividends provided for or paid	**260,567**	**311,629**

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

Stanwell Corporation Limited

Statements of cash flows

For the year ended 30 June 2017

	Notes	Consolidated entity 2017 $'000	Consolidated entity 2016 $'000	Parent entity 2017 $'000	Parent entity 2016 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		3,530,528	1,981,470	3,394,785	1,830,952
Payments to suppliers and employees (inclusive of goods and services tax)		(2,512,722)	(1,598,232)	(2,463,183)	(1,560,373)
Interest paid		(58,919)	(67,622)	(57,828)	(65,686)
Income tax equivalents paid		(115,191)	(34,330)	(115,191)	(34,330)
Interest received		5,314	4,872	5,314	4,872
Net cash inflow from operating activities		849,010	286,158	763,897	175,435
Cash flows from investing activities					
Payments for property, plant and equipment		(164,807)	(207,952)	(114,137)	(112,277)
Loans to related parties		-	-	-	15,412
Proceeds from sale of property, plant and equipment		787	7,233	(55)	6,820
Payments for intangible assets		(11,058)	(12,555)	(6,111)	(12,458)
Net cash (outflow) from investing activities		(175,078)	(213,274)	(120,303)	(102,503)
Cash flows from financing activities					
(Repayments of)/proceeds from borrowings		(30,502)	50,077	(183)	50,077
Dividends paid		(311,629)	(89,930)	(311,629)	(89,930)
Net cash (outflow) from financing activities		(342,131)	(39,853)	(311,812)	(39,853)
Net increase in cash and cash equivalents		331,801	33,031	331,782	33,079
Cash and cash equivalents at the beginning of the financial year		217,926	184,895	217,268	184,189
Cash and cash equivalents at end of period	3	549,727	217,926	549,050	217,268

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

Stanwell Corporation Limited

Statements of cash flows (continued)

For the year ended 30 June 2017

Reconciliation of profit after income tax to net cash inflow/(outflow) from operating activities

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Profit for the year	375,207	170,235	245,959	128,189
Add items classified as investing/financing activities:				
Net loss/(gain) on disposal of property, plant and equipment	547	(4,647)	68	(4,643)
Add non-cash items:				
Depreciation and amortisation expense	207,343	191,305	137,626	134,034
Impairment loss/(gain)	8,384	(12,295)	-	-
Write off of exploration assets	6,505	-	-	-
Non-cash retirement benefits expense	1,335	690	1,335	690
Unwinding of discount on provision	15,230	19,475	6,284	10,151
Non-cash rehabilitation provision	57,134	(20,397)	55,121	(18,652)
Stock obsolescence provision	3,852	7,984	3,836	10,208
Net gain on sale of available-for-sale financial assets	(5,752)	(5,000)	(5,752)	(5,000)
Share of profits of associates and joint venture	-	44	-	44
Fair value (gain)/loss on financial assets at fair value through profit or loss	(15,006)	9,309	(15,006)	9,308
Non-cash other provision	(8,047)	3,310	(8,519)	3,933
Change in operating assets and liabilities:				
(Increase)/decrease in trade and other receivables	19,212	(94,361)	164,709	(93,404)
Decrease in inventories	23,016	32,865	18,781	18,670
Decrease in other current assets	14,108	6,092	4,633	4,270
Increase in trade and other payables	8,522	61,926	20,878	919
Decrease in other non-current liabilities	-	(25,927)	-	-
Increase in current tax equivalent liabilities	60,125	47,662	60,125	47,662
Decrease in deferred tax equivalent liabilities	(25,859)	(70,823)	(4,559)	(83,621)
Increase/(Decrease) in provisions	7,374	(6,146)	3,651	-
Decrease/(increase) in current financial assets	96,959	(97,341)	96,959	(97,341)
Decrease in current tax equivalents receivable	-	1,701	-	1,701
Decrease in other non-current assets	917	1,815	917	1,815
(Decrease)/increase in other current liabilities	(1,247)	10,860	(1,246)	55,180
Deferred tax equivalents reserves movement	934	60,099	934	60,099
Decrease in rehabilitation provisions	(1,783)	(2,277)	(22,837)	(8,777)
Net cash inflow from operating activities	849,010	286,158	763,897	175,435

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

SIGNIFICANT ACCOUNTING POLICIES

(a) 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 and the *Corporations Act 2001*. Stanwell Corporation Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) 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.

(ii) Date of issue

The consolidated financial statements were authorised for issue by the Board of Directors on 29 August 2017.

(iii) Historical cost convention

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

(b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

(c) Goods and Services Tax (GST)

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

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

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

(d) Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

(e) Presentation of comparative amounts

During the year, the Group has changed the presentation of revenue, fuel costs and electricity and energy services expense in statements of comprehensive income to exclude realised gains and losses on derivatives at fair value through the profit or loss. The presentation was changed to separately identify all realised and unrealised gains and losses on derivatives that are not designated as cash flow hedges (note 9). Comparative amounts in the statements of comprehensive income and relevant notes have been restated for consistency. There was no impact to profit for the year.

CORPORATE STRUCTURE

(a) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Stanwell Corporation Limited ('Company' or 'Parent entity') as at 30 June 2017 and the results of all subsidiaries for the period then ended.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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 Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company.

(b) Parent entity disclosures

The Group has elected to adopt Class Order 10/654 allowing the disclosure of Parent entity financial statements and notes thereto. The Class Order provides relief from the requirement preventing disclosure of single entity financial statements and disclosures of specific Parent entity financial information under regulation 2M.3.01 of the *Corporations Regulations 2001*.

(c) Subsidiaries and transactions with non-controlling interests

Name of entity	Country of incorporation	Class of shares	Equity holding (%) 2017	Equity holding (%) 2016
Mica Creek Pty Ltd*	Australia	Ordinary	100	100
SCL North West Pty Ltd*	Australia	Ordinary	100	100
Energy Portfolio 1 Pty Ltd	Australia	Ordinary	100	100
Glen Wilga Coal Pty Ltd	Australia	Ordinary	100	100
Goondi Energy Pty Ltd	Australia	Ordinary	100	100
Tarong Energy Corporation Pty Ltd	Australia	Ordinary	100	100
Tarong Fuel Pty Ltd*	Australia	Ordinary	100	100
Tarong North Pty Ltd	Australia	Ordinary	100	100
TEC Coal Pty Ltd*	Australia	Ordinary	100	100
TN Power Pty Ltd*	Australia	Ordinary	100	100

** These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 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.

(d) 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.

CORPORATE STRUCTURE (CONTINUED)

(d) Deed of cross guarantee (continued)

By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 issued by the Australian Securities and Investments Commission.

The companies listed in (c) represent a 'Closed Group' for the purposes of the Class Order, and, as there are no other parties to the Deed of Cross Guarantee that are controlled by the Company, they also represent the 'Extended Closed Group'.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for the 30 June 2017 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards, amendments and interpretations is set out below.

AASB 9 Financial Instruments (AASB 2009-11 and AASB 2010-7)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not mandatory until annual reporting periods beginning on or after 1 January 2018 but is available for early adoption. The Group has decided not to early adopt this standard and when the standard is adopted, the restatement of prior year comparatives is not required.

The Group is currently evaluating the impact of the new standard and work to date has focused on the Group's trading operations and associated financial instruments. Work will continue to be undertaken to assess the full extent of the change in policy before the adoption of the standard, in conjunction with an assessment of likely changes to information systems.

Potential differences identified to date relate to the Group accounting for its available-for-sale assets and financial instruments subject to mark-to-market adjustments. AASB 9 *Financial Instruments* only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments will therefore have to be recognised directly in profit or loss. In the current reporting period, the Group did not recognise any such gains in other comprehensive income. The derecognition rules under AASB 139 *Financial Instruments: Recognition and Measurement* have been transferred to the new standard and have not been changed.

