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ASX Release

21 October 2010

ALINTA ENERGY GROUP ANNUAL REPORT 2010

Alinta Energy Group (ASX:AEJ) advises that the attached Annual Report for the year ending 30 June 2010 has been dispatched to Securityholders today.

ENDS

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About Alinta Energy Group
Alinta Energy Group (ASX: AEJ) is an integrated energy company, operating power generation businesses as well as providing gas and electricity to commercial, industrial and retail customers across Australia.

ALINTA ENERGY GROUP

Consisting of:
Alinta Energy Limited ABN 67 116 665 608
Alinta Energy Trust ARSN 122 375 562

ALINTA ENERGY GROUP
ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2010

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ALINTA ENERGY OPERATES 10 POWER GENERATION BUSINESSES IN AUSTRALIA AND NEW ZEALAND AS WELL AS PROVIDING GAS AND ELECTRICITY TO COMMERCIAL, INDUSTRIAL AND RETAIL CUSTOMERS ACROSS AUSTRALIA.

CHAIRMAN AND CEO'S LETTER

Dear Securityholders

On 21 September 2010, we announced that Alinta Energy ("Alinta") had reached an understanding with its banking group ("Syndicate Lenders") on a deleveraging transaction which would result in securityholders being offered *10 cents per security* for the trust unit in each stapled security.

In all the circumstances we and the entire Board believe this is an exceptional outcome for securityholders and is substantially in excess of the cash otherwise available to securityholders. The financial stability which will be provided for the business under new ownership is a good outcome for the business and its stakeholders.

The Alinta restructure has been described by business media as one of the most complicated restructures in Australian corporate history.[1] The restructure has been publicly supported by our major securityholder. We hope that it will enjoy your support when an Extraordinary General Meeting ("**EGM**") is held to discuss the transaction in detail.

The transaction is subject to a range of approvals including Syndicate Lender and securityholder approval, and we are currently preparing documents to implement the transaction including the materials which will explain the transaction in detail to you. We expect to mail the documents to you over the coming months. Given the volume of material which must be prepared, we expect an EGM will be held not later than the end of March 2011 when you will have the opportunity to formally vote on the transaction.

BACKGROUND

As advised at the 2009 AGM and the February 2010 EGM, over the last 12 months we made substantial progress in resolving a number of commercial issues which the business faced. These included a successful settlement of an adverse arbitration outcome with the North West Shelf joint venture, interim restructuring of Alinta's debt facilities and settlement of debts and fees owing to the former manager.

Despite the restructured debt facilities, the Directors believed that Alinta remained too highly leveraged and needed to consider methods by which it could reduce its debt burden. To this end, a five month competitive process was undertaken to determine the most appropriate deleveraging solution. This process resulted in a number of institutional investors and industry players conducting detailed due diligence on the business.

In the meantime the operating performance of the business continued to come under substantial pressure, resulting in the agreement by the Syndicate Lenders to lower the financial covenants to avoid default, and highlighting the need to reduce debt levels in the near term. Upon receipt of the bids and following discussions with the Syndicate Lenders, we determined to work together to implement the current proposal, being the most optimal outcome for both securityholders and Syndicate Lenders.

KEY ELEMENTS OF THE TRANSACTION

The proposed transaction has as its essential element a transfer of all the Alinta Group assets,[(2)] other than the Redbank and Oakey Power Stations, to a company owned by the Syndicate Lenders in exchange for funds from the Syndicate Lenders to allow securityholders to receive **10 cents per unit** for their Alinta Energy Trust ("**AET**") units and release of all outstanding debt owed by Alinta Finance Australia ("**AFA**").

To implement this transaction, securityholders will be asked to approve:

- the destapling of the Alinta Energy Limited ("**AEL**") shares from the AET units, and AFA will then offer to acquire all securityholders' AET units for **10 cents per unit**; and
- transfer of the assets to the company owned by the Syndicate Lenders.

The payment to the securityholders is substantially funded by the Syndicate Lenders, given the cash outside the Syndicate Lenders' security package was not of itself sufficient to make this payment.

Subsequent to the implementation of the transaction, securityholders will continue to own their AEL shares, giving securityholders beneficial ownership of the Redbank Power Station. Given Redbank's project financing debt levels, recent plant performance issues and valuations received from trade bidders, the Directors have no basis to consider there is any residual equity value in Redbank. Consequently, Directors have no basis to believe that there will be any further equity value available to securityholders after payment of the **10 cents per unit**.

Management and the Board are currently considering various options regarding the remainder of the business and you will be advised of this once decisions are made.

BOARD CHANGES

During the year, the Board welcomed a new Independent Director, Rod Keller following the resignation of John Fletcher. The entire Board wishes to acknowledge that the last few years have been extremely challenging for securityholders and we thank you for your continued support and understanding. Similarly we acknowledge the extraordinary efforts of all staff and management who have continued to work hard in managing our assets during a very unsettling period.

OPERATIONAL PERFORMANCE

While much of the focus this year has been on the challenges associated with the capital structure, from an operational perspective the key issues were managing the outcome of the North West Shelf gas price arbitration and dealing with weaker than expected energy market conditions. Notwithstanding the challenges during the year, Alinta delivered FY2010 Management EBITDA[(3)] of $319 million, which was consistent with market guidance[(4)] and the previous corresponding period on a "like-for-like" basis.[(5)]

Having said that, the ongoing impact of the North West Shelf gas price arbitration outcome on margin in the gas retail business, together with weak customer demand and high levels of competition in both Western Australian and east coast electricity markets, is continuing to put substantial pressure on future performance outlook. For these reasons the earnings outlook of the company does not provide the basis for a sustainable capital structure given the current levels of debt within the business.

Generation

During the year, the generation segment comprising 11 operating power stations[(6)] located across Australia, and one located in New Zealand, contributed Management EBITDA of $206 million. This performance was principally in line with the previous year on a "like-for-like" basis.[(7)]

The Flinders Power Stations in South Australia are the major earnings contributors to the generation segment. There was a record heatwave during November 2009 in South Australia, which resulted in electricity prices reaching the market maximum price threshold for a period of time and contributed to average prices being higher than our expectations over the year. Unfortunately the Flinders Power Stations were unable to take full advantage of the higher electricity prices due to plant unavailability and contract positions. The plant availability issues during the year included a 21 day delay in return to service following a major overhaul of the Northern unit and a 39 day forced outage resulting from the build up and solidification of ash.

The Braemar Power Station in Queensland performed to expectations, despite materially lower than expected electricity pool prices. These lower pool prices were due to new entrants leading to an oversupplied market, mild temperatures and softer demand for electricity due to weaker economic conditions. The implementation of a new tolling agreement with Queensland Gas Corporation

(1) Australian Financial Review 26 July 2010 "Odd allies locked in Alinta battle" Tansy Harcourt.
(2) Certain assets remain in the residual Alinta Group including: Redbank Power Station is retained beneficially; Oakey Power Station is held beneficially for the B&B Group; certain cash balances.
(3) Total Management EBITDA $319m = Generation EBITDA $206m plus Energy Markets EBITDA $149m less Other $36m.
(4) Market guidance included the impact associated with the North West Shelf arbitrated outcome.
(5) Adjusted for finance lease charges and asset sales.
(6) Cawse, a 21MW co-generation plant near Kalgoorlie WA, was sold in August 2010.
(7) Adjusted for finance lease charges and asset sales.

CHAIRMAN AND CEO'S LETTER

(QGC) in February 2010 reduced exposure to the lower pool price and was a further step in the group-wide earnings stabilisation program. Under the agreement, QGC will provide up to 60TJ/day of gas and pay a utilisation fee entitling it to an equivalent of 200MW of output from Braemar. The initial term of the agreement is until December 2013, with a further one year extension at QGC's option.

The Western Australian power generation units at Newman and Port Hedland performed in line with expectations. An expansion at Newman was completed(8) during the year, providing an additional nominal 40MW of capacity using a Rolls Royce Trent machine. Pleasingly, maintenance costs were lower than expected.

Over the last few years Redbank, which is situated in the NSW Hunter Valley, has suffered from a range of technical issues that have led to unreliable plant performance. A number of remedial actions to restore operating performance and reliability have been implemented and a major independent engineering review was commissioned to determine the appropriate measures to rectify plant performance. As noted earlier, these performance issues, along with Redbank's significant debt levels and recent trade bids, indicate that Directors believe there is no current equity value remaining in Redbank. While we believe there may be long-term value in Redbank, we do not believe Alinta is in a position to extract or develop that value.

The other contracted generation assets performed largely in line with expectations, reflecting the nature of the long-term Power Purchase Agreements in place.

Energy Markets

The Energy Market assets contributed $149 million(9) Management EBITDA during the 2010 financial year. The key assets include:

- a gas retailing business servicing customers in Perth, Geraldton, Albany, Bunbury and Kalgoorlie in WA;
- an electricity retailing business on the South West Interconnected System (SWIS), covering the South West of WA;
- Pinjarra and Wagerup Power Stations in WA;
- a 20 year Power Purchase Agreement over Walkaway Wind Farm in WA; and
- a 50% profit share arrangement for Alinta Energy LPG with Wesfarmers.

The settlement of the North West Shelf gas price dispute has resulted in higher gas costs which have adversely impacted margins and working capital positions in the gas business. Where possible, Alinta has sought to mitigate this margin impact by passing through the incremental higher costs to counterparties. As part of this strategy, Alinta sought, and received, two residential gas tariff increases, which include 22.9% from 1 July 2009 and a further 7% increase from 1 April 2010. While we experienced marginally higher demand from residential gas customers compared to the previous year, demand from commercial and industrial customers was weaker, largely as a result of global economic conditions.

The electricity business takes energy produced from the baseload Pinjarra units and the Alinta Walkaway Wind Farm and then sells this to commercial and large industrial customers. The balance of any uncontracted energy is then sold into the Wholesale Energy Market ("**WEM**"). The WEM has experienced lower prices than expected during the year, resulting from excess generation in the Western Australian market. This excess generation was due to a combination of government sponsored low cost coal generation, new entrant plant and reduced demand from large customers due to the weaker economic conditions.

IMPAIRMENT

The Group recognised a non-cash impairment charge of $670 million for the 2010 financial year. The impairment charge was determined by comparing written down value against the "Value in Use" for each Cash Generating Unit ("**CGU**") in accordance with Australian Accounting Standards.

Valuations were impacted by an unfavourable gas price arbitration outcome in the Alinta West CGU where the increase was unable to be passed through in full, as well as protracted softer gas and electricity demand and a general oversupply of generation capacity in the Western Australian and National Electricity Markets. Other impairments were the result of revised operating forecasts for the underlying CGUs and from reclassification of the Cawse asset to "held for sale" prior to its disposal in August 2010.

(8) Ancilliary work under the contract is still to be completed.
(9) Excluding the back payment resulting from the North West Shelf arbitration settlement.

PEOPLE AND ENVIRONMENT

We maintain an unrelenting focus and priority on the safety of our employees, and our policies and procedures reflect that commitment. Health and safety are key leadership issues and are taken very seriously. We are pleased to report that business performance on safety has continued at a high level.

Alinta strives to minimise any adverse impacts on the environment and to continually improve our environmental performance operationally. We are pleased to report that our environmental performance across all business units remained at a high level. We have significant involvement with local communities in which we operate, many in regional areas. The longevity and sustainability of Alinta are very much dependent on the strength of relationships within these communities and an awareness of the potential impacts we can have at a social, cultural, environmental and economic level.

REMUNERATION POLICY

The prolonged period, and the nature, of uncertainties facing the business have contributed to a high level of staff turnover. The business relies on its staff to address its debt challenges and maintain energy retail and generation operations. As explained at last year's AGM, the Nomination and Remuneration Committee has implemented a remuneration policy focused on addressing critical short-term objectives and staff retention. This has had significant positive effect, although the business continues to experience levels of churn above industry average.

The Alinta team of over 750 people across Australia and New Zealand continue to work hard on maximising operating efficiencies and reducing earnings volatility. The Board acknowledges the efforts and support of all staff and their safe work practices during very challenging circumstances. Their contributions are greatly appreciated.

ANNUAL GENERAL MEETING

We look forward to seeing you at our AGM to be held on Tuesday 23 November in Sydney. We will keep in contact over the coming months regarding the implementation of the deleveraging transaction.

ADDITIONAL ACKNOWLEDGEMENTS

I would like to acknowledge the efforts of my fellow Non-Executive Directors, Peter Kinsey, Rod Keller and John Fletcher who have devoted significant time and effort during the year to address the challenges confronting the Alinta business.

On behalf of myself and the Non-Executive Directors, I would like to particularly acknowledge the outstanding leadership and personal contribution of our Managing Director and Chief Executive Officer, Ross Rolfe. His persistence, tenacity, and skills have been critical factors in resolving the difficulties facing the business with its high debt levels.

Len Gill
Independent Chairman

Len Gill
Independent Chairman

Ross Rolfe
Chief Executive Officer

MARKET OVERVIEW
ELECTRICITY

The electricity market is a dynamic market, consisting of generation, transmission, distribution, retail and consumption. These components are outlined below.

GENERATION
Electricity generation at a power plant

Alinta
Bairnsdale
Braemar
Cawse
Flinders Northern
Flinders Playford
Glenbrook
Oakey
Pinjarra
Port Hedland
Redbank
Newman
Wagerup

TRANSMISSION
Transmission lines carry high voltage electricity

DISTRIBUTION
Distribution lines carry low voltage electricity to customers

RETAIL
Retailers meter electricity use

Alinta
Alinta Retail
Neighbourhood Energy

CONSUMPTION
Used for lighting, heating, powering appliances

ELECTRICITY SUPPLY CHAIN

The first step in the electricity supply is the generation of electricity in power stations. Power stations are usually located near fuel sources such as coal mines, natural gas pipelines and renewable sources, such as water and high wind corridors. Because most electricity customers are located a long distance from power stations, the supply chain requires power to be transported from power stations to consumers via networks. In Australia, the service providers that deliver electricity to consumers are called "retailers". Retailers purchase electricity in the wholesale market and combine it with transmission and distribution services for sale to residential, commercial and industrial customers. Consumers in Australia are generally able to choose their own retailer, other than in WA, the Northern Territory and Tasmania.

AUSTRALIAN INTERCONNECTED ELECTRICITY SUPPLY AREAS

Australia has three separate interconnected supply areas and Alinta operates in all of these.

- the National Electricity Market (**NEM**) which interconnects five regional market jurisdictions including Queensland, New South Wales, Victoria, SA and Tasmania; Alinta generates electricity in the NEM via the Braemar, Flinders, Bairnsdale and Redbank Power Stations. Alinta is also a retailer in this market via Neighbourhood Energy and also via some large scale contracts such as the Flinders contract with BHP Billiton's Olympic Dam. Alinta currently holds retail licences in Victoria, SA and Queensland.
- the Wholesale Energy Market (**WEM**) in the South West Interconnected System (**SWIS**) of WA which has two components being a wholesale electricity component and a capacity component; and in the WEM Alinta owns the Pinjarra and Wagerup Power Stations which operate in the SWIS and sells electricity to SME and C&I customers through Alinta Retail.
- the North West Interconnected System (**NWIS**), which is an interconnected network for distribution of electricity in the Pilbara region in WA. The NWIS generation and transmission systems were installed by mining companies to meet their own electricity requirements. Alinta owns the Port Hedland Power Station which operates in the NWIS.

Demand is driven by three main customer classes:

- **C&I** – typically large, stable loads such as refineries and mines that operate most days across most hours in the day.
- **SME** – have quite large loads but operate mainly business hours, and include small business such as supermarkets and restaurants.
- **Mass Market** – households, whose demand is the most volatile and is largely influenced by weather.

Supply is provided by three primary types of generation:

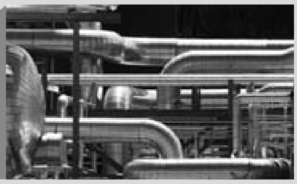
- **Baseload Plant** – power stations that typically run 24 hours a day, without substantial flexibility to turn on and off at short notice. In Australia these plants are generally coal fired.
- **Intermediate Plant** – power stations that typically operate at a 50% usage factor, generally run most week days between 7.00am and 10.00pm and have some flexibility to turn off or reduce output at short notice.
- **Peaking Plant** – power stations that have the ability to turn on and off at short notice and are designed to run minimal hours per year and only at the times of highest price.

MARKET OVERVIEW
GAS

The gas supply chain consists of production, processing, transmission and distribution, retailing and consumption. These components are outlined below.

PRODUCTION
Gas is extracted from well in fields

PROCESSING
Gas processing to remove impurities



TRANSMISSION AND DISTRIBUTION

Alinta
Goldfields Gas Transmission Pipeline (11.8% investment)
Braemar Pipeline

RETAIL
Retailers act as intermediaries

Alinta
Alinta Retail

CONSUMPTION
Customers use gas for uses ranging from electricity generation to heating and cooling

GAS SUPPLY CHAIN

The first step in the gas supply chain is exploration and development to identify gas resources. This is followed by commercialisation, where gas is extracted and processed into various products for sale. High pressure transmission pipelines are used to transport gas to sites for use. A network of distribution pipelines then delivers gas to industrial customers and from gate stations to consumers. As with electricity supply, the service providers that deliver gas to consumers are called “retailers”. Retailers purchase gas in the wholesale market and combine it with transmission and distribution services for sale to residential and C&I customers. Natural gas can be stored, or it can be converted to a liquefied form for storage – liquefied natural gas (**LNG**).

Australian gas markets
There are three regional gas markets – Eastern Australia, Western Australia and the Northern Territory.

WA has no pipeline interconnection with other gas markets. It is the largest Australian gas producer nationally supplying both the WA market and most of Australia’s LNG exports. WA’s LNG export capacity exposes the domestic market to international energy market conditions.

Historically, the eastern Australian gas market has been supplied by conventional gas sources from the onshore Cooper Basin (SA) and the offshore Gippsland, Bass and Otway Basins (Victoria). More recently with the emergence of unconventional gas sources (predominantly CSG) additional gas sources have been discovered in the Surat-Bowen Basin (Queensland) and Gunnedah Basin (NSW). CSG from the Surat-Bowen Basin is forecast to be converted to export LNG through new developments at Gladstone, Queensland.

All eastern Australian markets (Queensland, NSW, Victoria, Tasmania and SA) are linked by a network of gas transmission pipelines.

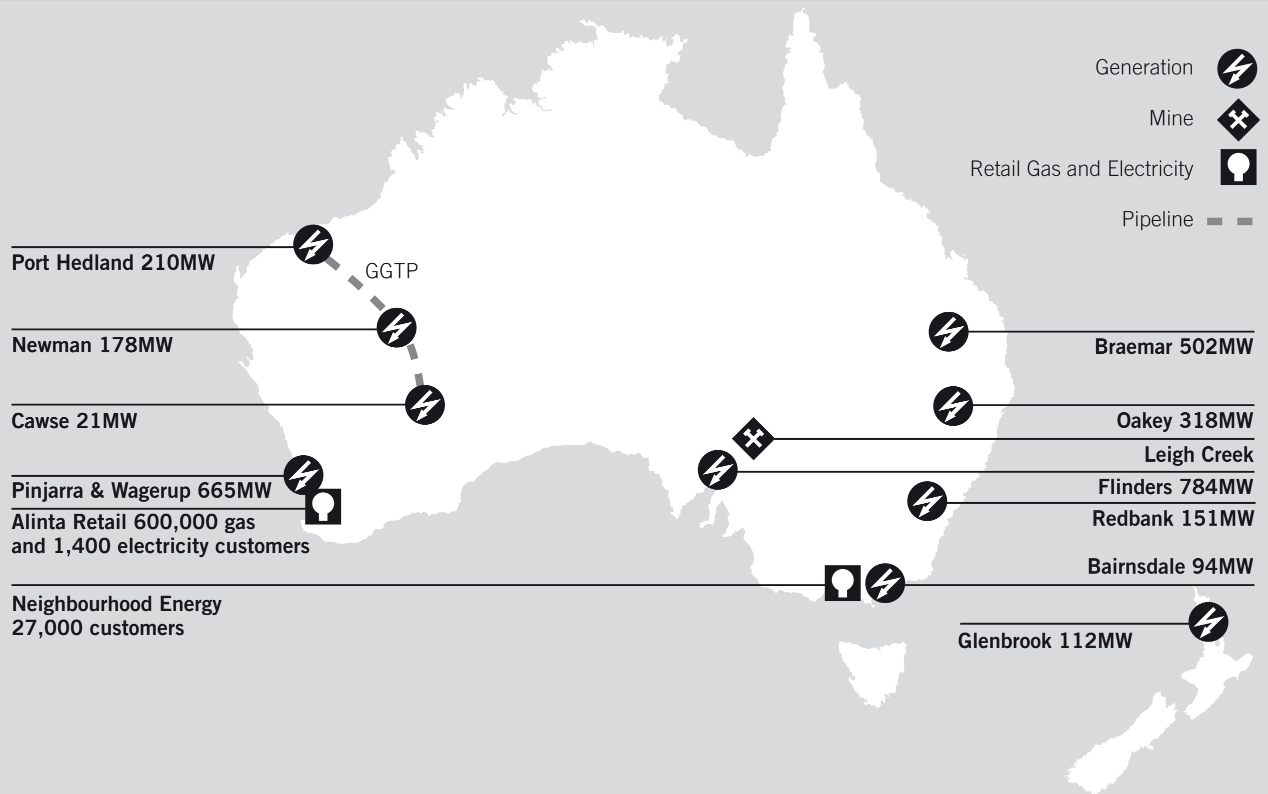
Australian gas prices have historically been low by international standards and relatively stable. In Australia abundant coal sources have effectively capped coal prices, and hence gas prices. The price at which gas is bought and sold is not widely known or accessible, given it is a largely private market, with Victoria having the only public trading market.

The retail market provides the main interface between the gas industry and customers. Retailers purchase gas in the wholesale market and combine it with transmission and distribution services for sale to residential and C&I customers. In Australia consumers are able to choose their gas retailer. In the eastern Australian states, the largest gas retailers are AGL Energy, Origin Energy and TRUenergy. Each has significant market share in Victoria, Queensland and SA. In WA, Alinta Retail is the largest gas retailer.

Natural gas retail tariffs cover the costs of gas, transport through transmission and distribution pipelines and retail services (operating costs and a margin). Wholesale gas costs and transmission and distribution charges account for the bulk of retail gas tariffs. While consumers enjoy choice of retailers in New South Wales, SA, Queensland and WA, Victoria is the only market to have deregulated gas retail prices for small customers. All other markets are subject to price regulation where host retailers must offer standing offer contracts to sell gas at default prices based on some form of regulated price cap or oversight. The contracts apply to customers who have not switched to a market contract. In WA, Alinta Retail is the sole supplier of gas to distribution connected residential customers.

ASSET SUMMARY

Business	Installed Capacity[1]	Description	Location	Ownership interest (%)
Generation and Transmission	***MW***			
Bairnsdale	94	Gas generation	VIC	100
Braemar	502	Gas generation	QLD	100
Oakey	318	Gas generation	QLD	50[2]
Flinders Northern	544	Coal generation	SA	100
Flinders Playford	240	Coal generation	SA	100
Redbank	151	Coal generation	NSW	100
Glenbrook	112	Gas co-generation	New Zealand	100
Pinjarra 1 & 2	285	Gas co-generation	WA	100
Port Hedland	210	Gas generation	WA	100
Newman	178	Gas generation	WA	100
Cawse	21	Gas co-generation	WA	100
Wagerup	380	Gas co-generation	WA	100
GGTP	Gas Transmission	Gas pipeline	WA	11.8
Retail				
WA Retail			WA	100
Gas customers	600,000	SME, C&I, Mass Market gas		
Electricity customers	1,400	SME and C&I electricity		
AELPG	10.7PJ	Gas supply[3] and transport		
Eastern Australian Retail				
Neighbourhood Energy customers	27,000	Mass market electricity	VIC	100



LOCATION MAP

ASSET SUMMARY
ASSET REPORT ENERGY MARKETS

ALINTA RETAIL

Alinta Retail is an energy business located in Perth, Western Australia operating as a gas retailer and a vertically integrated electricity utility.

Alinta is the largest retailer of natural gas in WA, with approximately 100%[4] of the gas market serving approximately 600,000 mass market, Small to Medium Enterprise (**SME**) and Commercial & Industrial (**C&I**) customers. In WA, Alinta is also a vertically integrated electricity retailer and generator, with approximately 750MW of gas-fired and wind-powered generation capacity through ownership of two power plants situated at Alcoa refineries and through an agreement with the Walkaway Wind Farm. Alinta supplies electricity to approximately 1,400 SME and C&I customers.

Alinta Gas Business

On 21 January 2010, Alinta signed a Deed of Settlement with the North West Shelf joint venture (**NWS**) members following an arbitrator's decision in respect to the NWS Price Dispute over a material gas contract. As part of the negotiations, Alinta agreed a future price path for gas purchased from the NWS, providing greater price and volume certainty in the medium-term. As part of the negotiated settlement, Alinta was also required to make a lump sum payment to the NWS. The resulting higher gas costs to Alinta adversely impacted margins in the gas business. Where possible, Alinta has sought to mitigate the margin impact by passing through the incremental higher gas costs to its counterparties. As part of this strategy Alinta sought and received two gas tariff increases to help mitigate the higher gas costs: 22.9% from 1 July 2009; and a further 7% increase from 1 April 2010. In terms of residential gas, customer demand was marginally higher than the previous year.

The continued contraction in economic activity impacted demand for gas from commercial and large industrial customers resulting in weaker gas sales during FY2010.

Alinta Electricity Business

The electricity business takes energy produced primarily from the Pinjarra units and the Walkaway Wind Farm and sells this to commercial and large industrial customers. The balance of any uncontracted energy is then sold into the Wholesale Electricity Market (**WEM**). During FY2010 the WEM experienced lower than expected prices due to excess generation from a combination of government sponsored low cost coal generation, new entrant plant and reduced demand from commercial and industrial customers as a result of weak economic conditions.

Pinjarra

Under its contractual arrangements with Alcoa, the 285MW gas fuelled Pinjarra Power Station sells steam to Alcoa for use in its refinery. Additionally, the electricity that is generated is sold by Alinta to contracted customers or into the WEM. Given Alcoa's ongoing requirements for steam, the Pinjarra Power Station operates as a base load power station. During FY2010 the units performed at availability levels of approximately 94%. Pinjarra completed a major inspection as well as a minor combustion inspection during the year. Pinjarra maintained its excellent safety record, remaining lost time injury free.

Wagerup

The 380MW dual gas and distillate fuelled Wagerup Power Station is a peaking power station located at Alcoa's Wagerup refinery in south-west WA. Wagerup is only operated when there is insufficient capacity in the SWIS to meet system demand. During FY2010 availability levels were approximately 95%.

Alinta Energy LPG

AELPG, a subsidiary of Alinta, and members of the Wesfarmers Group (**Wesfarmers LPG**) and Wesfarmers Limited (**Wesfarmers LPG**) are parties to contracts in relation to the operation, supply and output from the Wesfarmers LPG extraction plant in Kwinana, WA.

Alinta currently supplies gas to AELPG, which subsequently supplies this gas and gas transport to the plant. From 1 October 2010 Wesfarmers LPG will supply its own gas to the joint venture while AELPG will continue to supply gas transportation to the project.

Performance from the LPG segment was above expectation for the year, primarily driven by a higher Saudi Contract Price (**SCP**) per tonne and higher LPG content. This was partially offset by an appreciating AUD/USD exchange rate.

NEIGHBOURHOOD ENERGY

Neighbourhood Energy is an electricity retailer in Victoria with approximately 27,000 customers. It is targeting high growth in the electricity mass market. It was established in January 2006 as a "challenger" brand targeting retail and SME customers in the NEM. To deliver electricity to its customers, Neighbourhood Energy purchases all of its power requirements through a whole meter hedge agreement with Alinta's Flinders Power Station.

(1) Capacity based on ISO or nameplate capacity.
(2) 50% interest currently held for sale for the benefit of Babcock & Brown International Group.
(3) Effective 1 October 2010 Wesfarmers LPG Pty Ltd will supply its own gas to the joint venture with Alinta continuing to supply gas transport to the project.
(4) Market share by number of small use (< 1TJ pa) gas customers.

ASSET SUMMARY
ASSET REPORT POWER GENERATION

PORT HEDLAND

Port Hedland Power Station is a 210MW gas-fired power station located in the Pilbara region of WA, Australia's largest resource producing region. Port Hedland consists of five 42MW gas-fired turbine units located in two separate locations: two units are located at the BHP Billiton hot briquetted iron (**HBI**) plant at Boodarie which has been decommissioned; and three units are located in a standalone facility at Port Hedland, connected by a 66kV transmission line. The assets are operated from a central control point allowing them to operate as an integrated plant and Port Hedland is connected to the North West Interconnected System (**NWIS**).

During FY2010, Port Hedland performed in line with expectations with availability of 94.8%, and achieved 100% contractual compliance. During the year, two combustion inspections were completed and several major projects were completed to maintain the reliability of the plant. Port Hedland maintained its excellent safety record, remaining "lost time injury" (LTI) free.

NEWMAN POWER STATION

Newman Power Station is a 178MW gas-fired power station servicing BHP Billiton's "islanded grid" located adjacent to the Newman mining township in the Pilbara region of WA. Newman currently provides 100% of the power requirement of the islanded grid which supplies electricity to the Mt Newman Joint Venture operated by BHP Billiton.

During FY2010, Newman completed an expansion providing an additional 52MW, using a Rolls Royce Trent machine. The station achieved 99.3% contract availability during the year and two major inspections were completed on its gas turbines. Several major projects were completed during the year to maintain the reliability of the plant. Newman has maintained its excellent safety record, having remained LTI free since it was commissioned.

GOLDFIELDS GAS TRANSMISSION PIPELINE (GGTP)

The GGTP is a 1,380km gas transmission pipeline which transports gas from Carnarvon basin producers in the north-west of WA to Kalgoorlie in the south east of WA. The GGTP is connected to the Newman Power Station (100% owned by Alinta) by a 50km lateral pipeline constructed in 1996. Alinta owns an 11.8% interest in the GGTP, with the remaining interest held by the APA Group. Alinta's interest in the GGTP entitles it to transportation of up to 23.4TJ/day to its Newman Power Station.

CAWSE POWER STATION

Cawse Power Station is a 21MW gas-fired co-generation plant located 55km north-west of Kalgoorlie, Western Australia. The plant supplies electricity, steam and desalinated water to the Norilsk Nickel Project. The plant performed below the previous corresponding period as the owner of the nickel mine it services placed the operations into care and maintenance. Alinta sold the Cawse Power Station and associated infrastructure in August 2010.

BRAEMAR POWER STATION

Braemar is a 502MW power station located 35km south west of Dalby in Southern Queensland. It is strategically located adjacent to Queensland's CSG fields, with a dedicated pipeline connection to nearby gas fields. Alinta also owns approximately 150km of gas pipeline in Queensland between Condamine and Braemar, which is currently being used exclusively for the supply of Alinta's Braemar Power Station.

Braemar has three main sources of revenue: a Financial Products and GEC agreement with Origin Energy Group; a Tolling Agreement with the QGC Group; and Merchant Pool and GEC revenue. Overall Braemar performed to expectations during FY2010 despite the QLD pool price being significantly lower than expected due to an oversupplied market (mostly new entrants) and demand weakness from weak economic conditions and mild weather. The tolling agreement with QGC, which was signed on 11 February 2010 with an initial term to December 2013, reduced Braemar's exposure to the lower pool price.

Braemar achieved a capacity factor of 44.1% with availability of 92.0%. During the year Braemar completed two major maintenance outages and several minor inspections. Braemar maintains an excellent safety record having remained LTI free since handover from the original equipment manufacturer after construction.

FLINDERS POWER STATION

Flinders Power Station consists of two coal-fired power stations in Port Augusta SA, providing over 30% of SA's energy together with the Leigh Creek Coalmine and township and railway. The two power stations are:

- Northern Power Station: A 544MW first order base load power station, commissioned in 1985 which is the lowest conventional marginal cost generator in SA; and
- Playford Power Station: A 240MW intermediate power station, commissioned in 1963, with a mid life refit and refurbishment completed in 2005. Playford is competitive with the other intermediate conventional plant in SA.

Flinders experienced two periods of significant outage during FY2010 being: 21 days of delayed return to service spanning October and November following a planned major overhaul of the Northern unit; and 39 days forced outage spanning May and June resulting from the build up and solidification of ash. Pool prices in SA were higher than expected during FY2010 predominantly due to a heatwave in November with the price reaching the market maximum price threshold for a period of time. A combination of plant availability issues and contract positions meant that the business could not take full advantage of the higher prices during the heatwave.

During the year Northern achieved a capacity factor of 74.7% and 78.0% availability, mainly affected by the extended planned outage and clinker formation. Playford achieved a capacity factor of 47.6% which was above plan. Major projects during the year included Unit 1 major outage and the control system at Northern 1 being upgraded to a new Yokogawa DCS.

REDBANK POWER STATION

Redbank is a 151MW coal-fired power station located in the Hunter Valley, NSW. It is fuelled by beneficiated dewatered coal tailings (**BDT**) which is a waste product of the neighbouring Warkworth coal mine's washery operations. Redbank operates as a baseload generator. During the FY2010 year, Redbank experienced a number of performance issues which have been the subject of remedial actions to restore operating performance and reliability. On 11 February 2010, AEG announced the commissioning of a major comprehensive independent engineering review to determine the most appropriate measures to rectify plant performance.

During the year, Redbank's performance fell short of contract obligations, with a capacity factor of 76.4%. At the end of the 2009 reporting period the PPHA contract amount was reduced in line with the Energy Australia contract. This contract amount will be re-established with appropriate performance in the 2010 calendar year.

BAIRNSDALE POWER STATION

Bairnsdale is a 94MW gas-fired power station in Victoria's East Gippsland region. It is a fast start, peaking power station dispatching into the NEM. Bairnsdale is connected to the SP AusNet distribution network grid. Bairnsdale derives its revenue through a Network service agreement with SP AusNet and a tolling agreement with Aurora Energy.

During FY2010, Bairnsdale achieved a 100% start reliability over 603 starts and an availability of 91.6%. Generation was below plan under the Tolling Agreement, with a capacity factor of 9%. During the year planned outages were performed to carry out work specified by various service bulletins and prior borescope inspections.

GLENBROOK POWER STATION

Glenbrook Power Station is a 112MW co-generation plant located at Glenbrook, south of Auckland, New Zealand. Glenbrook is fully integrated into the New Zealand Steel plant and is the core supplier of steam and electricity to that NZ Steel facility currently supplying around 60% of the electricity requirements. NZ Steel is owned by BlueScope Steel Limited.

Major outages progressed during the course of the year, with specific enhancements made to further increase the reliability of the plant. The station achieved 96.3% contract availability for the year and a capacity factor of 57.8%. Glenbrook also maintained its excellent safety record, remaining LTI free.

OAKEY POWER STATION

Oakey Power Station is a dual-fired 318MW power station located in Oakey, west of Brisbane, Queensland. As part of the settlement arrangements with Babcock & Brown (**B&B**) in relation to debts and fees payable to them, Alinta appointed B&B as agents to realise Alinta's 50% interest in Oakey, with the proceeds from sale to pass to B&B. The sale had not completed at 30 June 2010.

BUSINESS SUSTAINABILITY

HEALTH AND SAFETY

Alinta Energy has continued to pursue the vision of "Zero Harm" set out in its Occupational Health and Safety (**OHS**) Policy with the Occupational Health Safety and Welfare of all people in its workplaces being the first priority.

An integral part of Alinta's overarching Risk Management Framework is the OHS Management Framework, developed with portfolio-wide consultation and expert safety and legal advice. The Framework is consistent with the Australian and New Zealand Standard AS/NZS 4801 (Occupational Health and Safety Management Systems), and details Alinta's approach to driving improved safety performance in a widespread portfolio of operations. It also clearly sets out OHS governance and responsibilities for a continued focus on safety, and the delivery of effective line leadership and a safety conscious culture across Alinta at a time of ongoing organisational change.

The OHS Management Framework is supported by a suite of OHS Management and key Hazard Management standards which are developed by the Alinta OHS Leadership and Executive Sustainability Committees, with the oversight of the Audit Risk and Compliance Committee. A key aspect of this work has been to ensure that all operations currently have in place appropriate standards and procedures to provide protection to all people associated with their operations, and to drive greater consistency of OHS management and performance across the portfolio.

Commencing late October 2009, Alinta embarked on an OHS "Gap Analysis" with involvement of an external auditor. The objective was to establish the current portfolio- wide state of compliance with the OHS Management Framework, and identify areas for improvement and greater consistency in OHS systems across the portfolio. The initial Gap Analysis is part of an ongoing process to monitor and improve safety performance across the portfolio.

During FY2010 Alinta achieved a small improvement in the combined Lost time Injury Frequency Rate (**LTIFR**) for both employees and contractors, with a particularly good contribution to this performance from contractors across the portfolio.

ENVIRONMENT

Alinta has a Board-endorsed Environment and Community Policy that requires a commitment to continual improvement and excellence in the environmental performance of all Alinta operations. Alinta's Environmental Management Framework, in support of the Environment and Community Policy, details organisational expectations, and key elements of the portfolio's Environmental Management System consistent with ISO 14001 (Environmental Management systems). It also defines corporate governance and responsibilities for environmental management across the business.

The Framework was developed by the Alinta Environmental Leadership and Executive Sustainability Committees, which have representation from across the portfolio, and with oversight of the Audit, Risk and Compliance Committee. The Environmental Management Framework is further supported by key standards.

An audit tool, to check compliance with the Framework and ISO 14001, has also been developed and endorsed by the Alinta Environmental Leadership and Executive Sustainability Committees. The tool has been successfully trialled in a mandatory audit for a major Alinta facility, in preparation for wider assessment of compliance with the Alinta Framework across the portfolio.

CLIMATE CHANGE

Alinta recognises that responding to climate change is a critical issue for the power generation and supply industry.

The Alinta generation capacity is balanced between approximately 70% gas-fired plant and 30% coal-fired. It is distributed nationwide and despatched in base load, intermediate and peak load market segments consistent with the plant characteristics and market requirements.

Alinta proactively prepared for and satisfied the requirements for the first mandatory reporting period under the National Greenhouse and Energy Reporting (**NGER**) Act 2007. Expert consultant Energetics Pty Ltd was engaged to assist Alinta to develop and test the required data recording, collation and record keeping systems. Alinta, in consultation with the government's Greenhouse and Energy Reporting Office, and with expert consultant advice, continues to refine its NGER systems to meet evolving requirements.

Alinta is closely monitoring government Climate Change policies to ensure that the portfolio is positioned to leverage opportunities and manage risks associated with policy developments such as carbon trading and energy efficiency initiatives.

TRAINING AND DEVELOPMENT

One of the ways Alinta aims to attract and retain employees is by offering a stimulating and fulfilling workplace, which includes opportunities for ongoing development. To this end, employees, including part-time employees, have opportunities to participate in development activities.

These activities include providing the skills and tools for employees to safely succeed in their roles, building technical and management capability and encouraging and supporting personal development, often through recognised study pathways.

Alinta also has a Graduate Development Program, now in its third year. The program, which has been designed to ensure the ongoing development and retention of engineering skills within the business, provides a framework for facilitating technical, professional and personal development through on-the-job experience and structuring training opportunities.

ALINTA'S BOARD OF DIRECTORS

Leonard (Len) Gill joined the Alinta Energy Group (**AEG**) as a Non-Executive Director in 2006. Len became the Independent Chairman in July 2008 and successfully oversaw the termination of the management agreement with Babcock & Brown Group and resolution of the debts and fees owed to Babcock & Brown Group.

Len has over 30 years of experience in the Australian energy industry, building extensive industry knowledge over this time. Len is a Non-Executive Director of Metgasco, and is the former Chief Executive Officer of TXU Australia (now TRUenergy). Prior to his appointment as CEO, Len headed TXU's wholesale energy division for five years, which included general management responsibility for power generation and gas storage assets. Len is also a former Non-Executive Director of Verve Energy.

Len holds a Bachelor of Engineering (Hons) (University of Melbourne) and is a member of the Australian Institute of Company Directors.

Rod Keller was appointed as a Non-Executive Director in April 2010. Rod has had a distinguished career, principally in the energy and engineering sectors. He was Managing Director of GPU International Australia from 1995 to 1999, and was appointed CEO of GPU GasNet and GPU PowerNet in 1999. Rod has previously held management positions with Fletcher Construction Australia, the State Government of SA, Esso Australia, Woodside Petroleum and Santos.

Rod is currently Chairman of Norfolk Group Limited and OSD Limited, and was Chairman of the GasNet Australia Group from its listing in 2000 to its takeover in 2006. Until recently, he was a Non-Executive Director of Macquarie Communications Infrastructure Limited, Macquarie Communications Infrastructure Management Limited, National Electricity Code Administrator, and Dyno Nobel Limited.

Rod has a Bachelor of Engineering (Mechanical) (University of Sydney) and is a Fellow of the Institute of Engineers, Australia.

Peter Kinsey joined AEG as a Non-Executive Director in 2006.

Peter has been a corporate lawyer for over 26 years in a number of major corporations. Peter has been involved in the negotiation of various types of commercial contracts including power and transportation projects in a number of countries, including Australia, New Zealand, the United States, Sweden, Japan, China, Thailand, Indonesia, Malaysia and India.

Peter was previously Regional Legal and Compliance Manager – South Asia for ABB Limited, and a Director of ABB Australia Pty Limited and ABB Limited (New Zealand). Prior to joining ABB Limited, Peter held positions as General Counsel at David's Holdings Pty Limited and was the Corporate Legal Manager of Alliance Holdings Limited.

Peter holds a Bachelor of Law (Sydney University), Graduate Diploma in Financial Management (University of New England) and a Master of Commerce (University of New South Wales).

Ross Rolfe was appointed a Director of AEG in September 2008. He was appointed as AEG's Chief Executive Officer in October 2008, having worked as the Acting CEO from August 2008.

Ross has overseen Alinta's transformation from a managed fund to an independent energy company in Australia. Key events included the repayment of a significant amount of debt, including extinguishment of debts owed to Alinta's former manager for substantially less than their face value, restructuring of over $2.7 billion of senior secured debt; and the negotiation of the settlement with the NWS Gas Sellers in Alinta's WA business.

Prior to joining AEG, Ross held a range of Chief Executive Officer positions. This included positions within industry in Queensland and with the Queensland Government. He was the Director-General of the Department of the Premier and Cabinet. He was also the Co-ordinator General in Queensland for six years. In this role Ross was responsible for the delivery of the South Queensland Regional Infrastructure Plan and the design and the implementation of the Water Grid. Ross was Chief Executive Officer for Stanwell Corporation (one of Queensland's largest energy generation companies) from January 2002 to July 2005.

Ross is a member of the Board of Infrastructure Australia, a member of the National Board of Infrastructure Partnerships Australia and a Non–Executive Director of WDS Limited and the Thiess Group.

Ross holds a Bachelor of Arts (Honours) from the University of Queensland.

Leonard Gill
Non-Executive Chairman

Rod Keller
Non-Executive Director

Peter Kinsey
Non-Executive Director

Ross Rolfe
Managing Director and Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT 2010

INTRODUCTION

This statement reflects the Alinta Energy Group's (**AEG**) corporate governance framework as at 31 August 2010. A copy of this statement and other documents (or summaries thereof) can be accessed in the Corporate Governance section on our website at **www.alintaenergy.com**.

The Alinta Energy Group comprises:

- Alinta Energy Limited ACN 116 665 608 (**AEL**), an Australian public company;
- Alinta Energy Trust ARSN 122 375 562 (**AET**), an Australian trust of which Alinta Energy Services Limited ACN 118 165 156, AFSL No 299943 (**AES**) is the responsible entity; and
- the respective subsidiary entities of AEL.

The establishment of a sound framework of corporate governance, and the implementation of the corresponding governance culture and processes throughout AEG, is one of the primary responsibilities of both the AEL Board and the AES Board (the **AEG Boards**). The AEG Boards recognise that they are accountable to Securityholders for the performance of AEG and, to that end, are responsible for instituting and ensuring AEG maintains a system of corporate governance that operates in the best interests of Securityholders while also addressing the interests of other key stakeholders. A comprehensive corporate governance framework and good governance policies and procedures, can add to the performance of AEG, the creation of Securityholder value, and engender the confidence of the investment community.

The ASX Limited's Corporate Governance Council has issued a set of guidelines entitled *Corporate Governance Principles and Recommendations*. These guidelines articulate 8 core principles (**ASX Principles**) that the Council believes underlie good corporate governance, together with 27 recommendations (**ASX Recommendations**) for implementing effective corporate governance.

The ASX Listing Rules require listed entities, such as AEG, to include a statement in their annual report disclosing the extent to which they have followed the 8 ASX Principles and 27 ASX Recommendations during the reporting period, identifying any ASX Recommendations that have not been followed and giving reasons for that variance. AEG's Corporate Governance Statement is structured with reference to the ASX Recommendations. Areas not fully complied with are disclosed under the relevant principle.

INTERACTION BETWEEN THE ROLES OF AEL AND AES

The AEL Board, together with the AES Board, are responsible for overseeing the rights and interests of all investors, and are accountable to them for the overall governance and management of AEG. The terms of the stapling deed between AEL and AES (**Stapling Deed**) governs the relationship between the parties.

The AEL Board, in consultation and agreement with the AES Board, formulates and approves the strategic direction, investment objectives and goals of AEG. In practice, AEL was primarily responsible for conducting the day-to-day operations of AEG during the 2010 financial year, and will continue to consult and exchange information with and seek the agreement of AES when making decisions in relation to AEG.

The Stapling Deed sets out the terms and conditions of the relationship between AEL and AES in respect of AEG, for so long as the units in AET, and shares in AEL, remain stapled. In summary, the Stapling Deed provides that each of AEL and AES must:

- cooperate in respect of all matters relating to AEG, and consult with the other prior to causing any act to be done or omission to be made which may materially affect the value of AEG stapled securities (including the announcement or payment of a dividend or trust distribution);
- make available to the other all information in its possession necessary or desirable to fulfil its respective obligations under the Stapling Deed (e.g. making available to the other all information and providing all assistance in relation to the preparation of financial accounts);
- cooperate with the other to ensure that each complies with its obligations under the ASX Listing Rules (including disclosure obligations), co-ordinate disclosure to the ASX and investors, and liaise with the ASX in relation to ASX Listing Rule matters;
- perform their obligations under the Stapling Deed and their respective Constitutions, with a view to enhancing the market value of AEG stapled securities;
- notify the other of an intention to acquire or sell assets where the value of those assets is greater than 5% of the entity's net tangible assets;
- act consistently with the investment strategy of AEG as agreed between them and consult with the other on implementation of this strategy and any changes to its implementation;
- not borrow or raise any money unless the other agrees;
- cooperate to ensure that AEL Securityholder and AET unitholder meetings are held concurrently or, where necessary, consecutively;

- consult with the other in relation to any reorganisation or restructure of capital or any changes to stapling arrangements;
- cooperate on the terms and timing of all new issues, bonus and rights issues, placements, redemptions, buy-backs and any dividend or distribution reinvestment plans; and
- cooperate with the other to ensure that the Boards of AEL and AES have a common sub-group of Directors.

Therefore, as indicated, it is by operation of the Stapling Deed that the Boards of AEL and AES (as responsible entity of AET) are together responsible for overseeing the rights and interests of Securityholders in AEG and accountable to Securityholders for the overall corporate governance and management of AEG.

COMPLIANCE WITH THE ASX RECOMMENDATIONS

As at the date of this Corporate Governance Statement, each of the Boards of AEG advise that their corporate governance practices are in compliance with the ASX Recommendations.

ASX PRINCIPLE 1

LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of board and management.

ROLE OF THE AEG BOARDS AND MANAGEMENT

ASX Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

Each of the AEG Boards is assisted in the management of the affairs of AEG by a dedicated management team. The services provided by the team include managing AEG's investments, advising in respect of any exit from those investments, specific operational duties relating to the day-to-day management of AEG's assets and investigating and implementing appropriate capital management initiatives (including the deleveraging of the business). During the year, AEG concluded the process of separating itself from its management arrangements with Babcock & Brown, which included the formal termination of the Babcock & Brown management and advisory agreements, full internalisation of the management team and the acquisition from Babcock & Brown of AES as the responsible entity of AET.

The AEG Boards have each adopted a formal Board Charter which details the functions and responsibilities of the relevant Board and distinguishes such functions and responsibilities from those which have been delegated to management. Each of the AEG Boards conducted a review, update and approval of its Board Charter during the 2010 financial year. A summary of the Board Charters is available in the Corporate Governance section on AEG's website at **www.alintaenergy.com**.

The AEG Boards are together responsible for the management of the affairs of AEG. In acquitting their functions, the Boards, among other things:

(a) develop and approve the corporate strategy, policy and direction of AEG;
(b) determine AEG's distribution policy;
(c) evaluate and approve major capital expenditure, acquisitions, divestitures and other material transactions of AEG;
(d) review and approve AEG's financial position, accounting policies, financial reports and other material reporting by AEG;
(e) monitor AEG's systems of risk management and internal compliance and control;
(f) consider recommendations of the Audit, Risk & Compliance Committees and appoint the external auditor;
(g) ensure that appropriate corporate governance policies and procedures are in place consistent with AEG's objectives;
(h) monitor compliance with continuous disclosure obligations;
(i) appointment and removal of the Chief Executive Officer;
(j) evaluate the performance of the Chief Executive Officer and key management personnel, and determine their remuneration;
(k) review and evaluate the performance of each respective Board, Board Committee, and individual Director; and
(l) in conjunction with management, develop, oversee and review the effectiveness of AEG's occupational health and safety systems to ensure the wellbeing of all staff.

The Board has delegated a number of these responsibilities to its Committees.

The Board Charters also set out the specific powers and responsibilities of the Chairman and the CEO. Some of the major responsibilities of the CEO are to:

(a) develop, in conjunction with the AEG Boards, corporate strategy, policy and direction;
(b) oversee the day-to day management of AEG;
(c) be the primary channel of communication and point of contact with the AEG Boards;
(d) undertake the role of key company spokesperson; and
(e) review and monitor all matters material to the interests of AEG (in conjunction with other key management personnel).

Each of the two AEG Boards act independently of each other and where there is a joint responsibility between AEL and AES over aspects of AEG's operations, the AEG Boards will only have responsibility to the extent of their own specific involvement in those operations. However, the AEG Boards will cooperate to the extent required under the Stapling Deed in meeting those joint responsibilities, to ensure that the interests of AEG Securityholders are met.

The Board Charters also include a summary of the responsibilities of each Director. To assist Directors to understand AEG's expectations of them, all Non-Executive Directors have entered into formal letters of appointment and have been provided with copies of relevant Board Charters and policies. The CEO (and Managing Director) has a formal contract of employment governing his rights and responsibilities as an Executive of the AEG corporate Group.

ASX Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.
The Nomination & Remuneration Committee has responsibilities relating to the review and monitoring of the performance of the AEG Boards, the Chairman and other individual members of the AEG Boards, and for establishing key performance indicators against which the performance of the CEO and other key management personnel in the AEG management team are evaluated.

During the 2010 financial year, the CEO and other key management personnel in the AEG management team established individual key performance indicators against which their performance would be evaluated. The review of the performance of these key Executives is undertaken by the CEO in conjunction with the Nomination & Remuneration Committee.

The Remuneration Report within the Directors' Report contains details of AEG's remuneration policy and approach. The Remuneration Report also contains details of the CEO's and other key management personnel's total remuneration and conditions, including short-term and long-term incentive structures.

ASX PRINCIPLE 2

STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

STRUCTURE OF THE BOARD

ASX Recommendation 2.1: A majority of the board should be independent directors.
The AEG Boards are structured so as to comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. The AEG Boards recognises the importance of Independent Non-Executive Directors and the external perspective and advice they provide. Both the AEL Board and the AES Board comprise a majority of Independent Non-Executive Directors.

During the course of the 2010 financial year, there has been a change in the composition of the AEG Boards by virtue of a resignation and subsequent appointment. Details of the Directors' skills, experience and expertise relevant to their position and their term in office and details of their attendance at Board and/or Committee meetings are set out elsewhere in the 2010 Annual Report. The AEG Boards consider that collectively, the Directors have the range of skills, experience and expertise necessary to appropriately govern AEG.

The current Directors appointed to the respective AEG Boards, along with their appointment dates, are set out below:

Name	Position	AEL Board Appointment	AES Board Appointment
Len Gill	Independent Non-Executive Chairman	29/10/06	01/07/08
Peter Kinsey	Independent Non-Executive Director	29/10/06	n/a
Rod Keller	Independent Non-Executive Director	27/04/10	27/04/10
Ross Rolfe	CEO and Managing Director	8/12/08	8/12/ 08

John Fletcher, an Independent Non-Executive Director during part of the 2010 financial year, was originally appointed to the AEG Boards on 29 October 2006, and resigned on 13 April 2010.

The continued tenure of each individual Independent Director is subject to re-election from time-to-time in accordance with the Constitution of AEL.

BOARD COMMITTEES AND MEMBERSHIP

The AEG Boards have established Committees to support an effective governance framework and to advise and support the AEG Boards in carrying out their respective duties. The Chairman of each Committee reports on any matters of substance at a subsequent Board meeting and all Committee minutes are provided to the Board. The Committees in existence at the date of this report are as follows:

- Audit, Risk & Compliance Committee;
- Nomination & Remuneration Committee; and
- Energy Trading & Risk Management Committee.

Each Committee has its own Charter setting out the authority under which each Committee operates and the responsibilities as delegated by the AEG Boards. Charters are reviewed periodically and membership criteria are based on a Director's skills and experience as well as their ability to add value to the Committee. The CEO attends all Committee meetings (of which he is not a member) by invitation and Directors may attend any meeting of a Committee.