AASB 15 Revenue from Contracts with Customers

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.

The Company sells its generation to customers via the Australian Energy Market Operator (AEMO), this means that the Company is responsible for providing services after the date at which control of the goods passes to the customer at the point of trading. The performance obligation to deliver electricity is satisfied over time as the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity generates. Under the current accounting standard (AASB 118 *Revenue*), the Company recognises electricity revenue and accordingly accrues the associated costs upon measurement as per the revenue policy. The impact of treating generation, as a separate performance obligation and therefore recognising revenue at a point in time would impact revenue.

From an initial review of its revenue streams it is anticipated that wholesale and retail electricity sales revenue will be most affected, along with environmental certificate revenue. Work will continue to be undertaken to assess the full extent of the of the change in policy before the adoption of the standard.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

The Company will also assess the impact of a full retrospective restatement or a modified transitional approach to implementation where any transitional adjustment is recognised in retained earnings, at the date of implementation of the standard. The new standard will only be applied to contracts that remain in force at the transition date.

AASB 16 Leases

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 income statement 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.

This new standard is not expected to have a material impact on the Group's future and retained earnings at transition or in future years. 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 *Leases* 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 *Leases.*

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 *Leases* 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 18 Commitments. 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.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

OTHER ACCOUNTING POLICIES

Significant and other accounting policies that are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

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.

1 REVENUE

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
From continuing operations				
Sales revenue				
Sale of electricity - wholesale	1,568,463	1,031,079	1,257,520	875,161
Sale of electricity - retail	877,278	497,932	877,278	497,933
Energy services revenue	412,709	277,612	412,709	277,612
	2,858,450	1,806,623	2,547,507	1,650,706
Other revenue				
Gas sales	95,058	107,465	95,058	107,465
Coal revenue sharing arrangements	89,546	61,943	89,546	61,943
Coal on-sale	2,914	735	2,914	735
Environmental certificate revenue	2,868	1,931	2,868	1,931
Other items	9,876	8,326	9,793	8,350
	200,262	180,400	200,179	180,424
Total revenue from continuing operations	3,058,712	1,987,023	2,747,686	1,831,130

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. Revenue is recognised for the major business activities as follows:

Revenue	Point of recognition
- Sale of electricity - wholesale	upon dispatch or in the period electricity is generated
- Sale of electricity - retail	upon consumption by the counterparty
- Energy services revenue	upon consumption by the counterparty
- Gas sales	upon delivery at the nominated delivery point
- Coal revenue sharing arrangements	upon export by the coal supplier
- Coal on-sale	upon delivery to the customer
- Environmental certificate revenue	upon creation of the certificates

Sale of electricity

Revenue from the sale of electricity traded in the National Electricity Market (NEM) is pursuant to a power purchase agreement. Electricity derivative settlement amounts that are effective hedges are included as sale of electricity and recognised in the period to which the contract settlement relates (refer to note 9). 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 includes revenue from retail contracts. Retail contract revenue is calculated based on the terms of the individual contracts.

1 REVENUE (CONTINUED)

Energy services revenue

Energy services revenue is received in relation to the recharge of transmission and other operating costs directly attributable to retail operations.

Environmental certificate revenue

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 5).

2 OTHER INCOME AND EXPENSE ITEMS

(a) Other income

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Proceeds from legal settlements	34,000	-	34,000	-
Insurance recovery	10,000	-	10,000	-
Net gain on change in rehabilitation provisions	-	15,051	-	10,807
Interest income	5,314	4,872	5,314	4,872
Net gain on disposal of property, plant and equipment	-	4,647	571	4,643
Fair value gain on investments	4,517	5,000	4,517	5,000
Other income	900	707	1,015	461
	54,731	30,277	55,417	25,783

(b) Finance costs

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Finance costs				
Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss	(59,097)	(62,049)	(58,006)	(60,112)
Provisions: unwinding of discount	(15,230)	(19,475)	(6,284)	(10,151)
Finance costs expensed	(74,327)	(81,524)	(64,290)	(70,263)

2 OTHER INCOME AND EXPENSE ITEMS (CONTINUED)

(c) Expenses

	Consolidated entity 2017 $'000	Consolidated entity 2016 $'000	Parent entity 2017 $'000	Parent entity 2016 $'000
Profit before income tax includes the following specific expenses:				
Amounts included in other expenses				
Services and consultants	(37,297)	(42,129)	(33,984)	(37,300)
Net loss on change in rehabilitation provisions	(57,134)	-	(55,121)	-
Employee benefits expenses				
Defined contribution superannuation expense	(8,358)	(8,403)	(7,894)	(7,874)
Defined benefit plan expense	(2,081)	(1,458)	(2,081)	(1,458)

	Consolidated entity and Parent entity 2017 $	Consolidated entity and Parent entity 2016 $
Audit and other assurance services		
Audit of financial statements	(390,000)	(400,000)

3 CASH AND CASH EQUIVALENTS

	Consolidated entity 2017 $'000	Consolidated entity 2016 $'000	Parent entity 2017 $'000	Parent entity 2016 $'000
Cash at bank and in hand	67,429	3,986	66,752	3,328
Deposits at call	482,262	213,848	482,262	213,848
Other cash and cash equivalents	36	92	36	92
	549,727	217,926	549,050	217,268

Cash at bank is bearing an interest rate of 1.3% (2016: 1.8%). The deposits at call yielded floating interest rates between 2.4% to 3.0% during the year ended 30 June 2017 (2016: 2.6% to 3.6%). 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.

4 TRADE AND OTHER RECEIVABLES

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Trade receivables	184,572	214,285	183,154	211,401
Provision for impairment of receivables	(37)	(4,790)	(37)	(4,790)
	184,535	209,495	183,117	206,611
Other receivables	24,930	19,661	23,657	18,448
	209,465	229,156	206,774	225,059

(a) Impaired trade receivables

As at 30 June 2017, trade receivables of $4,607,341 were past due but not impaired (2016: $877,218).

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.

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.

5 INVENTORIES

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Environmental certificates at fair market value	69,023	89,611	68,899	89,373
Fuel	40,068	40,452	35,470	32,926
Stores at cost	58,271	58,339	49,224	48,666
Provision for write down of stores	(17,486)	(14,612)	(13,636)	(11,477)
	149,876	173,790	139,957	159,488

Application of accounting policies

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.

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 write down of stores

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

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.

6 ASSETS UTILISED IN OPERATIONS

(a) Property, plant and equipment

Consolidated entity	Land and Buildings $'000	Generation assets $'000	Operational mining assets $'000	Other plant & equipment $'000	Mining development assets $'000	Capital work in progress $'000	Total $'000
Year ended 30 June 2017							
Opening net book amount	96,779	1,653,171	309,823	38,833	95,432	133,126	2,327,164
Additions	-	524	24,170	2,232	-	137,604	164,530
Disposals	(124)	(1,090)	(74)	(46)	-	-	(1,334)
Depreciation	(3,706)	(137,278)	(39,243)	(11,704)	-	-	(191,931)
Transfer between asset classes	5,578	151,921	27,695	7,376	-	(192,570)	-
Impairment loss	(2,512)	(676)	-	(234)	-	(4,962)	(8,384)
Rehabilitation asset adjustment	-	10,482	435	-	-	-	10,917
Closing net book amount	96,015	1,677,054	322,806	36,457	95,432	73,198	2,300,962
At 30 June 2017							
Cost or recoverable amount	158,200	3,888,538	483,640	147,339	95,432	73,198	4,846,347
Accumulated depreciation and impairment losses	(62,185)	(2,211,484)	(160,834)	(110,882)	-	-	(2,545,385)
Net book amount	96,015	1,677,054	322,806	36,457	95,432	73,198	2,300,962
Year ended 30 June 2016							
Opening net book amount	97,472	1,770,921	289,041	32,801	95,432	78,715	2,364,382
Additions	-	1	33,166	5,705	-	185,822	224,694
Disposals	(2,309)	(20)	(218)	(39)	-	-	(2,586)
Depreciation	(3,538)	(136,449)	(33,854)	(10,683)	-	-	(184,524)
Impairment reversal	-	12,295	-	-	-	-	12,295
Transfer between asset classes	5,154	100,798	14,410	11,049	-	(131,411)	-
Rehabilitation asset adjustment	-	(94,375)	7,278	-	-	-	(87,097)
Closing net book amount	96,779	1,653,171	309,823	38,833	95,432	133,126	2,327,164
At 30 June 2016							
Cost or recoverable amount	152,861	3,815,041	432,311	140,118	95,432	133,126	4,768,889
Accumulated depreciation and impairment losses	(56,082)	(2,161,870)	(122,488)	(101,285)	-	-	(2,441,725)
Net book amount	96,779	1,653,171	309,823	38,833	95,432	133,126	2,327,164