The Board Committees and their membership as at 31 August 2010 are set out in the following table:

	Audit, Risk & Compliance Committees	Nomination & Remuneration Committee	Energy Trading & Risk Management Committee
Len Gill	√	√	Chair
Peter Kinsey	Chair	Chair	–
Rod Keller	√	√	–
Ross Rolfe	–	–	√
Peter Brook*	–	–	√

* Member of AEG management, being the CFO

John Fletcher was the Chairman of the Audit, Risk & Compliance Committee, and a member of the Nomination & Remuneration Committee through to his resignation from the AEG Boards on 13 April 2010.

The AEG Boards and their Committees may seek advice from independent experts whenever it is considered appropriate. In addition, individual Directors may seek independent professional advice on any matter connected with the discharge of their responsibilities, at AEG's expense.

ASX Recommendation 2.2: The chairperson should be an independent director.
The current Chairman of AEG, Len Gill, is an Independent Non-Executive Director.

In order to further promote the independence of the AEG Boards:

- the Audit, Risk & Compliance Committee and the Nomination & Remuneration Committee are comprised exclusively of Independent Directors;
- protocols are in place for dealing with conflicts of interest. In particular, the AEG Boards have approved a range of policies designed to ensure that the interests of Securityholders are at all times paramount and that any actual or potential conflicts of interest are promptly disclosed and dealt with by the Directors. These include the Board Charter, the Code of Conduct and the Security Trading Policy; and
- any Director is entitled to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at AEG's expense on any matter connected with the discharge of his or her responsibilities, in accordance with the procedures set out in the Board Charter.

ASX Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.
The roles of Chairman and CEO are not exercised by the same individual for AEG. The Board Charters provide that the roles of the Chairman and CEO must not be exercised by the same person. The respective roles and responsibilities of the Chairman and the CEO are described in the Board Charters.

ASX Recommendation 2.4: The board should establish a nomination committee.
A Nomination & Remuneration Committee has been established which is responsible for advising the AEG Boards on the composition of the Boards and their Committees, and reviewing the performance of the Boards, their Committees and individual Directors. In making recommendations to the AEG Boards regarding the appointment of Directors, the Nomination & Remuneration Committee periodically assesses the appropriate mix of skills, experience and expertise required on the relevant Board and assesses the extent to which those skills and experience are represented. As AEG continues to respond to the challenges currently facing the business, the Nomination & Remuneration Committee will review the composition of the AEG Boards to ensure they remain appropriate.

The Nomination & Remuneration Committee is comprised of all three Non-Executive Directors of the AEL Board. The Committee is chaired by Peter Kinsey, an Independent Non-Executive Director.

The attendance of the Committee members at Committee Meetings is disclosed in the Directors' Report. The Nomination & Remuneration Committee met eleven times during the 2010 financial year.

The Nomination & Remuneration Committee has adopted a Charter, a copy of which is available in the Corporate Governance section on AEG's website at **www.alintaenergy.com**. The responsibilities of the Committee pursuant to its Charter include:

- having oversight of the AEG Boards' performance evaluation process;
- reviewing potential candidates for appointment to the AEG Boards and making recommendations in respect of them;
- providing confirmation of the Directors to retire annually by rotation in accordance with the ASX Listing Rules and the Constitution of AEL;
- periodically assessing the skills required to competently discharge the AEG Boards' duties and obligations, and making recommendations to the Chairman about how those skill levels could be enhanced;
- reviewing the key performance indicators for the CEO and other key management personnel in the AEG management team;
- making recommendations to the AEG Boards in relation to the CEO's and other key management personnel's remuneration;
- approving AEG's remuneration disclosures; and
- making recommendations to the AEG Boards in relation to the level of remuneration to be paid to Non-Executive Directors.

ASX Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.
The Nomination & Remuneration Committee informs the AEL Board of the names of Directors who are retiring in accordance with the ASX Listing Rules and the Constitution of AEL, and makes recommendations to the AEL Board as to whether it should support the re-nomination of such retiring Directors. In order to make such recommendations, the Committee first reviews the retiring Director's performance during the period in which the Director has been a member of the AEL Board.

The Nomination & Remuneration Committee also reviews the membership and performance of the various Committees established by the Board and makes recommendations to the AEL Boards in that regard. A member of the Committee will not participate in the review of his or her performance, and will also not participate in any matter regarding his or her election, re-election or removal.

The Chairman and the AEG Boards undertake both formal and informal processes to evaluate the performance of the Board, its Committees and individual Directors. AEG's typical formal process involves the Company Secretary issuing a detailed questionnaire, which is completed and returned by each Director and select members of management. The results are consolidated by the Company Secretary, and the Nomination & Remuneration Committee, as a whole, reviews and discusses the findings. The Nomination & Remuneration Committee recently undertook such a questionnaire-based evaluation of the Board, its Committees and its Directors in accordance with its designated process. A number of initiatives were identified as part of this process, however, in view of the recently announced lender led deleveraging outcome, it is likely that the proposed initiatives will no longer be applicable and hence will not be implemented.

The Nomination & Remuneration Committee is also responsible for establishing and facilitating an induction program for new Directors and making available to them sufficient information and advice to allow them to participate fully and actively in Board decision making at the earliest opportunity. This induction program was undertaken during the period and included the provision of relevant company information, management presentations and site visits.

ASX PRINCIPLE 3

PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Companies should actively promote ethical and responsible decision making.

CODE OF CONDUCT

ASX Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code.
The AEG Boards are committed to restoring Securityholder value while also promoting Securityholder and general market confidence in AEG, and to fostering an ethical and transparent culture within AEG.

To this end, the AEG Boards have adopted a formal Code of Conduct which is designed to promote:

- high standards of corporate and individual behaviour by all Directors, officers and employees of AEG in order to maintain confidence in AEG's integrity;
- awareness of relevant legal obligations and responsibilities; and
- behaviour consistent with acting in a highly ethical and professional manner and in the best interests of AEG Securityholders.

The Code of Conduct requires Directors, officers and employees of AEG to, among other things:

- place the highest priority on health and safety at the workplace;
- deal with Securityholders, customers, suppliers, competitors and other employees in a manner that is lawful, diligent, fair, and with honesty, integrity and respect;
- avoid conflicts of interest between their personal interests and those of AEG and its Securityholders;
- not take advantage of opportunities arising from their position for personal gain or in competition with AEG; and
- comply with AEG's Security Trading Policy and other policies.

The Code of Conduct requires Directors, officers and employees of AEG to report any actual or potential breach of the law, the Code of Conduct or other AEG policies. AEG promotes and encourages ethical behaviour and provides protection for those who report violations. A summary of the key aspects of the Code of Conduct is available in the Corporate Governance section on AEG's website at **www.alintaenergy.com**.

In addition to the Code of Conduct, the Board Charters require that all Directors conduct their duties with the highest level of honesty and integrity, observe the rule and spirit of the law, comply with any relevant ethical and technical standards, not make improper use of any confidential information, and set a high standard of fairness, diligence and competency in their position as a Director.

AEG recognises that it has a number of legal and other obligations to its non-securityholder stakeholders, including employees, financiers, suppliers and the wider community.

In accordance with its Code of Conduct, AEG aims to provide a work environment in which all employees can excel, regardless of race, religion, age, disability, gender, sexual preference or marital status. In this regard, AEG maintains various policies relating to the workplace, including in respect of non-discrimination, appropriate workplace behaviour and occupational health and safety issues. The principles of fairness, honesty and propriety are essential elements of the various policies which have been adopted by AEG.

SECURITY TRADING POLICY

ASX Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.
AEJ has implemented a formal Securities Trading Policy which regulates the manner in which Directors, all members of AEG's Corporate Office and senior management across AEG's various businesses can buy or sell AEG securities. The Policy requires that they conduct their personal investment activities in a manner that is lawful and avoids conflicts between their own interests and those of AEG.

The Policy is specifically designed to raise awareness and minimise any potential for breach of regulations relating to insider trading contained in the Corporations Act. The Policy is also designed to minimise the chance of misunderstandings or perceptions arising, of persons trading while in possession of non-public price-sensitive information.

The Policy specifies trading windows as the periods during which trading in AEG stapled securities can occur. These trading windows will generally be:

- two to six week periods following the release of AEG's full-year or half-year results;
- a period commencing on the second trading day following lodgement of AEG's Annual Report with the ASX and continuing for up to one month after the holding of AEG's Annual General Meeting; and
- the offer period under any prospectus or similar offer document.

Trading is prohibited, despite a window being open, if the relevant person is in possession of non-public price-sensitive information regarding AEG. The AEG Boards may authorise the opening of trading windows at other times. The Directors, the CEO and other key management personnel are required to notify the Company Secretary (who in turn notifies the Chairman) of any proposed trading by them in securities issued by AEG.

A summary of the key aspects of AEG's Securities Trading Policy is available in the Corporate Governance section on AEG's website at **www.alintaenergy.com**.

ASX PRINCIPLE 4

SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

AUDIT, RISK & COMPLIANCE COMMITTEE

ASX Recommendation 4.1: The board should establish an audit committee.

The AEG Boards are committed to the basic principle that AEG's financial reports are true and fair and comply with the relevant accounting standards. To assist the AEG Boards with this commitment, they have each established an Audit, Risk & Compliance Committee which are responsible for advising the AEG Boards on internal controls and appropriate standards for the financial management of AEG. It is the AEG Boards' responsibility to ensure that an effective internal control system is in place across AEG. This includes internal controls to deal with both the effectiveness and the efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The AEG Boards have delegated the responsibility for overseeing the establishment and maintenance of AEG's system of internal control to the Audit, Risk & Compliance Committees.

Each Committee oversees the financial reporting process, the systems of internal control and risk management, the audit process and AEG's processes for monitoring compliance with laws and regulations.

The Audit, Risk & Compliance Committees provide advice to the AEG Boards and report on the status of the business risks to AEG through their risk management processes aimed at ensuring risks are identified, assessed and properly managed.

Each Committee works on behalf of the AEG Boards with the external auditor and reviews non-audit services provided by the external auditor to confirm that they are consistent with maintaining external audit independence.

ASX Recommendation 4.2: The audit committee should be structured so that it:

- **consists only of non-executive directors;**
- **consists of a majority of independent directors;**
- **is chaired by an independent chair, who is not the chair of the board; and**
- **has at least three members.**

The Audit, Risk & Compliance Committees are now currently comprised of all three Non-Executive Directors. The Committee is currently chaired by Peter Kinsey, an Independent Non-Executive Director.

The attendance of the Committee members at Committee Meetings is disclosed in the Directors' Report.

During the 2010 financial year, the composition of the Audit, Risk & Compliance Committees underwent some change as follows:

Audit, Risk & Compliance Committee Member	Status	Appointed to the Committee	Resigned from the Committee
Peter Kinsey	Independent Director Committee Member Committee Chairman	Remained a member of the Committee throughout the 2010 financial year. Appointed as Chairman of the Committee with effect on 27 April 2010	
Len Gill	Independent Director Committee Member	Remained a member of the Committee throughout the 2010 financial year	
Rod Keller	Independent Director Committee Member	27 April 2010	–
John Fletcher	Independent Director Committee Chairman		Resigned from the Committee with effect on 13 April 2010

All members of the Audit, Risk & Compliance Committees possess the requisite financial expertise.

The structure of each Audit, Risk & Compliance Committee accords with ASX Recommendation 4.2 in that the Committees are comprised by Independent Directors, have an Independent Chairman who is not the Chairman of the AEG Boards and have at least three members.

The Audit, Risk & Compliance Committees generally meet as required, but normally meet not less than six times per year. The Audit, Risk & Compliance Committees report to the full AEG Boards following each Committee meeting, including making any recommendations that require Board approval or action.

ASX Recommendation 4.3: The audit committee should have a formal charter

The Audit, Risk & Compliance Committees have each adopted a Charter. The responsibilities of the Committees pursuant to their Charters include:

Financial Reports for the half year and full year

- Review and consider the financial reports for the half year and full year;
- Consider in connection with the half-year and full-year financial reports the CEO and CFO letter of representation to the AEG Boards;
- Review the financial sections of the annual report and related regulatory filings before release;
- Review with management and the external auditors the results of the financial audit;

Internal Control

- Review the effectiveness of AEG's internal controls regarding all matters affecting AEG's financial performance and financial reporting, including information technology security and control;
- Review the scope of internal and external auditors' review of internal control, review reports on significant findings and recommendations, together with management's responses, and recommend changes from time-to-time as appropriate;

Internal Audit

- Review with the internal auditor, the charter, plans and activities of the internal audit function;
- Meet with the internal auditor to review reports and monitor management responses;
- Meet separately with the internal auditor, when necessary, to discuss any matters that the Committees or internal auditor believes should be discussed privately;
- Review the effectiveness of the internal audit function;
- Ensure there are no unjustified restrictions or limitations on the internal auditor, and review and concur in the appointment, replacement or dismissal of the internal auditor;

External Audit

- Review the external auditors' proposed audit scope and approach;
- Meet with the external auditors to review reports, and meet separately to discuss any matters that the Committees or auditors believe should be discussed privately;
- Establish policies as appropriate regarding independence of the external auditors;
- Review and confirm the independence of the external auditors;
- Review the performance of the external auditors, and consider the re-appointment and proposed fees of the external auditor and, if appropriate, conduct a tender of the audit. Any subsequent recommendation following the tender for the appointment of an external auditor will be put to the AEG Boards;

Compliance

- Obtain regular updates from the Risk & Compliance Manager and management regarding compliance matters;
- Review the effectiveness of the system for monitoring compliance with laws and regulations affecting AEG and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance;
- Monitor the extent to which AEG complies with its Compliance Plan;
- Review the findings of any examinations by regulatory agencies;

Risk Management

- Oversee the development of risk management policies and review AEG's overall risk management framework and its effectiveness in meeting sound corporate governance principles, and keep the AEG Boards informed of all significant business risks;
- Review with management the system for identifying, managing and monitoring the key risks of AEG;
- Review with management the operation of business continuity and disaster recovery plans;
- Obtain reports from management on the status of any key risk exposures or incidents;
- Review the scope, status and cost of the insurance coverage for AEG;

Reporting Responsibilities

- Regularly report to the AEG Boards about Committee activities, issues and related recommendations;
- Provide an open avenue of communication between internal audit, the external auditors and the AEG Boards. For the purpose of supporting the independence of their function, the external auditors and the internal auditor have a direct line of reporting access to the Committees;
- Report annually to the Securityholders on matters relating to Committee responsibilities as required by law or the ASX Listing Rules;
- Review any other reports AEG issues that relate to Committee responsibilities.

A summary of the Audit, Risk & Compliance Committee Charters is available in the Corporate Governance section on AEG's website at **www.alintaenergy.com**.

To assist the AEG Boards and the Audit, Risk & Compliance Committees discharge their respective responsibilities, the CEO and the Chief Financial Officer are required to provide the AEG Boards with a letter of representation in connection with the half-year and full-year financial statements of AEG. Such letter of representation confirms to the AEG Boards that AEG's financial reports present a true and fair view, in all material respects, of AEG's financial condition and operational results and are in accordance with relevant accounting standards. In respect of the 12 months ended 30 June 2010, the CEO and Chief Financial Officer provided such a letter to the Board.

INTERNAL AUDIT

The AEG Boards have overall responsibility for AEG's systems of internal control, supported by the Audit, Risk & Compliance Committees and management. The AEG Boards are assisted in discharging this responsibility by AEG's internal audit function which operates under a written charter approved by the Audit, Risk & Compliance Committees. The AEG Boards have outsourced the internal audit function to Ernst & Young who act as the AEG internal auditor. Given AEG's focus on the deleveraging process, the scope of the internal audit function has presently been reduced so as to focus on specific priority areas identified by management. Accordingly, Ernst & Young is not at the current time providing a full coverage of all matters contemplated in the Internal Audit charter. This approach will be reviewed upon the deleveraging process being concluded.

The AEG internal auditor reports jointly to the Chairman of the Audit, Risk & Compliance Committees and the Chief Financial Officer. The AEG internal auditor discusses significant issues from Internal Audit Reports at meetings of the Audit, Risk & Compliance Committees and distributes Internal Audit Reports to Committee members and senior management of AEG. During the year, the internal audit program reviewed a number of AEG's internal controls, with a view to ensuring that they are operating effectively and efficiently in accordance with financial reporting requirements, good operational and governance practices and in compliance with regulations.

AUDIT GOVERNANCE

AEG's external auditor is PricewaterhouseCoopers who were appointed by Securityholders at the 2007 Annual General Meeting in accordance with the provisions of the *Corporations Act 2001*. The AEG Boards have a policy whereby the responsibilities of the lead audit engagement partner and review audit partner cannot be performed by the same people for a period in excess of five consecutive years. The present PricewaterhouseCoopers lead audit engagement partner is Marc Upcroft who assumed the role during 2007. The current audit review partner is Ross Gavin who also assumed the role during 2007.

The external auditor receives all Audit, Risk & Compliance Committee papers and attends all meetings. The Committees also periodically meet with the external auditor without management being present. Committee members are able to contact the external auditor directly at any time.

Certification and discussions with the external auditor on independence

The Audit, Risk & Compliance Committees require that the external auditor confirm each half year that they have maintained their independence and have complied with applicable independence standards established by regulators and professional bodies. The Audit, Risk & Compliance Committees annually review the independence of the external auditor and have confirmed this assessment with the AEG Boards. A copy of the external auditor's certification of independence is included in the 2010 Annual Report.

Restrictions on non-audit services by the external auditor

To avoid possible independence or conflict issues, the external auditor is not permitted to carry out certain types of non-audit services for AEG, including:

- bookkeeping or other services relating to the accounting records or financial statements;
- secondments to management positions;
- internal audit of financial controls;
- internal control design or implementation;
- implementation or design of financial information systems or other information technology systems;
- legal or litigation support services; and
- strategic or structural tax planning.

Further, PricewaterhouseCoopers will not provide unsolicited tax “products” or tax “solutions” for implementation in respect of the AEG corporate Group. If any taxation advisory services are to be provided by PricewaterhouseCoopers, those services will generally be limited to providing independent taxation advice regarding transactions proposed by AEG. During the 2010 financial year, PricewaterhouseCoopers did not provide a material amount of taxation services in respect of the AEG corporate Group.

For all other non-audit services, use of the external audit firm must be assessed in accordance with our pre-approval policy, which requires that all non-audit services be pre-approved by the Audit, Risk & Compliance Committees, or by delegated authority to a sub-committee consisting of one or more members where appropriate.

The breakdown of the aggregate fees billed by the external auditor in respect of each of the two most recent financial years for audit, audit-related, tax and other services is provided in the AEG financial reports contained in the 2010 Annual Report.

ASX PRINCIPLE 5

MAKE TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of all material matters concerning the company.

CONTINUOUS DISCLOSURE POLICY

ASX Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

AEG is committed to complying with its continuous disclosure obligations pursuant to the Corporations Act and the ASX Listing Rules. AEG’s Continuous Disclosure Policy is designed to ensure that all investors have equal and timely access to material information concerning AEG.

The Policy is designed to ensure that material price sensitive information arising from any part of AEG is immediately notified to the ASX in a complete, balanced and timely manner, unless it falls within the scope of the limited exemptions contained in Listing Rule 3.1A.

A Disclosure Committee, comprising the CEO and various other senior Executives, operates pursuant to the Continuous Disclosure Policy. The members of the Disclosure Committee are accountable and responsible for reviewing information which is or may be material, making disclosures to the ASX and issuing media releases and other written public statements on behalf of AEG.

In addition, the AEG Boards are actively and regularly involved in discussing disclosure obligations in respect of all major matters that come before it.

The Company Secretary is primarily responsible for communications with the ASX.

AEG’s internal auditor, Ernst & Young, conducted a detailed review of AEG’s continuous disclosure reporting processes during the 2010 financial year. A limited number of recommendations were made by Ernst & Young, which have been noted and implemented by management.

AEG’s Continuous Disclosure Policy was reviewed, updated and approved by the AEG Boards during the 2010 financial year. A summary of the Continuous Disclosure Policy is available in the Corporate Governance section on AEG’s website at **www.alintaenergy.com**.

CONTINUOUS DISCLOSURE PROCESSES

The specific processes adopted by AEG in relation to its continuous disclosure responsibilities are as follows:

- **Disclosure Committee review process:** all material or potentially material information relating to AEG must be reported immediately to a member of the Disclosure Committee. The information is reviewed and a determination made as to whether any of the information is required to be disclosed to the ASX. If there is a disclosure obligation, the actual form of ASX disclosure is promptly reviewed by the Disclosure Committee and subsequently approved for release;
- **Board involvement:** Board approval and input is obtained in respect of matters that are within the reserved powers of the Board (and responsibility for which has not been delegated to management) or matters that are otherwise of fundamental significance to AEG. Such matters will include profit upgrades or downgrades, dividend policy or declarations, company-transforming events and any other announcement that is determined by the Disclosure Committee, the CEO or the Chairman to be an appropriate announcement for Board input or approval;
- **website:** all information released to the ASX is posted in the Investor Information section of AEG's website as soon as practicable;
- **authorised spokespersons:** communication with the media, share analysts and the market generally in relation to AEG activities will normally be undertaken only by the Chairman, the CEO or any person who is expressly authorised by either the Chairman or the CEO;
- **media releases:** no media release of a material nature is to be issued unless it has first been sent to the ASX;
- **trading halts:** on occasions, it may be necessary for AEG to request a trading halt from the ASX. The Disclosure Committee and/or the Board makes decisions in relation to a trading halt;
- **close periods:** AEG observes a number of "close" periods during the year to protect against the inadvertent disclosure of price sensitive information. During these close periods, AEG will not make any comment on:
  - analysts' earnings estimates, other than to acknowledge the range and average estimates in the market; and
  - the financial performance of AEG unless the information has already been released to the market.

  The close periods operate in the periods 45 days before the announcement of AEG half year and full year results; and
- **analyst and investor briefings:** AEG recognises the importance of the relationship between AEG, investors and analysts. From time-to-time, AEG conducts analyst and investor briefings and in these situations the following protocols apply:
  - no price sensitive information will be disclosed at these briefings unless it has been previously, or is simultaneously, released to the market;
  - questions at these briefings that relate to price sensitive information not previously disclosed will not be answered; and
  - if any price sensitive information is inadvertently disclosed, it will immediately be released to the ASX and placed on AEG's website.

ASX PRINCIPLE 6

RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

COMMUNICATIONS WITH SHAREHOLDERS

ASX Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Consistent with its Continuous Disclosure Policy, AEG is committed to communicating with its Securityholders in an effective and timely manner to provide them with ready access to information relating to AEG. In this regard, AEG maintains a website (**www.alintaenergy.com**) which provides access to the following information of interest to AEG Securityholders:

- information regarding the Board, Executive management and the business groups and activities of AEG;
- all AEG announcements and media releases, which are posted to the website promptly following release;
- copies of full-year and half-year financial reports;
- copies or summaries of Board and Committee Charters and relevant corporate governance policies;
- copies of AEG's Annual Reports;
- copies of disclosure documents relating to AEG's capital raisings; and
- a link to the website of AEG's Share Registry, Link Market Services.

AEG encourages Securityholders to utilise its website as their primary tool to access Securityholder information and disclosures. In addition, the Annual Report facilitates the provision to Securityholders by AEG on a yearly basis of detailed information in respect of the achievements, financial results and strategic direction of AEG.

AEG has a practice that information to be given by AEG at analyst briefings is first released to the ASX to ensure that the market operates on a fully informed and equal basis.

Securityholders are strongly encouraged to attend and participate in general meetings of AEG, especially the Annual General Meeting. AEG provides Securityholders with details of any proposed meetings well in advance of the relevant dates.

AEG's external auditor is always requested to attend the Annual General Meeting and be available to answer Securityholder questions about the conduct of the audit and the preparation and content of the auditor's report. This allows Securityholders an opportunity to ask questions of the auditor and reinforces the auditor's accountability to Securityholders.

ASX PRINCIPLE 7

RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

RISK MANAGEMENT POLICY

ASX Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Management of risk continues to be a primary objective of AEG in all its business activities. AEG is committed to ensuring that its system of risk oversight, management and internal control complies with the ASX Principles and that its culture, processes and structures facilitate the realisation of AEG's business objectives, including potential opportunities, while managing adverse effects. AEG has established appropriate policies for the oversight and management of the material risks facing the business.

The AEG Boards are ultimately responsible for overseeing and managing the material risks of AEG. The Audit, Risk & Compliance Committees assist the Boards in this role. In accordance with their Charters, the role of the Audit, Risk & Compliance Committees includes reviewing and managing the system for identifying, managing and monitoring the key risks of AEG, obtaining reports from management on the status of any key risk exposures or incidents and ensuring key controls are in place and are effective. In undertaking these responsibilities, the Committees principally rely on the resources and expertise of AEG management to implement and report upon the risk management systems and procedures implemented, such that the Committees are able to keep the AEG Boards informed of all material business risks. From an energy trading perspective, the AEL Board has established the Energy Trading & Risk Management Committees for the purpose of overseeing AEG's physical and financial energy trading, contracting and marketing positions.

AEG undertakes regular reviews of its risk management framework and has adopted a Risk Management Policy consistent with Australia/New Zealand Standard 4360, which clearly defines responsibilities for managing risk under AEG's risk management process. The material risks of AEG's business, including operational, financial, market and regulatory compliance risks have been identified and are required to be regularly managed, monitored and reported. Methods for treating and mitigating risks include transferring, reducing, accepting or passing on risk following assessment using a variety of methods. A summary of the Risk Management Policy is available in the Corporate Governance section on AEG's website at **www.alintaenergy.com**.

The Audit, Risk & Compliance Committees include among their responsibilities:

- consideration of the overall risk management framework of AEG and the review of its effectiveness in meeting sound corporate governance principles;
- keeping the AEG Boards informed of all significant business risks;
- reviewing, in conjunction with management, the system for identifying, managing and monitoring the key risks of AEG; and
- obtaining reports from management on the status of any key risk exposures or incidents.

The Energy Trading & Risk Management Committees include among their responsibilities:

- assisting the AEG Boards in fulfilling their oversight responsibilities in relation to energy risk management by AEG's Energy Markets Operations;
- reviewing, implementing and monitoring compliance with AEG's energy risk policies and procedures;
- reviewing the trading strategies applicable to AEG's portfolio of merchant assets;
- reviewing the appropriateness of dealing in new commodities and instruments, and approving the controls (policies, limits and authorisations) and master contract documentation for dealing in such new commodities and instruments;
- approving credit terms and conditions for Industrial & Commercial customer electricity and gas sale agreements;
- approving credit terms and conditions of ISDA and gas master contract documentation, and energy and energy-related long-form contract documentation; and
- approving counterparties that deal with AEG in commodities and instruments, and the terms of dealing with those counterparties (e.g. creditworthiness, use of collateral, etc.).

One of the cornerstones of AEG's risk management approach is a well defined system of delegated authorities with respect to the commitment of capital and an investment/divestment approval process which brings rigour to the selection, assessment and approval of the risks assumed under AEG's principal investment activities. Matters such as legal, accounting, tax and general risk assessment issues are considered in each case.

ASX Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

AEG's Risk function plays a key role in developing and building an approach to assist AEG and its Boards in identifying, monitoring and treating risk and in reporting material risks to the Audit, Risk & Compliance Committees (and to the Energy Trading & Risk Management Committees in respect of trading related risks). Under the direction of AEG's Risk Managers, AEG has continued to enhance its risk management framework which articulates the standards and responsibilities for risk management across, and at all levels, of the AEG business. The standards include the requirement for all business units, projects, regions and assets to report risks as an input to the AEG Risk Manager's consolidated quarterly reporting to the Audit, Risk & Compliance Committees, and to maintain risk registers and risk treatment plans for all identified "top risks".

AEG's Compliance Function promotes a compliance conscious culture, while ensuring AEG complies with regulatory requirements across its businesses, functions and group entities.

To facilitate monitoring and evaluation of the effectiveness of internal controls, AEG has established accounting policies, reporting, risk management and compliance systems to keep the Audit, Risk & Compliance Committees informed of strategic, reputational, financial and operational risks facing the AEG corporate Group. Quarterly management reporting confirms that appropriate internal controls are in place and that the AEG Risk Management Policy and other key guidelines and procedures are being observed. This reporting process is designed to provide assurance to the AEG Boards and the relevant Committees that AEG's material business risks are being managed effectively.

AEG's internal audit function, operating under a written charter from the Audit, Risk & Compliance Committees, provides independent reporting to the Audit, Risk & Compliance Committees with respect to the management of risk and also provides comment on the effectiveness of the design and operation of controls across the AEG corporate Group.

ASX Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

In accordance with Recommendation 7.3, the CEO and Chief Financial Officer have represented to the AEG Boards in writing that the section 295A declaration is founded on a sound system of risk management and internal compliance and control, and that the system operated efficiently and effectively in all material respects during the period to 30 June 2010.

ASX PRINCIPLE 8

REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

REMUNERATION POLICY

The remuneration policies of AEG have been structured to be competitive in the industry and to ensure that AEG can attract and retain the talent needed to achieve both its short and long-term objectives, while maintaining a strong focus on team work, individual performance and the interests of Securityholders.

The policies and principles which are applied to determine the nature and amount of remuneration paid to AEG's key management personnel are set out in the Remuneration Report.

During the 2010 financial year, total remuneration of AEG's key management personnel was delivered through a combination of base salary, an annual STI performance bonus and, in the short-term for some Executives, a scheme involving the payment of retention incentives which took into account the immediate priorities facing AEG's business. AEG has continued to defer the implementation of any new LTI arrangements (involving the issue of performance rights, options and the like) until such time as AEG's business operations stabilise.

AEG regularly reviews its remuneration philosophy and framework to ensure that remuneration is:

- commensurate with an individual's position and responsibilities;
- competitive with market standards;
- linked with AEG's strategic goals and performance; and
- aligned with the interests of AEG Securityholders.

REMUNERATION COMMITTEE

ASX Recommendation 8.1: The Board should establish a remuneration committee.
As noted above in relation to ASX Recommendation 2.4, in order to assist the AEG Boards in achieving fairness and transparency in relation to remuneration issues and overseeing AEG's remuneration and human resources policies and practices, the AEL Board has established a Nomination & Remuneration Committee.

The Nomination & Remuneration Committee has adopted a Charter which is available in the Corporate Governance section on AEG's website at **www.alintaenergy.com**. The responsibilities of the Committee pursuant to the Charter in relation to remuneration include:

- making recommendations to the Boards for determining the level of remuneration to be applied to Non-Executive Directors. The Committee may engage external advisers to provide information to the Boards to be considered in their deliberations for the purpose of recommending an appropriate level of remuneration for Non-Executive Directors. All fees paid to Non-Executive Directors are disclosed in AEG's annual financial statements to the extent required by law;
- approving the Remuneration Report;
- providing feedback on the performance of AEG's key management personnel as measured against their respective key performance indicators;
- reviewing and making recommendations to the Boards regarding the remuneration of AEG's key management personnel; and
- considering for approval the formulation of any long-term incentive plans involving the potential issue of AEG stapled securities.

The Nomination & Remuneration Committee is currently comprised of all three Non-Executive Directors of the AEL Board.

NON-EXECUTIVE DIRECTOR AND EXECUTIVE REMUNERATION

ASX Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executives.

The total remuneration paid to Non-Executive Directors to 30 June 2010 is set out in the Remuneration Report. Non-Executive Directors are paid an annual fee according to which Boards and Committees they sit on. Non-Executive Directors' fees for AEG are determined within a Non-Executive Director's aggregate fee pool limit which has been approved by Securityholders. The maximum aggregate sum for AEG has been set at $750,000 annually. The remuneration received by the CEO and Managing Director is not subject to the aggregate fee pool limit as contemplated in the AEL Constitution.

Non-Executive Directors are not provided with retirement benefits other than statutory superannuation and did not receive options or other equity incentives, or bonus payments.

AEG aims to recruit, retain and reward the best available employees to meet the organisation's objectives. The Board and Executive management recognise that AEG operates in a competitive environment and that retaining the talents and experience of motivated, suitably qualified specialists is in the best interests of the business and its various stakeholders. Accordingly, the Board's approach to Executive remuneration is to align remuneration with the interests of its stakeholders.

During the 2010 financial year, AEG faced a number of significant challenges which required a departure from its business-as-usual remuneration policies. Accordingly, Executive remuneration comprised a fixed component (i.e. base salary and superannuation), an annual STI performance bonus and for some Executives a scheme involving the payment of a retention incentive which took into account the immediate priorities and challenges facing the business.

Base Salary

An Executive's base salary is determined according to his or her level of responsibility, importance to the business and market competitiveness. Base salaries are fixed payments and are reviewed on an annual basis.

Superannuation

AEG Executives receive employer contributions equal to the superannuation maximum contribution base.

Retention

During the 2010 financial year, a retention payment was made to a number of AEG Executives. The criteria applied in determining whether an Executive should receive such a payment included the criticality of their role in AEG's deleveraging processes (i.e. recapitalisation or trade sale), the criticality of their role in the operational performance of the business and/or the extent to which they possess substantial intellectual property or knowhow.

STI

AEG's current approach to the payment of STI is to align it to the short to medium-term challenges that need to be addressed by AEG (e.g. deleveraging). STI will continue to be an annual "at risk" component of remuneration for the CEO and other AEG Executives. The payment of STI benefits is discretionary and, if payable, will be paid in cash. Executives earn STI based on the achievements of the overall AEG corporate Group, the particular business unit with which they are affiliated, their personal performance and their overall criticality to the business. The payment of STI will recognise individual high performance. An STI pool will be approved by the Nomination & Remuneration Committee, and the CEO will then distribute the pool among business units and individuals based on their contribution to AEG's financial and non-financial performance.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010

The Directors of Alinta Energy Limited (**AEL** or the **Company**) and its consolidated entities (**AEG** or the **Group**) present their Directors' Report together with the consolidated financial statements for the year ended 30 June 2010.

The Company together with the Alinta Energy Trust (**AET**) form Alinta Energy Group, a stapled security traded on the Australian Securities Exchange (ASX code: AEJ).

DIRECTORS

The following persons were Directors of AEL at any time during the year, up to the date of this Directors' Report:

Name	
Mr L F Gill (Chairman)	appointed 29 October 2006
Mr R K Rolfe (Managing Director & Chief Executive Officer)	appointed 8 December 2008
Mr P M Kinsey	appointed 29 October 2006
Mr R H Keller	appointed 27 April 2010
Mr J Fletcher	appointed 29 October 2006; resigned 13 April 2010

Particulars of the qualifications, experience and special responsibilities of the Directors at the date of this report are set out below:

Mr L F Gill – Independent Non-Executive Director – Chairman from 1 July 2008
Leonard (Len) Gill joined AEG as a Non–Executive Director in 2006. Len became the Independent Chairman in July 2008.

Len has over 30 years of experience in the Australian energy industry, building extensive industry knowledge over this time. He is the former Chief Executive Officer of TXU Australia (now TRUenergy). Prior to his appointment as CEO, Len headed TXU's wholesale energy division for five years, which included general management responsibility for energy trading, power generation and gas storage assets. Len is a non-executive director of Metgasco and a former Non-Executive Director of Verve Energy.

Len holds a Bachelor of Engineering (Hons) (University of Melbourne) and is a member of the Australian Institute of Company Directors.

Mr R Rolfe – Managing Director & Chief Executive Officer
Ross Rolfe was appointed as AEG's Chief Executive Officer in October 2008, having worked as the Acting CEO from August 2008.

Prior to joining AEG Ross held a range of Chief Executive Officer positions. This included positions within industry in Queensland, and within the Queensland Government. He was the Director General of the Department of the Premier and Cabinet. He was also the Co-ordinator General in Queensland for six years. In this role Ross was responsible for the delivery of the South Queensland Regional Infrastructure Plan and the design and the implementation of the Water Grid. Ross was Chief Executive Officer for Stanwell Corporation (one of Queensland's largest energy generation companies) from January 2002 to July 2005.

Ross is a member of the Board of Infrastructure Australia, a member of the National Board of Infrastructure Partnerships Australia and a Non-Executive Director of WDS Limited and the Thiess Group.

Ross holds a Bachelor of Arts (Honours) from the University of Queensland.

Mr P M Kinsey – Independent Non-Executive Director
Peter Kinsey joined AEG as a Non-Executive Director in 2006.

Peter has been a corporate lawyer for over 27 years in a number of major corporations. Peter has been involved in the negotiation of various types of commercial contracts including power and transportation projects in a number of countries, including Australia, New Zealand, the United States, Sweden, Japan, China, Thailand, Indonesia, Malaysia and India.

Peter was previously Regional Legal and Compliance Manager – South Asia for ABB Limited, and a Director of ABB Australia Pty Limited and ABB Limited (New Zealand). Prior to joining ABB Limited, Peter held positions as General Counsel at David's Holdings Pty Limited and Corporate Legal Manager of Alliance Holdings Limited.

Peter holds a Bachelor of Law (Sydney University), Graduate Diploma in Financial Management (University of New England) and a Master of Commerce (University of New South Wales).

Mr R H Keller – Independent Non-Executive Director
Rod Keller joined AEG as a Non-Executive Director in April 2010. Rod has had a distinguished career, principally in the energy and engineering sectors. He was Managing Director of GPU International Australia from 1995 to 1999, and was appointed CEO of GPU GasNet and GPU PowerNet in 1999. Rod has previously held management positions with Fletcher Construction Australia, the State Government of South Australia, Esso Australia, Woodside Petroleum and Santos.

Rod is currently Chairman of Norfolk Group Limited and OSD Limited, and was Chairman of the GasNet Australia Group from its listing in 2000 to its takeover in 2006. Until recently, he was a Non-Executive Director of Macquarie Communications Infrastructure Limited, Macquarie Communications Infrastructure Management Limited, National Electricity Code Administrator, and Dyno Nobel Limited.

Rod has a Bachelor of Engineering (Mechanical) (University of Sydney) and is a Fellow of the Institute of Engineers, Australia.

Mr J Fletcher – Independent Non-Executive Director
John Fletcher is currently a Director of APA Group and Sydney Water Corporation. His recent experience includes board positions with Foodland Associated Limited, Integral Energy and NGC Limited of New Zealand. He held a number of executive roles at The Australian Gas Light Company including that of CFO and has extensive experience of the energy industry. John has a Bachelor of Science and a Master of Business Administration. He is a Fellow of the Australian Institute of Company Directors.

John Fletcher resigned from the Board on 13 April 2010.

COMPANY SECRETARY
The Company Secretary of AEL during the year and up to the date of this Directors' Report was John Remedios. John is principally responsible for the company secretarial function and corporate governance requirements of the Alinta Energy Group. Prior to joining Alinta Energy, John was a Senior Legal Counsel for AMP Capital Investors and held various company secretarial positions including Company Secretary of AMP Life Limited and Assistant Company Secretary of AMP Limited. John holds Bachelor of Economics and Bachelor of Law (Hons) degrees from the University of Sydney and is a Member of the Law Society of New South Wales.

PRINCIPAL ACTIVITIES
The principal activity of AEG is the development, ownership and management of power generation assets, energy retail and related assets and activities.

DISTRIBUTIONS
The Company has not paid any distributions and does not expect to be in a position to do so for the foreseeable future.

REVIEW OF OPERATIONS

Resolution of business critical issues
During the year the Group resolved the following business critical issues and subsequent to 30 June 2010 reached an understanding with its lenders on a deleveraging proposal to secure the business's long-term future:

Alinta Finance Syndicated Loan Agreement – Restructure and deleveraging proposal
On 22 December 2009 a major subsidiary of the Group, Alinta Finance Australia Pty Ltd (**AFA**) signed an agreement to restructure its Syndicated Loan Agreement which enabled it to satisfy its short to medium-term financial obligations. Key features of the restructured loan terms included:

- provision of additional short-term facilities to finance immediate settlement obligations associated with the North West Shelf arbitration and settlement outcome;
- extension of the maturity dates of the primary tranches of debt to September 2012;
- restructured covenants which match the businesses' forecast performance;
- a cash sweep mechanism over agreed liquidity levels;
- the grant of a comprehensive security package to the Syndicated members; and
- obligations to pay certain amounts in limited circumstances where the business outperforms predefined benchmarks.

The restructure became effective on 22 January 2010. The AFA Syndicated Facility debt was reclassified as a non-current obligation from that point in time.

As part of the AFA Syndicated Facility debt restructure, the Group committed to present a deleveraging plan which was provided to the lenders prior to the due date of 20 April 2010. The plan identified several deleveraging alternatives including an equity markets solution, as well as whole of business and individual asset sales to trade bidders. The Group received a number of confidential bids for both the whole business and parts of the business in September 2010. Concurrently the Group worked with the members of the Syndicated Loan Agreement (the "Syndicate Lenders") on a debt for asset exchange settlement.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010

On 21 September 2010 the Group reached an understanding with the Syndicate Lenders to discharge all of the AFA Syndicated Facility debt owed to the Syndicate Lenders in exchange for the equity interests in its AFA subsidiaries. The proposed arrangements which are subject to credit approvals, court approval, documentation and Securityholder approval would see the Group's operating assets, with the exception of the Redbank and Oakey Power Stations, transferring to a new entity, wholly owned by the Syndicate Lenders. Under the proposal, Securityholders will also be asked to approve the destapling of the Alinta Energy Limited shares from the Alinta Energy Trust units, permit a Group subsidiary to acquire all Securityholders' Trust units for 10 cents per unit and agree to constitutional changes which will facilitate the future management of the remaining business.

North West Shelf settlement

On 21 January 2010, AEG signed a Deed of Settlement with the North West Shelf joint venture (**NWS**) members following an arbitrator's decision in respect to the NWS Price Dispute over a material gas contract.

As part of the negotiations, AEG agreed a future price path for gas purchased from the NWS, providing greater price and volume certainty in the medium term. As part of the negotiated settlement, AEG was also required to make a lump sum payment to the NWS.

Settlement of outstanding loan and accrued fees payable to Babcock & Brown

On 2 December 2009, AEG signed an agreement with Babcock & Brown International Pty Ltd and various related entities (**B&B**) to settle the outstanding loan and accrued fee obligations with a face value of approximately $453.3 million.

As part of the settlement arrangements AEG has:

- paid B&B a cash amount of $33.0 million;
- agreed to realise AEG's 50% interest in the Oakey Power Station with the proceeds from sale passing through to B&B; and
- issued 80,730,000 AEG securities to B&B. (Since sold by B&B).

Securityholder approval for this transaction was obtained at an Extraordinary General Meeting of Securityholders on 22 February 2010. Until the sale of its Oakey interest, AEG maintains a nominal liability to B&B of $70 million, to be settled entirely by the Oakey proceeds. The liability is without recourse to other AEG business. Both the Oakey interest and the liability are presented as "held for sale" items on the Group balance sheet.

Operating performance

Energy Markets

Energy Markets contributed $149.3 million EBITDA to 30 June 2010, not including the back payment resulting from the NWS arbitration settlement.

Energy Market assets are comprised mostly of the non-generation businesses including:

- gas sales to residential, commercial and large industrial customers;
- electricity sales to commercial and large industrial customers. These sales are underpinned by base load off-take from the Pinjarra asset and off-take from the Alinta Walkaway Windfarm;
- peak off-take units at Wagerup; and
- LPG business with Wesfarmers.

The settlement of the NWS gas price dispute has resulted in higher gas costs to AEG which has adversely impacted margins in the gas business. AEG, where possible, has sought to mitigate this margin impact by passing through the incremental higher costs to its counterparties. As part of this strategy AEG sought, and received, two residential gas tariff increases, which include 22.9% from 1 July 2009 and a further 7% increase from 1 April 2010. Residential customer demand has been marginally higher than the previous year. Demand from commercial and large industrial customers has been weaker in FY2010, largely as a result of global economic conditions.

The electricity business takes energy produced from the base load Pinjarra units and the Alinta Walkaway Wind Farm and then sells this to commercial and large industrial customers. The balance of any uncontracted energy is then sold into the Wholesale Energy Market (**WEM**). The WEM has experienced lower prices than expected in FY2010, resulting from excess generation in the Western Australian market, due to a combination of government sponsored low cost coal generation, new entrant plant and reduced demand from commercial and large industrial customers as a result of weaker economic conditions.

During the year Alinta Energy Markets Pty Ltd (**AEM**) was sold to Infigen for proceeds of approximately $6.0 million, plus working capital. AEM is contracted to supply energy to the Sydney Desalination Plant which is supported by a power purchase agreement to buy output from the Capital Wind Farm (owned by Infigen).

Generation

Generation assets contributed $206.0 million EBITDA to 30 June 2010.

The major contributors to this segment are Flinders, Braemar, Newman, Port Hedland and Redbank.

The Flinders asset has experienced two periods of significant outage in the 2010 financial year being: a delayed return to service (21 days spanning October and November) following a planned major overhaul of Northern unit; and a forced outage (39 days spanning May and June) resulting from the build up and solidification of ash.

Pool prices in South Australia were higher than expected in the 2010 year. This was predominantly driven by a record heatwave in November which resulted in prices reaching the market maximum price threshold for periods of time. A combination of plant availability issues and contract positions meant that the business could not take full advantage of higher prices during the heatwave.

The Braemar assets have operationally performed to expectations. Notwithstanding this, the Queensland pool price was significantly lower as a consequence of an oversupplied market (mostly new entrants) and demand weakness was experienced as a result of weaker economic conditions and mild temperatures. The implementation of a new tolling arrangement with Queensland Gas Corporation (**QGC**) has reduced the exposure to the lower pool price. The arrangement was signed on 11 February 2010 for an initial term until December 2013 with a further one year extension at QGC's option.

The Western Australian generation units at Newman and Port Hedland performed in line with expectations. The Newman expansion was completed in 2010 which provides an additional nominal 40MW using a Rolls Royce Trent machine. Experiences on maintenance costs were lower than expected.

The Redbank asset, situated in NSW Hunter Valley, experienced a number of performance issues which have been the subject of remedial actions to restore operating performance and reliability. AEG announced to the market on 11 February that a major comprehensive independent engineering review has been commissioned, with the aim of determining the most appropriate measures to rectify plant performance. The report is expected in September 2010.

Impairment

Included in the 2010 result is $669.9 million worth of impairment charges recognised against a number of assets. Valuations were impacted by an unfavourable gas price arbitration outcome in the Alinta West CGU where the increase was unable to be passed through in full, as well as protracted softer gas and electricity demand and a general oversupply of generation capacity in the West Australian and National Electricity Markets. Other impairments were the result of revised operating forecasts for the underlying cash generating units and from re-classifying the Cawse asset to "held for sale" prior to its disposal in August 2010. The carrying values of the Group's assets were assessed using the "value in use" approach as at 30 June 2010.

The Group reached an understanding with the Syndicated Lenders on 21 September 2010 to pursue a proposal to exchange the AFA Syndicated Facility debt obligation for the equity in the subsidiaries of Alinta Finance Australia Pty Ltd. If this proposal is realised it will result in the Group recognising a significant loss on disposal of those assets.

SIGNIFICANT CHANGES TO THE STATE OF AFFAIRS

During the year ended 30 June 2010 there were no significant changes to the state of the affairs of the Group other than those disclosed in the financial statements and notes thereof.

GOING CONCERN

During the year, AEG successfully completed negotiations in respect of several previously reported critical business issues including the settlement of its finance arrangements with B&B, settlement with the North West Shelf joint venture (**NWS**) in relation to the gas supply arbitration and a restructure of the Alinta Finance Syndicated Facility (**AFA Syndicated Facility**) (formerly referred to as "the BBPF Syndicated Facility"). The restructure of the AFA Syndicated Facility which took effect from 22 January 2010 enabled the Group to satisfy its short to medium-term financial obligations. The facility was reclassified from a current liability to a non-current liability from 22 January 2010. As part of that restructure, the Group undertook to present the lending group ("Syndicate Lenders") a deleveraging plan with the objective of strengthening its long-term capital structure and to ensure the viability of the Group's businesses.

On 21 September 2010, as part of the overall deleveraging process, the Directors of AEG reached an understanding with the Syndicate Lenders to discharge all of the AFA Syndicated Facility debt owed to the Syndicate Lenders by its primary financing subsidiary Alinta Finance Australia Pty Ltd (**AFA**) in exchange for the equity interests in its AFA subsidiaries. The proposed arrangements which are subject to Securityholder approval and final approval by respective credit committees would see the Group's operating assets, with the exception of the Redbank and Oakey Power Stations, transferring to a new entity wholly owned by the Syndicate Lenders. Under the proposal, Securityholders will also be asked to approve the destapling of the Alinta Energy Limited shares from the Alinta Energy Trust units, permit a Group subsidiary to acquire all Securityholders' Trust units for 10 cents per unit and agree to constitutional changes which will facilitate the future management of the remaining business. Following implementation of the proposal, Securityholders will continue to own their Alinta Energy Limited shares, which will have a continuing economic interest in the Redbank Power Station. However, no further distributions to Securityholders are expected if the proposal reaches financial close. The continuing group's 50% interest in the Oakey Power Station is currently held for the economic benefit of Babcock & Brown International Pty Ltd.

DIRECTORS' REPORT
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The Directors believe that the proposal is necessary and in the best interests of the Group, as under the existing financing arrangements, almost all available cash generated in the business after operating costs is absorbed by debt servicing. This situation does not allow for appropriate capital management of the business. In the absence of a deleveraging transaction the Directors believe that the Group would not be able to continue as a going concern.

The proposal is subject to credit approvals, court approval, documentation and Securityholder approval including an Independent Expert Report process that will assess and opine on whether the transaction is in Securityholders' best interests. The arrangements are expected to have been substantially completed by 31 March 2011. If the proposed transaction is not realised, it is likely that AEG would not be able to meet its financial obligations when they fall due. As such, in the absence of a finalised agreement, there exists significant uncertainty in regards to the Group's ability to continue as a going concern. In anticipation of the proposal receiving the required approvals, the Directors are of the opinion that the accounts are correctly prepared on the basis that the Group is a going concern. The Directors note that the proposal has the support in principle of the Group's major shareholders representing up to 25% of the securities on issue.

The Directors regularly monitor and review the debt facilities, debt profile, the business operations and forecast cash flows which take into account the assumptions including but not limited to the forward pricing of electricity, future gas tariffs, fuel supply costs and maintenance capital expenditure.

As the report has been prepared on a going concern basis, no adjustments have been made relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities as at 30 June 2010 that might have been necessary had AEG not been able to continue as a going concern. The carrying values of the operating assets to be transferred under the proposal were assessed for impairment purposes as at 30 June 2010 using a "value in use" approach. If the proposal is realised, it will result in the Group recognising a significant loss on disposal of those assets.

MATTERS SUBSEQUENT TO END OF THE FINANCIAL YEAR

Syndicate Lender deleveraging proposal

On 21 September 2010, AEG reached an understanding with the Syndicate Lenders to discharge all of the AFA Syndicated Facility debt owed to the Syndicate Lenders by its primary financing subsidiary Alinta Finance Australia Pty Ltd (**AFA**) in exchange for the equity interests in AFA's subsidiaries. The proposed arrangements which are subject to Securityholder approval would see the Group's operating assets, with the exception of the Redbank and Oakey Power Stations, transferring to a new entity, wholly owned by the Syndicate Lenders. Under the proposal, Securityholders will also be asked to approve the destapling of the Alinta Energy Limited shares from the Alinta Energy Trust units, permit a Group subsidiary to acquire all Securityholders' Trust units for 10 cents per unit and agree to constitutional changes which will facilitate the future management of the remaining business. Following implementation of the proposal, Securityholders will continue to own their Alinta Energy Limited shares, which will have a continuing economic interest in the Redbank Power Station. No further distributions are expected to be made from the continuing Group. The continuing Group's 50% interest in the Oakey Power Station is currently held for the economic benefit of Babcock & Brown International Pty Ltd.

Alinta EATM

On 24 August 2010, Alinta EATM Pty Ltd entered into an agreement with subsidiaries of Prime Infrastructure (**Prime**) which allows it to defer indefinitely, payment of its otherwise scheduled monthly instalments to Prime. The requirement to make monthly repayments would be reinstated if the Group conducts a significant recapitalisation. At that point, the Directors of Alinta EATM would seek parent support in respect of the outstanding obligations. The Directors of AEG will consider any such request at the time. As part of the agreement, AEG will pay Prime an amount of approximately $4.7 million upon the agreement becoming effective, reducing the balance of its financial obligation of $35.9 million. This agreement is subject to the approval of Prime's lenders.

Cawse settlement

On 10 August 2010, AEG agreed to sell the Cawse Power Station and associated infrastructure to Norilsk Nickel Cawse Pty Ltd (**Norilsk**) and to terminate the associated energy supply and ancillary agreements. The transaction realised proceeds of $17.5 million. In anticipation of the sale, the Group had classified its interest in Cawse as an asset held for sale as at 30 June 2010 with an impairment charge of $9.9 million, which limits the profit and loss impacts of the Cawse sale to the 30 June 2010 financial year.

FUTURE DEVELOPMENTS

AEG is working with the Syndicate Lenders to prepare the requisite material for creditor, court and Securityholder approvals for the Syndicate Lenders' deleveraging proposal. The Directors expect to hold an Extraordinary General Meeting of Securityholders following despatch of a Notice of Meeting, which will provide details on the transaction including an Independent Expert Report.

Further information on likely developments in the operations of the remaining Group will be included in the Extraordinary General Meeting's Notice of Meeting document.

REMUNERATION REPORT (AUDITED)

Executive and Director Remuneration report for the year to 30 June 2010

This report outlines the remuneration philosophy and framework currently applicable to AEG, in particular how this relates to AEG's Directors and senior Executives outlined below.

The information in this remuneration report has been audited in accordance with the requirements of section 308(3C) of the *Corporations Act 2001*.