6 ASSETS UTILISED IN OPERATIONS (CONTINUED)

(a) Property, plant and equipment (continued)

Parent entity	Land and Buildings $'000	Generation assets $'000	Other plant & equipment $'000	Mining development assets $'000	Capital work in progress $'000	Total $'000
Year ended 30 June 2017						
Opening net book amount	62,835	1,433,991	34,900	95,432	62,908	1,690,066
Additions	-	-	2,054	-	108,588	110,642
Disposals	-	(27)	(41)	-	-	(68)
Depreciation	(1,933)	(116,750)	(10,296)	-	-	(128,979)
Transfer between asset classes	1,995	99,201	6,371	-	(107,567)	-
Rehabilitation asset adjustment	-	10,779	-	-	-	10,779
Closing net book amount	62,897	1,427,194	32,988	95,432	63,929	1,682,440
At 30 June 2017						
Cost or recoverable amount	108,384	3,166,347	134,531	95,432	63,929	3,568,623
Accumulated depreciation and impairment losses	(45,487)	(1,739,153)	(101,543)	-	-	(1,886,183)
Net book amount	62,897	1,427,194	32,988	95,432	63,929	1,682,440
Year ended 30 June 2016						
Opening net book amount	63,061	1,525,103	30,740	95,432	57,548	1,771,884
Additions	-	-	5,693	-	113,584	119,277
Disposals	(2,122)	(19)	(36)	-	-	(2,177)
Depreciation	(1,793)	(115,801)	(9,692)	-	-	(127,286)
Transfer between asset classes	3,689	96,340	8,195	-	(108,224)	-
Rehabilitation asset adjustment	-	(71,632)	-	-	-	(71,632)
Closing net book amount	62,835	1,433,991	34,900	95,432	62,908	1,690,066
At 30 June 2016						
Cost or recoverable amount	106,410	3,124,205	128,084	95,432	62,908	3,517,039
Accumulated depreciation and impairment losses	(43,575)	(1,690,214)	(93,184)	-	-	(1,826,973)
Net book amount	62,835	1,433,991	34,900	95,432	62,908	1,690,066

The comparative cost and accumulated depreciation amounts in the consolidated entity have been adjusted to reflect a reclassification between generation assets and other plant and equipment. The adjustment has no affect on the comparative net book amount.

6 ASSETS UTILISED IN OPERATIONS (CONTINUED)

(a) Property, plant and equipment (continued)

(i) Cross border leases

Included within the property, plant and equipment are generation assets subject to cross border leases with carrying amounts as follows:

	Consolidated entity and Parent entity 2017 $'000	2016 $'000
Leasehold equipment		
Cost	-	740,605
Accumulation depreciation	-	(381,862)
Net book amount	**-**	**358,743**

Stanwell Power Station's cross border leases, which were entered into in 1995 and 1996, were terminated during the year. In accordance with accounting standards, the leases were treated as finance leases. The leased assets were amortised in the profit or loss over the life of the assets on a straight-line basis consistent with the Group's policy on depreciation of generation assets. No lease liability was recognised as future lease payments had been prepaid at the commencement of the lease.

(b) Intangible assets

	Consolidated entity		Parent entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
At 1 July	97,864	92,046	22,522	16,767
Additions	11,058	12,555	6,111	12,459
Amortisation charge	(8,789)	(6,737)	(8,647)	(6,704)
At 30 June	**100,133**	**97,864**	**19,986**	**22,522**
Mining Information				
Cost	80,225	75,278	-	-
Accumulated amortisation and impairment losses	(77)	-	-	-
Software				
Cost	97,350	91,239	97,214	91,103
Accumulated amortisation and impairment losses	(77,365)	(68,653)	(77,228)	(68,581)
Net book amount	**100,133**	**97,864**	**19,986**	**22,522**

6 ASSETS UTILISED IN OPERATIONS (CONTINUED)

(c) Exploration and evaluation

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
At 1 July	12,864	12,908	-	44
Expenditure incurred	2,624	-	51	-
Amortisation charge	(6,623)	(44)	-	(44)
At 30 June	**8,865**	**12,864**	**51**	**-**
Cost	19,449	16,825	4,012	3,961
Accumulated amortisation and impairment losses	(10,584)	(3,961)	(3,961)	(3,961)
Net book amount	**8,865**	**12,864**	**51**	**-**

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

Application of accounting policies

Assets utilised in operations are 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 9).

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.

Depreciation and amortisation

Depreciation and amortisation 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.

6 ASSETS UTILISED IN OPERATIONS (CONTINUED)

Application of accounting policies (continued)

Depreciation and amortisation (continued)

Units of use basis

Where operational mining assets are depreciated on a 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.

Straight-line basis

- Buildings	15 - 50 years
- Generation assets (including overhauls)	2 - 30 years
- Operational mining assets	2 - 24 years
- Other plant and equipment	2 - 30 years
- Software	2 - 10 years

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.

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.

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. No amortisation charge has been recognised in relation to the mining information and mining lease assets as the mine to which the information relates has not reached production.

Application of critical accounting estimates and judgements

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.

6 ASSETS UTILISED IN OPERATIONS (CONTINUED)

Application of critical accounting estimates and judgements (continued)

Impairment of assets (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.

7 RETIREMENT BENEFIT SURPLUS

(a) 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 2(c).

(b) Balance sheet amounts

The amounts recognised in the balance sheet and the movements in the net retirement benefit surplus over the year are as follows:

Consolidated entity and Parent entity	Present value of obligation $'000	Fair value of plan assets $'000	Net amount $'000
Balance sheet as at 1 July 2016	**(57,361)**	**68,616**	**11,255**
Current service cost	(2,416)	-	(2,416)
Interest cost	(1,895)	-	(1,895)
Expected return on plan assets	-	2,230	2,230
Total amount recognised in profit or loss	**(4,311)**	**2,230**	**(2,081)**
Remeasurements:			
Experience (loss)/gain	(678)	5,112	4,434
Gain/(loss) from change in financial assumptions	3,474	-	3,474
Total amount recognised in other comprehensive income	**2,796**	**5,112**	**7,908**
Contributions:			
Group companies	-	746	746
Plan participants	(635)	635	-
Benefit payments, insurance and tax plus net transfers	3,351	(3,351)	-
Balance sheet as at 30 June 2017	**(56,160)**	**73,988**	**17,828**

7 RETIREMENT BENEFIT SURPLUS (CONTINUED)

(b) Balance sheet amounts (continued)

Consolidated entity and Parent entity	Present value of obligation $'000	Fair value of plan assets $'000	Net amount $'000
Balance sheet as at 1 July 2015	**(50,423)**	**72,943**	**22,520**
Current service cost	(2,328)	-	(2,328)
Interest cost	(2,318)	-	(2,318)
Expected return on plan assets	-	3,188	3,188
Total amount recognised in profit or loss	**(4,646)**	**3,188**	**(1,458)**
Remeasurements:			
Experience (loss)/gain	(4,302)	12	(4,290)
Gain/(loss) from change in financial assumptions	(6,285)	-	(6,285)
Total amount recognised in other comprehensive income	**(10,587)**	**12**	**(10,575)**
Contributions:			
Group companies	-	768	768
Plan participants	(621)	621	-
Benefit payments, insurance and tax plus net transfers	8,916	(8,916)	-
Balance sheet as at 30 June 2016	**(57,361)**	**68,616**	**11,255**

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.

7 RETIREMENT BENEFIT SURPLUS (CONTINUED)

(c) Categories of plan assets

The major categories of plan assets are as follows:

	Consolidated entity and Parent entity	
	2017	2016
	$'000	$'000
Cash and cash equivalents	3,699	3,430
Property	7,399	6,862
Debt instruments	7,399	6,862
Equity instruments	36,994	34,308
Alternative assets	18,497	17,154
	73,988	68,616

(d) Principal actuarial assumptions and sensitivity

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

	Consolidated entity and Parent entity	
	2017	2016
Discount rate	3.9%	3.3%
Future salary increases	3.7%	3.7%

(e) 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.

7 RETIREMENT BENEFIT SURPLUS (CONTINUED)

(e) Employer contributions and risk exposure (continued)

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 2017. Prior to 1 May 2017 and for the whole of the year ended 30 June 2016, 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 2018 are $nil.

(f) Defined benefit obligation maturity profile

The weighted average duration of the defined benefit obligation is 9 years (2016 - 9 years). The expected maturity analysis of undiscounted defined benefit obligations is as follows:

Consolidated entity and Parent entity	Less than a year $'000	Between 1 - 2 years $'000	Between 2 - 5 years $'000	Over 5 years $'000	Total $'000
Defined benefit obligation (undiscounted)					
30 June 2017	3,980	3,004	14,853	94,675	116,512
30 June 2016	3,267	2,799	11,996	99,123	117,185

8 OTHER ASSETS

	Consolidated entity		Parent entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Other current assets				
Deferred stripping	110,605	113,858	-	-
Cash collateral	61,719	158,678	61,719	158,678
Prepayments	4,070	8,592	3,921	8,554
Other	588	109	588	109
	176,982	281,237	66,228	167,341

	Consolidated entity		Parent entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Other non-current assets				
Investments	20,000	20,000	20,000	20,000
Deferred stripping	8,894	15,227	-	-
Listed securities	6,902	1,922	6,902	1,922
Other	416	1,356	416	1,356
	36,212	38,505	27,318	23,278

8 OTHER ASSETS (CONTINUED)

(a) 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.

(b) Investments

On 20 October 2014, the Company relinquished its 5% interest in the Mahalo Gas Project and the Sale 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. As at 30 June 2017 this investment has been reclassified from available-for-sale assets to other non-current assets as the Company no longer has an intention to actively dispose of the option.

(c) Listed securities

The listed equity securities relate to a 7.7% (2016: 7.7%) holding in Blue Energy Limited (ASX: BUL). At 30 June 2017, the market value of the shares was 7.9 cents (2016: 2.2 cents). The change in fair value resulted in a gain of $4,979,474 (2016: no change).

Application of accounting policies

Deferred stripping costs

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

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

Application of accounting estimates and judgements

Deferred 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.

Listed securities

As per AASB 13 *Fair Value Measurement*, the listed equity securities are traded in an active market and the fair value of the asset is measured within level 1 as the product of the quoted price for the individual asset and the quantity held by the entity.

9 DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated entity and Parent entity	
	2017	2016
	$'000	$'000
Current assets		
Cash flow hedges		
Electricity contracts	33,071	6,683
Foreign currency contracts	137	483
Oil contracts	-	3,972
Held for trading		
Electricity contracts	161,953	86,411
Environmental contracts	7,511	1,289
Oil contracts	207	7,348
Total	202,879	106,186
Non-current assets		
Cash flow hedges		
Electricity contracts	57,087	1,275
Foreign currency contracts	47	357
Held for trading		
Electricity contracts	88,650	29,557
Environmental contracts	18,723	17,526
Total	164,507	48,715
Current liabilities		
Cash flow hedges		
Electricity contracts	312,589	183,967
Foreign currency contracts	199	105
Held for trading		
Electricity contracts	153,529	96,963
Foreign currency contracts	-	2,228
Environmental contracts	11,817	4,110
Oil contract	1,018	-
Total	479,152	287,373
Non-current liabilities		
Cash flow hedges		
Electricity contracts	14,540	56,110
Foreign currency contracts	291	255
Held for trading		
Electricity contracts	100,970	37,079
Foreign currency contracts	-	1
Environmental contracts	16,204	22,017
Oil contract	153	-
Total	132,158	115,462
Net derivative financial instrument liabilities	243,924	247,934

9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(a) Change in fair value recognised in the profit or loss

	Consolidated entity and Parent entity 2017 $'000	Consolidated entity and Parent entity 2016 $'000
Non hedge accounted change in fair value of derivative instruments gain/(loss)		
Derivatives classified as held for trading		
Electricity contracts	(74,133)	(37,300)
Foreign currency contracts	688	(6,084)
Environmental contracts	(4,060)	(22,673)
Oil contracts	(2,193)	3,746
Total	(79,698)	(62,311)

(b) Hedge accounted change in fair value of derivative instruments

Cash flow hedge reserve	Consolidated entity and Parent entity 2017 $'000	Consolidated entity and Parent entity 2016 $'000
At 1 July	(131,387)	1,440
Effective portion of changes in fair value of cash flow hedges	(356,432)	(317,416)
Revenue from sale of electricity - wholesale	349,102	142,844
Revenue from gas sales	(3,667)	(14,490)
Net change in fair value of cash flow hedges transferred to profit or loss	345,435	128,354
Net change in fair value of cash flow hedges transferred to property, plant and equipment	(256)	(691)
Changes in the fair value of cash flow hedges	(11,253)	(189,753)
Income tax equivalent relating to these items	3,376	56,926
At 30 June	(139,264)	(131,387)

(c) Instruments used by the Group

The Company 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 Groups risk management policies (refer to note 20). All derivative financial instruments were entered into by the Parent entity.

(i) Electricity contracts

The Parent entity bids electricity generated into the NEM. Cash flows received from the NEM can be volatile and accordingly the Parent entity has entered into electricity derivatives such as price swaps under which it is obliged to receive cash flows at fixed electricity prices and pay cash flows at variable electricity prices. Swaps currently in place are timed to settle as each cash flow is received from the NEM.

9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(c) Instruments used by the Group (continued)

(i) Electricity contracts (continued)

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.

(ii) Foreign currency contracts

Transaction exposures relating to foreign currencies are managed by entering into forward exchange contracts to purchase and sell foreign currencies. These transactions relate to the contracted purchase of capital equipment and operating expenditure denominated in US Dollars, Japanese Yen and Euros. The Parent entity classifies its forward exchange contracts which hedge forecast transactions as cash flow hedges and states them at fair value. The forward contracts are timed to expire as each cash flow is due. The Parent entity has entered into forward exchange contracts and currency options which are economic hedges but do not satisfy the requirements for hedge accounting that relate to operating revenue with prices referenced to US Dollars.

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.

(iii) Environmental contracts

The Parent entity creates environmental certificates which can then be traded in the open market. To derive additional income from environmental certificates, the Parent entity trades in environmental derivative contracts, such as forward contracts and options.

(iv) Oil contracts

The Group has exposure to oil price movements through operating its vehicle fleet and equipment and sales contracts linked to oil prices. This exposure is managed by entering into oil derivative contracts.

For oil contracts designated as hedging instruments, the cash flows of the hedged transactions occurred over 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.

Application of accounting policies

Derivatives and hedging activities

Derivatives are classified as held for trading unless they are designated as hedges.