REMUNERATION POLICY AND APPROACH

AEG aims to recruit, retain and reward the best available employees to meet the organisation's objectives. The Board and Executive recognise that AEG operates in a competitive environment, and that retaining the talents and experience of motivated, suitably qualified specialists is in the best interests of the business and its various stakeholders. As explained at the 2009 AGM, the pressures on the capital structure of the business have placed significant pressures on staff, resulting in high levels of churn. For this reason it has been necessary to put additional incentives in place to assist in retaining staff.

AEG has a formally constituted Nomination & Remuneration Committee ("the Committee") which is currently comprised by AEG's three independent Directors and chaired by Mr Peter Kinsey. The Committee is charged with responsibility for considering the composition of the AEG Boards and succession planning, as well as reviewing and making recommendations to the AEG Boards on the level of remuneration and performance of the Directors and senior Executives within the organisation. The Committee met eleven times during the 2010 financial year.

The 2010 financial year has been a year of major challenge for AEG. The business is dependent on the performance and ongoing commitment of its employees to address the significant challenges of stabilising its financial structure through a number of initiatives, and continued energy market and power generation operations. In these circumstances the AEG Boards' approach to Executive remuneration has been to provide a balance of fixed remuneration and retention focussed short-term incentives.

AEG EXECUTIVES

The Executives outlined in the report are considered to be the Key Management Personnel (**KMP**) of the AEG organisation. KMPs are those members of the senior management team with authority and responsibility for planning, directing and controlling the activities of the AEG Group.

The following persons were considered to be KMP for the year to 30 June 2010:

Name	
Mr Ross Rolfe	Chief Executive Officer
Mr Peter Brook	Chief Financial Officer
Mr Brian Green	Chief Operating Officer
Mr Len Chersky	Executive General Manager, Business Strategy & Performance (appointed 2 March 2010)
Mr Scott Turner	Executive General Manager, Energy Markets (appointed 1 September 2009)
Mr Zeki Akbas	General Manager, Alinta (appointed 10 August 2009, resigned 31 July 2010)
Mr Andrew Bills	General Manager, Commercial (resigned 30 November 2009)
Mr Andrew Kremor	General Manager, Energy Markets (resigned 31 August 2009)

Remuneration of the Executives for the 2010 financial year

Details of the nature and amount of each element of the emoluments of each Executive of AEG for the years ended 30 June 2010 and 2009 are set out in the table below.

		Short-term employee benefits				
Executives	Year	Salary (cash) $	Short-term incentive[5] $	Retention incentive $	Non-monetary benefits[2] $	Total of short-term employee benefits $
Mr Ross Rolfe[2]	**2010**	**976,250**	**565,644**	**94,957**	**–**	**1,636,851**
	2009	727,499	240,000	365,043	–	1,332,542
Mr Peter Brook[1,2]	**2010**	**470,000**	**218,535**	**239,371**	**–**	**927,906**
	2009	345,688	150,000	246,629	–	742,317
Mr Brian Green[1,2]	**2010**	**433,333**	**162,448**	**238,341**	**–**	**834,122**
	2009	430,000	46,000	240,659	–	716,659
Mr Len Chersky[1,2,3,4]	**2010**	**408,333**	**397,983**	**143,000**	**–**	**949,316**
	2009	–	–	–	–	–
Mr Scott Turner[1,2,4]	**2010**	**367,740**	**154,989**	**170,624**	**–**	**693,353**
	2009	–	–	–	–	–
Mr Tim Hunt-Smith[2,4]	**2010**	**206,833**	**271,231**	**–**	**–**	**478,064**
	2009	–	–	–	–	–
Mr Zeki Akbas[1,2,4]	**2010**	**444,841**	**–**	**220,000**	**–**	**664,841**
	2009	–	–	–	–	–
Mr Andrew Kremor[2]	**2010**	**77,508**	**–**	**14,399**	**–**	**91,907**
	2009	430,938	–	118,555	–	549,493
Mr Andrew Bills[2]	**2010**	**237,271**	**–**	**45,341**	**–**	**282,612**
	2009	413,750	60,000	240,659	–	714,409
Mr Victor Browner[7]	**2010**	**–**	**–**	**–**	**–**	**–**
	2009	269,725	–	81,343	–	351,068
Mr Paul Simshauser[8]	**2010**	**–**	**–**	**–**	**–**	**–**
	2009	165,308	–	–	–	165,308
Mr James Brown[8]	**2010**	**–**	**–**	**–**	**–**	**–**
	2009	137,500	–	–	–	137,500
Total remuneration	**2010**	**3,622,109**	**1,770,830**	**1,166,033**	**–**	**6,558,972**
for Executives	2009	2,920,408	496,000	1,292,888	–	4,709,296

1 These are the five Executives who received the highest emoluments in the 2010 financial year.

2 A number of Executives receive salary continuance insurance under an AEG Group policy. The insurance premium paid by AEG in respect of that policy relating to the period 28 February 2010 to 28 February 2011 has not been apportioned to individual Executives.

3 Mr Chersky received a one-off payment in recognition of his outstanding contribution to the achievement of key strategic initiatives of $150,000 which is included in the short-term incentive column.

4 These Executives do not have prior period remuneration disclosed because they were either not employed in the service of AEG or they were not considered KMPs in the previous year.

5 The 2009 balances include losses as a result of Executives forfeiting benefits previously available under the former employer Babcock & Brown sponsored equity settled share-based payment schemes, including Share Awards, Babcock & Brown Bonus Deferral Rights (**BDRs**) and performance-based Option schemes. Benefits were forfeited as a result of the cessation of employment relationships with Babcock & Brown Limited during 2009.

6 The 2009 balances include losses as a result of relevant Executives forfeiting benefits previously available under Babcock & Brown sponsored cash-settled share-based bonus deferral rights scheme. Benefits were forfeited as a result of the cessation of employment relationships with Babcock & Brown Limited during 2009.

7 Mr Browner was Acting General Manager of the Alinta West retail division in 2009. In 2010, his role reverted back to his original appointment with the Group, one which is not considered a KMP. Accordingly, his remuneration for 2010 has not been disclosed.

8 Mr Simshauser and Mr Brown both resigned on 28 August 2008. They were not employed by AEG in the 2010 financial year.

9 Certain comparatives have been amended to reflect the remuneration of KMPs in the respective period.

Post-employment benefits	Termination benefits	Other long-term employee benefits		Share-based payments		Total
Superannuation $	Severance payments $	Long-term incentive payment $	Long service leave liability $	Equity settled[5] $	Cash settled[6] $	$
14,461	**–**	**286,769**	**8,852**	**–**	**–**	**1,946,933**
13,744	–	160,000	14,632	(57,705)	–	1,463,213
14,461	**–**	**134,406**	**1,765**	**–**	**–**	**1,078,538**
10,309	–	–	4,082	–	–	756,708
14,461	**–**	**128,687**	**7,265**	**–**	**–**	**984,535**
13,744	–	–	11,174	(44,660)	(3,629)	693,288
14,461	**–**	**48,257**	**19,997**	**–**	**–**	**1,032,031**
–	–	–	–	–	–	–
12,051	**–**	**80,429**	**3,597**	**–**	**–**	**789,430**
–	–	–	–	–	–	–
10,846	**–**	**51,035**	**–**			**539,945**
–	–	–	–			–
15,952	**–**	**–**	**6,147**	**–**	**–**	**686,940**
–	–	–	–	–	–	–
2,410	**–**	**–**	**–**	**–**	**–**	**94,317**
13,744	–	–	9,019	(27,149)	(2,411)	542,696
6,026	**–**	**–**	**–**	**–**	**–**	**288,638**
15,821	–	–	9,302	–	–	739,532
–	**–**	**–**	**–**	**–**	**–**	**–**
45,176	–	–	19,300	–	–	415,544
–	**–**	**–**	**–**	**–**	**–**	**–**
6,872	15,138	–	–	(151,192)	(13,183)	22,943
–	**–**	**–**	**–**	**–**	**–**	**–**
6,872	391,477	–	–	(57,598)	(2,928)	475,323
105,129	**–**	**729,583**	**47,623**	**–**	**–**	**7,441,307**
126,282	406,615	160,000	67,509	(338,304)	(22,151)	5,109,247

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010

Executive employment contracts

The base salaries for Executives as at 30 June 2010, in accordance with their employment contract, are shown below:

Executives	Base Remuneration per Service Agreement ($)
Mr Ross Rolfe	$1,035,000
Mr Peter Brook	$470,000
Mr Brian Green	$450,000
Mr Len Chersky	$450,000
Mr Scott Turner	$450,000
Mr Zeki Akbas	$450,000

The employment contract of Mr Ross Rolfe, contains the conditions below:

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Short-term incentive	• Eligible for a maximum annual short-term incentive up to 60% of base salary.
Long-term incentive	• Eligible for maximum long-term incentive up to 40% of base salary to be delivered in cash, securities or equivalent benefits as determined by the Board in its sole discretion.
Other benefits*	• Eligible to participate in any other benefit plans that are established and made generally available to employees from time-to-time in accordance with the rules of the plans.
Termination of employment	• May be terminated by AEG with 12 months' written notice or by Mr Rolfe providing six months' written notice.

The employment contract of Mr Peter Brook contains the conditions below:

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Short-term incentive	• Eligible to receive a maximum annual short-term incentive, up to 60% of base salary.
Long-term incentive	• Eligible to receive a maximum long-term incentive, up to 40% of base salary to be delivered in cash, securities or equivalent benefits as determined by the Board in its sole discretion.
Other benefits*	• Eligible to participate in any other benefit plans that are established and made generally available to employees from time-to-time in accordance with the rules of the plans.
Termination of employment	• May be terminated by AEG with nine months' written notice or by Mr Brook providing three months written notice.

The employment contract of Mr Brian Green contains the conditions below:

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Short-term incentive	• Eligible to receive a maximum annual short-term incentive, up to 65% of base salary.
Long-term incentive	• Eligible to receive a maximum long-term incentive, up to 40% of base salary to be delivered in cash, securities or equivalent benefits as determined by the Board in its sole discretion.
Other benefits*	• Eligible to participate in any other benefit plans that are established and made generally available to employees from time-to-time in accordance with the rules of the plans.
Termination of employment	• May be terminated by AEG with six months' written notice or by Mr Green providing six months' written notice.

The employment contract of Mr Len Chersky contains the conditions below:

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Short-term incentive	• Entitled to receive a maximum annual short-term incentive, up to 80% of base salary and is eligible for discretionary bonuses payable upon the achievement of significant business milestones.
Long-term incentive	• Eligible to receive a maximum long-term incentive, up to 15% of base salary to be delivered in cash, securities or equivalent benefits as determined by the Board in its sole discretion.
Other benefits*	• Eligible to participate in any other benefit plans that are established and made generally available to employees from time-to-time in accordance with the rules of the plans.
Termination of employment	• May be terminated by AEG with one month's written notice or by Mr Chersky providing one month's written notice.

The employment contract of Mr Scott Turner contains the conditions below:

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Short-term incentive	• Eligible to receive a maximum annual short-term incentive, up to 50% of base salary.
Long-term incentive	• Invitation accepted to participate in the FY2010 scheme. Eligible to receive a maximum long-term incentive up to 25% of base salary to be delivered in cash, securities or equivalent benefits as determined by the Board in its sole discretion.
Other benefits*	• Eligible to participate in any other benefit plans that are established and made generally available to employees from time-to-time in accordance with the rules of the plans.
Termination of employment	• May be terminated by AEG with three months written notice or by Mr Turner providing three months' written notice.

The employment contract of Mr Zeki Akbas contains the conditions below:

Length of contract	• Maximum term contract – 28 May 2009 to 30 July 2011
Frequency of base remuneration review	• Annual
Short-term incentive	• Eligible to receive a maximum annual short-term incentive, up to 50% of base salary, as determined by the Board in its sole discretion.
Long-term incentive	• Not applicable
Other benefits*	• Eligible to participate in any other benefit plans that are established and made generally available to employees from time-to-time in accordance with the rules of the plans.
Termination of employment	• May be terminated by AEG with three months' written notice or by Mr Akbas providing three months' written notice. • Note: Mr Akbas has resigned from the employment of AEG. His arrangements ended on 31 July 2010.

* Retention scheme: Current Executives in this report are identified as critical to the ongoing management and operation of AEG and have retention arrangements in place that fall due for payment during the 2011 financial year.

Independent Directors

The following persons were Independent Directors of AEG during the financial year:

Name	
Mr L F Gill (Independent Chairman)	appointed 29 October 2006, appointed chairman on 1 July 2008
Mr P M Kinsey (Independent Non-Executive Director)	appointed 29 October 2006
Mr R H Keller (Independent Non-Executive Director)	appointed 27 April 2010
Mr J Fletcher (Independent Non-Executive Director)	appointed 29 October 2006, resigned 13 April 2010

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010

Remuneration Policy and Structure

Non-Executive Directors' individual fees, including committee fees, are reviewed by the Nomination & Remuneration Committee and then made the subject of a recommendation to the AEG Board for approval. Fees paid to the Non-Executive Directors must fall within the shareholder approved aggregate fee pool. The current maximum aggregate amount which may be paid to all Non-Executive Directors is $750,000 per annum.

The Independent Directors receive a cash fee for service. They do not receive any performance-based remuneration or any retirement benefits, other than receiving statutory superannuation.

It is noted that the Independent Directors initiated and accepted a voluntary reduction to their Directors' fees during the 2009 financial year. These fees were restored to their previous level during the 2010 financial year (with effect from 1 May 2010) so as to coincide with the change in composition of the AEG Board. Furthermore, to reflect the significant additional workload placed on the Independent Directors as a consequence of the deleveraging process, the Independent Directors are currently eligible to receive (and have received) some additional "per diem" payments which are based on the number of additional meetings prepared for and attended in a particular month. External advice was sought and received in regard to the appropriateness and quantum of the per diem allowance. This per diem arrangement is temporary in nature in that it will only apply during the deleveraging process. The aggregate amount payable to the Independent Directors (being the base Directors' fees, superannuation and the per diem payments) will not exceed the shareholder approved Directors' fee pool.

Fees paid to the Independent Directors are in respect of their services provided to AEL and Alinta Energy Services Limited (**AES**), the Responsible Entity of the Alinta Energy Trust.

Fees payable to Independent Directors during the year ended 30 June 2010 are set out below:

Board or Committee	Role	Fee
Board	Independent Chair	$250,000
	Member	$125,000
Audit & Risk Management Committee	Chair	$13,000
	Member	$6,500
Nomination & Remuneration Committee	Chair	$4,000
	Member	$2,000

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year ended 30 June 2010, and the number of meetings attended by each Director, are as follows:

Board or Committee	AEL Board Meetings		AES Board Meetings		Audit, Risk & Compliance Committee Meetings for AEL and AES		Nomination & Remuneration Committee Meetings for AEL		Energy Trading & Risk Management Committee Meetings for AEL[1]		Additional Committee Meetings[2]	
Held/Attended	H	A	H	A	H	A	H	A	H	A	H	A
Len Gill	71	71	73	73	10	10	11	11	16	16	2	2
John Fletcher	59	54	61	56	8	8	9	9	–	–	3	3
Rod Keller	10	10	10	10	2	2	1	1	–	–	–	–
Peter Kinsey	71	70	–	–	10	10	11	11	–	–	2	2
Ross Rolfe	71	67[3]	73	69[3]	–	–	–	–	16	10	3	3

Columns H – indicate the number of meetings held while the relevant Director was a member of the Board/Committee

Columns A – indicate the number of those meetings attended by that Director

(1) The Energy Trading & Risk Management Committee is a committee comprising both members of the Board and of AEG senior management. Directors do not receive any additional remuneration for their attendance and participation in this Committee.

(2) Additional Committees of the Board were constituted during the year in relation to the financial results or were separate meetings of the Independent Directors.

(3) The four Board meetings not attended by Mr Rolfe dealt exclusively with Mr Rolfe's remuneration arrangements. Having regard to the subject matter of these meetings, the Board determined that Mr Rolfe not be present for the consideration and approval of his remuneration arrangements.

Remuneration of Non-Executive Directors for the years ended 30 June 2010 and 30 June 2009

Details of the nature and amount of each element of the emoluments of each Non-Executive Director of AEG for the years ended 30 June 2010 and 30 June 2009 are set out in the table below.

	Year	Short-term employee benefits Fees	Post-employment benefits Superannuation	Total
Independent Non-Executive Directors				
Mr L F Gill (Chairman)	**2010**	**217,250**	**14,461**	**231,711**
	2009	224,534	13,745	238,279
Mr P M Kinsey	**2010**	**132,792**	**11,951**	**144,743**
	2009	134,371	12,093	146,464
Mr R H Keller (from 27 April 2010)	**2010**	**29,750**	**2,678**	**32,428**
	2009	–	–	–
Mr J A Fletcher (until 13 April 2010)	**2010**	**98,795**	**9,450**	**108,245**
	2009	138,833	12,495	151,328
Total remuneration for Non-Executive Directors	**2010**	**478,587**	**38,540**	**517,127**
	2009	497,738	38,333	536,071

Indemnification of officers and auditors
AEG has agreed to indemnify each Director, alternate and officer on a full indemnity basis against all losses and liabilities incurred in their role as a Director, alternate or officer (including for legal costs incurred in preparing for, conducting or defending legal actions). This indemnity is subject to certain exclusions, including to the extent that such indemnity is prohibited by the *Corporations Act 2001* or any other law, or to the extent that the loss or liability is covered by insurance. AEG has not been advised of any claims under any of the abovementioned indemnities.

The terms of engagement of AEG's external auditor includes an indemnity in favour of the external auditor. This indemnity is in accordance with PricewaterhouseCoopers' standard Terms of Business and is conditional upon PricewaterhouseCoopers acting as external auditor. AEG has not otherwise indemnified or agreed to indemnify the external auditors of AEG at any time during the financial year.

During the financial year, AEG has paid insurance premiums for a Directors' and officers' liability insurance contract that provides cover for current and former Directors, secretaries and Executive officers of AEG, its controlled entities and Alinta Energy Services Limited (the Responsible Entity of the Alinta Energy Trust). The Directors have not included details of the nature or limit of the liabilities covered in this Directors' and officers' liability insurance contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

Proceedings on behalf of the Company
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Environmental regulation
AEG is subject to environmental regulations under both Commonwealth and State legislation including the reporting requirements of both the *Energy Efficiency Opportunities Act 2006* (AEG is covered by the current exemption for generators under the *EEO ACT 2006*, which applies until 30 June 2013 or unless amended/extended prior to that date) and the *National Greenhouse and Energy Reporting Act 2007*. The Directors are satisfied that AEG has adequate systems in place for the management of its environmental responsibilities and compliance under its various licence requirements and regulations. The Directors are not aware of any material breaches of these environmental requirements as they apply to AEG, and to the best of their knowledge and enquiries, all activities have been undertaken in compliance with environmental regulations.

Carbon dioxide reduction initiatives
Neither the Australian Labor Party nor the Liberal/National Party Coalition have announced plans for a carbon scheme. Nonetheless the potential for introduction of a carbon scheme remains a real possibility over the medium term. The form by which the price would be both established and paid could vary including one of an emissions trading system (such as a cap and trade system) or a tax on carbon dioxide emissions.

DIRECTORS’ REPORT
FOR THE YEAR ENDED 30 JUNE 2010

Whatever the form, establishing a carbon scheme would likely decrease the competitiveness of coal-fired plants and increase the competitiveness of gas-fired plants, and may, depending on final substance and form, adversely affect the Group’s business. Specifically and without limitation:

- the value of its assets and potential impairment charges;
- cost and revenue structure;
- capital requirements;
- profitability;
- capacity to service or refinance its debt and its capacity to pay distributions; and
- increased working capital requirements for the acquisition of carbon credits.

Auditor
PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

Non-audit services
The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor’s expertise and experience with the Group is important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit, Risk and Compliance Committee (**ARCC**), is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the ARCC to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of *Ethics for Professional Accountants*.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms.

	2010 $	2009 $
Transaction Support Services		
PricewaterhouseCoopers Australian firm:		
Due diligence services	2,441,000	977,000
Audit of regulatory returns and accounting advice	34,000	68,000
Total remuneration for other assurance services	**2,475,000**	**1,045,000**
Other services		
PricewaterhouseCoopers Australian firm:		
Legal services	54,000	2,015,000
Total remuneration for other services	**54,000**	**2,015,000**
Total remuneration for non-audit services	**2,529,000**	**3,060,000**

Auditors independence declaration
The auditor’s independence declaration is included on page 45 and forms a part of the Director’s report.

Rounding off of amounts
The Company is of a kind referred in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the “rounding off” of amounts in the Directors’ Report and Financial Report. Amounts in the Directors’ Report and the Financial Report are rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

L. F. Gill

Mr L F Gill
Director

Dated at Sydney this 27th day of September 2010.

AUDITOR'S INDEPENDENCE DECLARATION

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
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Auditor's Independence Declaration

As lead auditor for the audit of Alinta Energy Limited (formerly Babcock & Brown Power Limited) for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Alinta Energy Limited (formerly Babcock & Brown Power Limited) and the entities it controlled during the period.

Marc Upcroft
Partner
PricewaterhouseCoopers

Sydney
27 September 2010

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $'000	2009 $'000
Revenue	7	1,427,603	1,534,177
Other income	7	374,953	148,681
Net gain on disposal of business	34	21,937	94,117
Financing income	7	13,690	28,873
Total income		**1,838,183**	**1,805,848**
Operating expenses	7	(1,261,445)	(1,355,328)
Depreciation and amortisation expense	7	(174,833)	(176,613)
Finance costs	7	(231,362)	(385,522)
Share of profits of associates accounted for using the equity method	15	1,408	(559)
Management charges	7	(259)	(5,134)
Fair value (loss)/gain on derivatives	7	(72,828)	(68,905)
Transition costs	7	(2,553)	(617)
Impairment losses	7	(669,870)	(56,700)
Total expense from ordinary activities		**(2,411,742)**	**(2,049,378)**
Loss before income tax		**(573,559)**	**(243,530)**
Income tax benefit/(expense)	8	(3,834)	74,597
Loss for the year		**(577,393)**	**(168,933)**
Loss attributable to stapled securityholders as:			
Equity holders of the Company – AEL		(572,036)	(166,926)
Equity holders of the Trust – AET (Minority interest)		(5,474)	(755)
		(577,510)	(167,681)
Subsidiary company minority interests		117	(1,252)
		(577,393)	**(168,933)**
Other comprehensive income			
Movement in cash flow hedge reserve, net of tax		55,600	(193,559)
Actuarial loss on retirement benefit obligations, net of tax		(5,289)	(24,345)
Other reserve movements, net of tax		653	2,085
Other comprehensive income		1,889	(4,077)
Other comprehensive income for the year, net of tax		**52,853**	**(219,896)**
Total comprehensive income for the year		**(524,540)**	**(388,829)**
Loss and other comprehensive income deficit attributable to stapled securityholders are as follows:			
Equity holders of the Company – AEL		(519,183)	(386,822)
Equity holders of the Trust – AET (non-controlling interest)		(5,474)	(755)
Subsidiary company non-controlling interests		117	(1,252)
		(524,540)	**(388,829)**

		Cents	Cents
Earnings per share of the parent based on earnings attributable to the equity holders of the parent			
Basic earnings per share	9	(76.57)	(23.09)
Diluted earnings per share	9	(76.57)	(23.09)

The above statements of comprehensive income should be read in conjunction with the accompanying notes included in pages 51 to 112.

CONSOLIDATED BALANCE SHEETS
AS AT 30 JUNE 2010

	Note	2010 $'000	2009 $'000
Current assets			
Cash and cash equivalents	28	105,085	185,316
Trade and other receivables	11	222,678	227,103
Derivative financial instruments	6	67,205	18,439
Inventories	12	42,004	38,724
Other assets	13	36,992	34,125
		473,964	503,707
Assets classified as held for sale	14	71,516	–
Total current assets		**545,480**	**503,707**
Non-current assets			
Cash and cash equivalents	28	–	54,499
Trade and other receivables	11	61,822	86,925
Investments accounted for using the equity method	15	–	46,550
Derivative financial instruments	6	67,078	99,996
Property, plant and equipment	16	2,156,417	2,144,808
Intangibles	17	1,298,043	1,998,000
Deferred tax assets	8	128,538	223,803
Other assets	13	20,219	22,424
Total non-current assets		**3,732,117**	**4,677,005**
Total assets		**4,277,597**	**5,180,712**
Current liabilities			
Trade and other payables	18	201,907	252,755
Current tax payables	8	626	(366)
Derivative financial instruments	6	5,507	127,887
Borrowings	21	20,621	2,956,270
Employee benefits	20	26,589	22,947
Provisions	19	28,965	100,361
		284,215	3,459,854
Liabilities directly associated with assets held for sale	14	80,735	–
Total current liabilities		**364,950**	**3,459,854**
Non-current liabilities			
Borrowings	21	2,901,662	271,502
Deferred tax liabilities	8	142,671	207,809
Derivative financial instruments	6	132,471	8,950
Other payables	18	516	10,165
Employee benefits	20	49,842	47,896
Provisions	19	255,788	223,703
Total non-current liabilities		**3,482,950**	**770,025**
Total liabilities		**3,847,900**	**4,229,879**
Net assets		**429,697**	**950,833**

The above balance sheets should be read in conjunction with the accompanying notes included in pages 51 to 112.