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 designated as a hedging instrument, and if so, the nature of the item being hedged, or is at fair value through the profit or loss. The Group designates certain derivatives as hedges of a particular risk associated with highly probable forecast transactions (cash flow hedges).

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

9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives and hedging activities (continued)

The fair values of derivative financial instruments used for hedging purposes are disclosed above. 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.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting but have been entered into for the risk management objective of economically hedging a risk. These derivative instruments are classified as held for trading at their fair value and recognised through the profit or loss.

Change in fair value recognised in the profit or loss

Gains and losses that are recognised in the statements of comprehensive income from remeasuring derivative financial instruments that do not qualify as effective hedging instruments are initially classified as "non hedge accounted change in fair value of derivative instruments". These gains and losses are the revaluation increments on the derivative financial instruments incurred during the financial year.

Hedge accounted change in fair value of derivative instruments

The hedging reserve is used to record gains and losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income.

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. The gain or loss relating to the ineffective portion 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 revenue. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets) 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 fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

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.

Application of accounting estimates and judgements

Fair value measurements

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

9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Application of accounting estimates and judgements (continued)

Fair value measurements (continued)

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 entity and Parent entity - at 30 June 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
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
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)
Net derivative financial instrument liabilities	**(59,078)**	**(195,987)**	**11,141**	**(243,924)**

Consolidated entity and Parent entity - at 30 June 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Current derivative financial instrument assets	16,697	88,264	1,225	106,186
Non current derivative financial instrument assets	15,102	31,924	1,689	48,715
Current derivative financial instrument liabilities	(143,761)	(140,280)	(3,332)	(287,373)
Non current derivative financial instrument liabilities	(45,538)	(68,919)	(1,005)	(115,462)
Net derivative financial instrument liabilities	**(157,500)**	**(89,011)**	**(1,423)**	**(247,934)**

9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Application of accounting estimates and judgements (continued)

Fair value measurements (continued)

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 2016 and 30 June 2017:

	2017 $'000	2016 $'000
Consolidated entity and Parent entity		
Recurring fair value measurements		
Level 3 valuation hierarchy		
Balance at 1 July	(1,423)	(4,874)
Gains/(losses) recognised in profit or loss	6,050	(11,361)
Gains/(losses) recognised in other comprehensive income	32,573	(6,380)
Purchases	4,262	983
Sales	(4,694)	(1,636)
Settlements	-	8,169
Transfers out of level 3 into level 2	(25,627)	11,747
Transfers out of level 2 into level 3	-	1,929
Balance at 30 June	**11,141**	**(1,423)**
Total gains for the year recognised in profit or loss that are attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 30 June.	12,441	1,489

Gains/(losses) recognised in profit or loss are included in the statement of comprehensive income as "non hedge accounted change in fair value of derivative instruments". Gains/(losses) recognised in other comprehensive income are included as changes in the fair value of cash flow hedges.

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

The significant valuation techniques 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 and translation factor techniques to determine the fair value where a product does not have an observable market price.
- Option valuation model where terms are not identical to market quoted prices.

There have been no material changes in the above valuation techniques used since 30 June 2016.

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; and

9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Application of accounting estimates and judgements (continued)

Fair value measurements (continued)

- Forecast generation.

The Group uses the following valuation processes for fair value measurements of derivative financial instruments categorised within level 3:

- Extrapolation, translation and scalar factors applied where market price is not quoted.
- Contracts with optionality are valued using an option valuation model using implied volatility.
- Credit risk factors applied to adjust fair values for non-performance risk.

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.

(d) Offsetting positions in counterparty credit risk

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.

(e) 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 Group 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 entity and Parent entity 2017	Amounts presented in the balance sheet	Amounts subject to master netting arrangements	Financial instrument collateral	Net amount
	$'000	$'000	$'000	$'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

9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(e) Master netting arrangement – not currently enforceable (continued)

Consolidated entity and Parent entity 2016	Amounts presented in the balance sheet	Amounts subject to master netting arrangements	Financial instrument collateral	Net amount
	$'000	$'000	$'000	$'000
Financial assets				
Current derivative financial instrument assets	106,186	67,586	-	38,600
Cash collateral	158,678	-	157,500	1,178
Non current derivative financial instrument assets	48,715	24,616	-	24,099
Total	313,579	92,202	157,500	63,877
Financial liabilities				
Current derivative financial instrument liabilities	287,373	67,586	127,064	92,723
Other current liabilities	8	-	-	8
Non current derivative financial instrument liabilities	115,462	24,616	30,436	60,410
Total	402,843	92,202	157,500	153,141

10 TRADE AND OTHER PAYABLES

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Trade payables	76,143	61,510	56,432	48,816
Accrued expenses	156,375	153,633	130,730	120,193
	232,518	215,143	187,162	169,009

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.

11 FINANCE LEASE LIABILITIES

	Consolidated entity 2017 $'000	Consolidated entity 2016 $'000
Current liabilities		
Finance lease liabilities	-	25,918
Non-current liabilities		
Finance lease liabilities	-	4,401
Total finance lease liabilities	**-**	**30,319**

During the year the Group acquired mining equipment previously subject to finance leases and upon acquisition all lease obligations were extinguished.

Application of accounting policies

Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases is 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 Group will obtain ownership at the end of the lease term.

12 PROVISIONS

	Consolidated entity		Parent entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Employee benefits	19,859	16,943	15,414	13,968
Other provisions	-	4,919	-	4,919
Restructuring costs	3,441	332	3,110	-
Restoration, rehabilitation and decommissioning	6,586	4,367	270	679
Dividends	260,567	311,629	260,567	311,629
Total current provisions	**290,453**	**338,190**	**279,361**	**331,195**
Employee benefits - long service leave	2,134	2,595	1,556	2,461
Other provisions	8,858	7,048	-	-
Restoration, rehabilitation and decommissioning	319,743	241,410	151,477	103,780
Total non-current provisions	**330,735**	**251,053**	**153,033**	**106,241**
Total provisions	**621,188**	**589,243**	**432,394**	**437,436**

12 PROVISIONS (CONTINUED)

(a) Movements in provisions

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

Consolidated entity	Dividends $'000	Restoration, rehabilitation and decommissioning $'000
At 1 July 2016	311,629	245,778
Amounts paid during the year	(311,629)	(2,394)
Unused amounts reversed	-	(1,108)
Additional provisions recognised	260,567	-
Unwinding of discount	-	15,230
Movement in estimates	-	68,823
At 30 June 2017	260,567	326,329

Consolidated entity	Dividends $'000	Restoration, rehabilitation and decommissioning $'000
At 1 July 2015	89,930	329,816
Amounts paid during the year	(89,930)	(2,277)
Unused amounts reversed	-	(7,103)
Additional provisions recognised	311,629	-
Unwinding of discount	-	19,475
Movement in estimates	-	(94,133)
At 30 June 2016	311,629	245,778

Parent entity	Dividends $'000	Restoration, rehabilitation and decommissioning $'000
At 1 July 2016	311,629	104,459
Amounts paid during the year	(311,629)	(106)
Unused amounts reversed	-	(1,108)
Additional provisions recognised	260,567	-
Unwinding of discount	-	6,284
Movement in estimates	-	42,218
At 30 June 2017	260,567	151,747

12 PROVISIONS (CONTINUED)

(a) Movements in provisions (continued)

Parent entity	Dividends $'000	Restoration, rehabilitation and decommissioning $'000
At 1 July 2015	89,930	169,526
Amounts paid during the year	(89,930)	(989)
Additional provisions recognised	311,629	-
Unwinding of discount	-	10,151
Movement in estimates	-	(74,229)
At 30 June 2016	**311,629**	**104,459**

(b) Amounts not expected to be settled within 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.

	Consolidated entity		Parent entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Leave obligation expected to be settled after 12 months	**16,281**	**14,047**	**15,051**	**13,281**

(c) 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 Queensland Treasury Corporation (QTC) for an amount of $171,553,555 as at 30 June 2017.

Application of accounting policies

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

Employee benefits

Short-term obligations

Liabilities for wages, salaries and other employee benefits, including non-monetary benefits, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

12 PROVISIONS (CONTINUED)

Application of accounting policies (continued)

Employee benefits (continued)

Other 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.

Dividends

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

Restoration, 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.

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. The increase in the provision due to the passage of time is recognised recognised as a finance cost.

12 PROVISIONS (CONTINUED)

Application of accounting estimates and judgements

Provisions for employee benefits and dividends 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.

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 2017 the Group has used a pre-tax discount rate of 5.0%.

13 BORROWINGS

	Consolidated entity and Parent entity	
	2017 $'000	2016 $'000
Unsecured borrowings	822,104	822,287

Further information relating to borrowings from related parties is set out in note 19.

(a) Unsecured borrowings

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

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 2017, the facility was not utilised (2016: $Nil).

(b) Fair value

The fair value of unsecured borrowings for the Group and Parent entity at 30 June 2017 was $937,193,027 (2016: $980,813,098) compared to a carrying amount of $822,103,575 (2016: $822,287,285). Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes.

(c) 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.

13 BORROWINGS (CONTINUED)

(c) Capital risk management (continued)

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.

The gearing ratios at 30 June were as follows:

	Consolidated entity		Parent entity	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Unsecured borrowings	822,104	822,287	822,104	822,287
Total equity	1,289,144	1,176,682	1,243,247	1,260,032
Total capital	2,111,248	1,998,969	2,065,351	2,082,319
Gearing ratio	38.9%	41.1%	39.8%	39.5%

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.

In the prior year, the Company operated a debt offset facility with QTC as part of its debt management approach. In November 2016, the debt offset facility was cancelled by QTC and all monies in the debt offset were applied against the Company's existing borrowings with QTC.

14 TAX

Income tax equivalent expense

(a) Income tax equivalent expense

	Consolidated entity 2017 $'000	Consolidated entity 2016 $'000	Parent entity 2017 $'000	Parent entity 2016 $'000
Current tax equivalent	190,314	85,854	122,198	79,621
Deferred tax equivalent	(39,927)	(12,881)	(18,029)	(24,668)
Adjustments for current tax equivalent of prior periods	4	(4)	4	(4)
Total	150,391	72,969	104,173	54,949
Deferred income tax equivalent benefit:				
Increase in deferred tax equivalent assets	(73,256)	(64,838)	(57,905)	(64,826)
Increase in deferred tax equivalent liabilities	48,330	54,114	54,279	41,305
Under provision in prior year	(15,001)	(2,157)	(14,403)	(1,147)
Total	(39,927)	(12,881)	(18,029)	(24,668)

(b) Numerical reconciliation of income tax equivalent expense to prima facie tax payable

	Consolidated entity 2017 $'000	Consolidated entity 2016 $'000	Parent entity 2017 $'000	Parent entity 2016 $'000
Profit before income tax equivalent expense	525,598	243,204	350,132	183,138
Tax at the Australian tax rate of 30.0% (2016 - 30.0%)	157,679	72,961	105,039	54,941
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Deferred tax equivalent asset adjustment in period	(7,305)	-	(882)	-
Non-deductible expenses	13	12	12	12
Subtotal	150,387	72,973	104,169	54,953
Adjustments for current tax equivalent of prior periods	4	(4)	4	(4)
Income tax equivalent expense	150,391	72,969	104,173	54,949

(c) Tax equivalent expense relating to items of other comprehensive income

	Consolidated entity and Parent entity 2017 $'000	Consolidated entity and Parent entity 2016 $'000
Gains on revaluation of biological assets	(70)	-
Cash flow hedges	3,376	56,926
Actuarial (losses)/gains on defined benefit plans	(2,372)	3,173
	934	60,099

14 TAX (CONTINUED)

Income tax equivalent expense (continued)

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.

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.

Net deferred tax equivalent balances

(a) 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 & 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 forseeable future; and
- Where the temporary difference arises on the initial recognition of goodwill.

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 directly in equity are also recognised directly in equity.

14 TAX (CONTINUED)

Net deferred tax equivalent balances (continued)

(b) Deferred tax equivalent assets

	Consolidated entity 2017 $'000	Consolidated entity 2016 $'000	Parent entity 2017 $'000	Parent entity 2016 $'000
The balance comprises temporary differences attributable to:				
Employee benefits	14,623	12,164	10,865	9,769
Derivatives	180,120	119,585	180,120	119,585
Provisions	103,358	78,531	48,966	34,087
Other	19,825	34,390	663	19,268
Total	317,926	244,670	240,614	182,709

Movements - Consolidated entity	Employee Benefits $'000	Derivative financial instruments $'000	Provisions $'000	Other $'000	Total $'000
At 1 July 2015	15,774	43,718	98,087	22,253	179,832
(Charged)/credited					
- to profit or loss	(3,610)	75,867	(19,556)	12,137	64,838
At 30 June 2016	12,164	119,585	78,531	34,390	244,670
At 1 July 2016	12,164	119,585	78,531	34,390	244,670
(Charged)/credited					
- to profit or loss	2,459	60,535	24,827	(14,565)	73,256
At 30 June 2017	14,623	180,120	103,358	19,825	317,926

Movements - Parent entity	Employee Benefits $'000	Derivative financial instruments $'000	Provisions $'000	Other $'000	Total $'000
At 1 July 2015	13,382	43,718	49,973	10,809	117,882
(Charged)/credited					
- to profit or loss	(3,613)	75,867	(15,886)	8,459	64,827
At 30 June 2016	9,769	119,585	34,087	19,268	182,709
At 1 July 2016	9,769	119,585	34,087	19,268	182,709
(Charged)/credited					
- to profit or loss	1,096	60,535	14,879	(18,605)	57,905
At 30 June 2017	10,865	180,120	48,966	663	240,614

14 TAX (CONTINUED)

Net deferred tax equivalent balances (continued)

(c) Deferred tax equivalent liabilities

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Property, plant and equipment	348,319	352,842	285,415	297,257
Defined benefits plan	5,348	3,376	5,348	3,376
Derivatives	108,977	46,162	108,940	46,090
Inventories	60,817	61,954	23,542	22,635
Exploration, evaluation and development	4,646	3,859	15	-
Other	21,204	33,721	3,869	4,425
Total	549,311	501,914	427,129	373,783
Set-off of deferred tax equivalent assets pursuant to set-off provisions	(317,926)	(244,670)	(240,614)	(182,709)
Net total	231,385	257,244	186,515	191,074

Movements - Consolidated entity	Property, plant and equipment $'000	Defined benefit plan $'000	Derivative financial instruments $'000	Other $'000	Total $'000
At 1 July 2015	359,356	6,756	32,205	109,582	507,899
Charged/(credited)					
- profit or loss	(6,514)	(207)	70,883	(10,048)	54,114
- to other comprehensive income	-	(3,173)	(56,926)	-	(60,099)
At 30 June 2016	352,842	3,376	46,162	99,534	501,914
At 1 July 2016	352,842	3,376	46,162	99,534	501,914
Charged/(credited)					
- profit or loss	(4,523)	(400)	66,191	(12,937)	48,331
- to other comprehensive income	-	2,372	(3,376)	70	(934)
At 30 June 2017	348,319	5,348	108,977	86,667	549,311

14 TAX (CONTINUED)

Net deferred tax equivalent balances (continued)

(c) Deferred tax equivalent liabilities (continued)

Movements - Parent entity	Property, plant and equipment $'000	Defined benefit plan $'000	Derivative financial instruments $'000	Other $'000	Total $'000
At 1 July 2015	314,173	6,756	31,992	39,656	392,577
Charged/(credited)					
- profit or loss	(16,916)	(207)	71,024	(12,596)	41,305
- to other comprehensive income	-	(3,173)	(56,926)	-	(60,099)
At 30 June 2016	297,257	3,376	46,090	27,060	373,783
At 1 July 2016	297,257	3,376	46,090	27,060	373,783
Charged/(credited)					
- profit or loss	(11,842)	(400)	66,226	296	54,280
- to other comprehensive income	-	2,372	(3,376)	70	(934)
At 30 June 2017	285,415	5,348	108,940	27,426	427,129

(d) 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.