CONSOLIDATED BALANCE SHEETS
AS AT 30 JUNE 2010

	Note	2010 $'000	2009 $'000
Equity holders of the Company – AEL			
Contributed equity	24	656,224	656,218
Reserves	25	(72,879)	(123,586)
Accumulated losses	26	(1,274,356)	(698,921)
		(691,011)	**(166,289)**
Equity holders of the Trust – AET (Minority interest)			
Contributed equity	24	1,122,137	1,115,713
Retained profits/(accumulated losses)	26	(1,429)	4,046
		1,120,708	**1,119,759**
Total equity holding of stapled Securityholders – AEG		429,697	953,470
Subsidiary company minority interests		–	(2,637)
Total equity		**429,697**	**950,833**

The above balance sheets should be read in conjunction with the accompanying notes included in pages 51 to 112.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity attributable to stapled security holders $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2008	**1,771,931**	**67,887**	**(498,772)**	**1,341,046**	**54,207**	**1,395,253**
Total comprehensive income for the year	**–**	**(191,474)**	**(196,103)**	**(387,577)**	**(1,252)**	**(388,829)**
Transactions with owners in their capacity as owners:						
Disposal of non-controlling interest	–	–	–	–	(55,592)	(55,592)
Total transactions with owners in their capacity as owners	**–**	**–**	**–**	**–**	**(55,592)**	**(55,592)**
Balance at 30 June 2009	**1,771,931**	**(123,587)**	**(694,875)**	**953,470**	**(2,637)**	**950,833**

	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity attributable to stapled security holders $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2009	**1,771,931**	**(123,587)**	**(694,875)**	**953,470**	**(2,637)**	**950,833**
Total comprehensive income for the year	**–**	**56,253**	**(580,910)**	**(524,657)**	**117**	**(524,540)**
Transactions with owners in their capacity as owners:						
Shares issued	6,430	–	–	6,430	–	6,430
Acquisition of non-controlling interest	–	(5,545)	–	(5,545)	2,519	(3,026)
Total transactions with owners in their capacity as owners	**6,430**	**(5,545)**	**–**	**885**	**2,519**	**3,404**
Balance at 30 June 2010	**1,778,361**	**(72,879)**	**(1,275,785)**	**429,697**	**–**	**429,697**

The above statements of changes in equity should be read in conjunction with the accompanying notes included in pages 51 to 112.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,583,487	1,621,285
Payments to suppliers and employees (inclusive of GST)		(1,553,320)	(1,398,080)
Interest received		6,568	27,853
Interest and other costs of finance paid		(173,509)	(236,961)
Dividends received		2,671	2,583
Income/withholding tax (paid)/received		(627)	(9,007)
Net cash (outflow)/inflow from operating activities	28	**(134,730)**	**7,673**
Cash flows from investing activities			
Payment for property, plant and equipment		(92,313)	(236,360)
Proceeds from sale of property, plant and equipment		7	–
Payment for purchase of subsidiaries (net of cash acquired from subsidiaries, inclusive of GST on transaction costs)	34	(2,735)	–
Proceeds from sale of subsidiaries (net of cash and cash equivalents disposed of)		18,533	355,872
Net cash (outflow)/inflow from investing activities		**(76,508)**	**119,512**
Cash flows from financing activities			
Proceeds from borrowings		142,691	339,581
Repayment of borrowings		(54,272)	(637,415)
Loans from/repaid by related party		–	112
Loan establishment costs		(11,859)	(19,302)
Net cash inflow/(outflow) from financing activities		**76,560**	**(317,024)**
Net decrease in cash and cash equivalents		**(134,678)**	**(189,839)**
Cash and cash equivalents at the beginning of the year		239,815	429,928
Effect of exchange rate changes on cash and cash equivalents		(52)	(274)
Cash and cash equivalents at the end of the year	28	**105,085**	**239,815**

Non-cash financing and investing activities are reflected in Note 28 (d)

The above statements of cash flows should be read in conjunction with the accompanying notes included in pages 51 to 112.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

1. CORPORATE INFORMATION

The financial statements of the Alinta Energy Group for the year ended 30 June 2010 were authorised in accordance with a resolution of Directors on 27 September 2010.

The shares of Alinta Energy Limited (**AEL** or the **Company**) and the units in Alinta Energy Trust (**AET** or the **Trust**) are combined and issued as stapled securities in the Alinta Energy Group (**AEG** or the **Group**, formerly Babcock & Brown Power) which are traded on the Australian Securities Exchange. The shares in the Company and the units of the Trust cannot be traded separately and can only be traded as stapled securities.

The shares in the Company and the units of the Trust will remain until the earlier of the Company ceasing to exist or being wound up, or the Trust being dissolved in accordance with the provisions of the Trust Constitution.

These AEG financial statements consist of the consolidated financial statements of Alinta Energy Limited and its controlled entities and the Alinta Energy Trust.

The nature of operations and principal activities of the Group are described in the Directors' Report.

2. SUMMARY OF ACCOUNTING POLICIES

The principal accounting policies adopted in the presentation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Alinta Energy Limited and its subsidiaries.

(a) Basis of preparation

These general purpose consolidated financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The consolidated financial statements have also been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value.

The consolidated financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

Going concern

During the year, AEG successfully completed negotiations in respect of several previously reported critical business issues including the settlement of its finance arrangements with B&B, settlement with the North West Shelf joint venture (**NWS**) in relation to the gas supply arbitration and a restructure of the Alinta Finance Syndicated Facility (**AFA Syndicated Facility**) (formerly referred to as the **BBPF Syndicated Facility**). The restructure of the AFA Syndicated Facility, which took effect from 22 January 2010, enabled the Group to satisfy its short to medium-term financial obligations. The facility was reclassified from a current liability to a non-current liability from 22 January 2010. As part of that restructure, the Group undertook to present the lending group (**Syndicate Lenders**) a deleveraging plan with the objective of strengthening its long-term capital structure and to ensure the viability of the Group's businesses.

On 21 September 2010, as part of the overall deleveraging process, the Directors of AEG reached an understanding with the Syndicate Lenders to discharge all of the AFA Syndicated Facility debt owed to the Syndicate Lenders by its primary financing subsidiary Alinta Finance Australia Pty Ltd (**AFA**) in exchange for the equity interests in its AFA subsidiaries. The proposed arrangements which are subject to Securityholder approval and final approval by respective credit committees would see the Group's operating assets with the exception of the Redbank and Oakey Power Stations transferring to a new entity wholly owned by the Syndicate Lenders. Under the proposal, Securityholders will also be asked to approve the destapling of the Alinta Energy Limited shares from the Alinta Energy Trust units, permit a Group subsidiary to acquire all Securityholders' Trust units for 10 cents per unit and agree to constitutional changes which will facilitate the future management of the remaining business. Following implementation of the proposal, Securityholders will continue to own their Alinta Energy Limited shares, which will have a continuing economic interest in the Redbank Power Station. However, no further distributions to Securityholders are expected if the proposal reaches financial close. The continuing Group's 50% interest in the Oakey Power Station is currently held for the economic benefit of Babcock & Brown International Pty Ltd.

The Directors believe that the proposal is necessary and in the best interests of the Group, as under the existing financing arrangements, almost all available cash generated in the business after operating costs is absorbed by debt servicing. This situation does not allow for appropriate capital management of the business. In the absence of a deleveraging transaction the Directors believe that the Group would not be able to continue as a going concern.

The proposal is subject to credit approvals, court approval, documentation and Securityholder approval including an Independent Expert Report process that will assess and opine on whether the transaction is in Securityholders' best interests. The arrangements are expected to have been substantially completed by 31 March 2011. If the proposed transaction is not realised, it is likely that AEG would not be able to meet its financial obligations when they fall due. As such, in the absence of a finalised agreement, there exists significant uncertainty in regards to the Group's ability to continue as a going concern. In anticipation of the proposal receiving the required approvals, the Directors are of the opinion that the accounts are correctly prepared on the basis that the Group is a going concern. The Directors note that the proposal has the support in principle of the Group's major shareholders, representing up to 25% of the securities on issue.

The Directors regularly monitor and review the debt facilities, debt profile, the business operations and forecast cash flows, which take into account the assumptions including but not limited to the forward pricing of electricity, future gas tariffs, fuel supply costs and maintenance capital expenditure.

As the report has been prepared on a going concern basis, no adjustments have been made relating to the recoverability and classification of the asset carrying amounts or the amounts, and classification of liabilities as at 30 June 2010 that might have been necessary had AEG not been able to continue as a going concern. The carrying values of the operating assets to be transferred under the proposal were assessed for impairment purposes as at 30 June 2010 using a "value in use" approach. If the proposal is realised it will result in the Group recognising a significant loss on disposal of those assets.

Compliance with IFRS

The consolidated financial statements of Alinta Energy Limited comply with Australian Accounting Standards and International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

Stapled entity consolidation

The revised AASB 3 *Business Combinations* accounting standard, effective 1 July 2009 (supersedes AASB 1002 *Post-Date-Transaction Stapling Arrangements*) however, continues the requirements in AASB 1002 to identify one of the stapled entities of an existing stapled structure as the parent entity for the purpose of preparing consolidated financial statements. In accordance with this requirement, Alinta Energy Limited is identified as the parent entity of the consolidated Group comprising Alinta Energy Limited and its controlled entities and Alinta Energy Trust.

Consolidated financial statements have been prepared by Alinta Energy Limited with the interests of the unitholders in Alinta Energy Trust being treated as non-controlling interests. As there is no ownership interests between the Company and the Trust, no goodwill arises on consolidation of the entities.

Parent entity disclosure

The financial information for the parent entity, Alinta Energy Limited, disclosed in Note 38 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Tax consolidation legislation

AEL and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. Due to the requirements of project debt facilities, and the past existence of minority interests, there are two other tax groups within the overall AEG Group structure in addition to the AEL tax consolidation group.

The head entity and the controlled entities in the respective tax consolidated groups continue to account for their own current and deferred tax amounts. These tax amounts are initially measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

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

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(ii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It requires management to exercise its judgment in the process of applying accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Certain areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, include estimates in respect of recognition of deferred tax assets (Note 8), impairment testing of goodwill and non-current assets (Note 17), valuation of defined benefit obligations (Note 20), valuation of site restoration provisions (Note 19), valuation of electricity derivatives (Note 6), valuation of provision for onerous contract losses (Note 19) and the fair value of loans for Alinta Energy Limited (Note 38).

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Critical accounting estimates and judgments (continued)
In the case of AEL's inter-company loans receivable from, and investment in, Alinta Holdings Pty Ltd (**AEH**) which has a combined carrying amount of $75 million, significant judgment has been applied in order to derive a value for its recoverability, which included an impairment charge of $749.6 million (2009: $791 million), based on various assumptions about the available equity within the AEH Group.

The assumptions used in calculating the above estimates are disclosed in the relevant accounting policies and notes to the financial statements. The actual results may differ from these estimates.

(b) Principles of consolidation

Subsidiaries
The consolidated financial statements are those of the consolidated entity, comprising Alinta Energy Limited (the **Company** or **parent entity**) including all subsidiaries that Alinta Energy Limited controlled from time-to-time during the period and at the reporting date and Alinta Energy Trust. Alinta Energy Limited, its subsidiaries and Alinta Energy Trust together are referred to in these financial statements as the Group or consolidated entity.

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

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

Where an entity either began or ceased to be controlled during the financial period, the results are included only from the date control commenced or up to the date control ceased.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Associates
Associates are all entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. The Group's investment in associates includes goodwill (net of any impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the consolidated financial statements by reducing the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary, to ensure consistency with the policies adopted by the Group.

Changes in ownership interest
The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to the non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to the owners of the Group.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised as a profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If ownership interest in a jointly controlled entity or an associate is reduced, but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Changes in accounting policy
The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

Previously, transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss, and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the Group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date of control, joint control or significant influence ceased and became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

(c) Business combinations

Subsequent to 1 July 2009
Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination will be measured at fair value, which will be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to the former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions at the acquisition date. This includes the separation of embedded derivatives from the host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through the profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with AASB 139, either in profit and loss or in other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

Prior to 1 July 2009
Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for in separate steps. Any additional interest in the acquiree acquired did not affect previously recognised goodwill. The goodwill amounts calculated at each step acquisition were accumulated. When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition, unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract. Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were adjusted against goodwill.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(d) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

The operating segments have been identified based on the information provided to the chief operating decision maker, being the Chief Executive Officer (the **CEO**).

Operating segments that meet the quantitative criteria as prescribed by AASB 8 *Operating Segments* are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to the users of the financial statements.

(e) Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

Transactions and monetary assets and liabilities

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

Group companies

The results and financial position of all Group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date on that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

(f) Rounding

The Company is of a kind referred to in Class order 98/0100, 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 Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(g) Cash and cash equivalents

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

Cash assets are stated at nominal values. Any bank overdrafts are shown within borrowings in the current liabilities section on the balance sheet and are carried at nominal values. Interest on bank overdrafts is recognised as an expense as it occurs.

Cash that is reserved and its use specifically restricted for maintenance and/or debt servicing under the Group's borrowing agreements is defined as restricted cash. Restricted cash is shown in the balance sheet according to the timing of its release. Accordingly cash that cannot be applied or is not expected to be used by virtue of such restrictions within the next 12 months is shown as a non-current asset. All other cash and cash equivalents are shown as current assets.

(h) Trade receivables

All trade debtors are recognised initially at fair value, less any subsequent provision for doubtful debts. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible, are written off. A provision for doubtful debts (allowance account) is established when there is objective evidence of impairment. Financial difficulties of the debtor, default payments or debtors over 90 days overdue are considered objective evidence of impairment. The amount of the provision 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 from short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the provision is recognised in the income statement within other expenses. When a trade receivable, for which a provision has been recognised, becomes uncollectible in a subsequent period, it is written off. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(i) Inventories

Inventories are valued at the lower of cost and net realisable value. Where inventory is sold in the ordinary course of business net realisable value is the estimated selling price, less the estimated cost of completion and selling expenses.

Cost is measured in the following manner, depending on the nature of inventory:

Coal from production

Coal stocks which are produced are valued using unit cost of production and include direct material, labour, transportation costs and other fixed and variable overhead costs directly related to production.

Purchased fuel

Purchased fuel is valued at cost using the First In First Out (**FIFO**) method.

Gas

Take or pay prepaid gas is stated at the lower of cost and net realisable value. Cost comprises payments made under contract for quantities of gas which have been received. Costs are accounted for on a FIFO basis. Amounts paid for gas which have not been received at balance date are accounted for as prepayments. Prepaid gas is included in "Other assets".

Stores

All other inventory, including stores are valued on a weighted average cost basis.

(j) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories. When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

Subsequent measurement

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the statement of financial position.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(j) Investments and other financial assets (continued)

Subsequent measurement (continued)

(ii) Loans and receivables
Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

Interest free loans which are expected to mature in a period beyond 12 months are recognised at their amortised cost value. Loans are discounted at their effective interest rate having regard to the repayment schedule determined at the loans inception. Discounts from the nominal face value of the loan are recognised as finance costs in the profit and loss account or in the case of a loan from a parent entity, the initial discount is recognised as an investment in the subsidiary.

Interest income is recognised using the effective interest method over the life of the loan. Amounts credited to interest income are debited to the loan receivable amount as the discount is unwound.

The repayment profile of interest free loans is reviewed at each balance date, holding the initial effective interest rate constant. Changes in the discounted value of the loan as a result of changes in the repayment profile are recognised as either finance income or cost.

The carrying values of interest free loans are assessed at each balance date. If there is evidence of impairment for any of the loans receivable measured at amortised cost, an impairment loss is measured as the difference between the loans carrying amount and an estimate of its recoverable amount. Any excess in carrying value over the recoverable amount is recognised as an impairment charge.

(iii) Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets, principally equity securities, that are designated as available-for-sale or are not classified as any of the preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing models, making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.

Reclassification of financial instruments at fair value through profit or loss
Financial assets that are no longer held for trading, other than those designated as fair value through profit or loss on initial recognition or derivatives, can be reclassified out of this category to the following categories:

(i) Loans and receivables – if the financial asset has fixed or determinable payments, are not quoted in an active market and contain no features which could cause the holder not to recover substantially all of its investment, except through credit deterioration, and the intention is to hold them for the foreseeable future.
(ii) Held to maturity – if the intention is to hold them to maturity and only in rare circumstances.
(iii) Available for sale – only in rare circumstances.

Rare circumstances arise from a single event that is unusual and unlikely to recur in the near term.

For financial assets that have been reclassified out of the fair value through profit or loss category, the Group assesses, on the date of the transfer, whether the financial asset contains an embedded derivative. Where a financial asset contains an embedded derivative whose economic characteristics and risks are not closely related to those of the host instrument, the embedded derivative is separated, and measured separately at fair value, with changes in the fair value recognised in profit or loss. The assessment is to be made on the basis of the circumstances that existed on the later of:

- the date when the entity first became a party to the contract; and
- the date at which a change occurs in the terms of the contract that significantly modifies the cash flows that otherwise would have been required under the contract.

Where the fair value of the embedded derivative that would be separated on reclassification cannot be reliably measured, the entire hybrid financial instrument must remain classified as at fair value through profit or loss.

Impairment

The Group assesses, at each balance date, whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant and prolonged decline in the fair value of a security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available for sale are not reversed through the income statement.

If there is any evidence of impairment of any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement.

(k) Hedge accounting

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives 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 hedging instruments, which generally take the form of derivatives, which are used in hedging transactions, have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash flow hedges

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

Amounts deferred in equity are recycled in the income statement in revenue in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial cost or carrying amount of the asset or liability.

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

From 1 July 2009, hedge accounting in relation to AEG's external debt obligations ceased in accordance with the policy outlined above. For further details refer to Note 25 in these financial statements.

Derivatives that do not qualify for hedge accounting

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

Embedded derivatives

Derivatives embedded in other financial instruments, or other host contracts, are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the income statement.

(l) Property, plant and equipment

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

Subsequent costs 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.

Generating plants are required to be overhauled on a regular basis. This is managed as part of a continuous major maintenance program. The costs associated with major cyclical maintenance programs are capitalised and amortised over the periods between maintenance cycles. The cost of general minor maintenance is charged as an expense as incurred. Where significant parts are replaced, the cost of these parts are capitalised and amortised in line with their useful life. Any residual carrying amounts of parts previously capitalised, which are replaced, are written off immediately.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(l) Property, plant and equipment (continued)
Land is not depreciated. Depreciation of non-land assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Asset type	Depreciation term	Asset class
Buildings	25–40 years	Land & buildings
Leasehold improvements	Remaining lease term	Land & buildings
Power generation plant	20–40 years	Plant & equipment
Railway infrastructure	Remaining lease term (15 years)	Plant & equipment
Plant, tools and equipment	5–20 years	Plant & equipment
Vehicles	3–10 years	Plant & equipment
Other mine assets	5–20 years	Plant & equipment
IT equipment	3–5 years	Plant & equipment
Furniture & fittings	5 years	Furniture, fittings and equipment

The carrying value of power generation plant includes any capital work in progress.

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(n)).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised in the income statement.

Costs incurred in relation to assets under construction are deferred to future periods. Deferred costs are transferred to property, plant and equipment from the time the asset is held ready for use on a commercial basis.

Deferred costs are amortised from the commencement of the project to which they relate on a straight-line basis over the period of the expected benefit.

(m) Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is not amortised, but reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill is allocated to each of the cash generating units expected to benefit from the Group's operating synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Licences
Licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives. Depending on the individual trademark or licence, the estimated useful life ranges between three and 30 years.

Trademarks
Trademarks have an indefinite useful life, are carried at cost, and will be subject to an annual impairment review.

Customer contracts
Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at cost, less accumulated amortisation and impairment losses. Amortisation is calculated under the straight-line method over their estimated useful lives, which currently vary from four to six years.

Customer relationships

Customer relationships acquired as part of a business combination are recognised separately from goodwill. Customer relationships are recorded at cost, less accumulated amortisation and impairment losses. Amortisation is calculated under the straight-line method over their estimated useful lives, which vary from nine years for churn customers to 20 years for non-churn customers.

Other

Other intangibles include computer software and Gas Electricity Certificates (**GECs**). Computer software is either purchased or developed within the organisation and is recorded at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the estimated useful lives. Depending on the individual software, the estimated useful life ranges between one and 20 years.

A GEC is a certificate created by accredited Queensland generators for each whole MWh of eligible gas-fired electricity generated. GECs are a mechanism for providing a production incentive to gas-fired generators using eligible fuels. Accredited parties can trade GECs to other registered scheme participants (retailers). GECs are recognised when the entitlement to them has occurred, which is when the eligible electricity generation has occurred. They are subsequently measured at fair value. GECs while intangible in nature, are disclosed with other current assets.

(n) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets, other than goodwill, that have historically suffered impairment are reviewed for possible reversal of any previous impairment at each reporting date.

The assets have been measured on a "value in use" basis. In the lead up to 30 June 2010 through to 21 September 2010 the Group contemplated a number of deleveraging alternatives. The Group reached an understanding with the Syndicated Lenders, on 21 September 2010, to pursue a proposal to exchange the AFA Syndicated Facility obligation for the equity interests in the subsidiaries of Alinta Finance Australia Pty Ltd. If this proposal is realised, it will likely result in the Group recognising a significant loss on disposal of those assets.

(o) Leased assets

Leases are classified at their inception, as either operating or finance leases, based on the economic substance of the agreement, so as to reflect the risks and benefits incidental to ownership.

Operating leases

(i) AEL and its controlled entities as lessee

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as part of the total lease expense.

(ii) AEL and its controlled entities as lessor

The minimum lease payments of operating leases are recognised as income on a straight-line basis over the term of the lease. Where long-term power supply agreements are treated as operating leases, and AEG is the lessor, income is recognised on a straight-line basis over the term of the supply agreement.

Finance leases

(i) AEL and its controlled entities as lessor

Investment in direct finance leases consists of lease receivables, plus the estimated residual value of the equipment at the lease termination dates and initial direct costs incurred in acquiring the leases, less unearned income. Lease receivables represent the total rent to be received over the term of the lease, reduced by rent already collected. Initial unearned income is the amount by which the original sum of the lease receivable, and the estimated residual value, exceeds the original cost of the leased equipment. Unearned income is amortised to lease income over the lease term in a manner that produces a constant rate of return on the net investment in the lease.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(p) Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell. Except for assets such as deferred tax assets, assets arising from employee benefits, financial assets at fair value, are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

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

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to end of the financial period, which are unpaid. Amounts are unsecured and are usually paid within 60 days of recognition.

(r) Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowings are removed 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.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(s) Provisions

Provisions are recognised when the consolidated entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The increase in provision due to the passage of time is recognised as interest expense.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Restoration/rehabilitation and environmental expenditure
The estimated cost of dismantling and removing an asset and restoring the site are included in the cost of the asset as at the date the contractual or environmental obligation first arises and to the extent that it is first recognised as a provision.

The cost is capitalised where it gives rise to future benefits, whether rehabilitation is expected to occur over the life of the plant or at the time of closure. The capitalised cost is amortised over the life of the plant and the increase in the net present value of the provision, due to one less time period of discounting, is included in borrowing costs.

The provision is reviewed at each balance sheet date and the liability is measured at the amount required to settle the present obligation at the reporting date, discounted where material. 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.

Remediation costs associated with unforeseen circumstances, such as oil leakages are recognised as incurred.

Onerous contracts
A provision for onerous contracts is recognised when the expected benefits from a contract are less than the unavoidable costs of meeting the obligations under the contract, and only after any impairment losses to assets dedicated to that contract have been recognised.

Expected financial losses of any such "onerous" commercial contracts are recognised at the present value of future cash flows using a risk adjusted discount rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

(t) Employee benefits

Wages and salaries, annual leave, long service leave
Liabilities for wages and salaries, including annual leave, long service leave and other benefits, are recognised in provision for employee entitlements in respect of, employee's services up to the reporting date when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Provisions made in respect of employee benefits that can be reasonably expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits, which are not expected to be settled within 12 months, are measured at the present value of the estimated future cash outflows to be made by the Group in respect of expected future wage and salary levels, experience of employee departure and the period of service provided by employees. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Bonus plans
A liability for employee benefits in the form of bonus plans is recognised in liabilities when it is probable that the liability will be settled and there are formal terms in place to determine the amount of the benefit, or the amount of the benefit has been determined before the time of completion of the financial statements. Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Retirement benefit obligation
All employees of the Group are entitled to benefits from various superannuation plans on retirement, disability or death. Within the retirement benefit plans in the subsidiaries of the Group there is both a defined benefit section and a defined contribution section within the plans. The defined benefit section provides defined lump sum benefits, based on years of service and final average salary. The defined contribution section receives fixed contributions from Group entities and the Group's legal or constructive obligation is limited to these contributions.

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

(ii) Defined benefit plan
Defined benefit superannuation plans determine the cost of providing benefits using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service. Actuarial gains and losses are recognised in full, directly in retained earnings, in the period in which they occur.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits (continued)

Retirement benefit obligation (continued)

(ii) Defined benefit plan (continued)

Past Service Cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past Service Costs may either be positive (where the benefits are introduced or improved) or negative (where existing benefits are reduced). Past Service Costs are recognised immediately, to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the average period until the benefits become vested.

A liability or asset in respect of the defined benefit superannuation plan is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date, less the fair value of the superannuation fund's assets at that date and any unrecognised Past Service Cost. The discount rate is a government bond rate, refer to assumptions at Note 20.

Employee benefit on-costs

Employee benefit on-costs, including payroll tax are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

Termination benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected, that the terminations will be carried out.

(u) Contributed equity

Ordinary securities are classified as equity. Incremental costs directly attributable to the issue of new securities are shown in equity as a deduction, net of tax, from the proceeds.

(v) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Electricity generation revenue is recognised on the delivery of energy and/or in accordance with individual contracts as appropriate. Revenue from rolling hedges is recognised as the underlying hedge transaction occurs. For further information refer to segment information at Note 4.
- Retail sales revenue is recognised on delivery which coincides with transfer of risks and rewards. Customers are billed for sales on a periodic and regular basis. However, as at each balance date, sales and receivables include an estimation of sales delivered to customers but not yet billed ("unread sales") and recognised as accrued income. This estimation is based on previous consumption patterns and meter reading dates.
- When revenues are generated by an asset under construction, to the extent they are earned before the asset is capable of being used in a manner intended by management, they are set off against the carrying value of that asset. Alternatively revenue is recognised in the income statement when the significant risks and rewards of the product have passed to the Group from the developer and the Group attains the right to be compensated.
- Interest income is recognised using effective interest method.
- Dividend income is recognised when the dividend is received.
- Sale of asset gains/losses is recognised at the time title is transferred, or when an irrevocable contract to deliver the asset has been signed, the price is fixed and determinable, and collectability is highly probable. This occurs when the risks and rewards associated with the asset have been transferred and there is no longer effective control or continuing managerial involvement in the asset.

(w) Dividends or distributions
Provision is only made for the amount of any dividend or distribution when they are declared by the Directors on or before balance date, but which have not been distributed at balance date.

(x) Tax

Income tax
The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income or loss. It is calculated using the tax rates and tax laws that have been enacted (or substantively enacted) by the reporting date, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and for unused tax losses.

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted by the reporting date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences; no deferred tax asset or liability is recognised in relation to those temporary differences that arose in a transaction, other than business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

Current and deferred tax balances which have arisen on amounts recognised directly in equity are also recognised directly in equity. Hence the equity transaction is shown net of tax.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

(y) 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 current receivables or payables in the balance sheet.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(z) Earnings per security
Basic earnings per security is calculated by dividing the profit attributable to securityholders of the Group, excluding any costs of servicing equity other than ordinary securities, by the weighted average number of ordinary securities outstanding during the financial year, adjusted for bonus elements in ordinary securities issued during the year.

Diluted earnings per security adjusts the figures used in the determination of basic earnings per security to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary securities and the weighted average number of securities assumed to have been issued for no consideration in relation to dilutive potential ordinary securities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

(a) Changes in accounting policy and disclosures.

The Corporations Act was amended in June 2010 requiring entities to prepare consolidated financial statements where required by accounting standards, and requiring only individual entity financial statements where consolidated financial statements are not required. This has resulted in the Group not presenting full separate financial statements for Alinta Energy Limited (**AEL**) as an individual entity in the annual report. Supplementary disclosures relevant to AEL as an individual entity are disclosed in Note 38 to these financial statements.