15 KEY MANAGEMENT PERSONNEL DISCLOSURES

(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
Dominic Condon
Jacqueline King
Karen Smith-Pomeroy
Russell Kempnich (1 July 2016 to 30 September 2016)
Allison Warburton (15 December 2016 to 30 June 2017)
Adam Aspinall (15 December 2016 to 30 June 2017)

(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 (5 December 2016 to 30 June 2017)
Executive General Manager Business Services - Jennifer Gregg
Executive General Manager Energy Trading and Commercial Strategy - Stephen Quilter (12 July 2016 to 30 June 2017 and as an acting appointment 1 July 2016 to 11 July 2016)
Executive General Manager Safety and Asset Services - Ian Gilbar (acting appointment 1 July 2016 to 31 January 2017)
Executive General Manager Production - Philips David (acting appointment 1 July 2016 to 31 January 2017)

(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 Employment Arrangements Version 2.*

15 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Remuneration of key management personnel (continued)

Other key management personnel (continued)

Remuneration policy (continued)

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.

Ian Gilbar and Philips David are employed on Alternative Employment Arrangements, which are covered by the Remuneration Policy for Alternative Employment Arrangements Employees. Higher duties allowances were paid, in line with the applicable market rates, for each of the respective Senior Executive positions.

Link between remuneration paid and the 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:

- the outcome of individual performance reviews;
- movements 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 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.

15 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Remuneration of key management personnel (continued)

Other key management personnel (continued)

Service agreements (continued)

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.

The termination benefits applicable to the Chief Executive Officer includes:

- 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 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 comprising of the greater of 13 weeks salary or a sum representing 2 weeks salary per year of service (up to 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 Executives are employed on fixed term employment contracts or on an ongoing (tenured) basis. Fixed term contact comprise of a three year term with the option to extend the term for a maximum of two years by mutual agreement under the same terms and conditions. Following expiry of the contract extension or upon appointment to a vacant position, Senior Executive's will be employed on an on-going basis with no specific end date 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. During the period that this role was vacant, the Board approved an interim organisational structure for the Operations division, whereby the responsibilities of the Chief Operating Officer were divided into two roles, each being filled in an acting capacity by incumbents who are employed on Alternative Employee Arrangements.
- 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 - on-going (tenured) basis commencing in July 2016.

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 maximum of 52 weeks' salary), separation payment of 20% of the residual salary value of the contract and any accrued entitlements; or

15 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Remuneration of key management personnel (continued)

Other key management personnel (continued)

Service agreements (continued)

- where the employment terminates on contract expiry and the Group does not offer further employment, a severance payment comprising the greater of 4 weeks salary or 2 weeks salary per year of service up to a maximum of 52 weeks 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	
2017	Cash Salary $'000	Committee Fees $'000	Superannuation $'000	Total $'000
Dr Ralph Craven	79	9	9	97
Dominic Condon	31	4	3	38
Russell Kempnich	8	1	1	10
Jacqueline King	31	5	4	40
Karen Smith-Pomeroy	31	6	4	41
Allison Warburton	17	2	2	21
Adam Aspinall	17	2	2	21
2016				
Dr Ralph Craven	59	7	7	73
Shane Charles	20	2	2	24
Paul Breslin	8	1	1	10
Dominic Condon	31	4	3	38
Russell Kempnich	31	6	4	41
Jacqueline King	23	3	3	29
Karen Smith-Pomeroy	23	4	3	30

15 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(d) Details of remuneration (continued)

Other key management personnel of the Group

Position	Short-term employee benefits			Post employment	Long-term employee benefits	
2017	Cash Salary $'000	Bonus $'000	Non-monetary benefits $'000	Super-annuation $'000	Long service leave $'000	Total $'000
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
2016						
Chief Executive Officer	618	66	37	68	15	804
Chief Financial Officer	323	38	35	36	8	440
Executive General Manager Business Services	332	35	24	35	8	434
Acting Executive General Manager Marketing and Trading	301	30	13	33	6	383
Acting Executive General Manager, Safety and Asset Services	305	26	1	33	7	372
Acting Executive General Manager, Production**	334	28	21	4	7	394
Total	2,213	223	131	209	51	2,827

**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 2016 and 30 June 2017 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 and the Minister for Main Roads, Road Safety and Ports, Minister for Energy, Biofuels and Water Supply, The Honourable Mark Bailey MP.

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 2017 financial year, which are published as part of Queensland Treasury's Report on State Finances.

16 JOINT OPERATIONS

The Company has a 50% (2016: 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.

The Company has a 20.8% (2016: 19.0%) interest in the Tarong Hoop Pine Joint Venture. The interest is in unincorporated joint operations with HQPlantations Pty Ltd with whom the Company has joint control over all relevant activities. The principal activity of the operations is the establishment of a viable commercial plantation of trees. In June 2017 the Company purchased HQPlantations Pty Ltd interest in the Woodlands Hardwood Plantation and terminated this Joint Venture Agreement.

(a) Summarised financial information for joint operations

The net assets for the joint operations of the Group are $7,499,790 (2016: $6,702,893). The Group's share in these joint operations and the amount at which they are carried is $3,749,895 (2016: $3,351,446).

The Company has revalued the biological assets contributed to the Tarong Hoop Pine Joint Venture during the year.

(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 17 and 18 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.

17 CONTINGENCIES

Guarantees

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

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

The fair value of the above guarantees is $Nil (2016: $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.

18 COMMITMENTS

(a) 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 entity	
	2017	2016
	$'000	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	2,073	4,507
Later than one year but not later than five years	13,707	11,476
Later than five years	17,648	2,249
	33,428	18,232

(b) Other commitments

	Consolidated entity	
	2017	2016
	$'000	$'000
Commitments relating to other operating expenditure payable is as follows:		
Within one year	179,601	197,029
Later than one year but not later than five years	547,249	566,012
Later than five years	510,991	636,499
	1,237,841	1,399,540

All commitments are shown exclusive of Goods and Services Tax (GST).

19 RELATED PARTY TRANSACTIONS

(a) Parent entity

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

(b) Wholly owned group

The wholly owned Group consists of Stanwell Corporation Limited and its wholly owned entities. Details of the interests in subsidiaries are set out on page 20.

(c) Joint operations

The Group is a party to the Kogan North Joint Venture with Australian CBM Pty Ltd, a wholly-owned subsidiary of Arrow Energy NL and the Tarong Hoop Pine Joint Venture with HQPlantations Pty Ltd.

Details of the interests with the joint operations are set out in note 16.