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009:

- AASB 3 *Business Combinations (revised)* effective 1 July 2009
- AASB 7 *Financial Instruments: Disclosures* adopted 1 July 2009
- AASB 8 *Operating Segments* effective 1 July 2009
- AASB 101 *Presentation of Financial Statements (revised September 2007)* effective 1 July 2009
- AASB 123 *Borrowing costs (revised)* effective 1 July 2009

Other than the necessary disclosure amendments, there has been no material impact on the financial statements of the Company or of the Group.

(b) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have been issued or amended, but are not yet effective, have not been early adopted by the Group for the annual reporting period ended 30 June 2010. These are outlined below.

Initial application of the following Standards and Interpretations is not expected to have any material impact on these financial statements of the consolidated entity and the parent entity.

- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-Settled Share based Payment Transactions [AASB 2]* effective for annual reporting periods beginning on or after 1 January 2010
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]* effective for annual reporting periods beginning on or after 1 February 2010
- AASB Interpretation 19 *Extinguishing financial liabilities with equity instruments* effective for annual reporting periods beginning on or after 1 July 2010
- AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* effective for annual reporting periods beginning on or after 1 July 2010
- AASB 124 *Related Party Disclosures* effective for annual reporting periods beginning on or after 1 January 2011
- AASB 2009-12 *Amendments to Australian Accounting Standards* effective for annual reporting periods beginning on or after 1 January 2011
- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* effective for annual reporting periods beginning on or after 1 January 2011
- AASB 9 *Financial Instruments* effective for annual reporting periods beginning on or after 1 January 2013
- AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* effective for annual reporting periods beginning on or after 1 January 2013

4. SEGMENT INFORMATION

The application of AASB 8 requires disclosure of information about the Group's operating segments on the same basis as that used for internal reporting, and replaces the requirement under AASB 114 *Segment Reporting* to determine the primary (business) and secondary (geographical) reporting segments. Although the presentation has altered with the adoption of AASB 8, the identification of the Group's reportable segments has remained largely consistent with the primary reporting segments disclosed in the Group's 30 June 2009 financial statements.

The chief operating decision maker of the Group is the Chief Executive Officer (the **CEO**). The Group assesses the performance of its operations principally on the basis of normalised earnings before interest, tax, depreciation and amortisation (**Management EBITDA**). The CEO considers the performance of the Energy Markets and Generation businesses in assessing the performance of the Group and making decisions about the allocation of resources. Segment disclosures have been presented on this basis.

Energy Markets

This segment includes the sale of natural gas and electricity to retail, industrial and commercial customers. The retail operations comprise Alinta West and Neighbourhood Energy. Also included is merchant gas sales and transmission.

Energy Markets revenue includes:

- retail, commercial and industrial gas and electricity sales;
- wholesale gas and electricity sales; and
- LPG sales.

Generation

This segment includes the gas and coal-fired power generation assets of the Group.

Generation revenue includes:

- contract revenue from electricity generation under electricity supply agreements (**PPA**) including associated products, such as Gas Electricity Certificates (**GECs**) in the case of Braemar Power Station;
- rolling hedge revenue from electricity generation covered by hedge contracts, generally with a term of less than five years;
- movement in derivative financial contract valuations that occur as a result of reassessments of the value of hedge contracts throughout the period, due to changes in pool prices. The profit and loss charge is applicable to contracts realised during the period, as well as future dated contracts;
- unhedged revenue, including pool revenue payments from the Australian Energy Market Operator (**AEMO**) where there is no hedge in place that covers the electricity sold to earn that pool revenue;
- PPA lease revenue; and
- fly ash sales from generation assets.

Other activities

The Group also operates a corporate function which is not considered to be an operating segment as it does not earn revenue from its activities. The impact of the corporate function is reported in "Other activities". In addition, abnormal amounts relating to business restructuring reside in "Other activities".

(a) Segment performance

The Group's operations are primarily in Australia, with one asset, Glenbrook Power Station, located in New Zealand. The segment information provided to the CEO for the year ended 30 June 2010 is as follows:

	Energy Markets	Generation		Other		
	Aust	Aust	NZ	Aust	Elimination	Total
	$'000	$'000	$'000	$'000	$'000	$'000
30 June 2010						
Revenue from external customers	873,124	546,486	7,349	2,674	(2,030)	1,427,603
Inter-segment revenue(1)	–	526	–	28,068	(28,594)	–
Intra-segment revenue(2)	392,928	38	2,422	1,817	(397,205)	–
Total segment revenue	**1,266,052**	**547,050**	**9,771**	**32,559**	**(427,829)**	**1,427,603**
Management EBITDA	**149,329**	**196,646**	**9,410**	**(27,802)**	**(8,680)**	**318,903**
30 June 2009						
Revenue from external customers	844,215	657,294	5,535	27,137	(4)	1,534,177
Inter-segment revenue(1)	4,515	18,178	–	4,677	(27,370)	–
Intra-segment revenue(2)	255,947	668	2,640	–	(259,255)	–
Total segment revenue	**1,104,677**	**676,140**	**8,175**	**31,814**	**(286,629)**	**1,534,177**
Management EBITDA	**120,132**	**185,900**	**11,650**	**(34,769)**	**(4,677)**	**278,236**

The CEO assesses the performance of the operating segments based on a measure of Management EBITDA. This measurement excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, onerous contract provisions and goodwill impairments, when the impairment is the result of an isolated non-recurring event. The Group's assets and liabilities are reported on a consolidated basis.

(1) Revenue earned between segments is recognised in inter-segment revenue and is eliminated via the elimination column to reconcile to the Group result.

(2) Intra segment revenue represents revenue earned between divisions within the same segment. This revenue is eliminated via the elimination column to reconcile to the Group result.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

4. SEGMENT INFORMATION (CONTINUED)

(b) Reconciliation of Management view EBITDA to Statutory EBITDA:

	Energy Markets	Generation		Other		
	Aust	Aust	NZ	Aust	Elimination	Total
	$'000	$'000	$'000	$'000	$'000	$'000
30 June 2010						
Management EBITDA	**149,329**	**196,646**	**9,410**	**(27,802)**	**(8,680)**	**318,903**
Movement in provisions and other abnormal items	(126,772)	1,043	–	18,712	–	(107,017)
Impairment	(525,000)	(144,870)	–	–	–	(669,870)
Gain on disposal of business	6,326	–	–	15,611	–	21,937
Redbank – long-term energy derivative	–	(13,629)	–	–	–	(13,629)
Other mark to market derivative movements	–	6,388	315	(65,853)	–	(59,150)
Non-controlling interest and equity accounted investments	–	1,408	–	–	–	1,408
Debt forgiveness	1,085	–	–	344,733	–	345,818
Finance lease adjustment	–	(4,339)	(15,115)	–	–	(19,454)
Management adjustments	**(644,361)**	**(153,999)**	**(14,800)**	**313,203**	**–**	**(499,957)**
Statutory EBITDA	**(495,032)**	**42,647**	**(5,390)**	**285,401**	**(8,680)**	**(181,054)**
Net finance costs						(217,672)
Taxation						(3,834)
Amortisation and depreciation						(174,833)
Net profit after tax per the statement of comprehensive income						**(577,393)**
30 June 2009						
Management EBITDA	**120,132**	**185,900**	**11,650**	**(34,769)**	**(4,677)**	**278,236**
Movements in provisions and other abnormal items	(50,700)	110,494	18,200	–	–	77,994
Impairment charges	(50,000)	–	–	(6,700)	–	(56,700)
Gain on disposal	–	94,118	–	–	–	94,118
Redbank – long-term energy derivative	–	(37,523)	–	–	–	(37,523)
Other mark to market derivative movements	–	(29,678)	–	(1,703)	–	(31,381)
Non-controlling interest and equity accounted investments	–	–	–	(559)	–	(559)
External dividend	–	–	–	8,465	–	8,465
Varanus Island impact	(18,000)	–	–	–	–	(18,000)
Finance lease adjustment	–	(4,253)	(12,200)	–	–	(16,453)
Management adjustments	**(118,700)**	**133,158**	**6,000**	**(497)**	**–**	**19,961**
Statutory EBITDA	**1,432**	**319,058**	**17,650**	**(35,266)**	**(4,677)**	**298,197**
Net finance costs						(365,114)
Taxation						74,597
Amortisation and depreciation						(176,613)
Net profit after tax per the statement of comprehensive income						**(168,933)**

5. FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives

As a power generation and retail business, the Group's activities are exposed to a variety of financial risks, including market (energy price, interest rate, equity price and currency risks), credit and liquidity risks. A focus of the Group's overall risk management program is on these classes of risk to ensure their potential adverse impact on the Group's financial performance is overseen, managed and controlled appropriately.

The Board has endorsed principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and energy price risks.

The Group uses different methods to measure different classes of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ageing analysis for credit risk.

Interest rate, foreign currency and liquidity risk management is carried out by the Group's Treasury function in accordance with the Board approved Treasury Policy. These risks are regularly monitored and reported to the Board on a monthly basis. The Board acknowledges the limitations in managing interest rate and foreign currency risk in line with Treasury Policy due to the limited availability of counterparty trading lines.

The financial risks that arise from the Group's energy market activities are managed by the Energy Markets Trading and Alinta West groups in accordance with the approved Energy Markets Risk Management Policy. Energy Markets Trading is responsible for the Group's eastern and central Australian activities and Alinta West for its Western Australian energy market activities. The activities undertaken for managing and controlling risks arising from these activities is overseen by the Board's Energy Trading and Risk Management Committee.

There have been no significant changes in the types of financial risks facing the Group, or the Group's risk management program (including methods used to measure the risks) since the prior year.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument, are disclosed in Note 2 to these financial statements.

(c) Market risk

(i) Energy price risk management

The Group is exposed to energy price risk. The most significant exposure arises from its merchant generation and retailing activities in the National Electricity Market.

The Group oversees, manages, and controls risk through an established risk management framework. The framework includes an approved Energy Markets Risk Management Policy that establishes the standards of practice for the oversight, management and control of the classes of risks that arise from the Group's energy market activities, including electricity price risk. The standards of practice include the segregation of duties, approved limits, authorisations and instruments for managing its exposure to electricity price risk, and regular compliance, exposure and position reporting.

Exposure to adverse movements in regional pool prices is primarily managed through the trading of electricity derivatives instruments. The Group's Energy Markets Risk Management Policy prescribes active management of exposures arising from its merchant generation within prescribed limits. Any unhedged position exposes the AEG to potential volatility in its earnings.

The Energy Markets Risk Management Policy limits the Group's merchant generation exposure to electricity price risk. Limits for merchant generation requires hedge levels of between 100% and 70% of forecast availability for the next 12 months, between 100% and 40% for the next 13–24 months, and between 100% and 20% for the next 25–36 months. The Group trades mostly electricity swap and cap type derivative instruments to manage its electricity price risk. These instruments are predominantly traded through the over-the-counter (**OTC**) and exchange-traded markets. They are also embedded in long-form arrangements such as Power Purchasing Agreements. AEG also hedges its merchant generation through contracting with industrial and commercial retail customers.

While derivatives are entered into for the purposes of hedging economic exposures, only those derivatives that meet the strict criteria of effective hedges can be designated as cash flow hedges for accounting purposes. To the extent that they are effective, gains and losses on electricity price derivatives designated as cash flow hedges are recognised in the cash flow hedge reserve in equity and will be released to the income statement in the period in which the underlying purchase or sale transactions are recognised in the income statement.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

The following table summarises the details of energy price derivatives outstanding at reporting date:

	Hedge maturity profile (years) Less than 1 year $'000	1 to 5 years $'000	5+ years $'000	Fair value of derivatives Asset/(Liability) $'000	Fair value in cash flow hedges $'000	Fair value not in hedge relationship $'000	Impact on income statement gain/(loss) $'000
2010							
Electricity derivatives	67,205	57,471	9,607	134,283	41,789	92,494	(5,375)
2009							
Electricity derivatives	27,577	34,348	47,466	109,392	9,750	99,642	(60,075)

Energy price risk sensitivity

The following table summarises the impact of increases/decreases of the relevant forward prices for wholesale market electricity prices for the Group, while all other variables were held constant:

	Increase by 10% $'000	Decrease by 10% $'000
2010		
Profit/(loss) before tax	(55,170)	54,742
Other component of equity increase/(decrease)	(14,175)	16,553
2009		
Loss before tax	(40,976)	(4,779)
Other component of equity increase/(decrease)	(34,190)	10,601

The movement in profit/(loss) before tax is attributable to an increase/decrease in the fair value of energy derivative instruments which are economic hedges but do not satisfy the requirements for hedge accounting. The movement in equity is due to an increase/decrease in the fair value of energy hedging instruments designated as cash flow hedges.

(ii) Interest rate risk

The Group is exposed to interest rate volatility as it borrows funds both at fixed and floating interest rates. Floating interest rate exposures are managed by entering into interest rate swap contracts. The quantum and tenor of these contracts are set so that they are within maximum and minimum exposure limits set out in the Group's Treasury Policy. Interest rate exposures are monitored regularly with any variation to the Treasury Policy reported to the Board monthly.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on debt outstanding. The fair value of interest rate swaps are determined by discounting future cash flows using the yield curve at the reporting date. The average interest rate is based on the outstanding balances at the end of the financial year.

Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are summarised in the table below.

	Average contract fixed rate		Notional principal amount[1]		Fair value	
Fixed swaps/maturity	2010 %	2009 %	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Less than 1 year	6.81	6.58	365,828	3,456,854	(5,443)	(125,879)
1–5 years	6.35	–	1,830,825	–	(58,756)	–
> 5yrs	6.59	–	709,539	–	(73,716)	–
					(137,915)	(125,879)

(1) Notional amount is greater than the external debt amount because of forward starting contracts.

Interest rate risk sensitivity
The sensitivity analysis to profit/(loss) before tax, and equity, has been determined, based on the exposure to interest rates at the reporting date, and assumes that there are concurrent movements in interest rates and parallel shifts in the yield curves. A sensitivity of 100 basis points has been selected, as this is considered reasonable given the current level of short-term and long-term interest rates.

At reporting date, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the impact of the Group would be:

	Increase by 1% $'000	Decrease by 1% $'000
2010		
Profit/(loss) before tax	99,882	(106,539)
Other component of equity increase/(decrease)	–	–
2009		
Profit/(loss) before tax	(2,120)	2,098
Other component of equity increase/(decrease)	112,494	(120,964)

Per Note 25, the Group ceased applying hedge accounting to its interest rate swaps, effective 30 June 2009. As a result there is no impact on equity in the above sensitivity analysis as at 30 June 2010. The impact on equity during the prior year is due to the effective portion of the change in fair value of derivatives that were designated as cash flow hedges. The impact on the profit/(loss) before tax is due to the Group's exposure to interest rates on its non-hedged variable rate borrowings.

(iii) Foreign exchange risk
AEG undertakes certain transactions denominated in foreign currencies, mainly related to capital expenditure and long-term services agreements, which result in exposure to exchange rate fluctuations. Subject to available trading lines, exchange rate exposures are managed utilising forward foreign exchange contracts, transacted by Group Treasury, in accordance with the Board approved Treasury Policy. Where Group Treasury are unable to transact forward foreign exchange contracts, limited amounts of foreign currency are held to meet short-term commitments. Foreign currency exposures are regularly monitored and reported monthly to the Board.

Foreign currency risk also arises on translation of the net assets of the consolidated entity's foreign operations from their functional currency to Australian dollars. The Group has no material risks associated with the translation of foreign operations that require close management.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(iii) Foreign exchange risk (continued)

The following table details the Group's forward foreign exchange contracts outstanding as at reporting date:

Outstanding forward exchange contracts as at 30 June 2010	Weighted average rate	Notional principal amount $'000	Notional principal amount $'000	Fair value $'000
Contract to sell AUD, Buy USD		AUD	USD	
Less than 1 year	0.8173	1,454	1,188	(26)
From 1 to 5 years	0.8003	318	255	(2)
Contract to sell AUD, Buy EUR		AUD	EUR	
Less than 1 year	0.5543	161	90	(29)
From 1 to 5 years	0.5405	35	19	(6)

Outstanding forward exchange contracts as at 30 June 2009	Weighted average rate	Notional principal amount $'000	Notional principal amount $'000	Fair value $'000
Contract to sell AUD, Buy USD		AUD	USD	
Less than 1 year	0.8522	811	691	49
From 1 to 5 years	0.8142	1,772	1,443	85
Contract to sell AUD, Buy EUR		AUD	EUR	
Less than 1 year	0.5657	32,613	18,450	(304)
From 1 to 5 years	0.5518	197	109	–
Contract to sell AUD, Buy JPY		AUD	JPY	
Less than 1 year	91.06	1,475	134,319	263
From 1 to 5 years	–	–	–	–

Foreign exchange sensitivity

The following table details the sensitivity to a 10% increase or decrease in the Australian dollar against the relevant foreign currencies. A sensitivity of 10% has been used, as this is considered reasonable, given the current level of exchange rates and the volatility observed, both on a historical basis and market expectations for future movements. The sensitivity analysis includes only outstanding foreign currency denominated financial instruments in a currency different to their functional currency and adjusts their translation at the reporting date for a 10% change in foreign currency rates.

	Increase by 10% $'000	Decrease by 10% $'000
2010		
Profit/(loss) before tax	(169)	206
Other component of equity increase/(decrease)	–	–
2009		
Profit/(loss) before tax	–	–
Other component of equity increase/(decrease)	(3,257)	4,195

(iv) Equity price risk

During the prior year, the Manager (Babcock & Brown Limited) was entitled to receive an Incentive Fee of up to 20% of the amount of the excess (if any) of the stapled security return over the Benchmark Return for that year. An Incentive Fee for a particular year would only be payable where the stapled security return was greater than the Benchmark return for that year adjusted for any carry forward deficit.

The incentive fee was in deficit at 30 June 2009. During the 30 June 2010 year, the Group formally separated itself from its management arrangements with Babcock & Brown. As a result, no such incentive fee or equity price risks exist as at 30 June 2010.

(d) Credit risk

Credit risk refers to the loss that AEG would incur if a debtor or counterparty defaults on its financial obligations. The carrying amounts of financial assets recognised in the balance sheet best represents the Group's maximum exposure to credit risk at reporting date.

Credit risk arising from the use of derivative instruments to manage electricity price risk is managed by the Energy Markets team in accordance with the approved Energy Markets Risk Management Policy. The Group's current over-the-counter counterparties are limited to National Electricity Market participants and financial institutions. Derivative counterparties are assigned approved credit limits and contract maturity limits based on independent credit ratings from Standard & Poor's, Fitch or Moody's where available, or otherwise by internal assessment and credit scoring based on published financial statements and market information for each counterparty.

The Group transacts over-the-counter electricity derivatives using the International Swaps and Derivative Association (**ISDA**) suite of agreements (including the Credit Support Annexure). If counterparties are below AEG's thresholds, then credit support will be sought to bring the exposure back within its thresholds in accordance with the terms of the ISDA.

New counterparties and their credit terms require approval by the Board's Energy Trading and Risk Management Committee. The creditworthiness of counterparties is closely monitored over the life of transactions. Credit exposure and maturity exposure by individual counterparties are continuously monitored and reported on regularly.

As there are a limited number of counterparties transacting electricity derivatives in the regions that the Group are exposed there is limited scope for managing credit risk through diversification of counterparties. However, the Group does manage its exposure to individual counterparties by also transacting electricity derivatives through the exchange markets.

At the reporting date, there was a significant concentration of credit risk with certain counterparties in relation to electricity derivatives, undertaken in accordance with the Group's hedging and risk management activities. These counterparties are large publicly-rated National Electricity Market participants.

The credit of all financial assets is consistently monitored in order to identify any potential adverse changes in credit quality.

Concentrations of credit risk

The Group manages concentrations of credit risk in relation to trade receivables, other than in relation to electricity derivatives by undertaking transactions with a large number of customers from across the range of business segments in which the Group operates, such that there are no significant concentrations of credit risk within the Group at 30 June 2010 (no significant concentrations: 30 June 2009). Normal payment terms are set at 14 days

Credit risk in major retail debtors is managed through monitoring compliance to payment terms, as defined in sale contracts, and continual risk assessment of contract customers with material balances. Credit risk in retail mass market trade debtors is managed through a system driven credit management process. The process commences after day 12. There are four stages of customer contact resulting in disconnection as a last resort.

The following financial assets are past due as at reporting date:

	Past due not impaired					Past due impaired	Collateral held
Loans and receivables	1–30 $'000	31–60 $'000	61–90 $'000	91–120 $'000	Over 120 $'000	$'000	$'000
2010	11,810	1,595	325	887	2,199	1,943	–
2009	19,442	1,609	668	47	–	4,818	–

There are no significant financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

Responsibility for the Group's liquidity risk management rests with the Board of Directors which monitors the Group's liquidity needs in terms of long, medium and short-term funding requirements. AEG's policy in managing liquidity risk is to ensure that it always has sufficient liquidity to meet its obligations as they fall due as well as to accommodate unforeseen cash requirements. The Board of Directors recognises that the Group has significant medium-term debt maturities that need to be refinanced. The Directors reached an understanding with the Group's external debt financiers in September 2010 to discharge its external debt obligations in exchange for the majority of its operating assets. The proposal requires Securityholder and various other approvals which are expected to be substantially concluded by 31 March 2011.

AEG's short-term liquidity is managed by Group Treasury through:

- maintenance of at call access to funds in the form of cash balances or committed, available revolving credit facilities;
- maintenance of rigorous and regular cash flow forecasts; and
- centralisation of surplus cash balances.

The following table details the remaining contractual maturity for the Group's financial liabilities, on an undiscounted basis.

Financial liabilities		Less than 1 year $'000	1 to 5 years $'000	5+ years $'000	Discount $'000	Total $'000
Trade payables	**2010**	**44,287**	**–**	**–**	**–**	**44,287**
	2009	68,100	–	–	–	**68,100**
Other payables	**2010**	**157,620**	**516**	**–**	**–**	**158,136**
	2009	184,655	10,165	–	–	**194,820**
Interest bearing liabilities	**2010**	**264,414**	**2,959,268**	**229,304**	**(460,704)**	**2,992,283**
	2009	2,969,792	130,332	400,178	(272,530)	**3,227,772**
Interest rate swaps(1)	**2010**	**31,345**	**96,439**	**33,390**	**(23,259)**	**137,915**
	2009	125,879	–	–	–	**125,879**
Electricity derivatives	**2010**	**–**	**–**	**–**	**–**	**–**
	2009	–	9,386	–	(436)	**8,950**
Call option derivatives	**2010**	**–**	**–**	**–**	**–**	**–**
	2009	333	–	–	–	**333**
Foreign exchange contracts	**2010**	**55**	**8**	**–**	**–**	**63**
	2009	1,675	–	–	–	**1,675**

(1) Interest rate swap difference payments/(receipts) are included in the table above as they form an integral part of the Group's liquidity and interest rate risk management policies. Swap payments/receipts are settled on a net basis.

(f) Capital risk management

The Group manages its capital so that it will be able to continue as a going concern while maximising the return to stakeholders through an appropriate mix of debt and equity. The capital structure of the Group as at balance date consists of total corporate facilities, and equity, comprising issued capital, reserves, and retained earnings as listed in Notes 24, 25 and 26. The quantitative analysis of each of these categories of capital is provided in their respective notes to these financial statements.

The Directors reached an understanding with the Group's external debt financiers, in September 2010, to discharge its external debt obligations in exchange for the majority of its operating assets. The proposal requires Securityholder and various other approvals which are expected to be substantially concluded by 31 March 2011. If realised, the proposed transaction will have a significant impact on the capital structure of the Group. The Group's remaining economic interest would be its interest in the Redbank Power Station, with the associated financial debt obligations under the Redbank Credit Facility Agreement.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities must be estimated for recognition, measurement and disclosure purposes. As of 1 July 2009, AEG has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires the disclosure of financial instruments in specific categories depending upon the degree of subjectivity involved in their valuation. The three categories are as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

AEG's derivative financial instruments are categorised under the above classifications as follows:

	30 June 2010				30 June 2009			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets								
Current								
Foreign exchange derivatives	–	–	–	**–**	–	8	–	**8**
Electricity derivatives	–	–	67,205	**67,205**	–	–	18,431	**18,431**
	–	–	67,205	**67,205**	–	8	18,431	**18,439**
Non-current								
Foreign exchange derivatives	–	–	–	**–**	–	85	–	**85**
Electricity derivatives	–	–	67,078	**67,078**	–	–	99,911	**99,911**
	–	–	67,078	**67,078**	–	85	99,911	**99,996**
Total assets	**–**	**–**	**134,283**	**134,283**	**–**	**93**	**118,342**	**118,435**
Liabilities								
Current								
Interest rate derivatives	–	5,444	–	**5,444**	–	125,879	–	**125,879**
Foreign exchange derivatives	–	63	–	**63**	–	1,675	–	**1,675**
Other	–	–	–	–	–	333	–	**333**
	–	5,507	–	**5,507**	–	127,887	–	**127,887**
Non-current								
Interest rate derivatives	–	132,471	–	**132,471**	–	–	–	**–**
Electricity derivatives	–	–	–	**–**	–	–	8,950	**8,950**
	–	132,471	–	**132,471**	–	–	8,950	**8,950**
Total liabilities	**–**	**137,978**	**–**	**137,978**	**–**	**127,887**	**8,950**	**136,837**

6. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Level 3 derivatives – additional information

The following tables present the changes in the Group's Level 3 derivative financial instruments for the year ended 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of AASB 7 *Financial Instruments: Disclosures*.

	Electricity derivatives $'000	Total $'000
Assets		
Opening balance	118,342	118,342
Recognised in other comprehensive income	32,153	32,153
Recognised in profit or loss	(16,212)	(16,212)
Closing balance	**134,283**	**134,283**
Liabilities		
Opening balance	8,950	**8,950**
Recognised in other comprehensive income	–	**–**
Recognised in profit or loss	(8,950)	**(8,950)**
Closing balance	–	**–**

Electricity derivatives

Electricity derivatives include both financial instruments which are recognised at fair value through the profit and loss (mainly the PPHA derivative relating to Redbank) as well as financial instruments which are entered into as part of the energy price risk management strategy implemented by AEG as described in Note 5 and which comprises instruments that are accounted for as cash flow hedges by AEG.

Electricity derivatives which are entered into as part of the energy price risk management strategy consist predominantly of swaps, caps and option style contracts. Refer to Note 5 for information on exposure and electricity price risk management.

Electricity derivatives also include the PPHA derivative relating to Redbank. Redbank has a long-term power purchase agreement with Energy Australia for the sale of power for a period of 30 years from the commencement of the power station's operation. Under the terms of the contract, the fixed price per megawatt hour is escalated annually using agreed CPI indices. There are contract provisions to ensure the supply of an agreed volume of energy into the grid with penalties should these conditions not be met. Under AASB 139, the Group recognises a derivative asset equal to the estimated fair value of the power purchase derivative. At 30 June 2010 the value of this derivative had decreased by $13.6 million to $84.6 million.
At 30 June 2009 the value of this derivative had decreased by $37.5 million to $98.2 million.