19 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) 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 other related parties:

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Financial instrument settlements and revaluations	94,290	42,247	94,290	42,247
Sales of electricity	96,052	43,212	96,052	43,212
Other revenue	5,148	4,367	5,148	4,367
Fuel costs	(17,885)	(14,126)	(959)	(1,806)
Raw materials and consumables	(223,747)	(134,988)	(223,093)	(134,262)
Employee benefits expense	(5,498)	(5,608)	(5,233)	(5,334)
Other expenses	(3,857)	(4,288)	(2,742)	(3,712)
Finance costs	(59,217)	(60,587)	(59,217)	(60,587)
Dividends provided for or paid	(260,567)	(311,629)	(260,567)	(311,629)
Income tax equivalent expense	(150,391)	(72,969)	(104,173)	(54,949)

(e) Outstanding balances

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

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Cash and cash equivalents	522,623	213,848	522,623	213,848
Trade and other receivables	15,052	2,444	15,052	2,444
Derivative financial instrument assets	49,913	3,178	49,913	3,178
Trade and other payables	(2,856)	(809)	(2,856)	(809)
Derivative financial instrument liabilities	(111,347)	(58,781)	(111,347)	(58,781)
Deferred tax equivalent balances	(231,385)	(257,244)	(186,515)	(191,074)
Current tax equivalent liabilities	(107,787)	(47,662)	(107,787)	(47,662)
Borrowings	(822,104)	(809,334)	(822,104)	(809,334)
Provision for dividends	(260,567)	(311,629)	(260,567)	(311,629)

(f) Key management personnel

Disclosures relating to key management personnel are set out in note 15. 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. Transactions totalling $47,745,757 were paid to QTC in relation to finance costs during the year. 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.

20 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk, foreign currency risk and commodity price risks for electricity and fuel), 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 and the Parent entity hold the following financial instruments:

	Consolidated entity		Parent entity	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Financial assets				
Cash and cash equivalents	549,727	217,926	549,050	217,268
Trade and other receivables	209,465	229,156	722,275	887,463
Cash collateral	61,719	158,678	61,719	158,678
Derivative financial instruments	367,386	154,901	367,386	154,901
Investments	20,000	20,000	20,000	20,000
Listed securities	6,902	1,922	6,902	1,922
	1,215,199	782,583	1,727,332	1,440,232
Financial liabilities				
Trade and other payables	232,518	215,143	187,162	169,009
Finance lease liabilities	-	30,319	-	-
Borrowings	822,104	822,287	822,104	822,287
Derivative financial instruments	611,310	402,835	611,310	402,835
Security deposits	934	8	934	8
	1,666,866	1,470,592	1,621,510	1,394,139

(a) Market risk

(i) 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. The Group designates currency derivatives as cash flow hedges where they qualify for hedge accounting and measures them at fair value.

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 9.

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(ii) Commodity price risk

The Group is exposed to electricity price movements in the NEM. To manage its electricity commodity 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.

The Group is exposed to environmental certificate price movements through the requirement to comply with various regulatory environmental schemes as part of normal business operations. To manage the environmental certificate price risk, the Group buys and sells these certificates in both the spot and forward markets.

The Group is exposed to oil price movements through the sale of gas not consumed in the operation of its power stations and the purchase of diesel for the operation of its power stations and the vehicles and equipment at its coal mine. 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.

(iii) Sensitivity analyses

The following commentary and tables summarise the sensitivity of the Group's financial assets and financial liabilities to foreign currency exchange risk, commodity price risk and interest rate 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 derivative portfolio at balance date was investigated by observing the price relative impact of annualised volatility in the forward curve over a selected period under observable market conditions. The analyses assume upward and downward movements of: currencies of 20% (2016: 20%), commodity prices of 30% (2016: 15%) and interest rates of 100 basis points (2016: 100 basis points), 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.

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(iii) Sensitivity analyses (continued)

Foreign exchange risk	Carrying amount $'000	Sensitivity to -20% (2016: -20%) Profit $'000	Sensitivity to -20% (2016: -20%) Other equity $'000	Sensitivity to +20% (2016: +20%) Profit $'000	Sensitivity to +20% (2016: +20%) Other equity $'000
2017	(306)	12	3,249	-	(2,141)
2016	(1,749)	(4,321)	7,191	2,881	(4,792)
Commodity price risk		Sensitivity to -30% (2016: -15%)		Sensitivity to +30% (2016: +15%)	
2017	(243,618)	164,212	436,940	(140,152)	(461,000)
2016	(246,185)	(94,597)	213,399	42,038	(161,550)
Interest rate risk		-100 basis points		+100 basis points	
Cash and cash equivalents					
2017	549,727	(5,497)	-	5,497	-
2016	217,926	(2,179)	-	2,179	-
Borrowings non-current					
2017	822,104	645	-	(623)	-
2016	822,287	656	-	(625)	-

(b) 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 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.

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.

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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.

(c) 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 and Parent entity 2017 $'000	Consolidated entity and Parent entity 2016 $'000
Expiring within one year (bank overdraft and working capital facility)	122,000	122,000

The overdraft facility is with the Australia and New Zealand Banking Group Ltd and has an approved limit of $2,000,000 (2016: $2,000,000). The working capital facility is with Queensland Treasury Corporation and has an approved limit of $120,000,000 (2016: $120,000,000).

As at 30 June 2017, the Company had drawn down $Nil against the working capital facility (2016: $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 stable outlook (2016: AA with a stable outlook).

The tables below analyse both the Group and Parent entity's financial liabilities into relevant maturity groupings based on their contractual maturities.

The amounts disclosed in the tables are the contractual undiscounted cash flows.

20 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Contractual maturities of financial liabilities	0 to 1 Year	Between 1 and 5 Years	Over 5 years	Nominal amount
Consolidated entity - at 30 June 2017	$'000	$'000	$'000	$'000
Trade and other payables	232,518	-	-	232,518
Derivatives	478,239	128,374	-	606,613
Borrowings	45,999	183,014	818,181	1,047,194
Security deposits and retentions	934	-	-	934
Total	757,690	311,388	818,181	1,887,259
Consolidated entity - at 30 June 2016				
Trade and other payables	215,142	-	-	215,142
Finance lease liabilities	26,963	4,492	-	31,455
Derivatives	284,117	116,624	-	400,741
Borrowings	59,565	238,425	833,094	1,131,084
Security deposits and retentions	8	-	-	8
Total	585,795	359,541	833,094	1,778,430

Contractual maturities of financial liabilities	0 to 1 Year	Between 1 and 5 Years	Over 5 years	Nominal amount
Parent entity - at 30 June 2017	$'000	$'000	$'000	$'000
Trade and other payables	187,162	-	-	187,162
Derivatives	478,239	128,374	-	606,613
Borrowings	45,999	183,014	818,181	1,047,194
Security deposits and retentions	934	-	-	934
Total	712,334	311,388	818,181	1,841,903
Parent entity - at 30 June 2016				
Trade and other payables	169,008	-	-	169,008
Derivatives	284,117	116,624	-	400,741
Borrowings	59,565	238,425	833,094	1,131,084
Security deposits and retentions	8	-	-	8
Total	512,698	355,049	833,094	1,700,841

21 EVENTS OCCURRING AFTER THE REPORTING PERIOD

No matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

Stanwell Corporation Limited

Directors' declaration

2017

In the Directors' opinion:

(a) the financial statements and notes set out on pages 36 to 104 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 2017 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 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.

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

Brisbane
29 August 2017

Stanwell Corporation Limited

Independent Auditor's Report

2017

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 (the parent) and its controlled entities (the group).

In my opinion, the financial report:

a) gives a true and fair view of the parent's and group's financial position as at 30 June 2017, and their 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 sheets as at 30 June 2017, the statements of comprehensive income, statements of changes in equity and statements 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 parent and 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 parent and 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 Note 9)

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 and 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 and expert to assist us in addressing this key audit matter I have reviewed: • their qualifications, competence, capabilities, objectivity and 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.

Measurement of the provision for restoration, rehabilitation and decommissioning

(Refer Note 12)

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.

Other information

Other information comprises the information included in the company's annual report for the year ended 30 June 2017, but does not include the financial report and my auditor's report thereon.

The company's directors are responsible for the other information.

At the date of this auditor's report, the other information that the company's directors had approved was the directors' report.

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 approved by the company's directors 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 parent's and 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 parent or 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 parent's and 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 parent's and 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 parent's or 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 parent or 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.

QUEENSLAND
30 AUG 2017
AUDIT OFFICE

Rachel Vagg
as delegate of the Auditor General

Queensland Audit Office
Brisbane

stanwell.com