7. PROFIT/(LOSS) FROM OPERATIONS

	2010 $'000	2009 $'000
Revenue		
Revenue from the sale of energy products	1,402,638	1,425,006
Other revenue	24,965	109,171
	1,427,603	**1,534,177**
Other income		
Release of provisions	32,421	148,681
Debt forgiveness	345,818	–
Net loss on disposal of property, plant and equipment	(3,286)	–
	374,953	**148,681**
Financing income		
Interest income		
Bank deposits	7,217	13,407
Finance lease	6,473	7,001
Dividend income		
Related parties[(1)]	–	8,465
	13,690	**28,873**

(1) Alinta Holdings Pty Ltd, a subsidiary of AEL received a dividend from ERM prior to its disposal of the Kwinana asset on 18 December 2008.

	2010 $'000	2009 $'000
(Loss)/profit before income tax has been arrived at after charging the following expenses:		
Operating expenses:		
Operating costs	1,080,465	1,184,837
Corporate and administrative costs	46,370	47,699
Employee benefit expenses		
Salaries and wages	130,500	119,433
Defined benefit plan (Note 20)	4,110	3,359
	1,261,445	**1,355,328**
Management charges (Note 35):		
Manager expense amount	1,127	4,331
Custodian fee	(145)	197
Responsible Entity fees	(723)	606
	259	**5,134**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

7. PROFIT/(LOSS) FROM OPERATIONS (CONTINUED)

	2010 $'000	2009 $'000
Impairment losses		
Intangibles (Note 17)[(1)]	655,926	56,700
Property, plant and equipment (Note 16)[(1)]	4,074	–
Finance lease receivable[(2)]	9,870	
	669,870	**56,700**
Depreciation and amortisation		
Depreciation of property, plant and equipment (Note 16)[(1)]	131,605	120,483
Amortisation of intangible assets (Note 17)[(1)]	43,120	55,378
Amortisation of other assets	108	752
	174,833	**176,613**
(Loss)/profit before income tax has been arrived at after charging the following expenses:		
Finance costs:		
Interest expense – external third parties	214,590	258,317
Interest expense – related parties	–	47,277
Less: Interest expense capitalised (Note 22)	(3,726)	(23,907)
Unwinding of discount on provisions	10,798	25,169
Other borrowing costs	9,700	33,452
Borrowing costs written off	–	45,214
	231,362	**385,522**
Transitional costs		
Other transitional costs	2,553	617
	2,553	**617**
Derivative movement		
Fair value gains/(losses) on interest rate derivative taken to profit and loss	(65,680)	(1,704)
Fair value (loss)/gain on Redbank PPHA derivative[(3)]	(13,629)	(37,523)
Fair value (loss)/gain on other electricity derivatives	6,481	(29,678)
	(72,828)	**(68,905)**

(1) Impairment charges were recognised against the goodwill and other intangible assets associated with the Alinta West ($525.0 million), Braemar ($55.9 million), Redbank ($40.0 million) and WA Power ($25.0 million) cash generating units. In addition the Braemar cash generating unit recognised an impairment charge of $4.1 million in relation to its property, plant and equipment, taking the total Braemar related impairment to $60.0 million. In the 2009 comparative period an impairment charge of $50.0 million was recognised against the goodwill of the Alinta West cash generating unit and $6.7 million was recognised against software development assets held by the Group's service company.

(2) The Cawse asset was re-classified to a "held for sale" asset at balance date. In accordance with the requirements of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, it was impaired down to its fair value, less costs to sell value. The asset had previously been accounted for as a finance lease.

(3) The non-cash derivative movement reported in the accounts represents an assessment of the present value of the difference between the Energy Australia contract (Redbank PPHA) value, and the projected value of the gross revenue, Redbank could potentially achieve if they sold electricity on market over the theoretical whole of the remaining life of the contract. At no time can and will this derivative instrument calculation impact the cash position or underlying profits generated by the operations of AEG.

8. INCOME TAX EXPENSE

	2010 $'000	2009 $'000
(a) Income tax (benefit)/expense		
Current tax (benefit)/expense	2,466	(60,817)
Deferred tax	2,872	(14,493)
Under/(over) provided in prior year	(1,504)	713
	3,834	**(74,597)**
Deferred income tax (revenue)/expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	37,906	6,726
(Decrease)/increase in deferred tax liabilities	(35,034)	(21,219)
	2,872	**(14,493)**
(b) Reconciliation of income tax expense to prima facie tax payable		
Net profit/(loss) before income tax	(573,559)	(243,530)
Tax at the Australian tax rate of 30% (2009 30%)	(172,068)	(73,059)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Release of stamp duty liability	(9,726)	–
Tax offset for franked dividends	–	(2,540)
Gain/(loss) on debt forgiveness	(103,743)	(82,159)
Gain/(loss) on disposal of businesses	(6,490)	62,750
Impairment of goodwill	190,291	15,000
Impairment of finance leases assets	2,961	–
Non-deductible capital loss	10,861	–
Reduction of losses due to debt forgiveness	105,618	–
Under/(over) provision in prior years	(1,504)	713
Hedge amortisation from equity	(5,521)	–
Other	(6,845)	5,392
Income tax expense/(benefit)	**3,834**	**(74,597)**
(c) Deferred tax amounts recognised directly in equity		
Revaluations of financial instruments treated as cash flow hedges (Note 25)	31,714	73,514
Others	(2,980)	10,469
	28,734	**83,983**

(d) Tax consolidation legislation

Alinta Energy Limited (**AEL**) and certain of its wholly owned Australian resident subsidiaries formed a tax-consolidated group effective from 1 July 2006. The accounting policy in relation to this legislation is set out in Note 2(x).

On adoption of the tax consolidation legislation, the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, AEL.

The AEL tax group entities which have entered into a tax funding agreement, under which the wholly owned entities fully compensate AEL for any current tax payable assumed and are compensated by AEL for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to AEL under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the AEL tax group wholly owned entities' financial statements.

8. INCOME TAX EXPENSE (CONTINUED)

(d) Tax consolidation legislation (continued)

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

Due to the existence of minority interests and the requirements of project debt facilities, the Group has the following two other tax consolidated groups:

- Flinders – comprising all Australian resident entities in the Flinders group with the exception of Alinta Flinders Pty Ltd, Alinta Osborne Pty Limited, Flinders Operating Services Pty Ltd and Flinders Power Finance Pty Ltd.
- Alinta Power Cat – comprising all Australian resident entities in the Alinta Power Cat group.

The Flinders and Alinta Power Cat tax consolidated groups have also entered into tax sharing and tax funding agreements which are on similar terms as the AEL tax group.

The Braemar, Glenbrook, Neighbourhood Energy and Redbank entities are not currently members of a tax consolidated group. They are stand-alone entities from a tax perspective, and accordingly any tax losses to the extent they exist are available to shelter any income from their respective operations.

	2010 $'000	2009 $'000
(e) Current tax liabilities		
Income tax payable/(receivable)	626	(366)
(f) Deferred tax balances		
Deferred tax liabilities comprise:		
Cash flow hedges	36,977	24,556
Intangibles	134,097	155,633
Operating lease rent receivable	6,661	5,519
Borrowing costs	5,099	13,794
Land, plant and equipment	170,658	181,433
Inventories	5,258	5,184
Other	10,749	9,013
Total deferred tax liability	369,499	395,132
Offset against deferred tax asset	(225,349)	(187,323)
Transferred to assets classified as held for sale (Cawse)	(1,479)	–
	142,671	**207,809**
Deferred tax assets comprise:		
Unused revenue tax losses – corporate(1)	130,968	138,976
Provisions	128,903	140,503
Borrowing costs	15,685	13,564
Land, plant and equipment	6,327	–
Cash flow hedges	63,708	70,804
Other	8,296	47,279
Total deferred tax asset	353,887	411,126
Offset against deferred tax liability	(225,349)	(187,323)
	128,538	**223,803**

(1) The Group expects to realise the deferred tax assets associated with tax losses through the generation of future net assessable income.

Taxable and deductible temporary differences arise from the following:

	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Purchase price adjustments $'000	Closing balance $'000
2010						
Gross deferred tax liabilities:						
Expenses capitalised	(89)	89	–	–	–	–
Accounts receivable	(453)	453	–	–	–	–
Cash flow hedges	(24,556)	(2,524)	(10,114)	–	–	(37,194)
Intangibles	(155,633)	21,536	–	–	–	(134,097)
Operating lease rent receivable	(5,519)	(1,142)	–	–	–	(6,661)
Borrowing costs	(13,794)	8,695	–	–	–	(5,099)
Land, plant and equipment	(181,433)	10,775	–	–	–	(170,658)
Inventories	(5,184)	(74)	–	–	–	(5,258)
Other	(8,471)	(2,774)	713	–	–	(10,532)
	(395,132)	**35,034**	**(9,401)**	**–**	**–**	**(369,499)**
Gross deferred tax assets:						
Unused revenue tax losses	138,976	(8,007)	–	–	–	130,969
Intangibles	–	317	–	–	–	317
Deductible equity raising costs	1,106	(539)	–	–	–	567
Accruals	412	1,461	–	–	–	1,873
Expenses capitalised	807	322	–	–	–	1,129
Provisions	140,503	(11,600)	–	–	–	128,903
Borrowing cost	13,564	2,121	–	–	–	15,685
Land, plant and equipment	–	6,327	–	–	–	6,327
Effect of hedge movements	70,804	14,504	(21,600)	–	–	63,708
Other	44,954	(42,812)	2,267	–	–	4,409
	411,126	**(37,906)**	**(19,333)**	**–**	**–**	**353,887**

8. INCOME TAX EXPENSE (CONTINUED)

(f) Deferred tax balances (continued)

	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Purchase price adjustments $'000	Closing balance $'000
2009						
Gross deferred tax liabilities:						
Expenses capitalised	(18,244)	3,652	–	14,503	–	(89)
Accounts receivable	(109)	(344)	–	–	–	(453)
Cash flow hedges	(72,930)	37,943	3,770	6,661	–	(24,556)
Intangibles	(58,427)	(9,886)	–	5,450	(92,770)	(155,633)
Operating lease rent receivable	(14,594)	109	–	8,966	–	(5,519)
Borrowing costs	(13,977)	(1,251)	–	1,434	–	(13,794)
Land, plant and equipment	(208,837)	(54,857)	–	55,756	26,505	(181,433)
Inventories	(6,204)	1,020	–	–	–	(5,184)
Other	(53,608)	44,481	(496)	(647)	1,799	(8,471)
	(446,930)	**20,867**	**3,274**	**92,123**	**(64,466)**	**(395,132)**
Gross deferred tax assets:						
Unused revenue tax losses	78,857	66,907	–	(14,797)	8,009	138,976
Deductible equity raising costs	1,617	(511)	–	–	–	1,106
Cash flow hedges	708	352	69,744	–	–	70,804
Accruals	443	130	–	(161)	–	412
Expenses capitalised	354	453	–	–	–	807
Provisions	58,321	72,706	–	(754)	10,230	140,503
Borrowing cost	317	13,247	–	–	–	13,564
Other	131,647	(98,883)	10,965	(126)	1,351	44,954
	272,264	**54,401**	**80,709**	**(15,838)**	**19,590**	**411,126**

9. EARNINGS PER SECURITY

	2010 Cents per security	2009 Cents per security
Basic earnings per stapled security attributable to the ordinary equity holders of AEG securities	(76.57)	(23.09)
Diluted earnings per stapled security attributable to the ordinary equity holders of AEG securities	(76.57)	(23.09)
The earnings and weighted average number of securities/shares used in the calculation of basic and diluted earnings per security/share are as follows:		
(Losses) attributable to securityholders ($)	(577,510,132)	(167,680,940)
Weighted average number of securities for the purposes of basic and diluted earnings per security	**754,197,310**	**726,328,872**

10. DISTRIBUTIONS

The Group has not paid any distributions to securityholders and does not expect to be in a position to do so for the foreseeable future (2009: No distributions).

As a result of the current circumstances in relation to the AFA Syndicate arrangements, Alinta Finance Australia Pty Ltd and its subsidiaries (the AFA Group) are in lock-up. Throughout the 2010 financial year and as at 30 June 2010, no intercompany loan repayments, interest or dividends were able to be paid from the AFA Group to the ultimate parent entity, Alinta Energy Limited.

The parent entity, AEL has a franking account credit balance of $11.7 million as at 30 June 2010 (30 June 2009: $9.1 million credit balance).

11. TRADE AND OTHER RECEIVABLES

	2010 $'000	2009 $'000
Current		
Trade receivables	103,649	96,188
Provision for doubtful debts	(1,943)	(4,818)
	101,706	91,370
Accrued income and unread sales		
External third parties	114,246	119,814
Goods and services tax receivable	–	7,222
Other receivables		
External third parties	3,126	3,453
Finance lease (Note 29)	3,461	5,244
Interest receivable	139	–
	222,678	**227,103**
Non-current		
Trade receivables	–	1,432
Operating lease receivable (Note 29)	16,125	13,384
Other receivables		
Finance lease (Note 29)	45,592	72,109
External third parties	105	–
	61,822	**86,925**

Information on credit risk and interest rate risk exposure of the Group is provided at Note 5.

Reconciliation of provision for doubtful debts

	2010 $'000	2009 $'000
Opening balance – 1 July	4,818	106
Charge for the year	2,239	4,818
Amounts recovered	(4,818)	–
Amounts written off	(296)	(106)
Closing balance – 30 June	**1,943**	**4,818**

12. INVENTORIES

	2010 $'000	2009 $'000
Stores	24,061	19,438
Raw materials including:		
Coal	11,662	12,172
Fuel oil	2,198	2,846
Natural gas	4,083	2,976
Other	–	1,292
	42,004	**38,724**

13. OTHER ASSETS

	2010 $'000	2009 $'000
Current		
Prepayment of operational expenses	34,654	22,342
Fuel prepayment(1)	1,000	1,320
Deposits(2)	–	10,463
Other	1,338	–
	36,992	**34,125**
Non-current		
Prepayment of operational expenses	–	1,533
Fuel prepayment(1)	19,931	20,891
Other	288	–
	20,219	**22,424**

(1) Prepaid future fuel requirements of the Redbank plant for a thirty year period. The prepayment is being amortised on a straight-line basis over that period, being the eligible service period, unless the actual amount of fuel delivered is less than the contractual amount.

(2) Deposits at 30 June 2009 represented forward payments for replacement parts for the Braemar Power Station.

14. ASSETS AND LIABILITIES HELD FOR SALE

	2010 $'000	2009 $'000
Assets classified as held for sale		
Cawse(1)	28,234	–
Oakey(2)	43,282	–
	71,516	**–**
Liabilities classified as held for sale		
Cawse(1)	10,735	–
Oakey(2)	70,000	–
	80,735	**–**

(1) AEG had an Energy Supply Agreement (**ESA**) to provide energy and other services to Norilsk's Cawse nickel mining operations. Norilsk put its operations into care and maintenance in late 2008. From that date Norilsk and AEG had been in dispute in respect of the ESA. Subsequent to 30 June 2010, AEG has accepted an offer from Norilsk for the sale of AEG's Cawse operations with consideration being applied to outstanding disputed receivables and the transfer of the plant to Norilsk. (Refer Note 37 subsequent events). In anticipation of a settlement agreement, the Group's interest in Cawse was classified as a held for sale asset at 30 June 2010.

(2) On 2 December 2009, AEG entered into agreements with Babcock & Brown International Pty Limited and various of its related entities (**B&B**), to terminate the various management and advisory agreements between the two groups and to settle outstanding debts and fees payable to B&B. The settlement was approved at an Extraordinary General Meeting of AEG securityholders on 22 February 2010. As part of the settlement arrangements, AEG undertook to appoint B&B as agent to realise the Group's 50% interest in the Oakey Power Station with the proceeds from sale (after certain allowed deductions) to pass to B&B. The sale had not completed as at 30 June 2010. Should the sale not be completed by 31 December 2010, B&B has the option to acquire the Oakey Power Station by 31 October 2011 at a nominated purchase price of its own determination. Should B&B not take up the option to acquire, the Oakey Power Station will revert to AEG. The Group continues to recognise $70 million worth of borrowings payable to B&B, which will be extinguished at the earlier of completion of the sale of the interest in Oakey to a third party or on 31 October 2011.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2010 $'000	2009 $'000
Investment in associates	–	46,550

Name of the entity	Principal activity	Ownership interest 2010 %	Ownership interest 2009 %	Share of net profit 2010 $'000	Share of net profit 2009 $'000	Equity accounted investment carrying amount 2010 $'000	Equity accounted investment carrying amount 2009 $'000
Oakey Power Holdings Pty Ltd[(1)]	Power generation	50	50	1,408	2,202	–	46,550
Summit Kwinana Holdings Pty Limited (formerly BBP Kwinana Pty Ltd)[(2)]	Power generation	–	–	–	(2,761)	–	–
				1,408	**(559)**	**–**	**46,550**

Each of the above associates is incorporated in Australia.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity.

(1) The Group's interests in Oakey Power Holdings Pty Ltd has been reclassified to assets held for sale at 30 June 2010 (Refer to Note 14 assets held for sale). As a result of the settlement arrangements with Babcock & Brown International Pty Limited, AEG no longer has any rights to profits or dividends from Oakey, effective 23 February 2010. The share of net profit above therefore reflects performance from the start of the financial year until 22 February 2010.

(2) Summit Kwinana Holdings Pty Limited (formerly BBP Kwinana Pty Ltd) became an associate entity of AEG on 18 December 2008 following the sale of ERM Power Investments Pty Ltd. AEG's interest in Summit Kwinana Holdings Pty Limited (formerly BBP Kwinana Pty Ltd) was sold on 19 March 2009.

	2010 $'000	2009 $'000
Movements in carrying amounts		
Carrying amount at the beginning of the financial year	46,550	49,025
Dividend received/receivable	(4,676)	(4,677)
Share of profit	1,408	2,202
Reclassified to assets held for sale	(43,282)	–
Carrying amount at the end of the financial year	**–**	**46,550**
Shares of associates' profit or losses		
Profit before income tax	3,060	1,484
Income tax expense	(1,652)	(2,043)
Profit after income tax	**1,408**	**(559)**

Summarised financial information of associates:	Group's share of Assets $'000	Group's share of Liabilities $'000	Group's share of Revenues $'000	Group's share of Profit/(loss) $'000
2010				
Oakey Power Holdings Pty Ltd	–	–	11,302	1,408
	–	**–**	**11,302**	**1,408**
2009				
Oakey Power Holdings Pty Ltd	61,635	50,937	16,138	2,202
Summit Kwinana Holdings Pty Limited (formerly BBP Kwinana Pty Ltd)	–	–	–	(2,761)
	61,635	**50,937**	**16,138**	**(559)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

16. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings $'000	Plant and equipment $'000	Assets under construction $'000	Furniture, fittings and equipment $'000	Total $'000
Cost					
Balance at 1 July 2008	**16,611**	**2,102,559**	**512,656**	**54,593**	**2,686,419**
Additions	1,122	86,301	212,360	537	300,320
Disposals	–	(3,065)	–	(522)	(3,587)
Decommissioning costs	–	61,656	–	–	61,656
Transfers (to)/from intangibles	–	96,596	(7,202)	–	89,394
Adjustment on acquisition	29,546	23,824	(15,424)	332	38,278
Divestment	(350)	(30,652)	(668,525)	(53,137)	(752,664)
Balance at 30 June 2009	**46,929**	**2,337,219**	**33,865**	**1,803**	**2,419,816**
Balance at 1 July 2009	**46,929**	**2,337,219**	**33,865**	**1,803**	**2,419,816**
Additions	17	71,615	37,797	113	109,542
Disposals	–	(35,541)	(1,549)	(8)	(37,098)
Decommissioning costs	–	34,926	–	–	34,926
Transfers (to)/from intangibles	–	–	(90)	–	(90)
Transfers (to)/from other assets	–	10,010		(209)	9,801
Reclassifications	1,237	3,598	(8,013)	156	(3,022)
Balance at 30 June 2010	**48,183**	**2,421,827**	**62,010**	**1,855**	**2,533,875**
Accumulated depreciation					
Balance at 1 July 2008	**–**	**(154,132)**	**–**	**(873)**	**(155,005)**
Depreciation expense	(835)	(118,970)	–	(678)	(120,483)
Disposals	–	306	–	523	829
Transfers to/(from) intangibles	–	(3,330)	–	–	(3,330)
Divestment	–	2,981	–	–	2,981
Balance at 30 June 2009	**(835)**	**(273,145)**	**–**	**(1,028)**	**(275,008)**
Balance at 1 July 2009	**(835)**	**(273,145)**	**–**	**(1,028)**	**(275,008)**
Depreciation expense	(835)	(130,516)	–	(254)	(131,605)
Disposals	–	33,157	–	72	33,229
Impairment	–	(4,074)	–	–	(4,074)
Balance at 30 June 2010	**(1,670)**	**(374,578)**	**–**	**(1,210)**	**(377,458)**
Net book value					
As at 30 June 2009	46,094	2,064,074	33,865	775	2,144,808
As at 30 June 2010	**46,513**	**2,047,249**	**62,010**	**645**	**2,156,417**

17. INTANGIBLES

	Goodwill $'000	Development costs $'000	Software and Licences $'000	Customer Base $'000	Other[1] $'000	Total $'000
Cost						
Balance at 1 July 2008	**1,982,267**	**86,433**	**89,606**	**397,708**	**224,354**	**2,780,368**
Additions	–	–	1,205	–	–	1,205
Acquisition accounting adjustments	5,355	–	–	64,971	(143,051)	(72,725)
Disposals	(45,615)	–	(18,168)	–	–	(63,783)
Reclassifications from/(to) property, plant and equipment	–	(86,433)	7,204	–	(10,164)	(89,393)
Balance at 30 June 2009	**1,942,007**	**–**	**79,847**	**462,679**	**71,139**	**2,555,672**
Balance at 1 July 2009	**1,942,007**	**–**	**79,847**	**462,679**	**71,139**	**2,555,672**
Additions	5	–	475	–	–	480
Disposals	(18)	–	–	–	–	(18)
Reclassifications between categories	–	–	2,928	(2,446)	(482)	–
Reclassifications (to)/from other balance sheet categories	–	–	90	–	(859)	(769)
Balance at 30 June 2010	**1,941,994**	**–**	**83,340**	**460,233**	**69,798**	**2,555,365**
Accumulated amortisation and impairment						
Balance at 1 July 2008	**(410,000)**	**(3,330)**	**(8,073)**	**(27,329)**	**(192)**	**(448,924)**
Reclassifications to property, plant and equipment	–	3,330	–	–	–	3,330
Amortisation expense	–	–	(4,886)	(50,397)	(95)	(55,378)
Impairment loss	(50,000)	–	(6,700)	–	–	(56,700)
Balance at 30 June 2009	**(460,000)**	**–**	**(19,659)**	**(77,726)**	**(287)**	**(557,672)**
Balance at 1 July 2009	**(460,000)**	**–**	**(19,659)**	**(77,726)**	**(287)**	**(557,672)**
Reclassifications to/(from) other balance sheet categories	–	–	–	–	(604)	(604)
Amortisation expense	–	–	(4,935)	(38,111)	(74)	(43,120)
Impairment loss	(634,304)	–	(21,622)	–	–	(655,926)
Balance at 30 June 2010	**(1,094,304)**		**(46,216)**	**(115,837)**	**(965)**	**(1,257,322)**
Net book value						
As at 30 June 2009	1,482,007	–	60,188	384,953	70,852	1,998,000
As at 30 June 2010	**847,690**	**–**	**37,124**	**344,396**	**68,833**	**1,298,043**

(1) Included in other intangibles is $67.3 million of trademarks that have been allocated to the Alinta West CGU. Alinta trademarks are considered to have indefinite useful lives given their brand characteristics and market position. Accordingly these trademarks are carried at unamortised cost and are subject to an annual impairment review.

17. INTANGIBLES (CONTINUED)

Allocation of goodwill to cash generating units for the purpose of impairment testing

Goodwill has been allocated to operating divisions for impairment testing that represents the lowest level associated with cash generation and management reporting. Cash generating units and the aggregate carrying amount of goodwill allocated to each unit is as follows:

	2010 $'000	2009 $'000
Alinta West (i)	558,335	1,083,335
WA Power (ii)	179,702	204,702
Flinders (iii)	75,025	75,042
Braemar (iv)	–	55,926
Bairnsdale (v)	34,623	34,623
Redbank (vi)	–	28,379
AESL (vii)	5	–
Total	**847,690**	**1,482,007**

Impairment

Included in the 2010 result is $669.9 million worth of impairment recognised against a number of assets. The primary reasons for impairment charges are noted below for each cash generating unit (**CGU**). Valuations were impacted by an unfavourable gas price arbitration outcome in the Alinta West CGU where the increase was unable to be passed through in full, as well as protracted softer gas and electricity demand and a general oversupply of generation capacity in the Western Australian and National Electricity Markets. Other impairments were the result of revised operating forecasts for the underlying cash generating units and from re-classifying the Cawse asset to "held for sale" prior to its disposal in August 2010.

The recoverable amount of the Group's CGUs were determined based on "value-in-use" calculations. These calculations use cash flow projections based on management approved annual financial budgets and forecasts. Given the uncertainties which exist in relation to the introduction of a carbon price or equivalent abatement policy, impairments were not recognised for the potential detrimental impacts of a such arrangements in future periods on the Group's generation CGUs. The valuations determined under the value in use approach may differ significantly from valuations prepared under a fair value less costs to sell approach.

The Group reached an understanding with the Syndicated Lenders on 21 September 2010 to pursue a proposal to exchange the AFA Syndicated Facility debt obligation for the equity interests of the subsidiaries of Alinta Finance Australia Pty Ltd. If this proposal is realised, it will result in the Group recognising a significant loss on disposal of those assets.

Following is a description of each CGU in the Alinta Energy Group and, where applicable, any impairment charges recognised:

(i) Alinta West

The Alinta West CGU comprises AEG's Western Australian retail business, its two Western Australian co-generation units at Wagerup and Pinjarra and its LPG business. These businesses were acquired by the Group in 2007. These businesses are located in the south western region of Western Australia.

The Alinta West CGU recognised an impairment of $525 million for the year to 30 June 2010 (30 June 2009: $50 million). The pre-tax discount rates applied in the Alinta West CGU value in use calculations were 13.2% for the retail and LPG sales components and 12.0% for the co-generation components. In the prior year, a weighted average discount rate of 12.8% had been applied to the cashflows of the Alinta West CGU. The Alinta West CGU forms part of the Energy Markets segment disclosed in Note 4 in which this impairment has been recognised.

Cash flow projections of the Alinta West CGU are based upon the five year modelled cash flows which include reasonable market pricing reviews on electricity contracts and tiered tariff increases on gas mass-market revenues. The cost of gas incorporates pricing in existing long-term contracts and management estimates of short-term gas purchases, new contracts and price resets. The terminal year cashflow assumption for the Alinta West CGU includes the impact of gradually increased electricity prices resulting from a form of carbon abatement policy from 2019. Cash flow projections beyond the five year period have been extrapolated using a steady 2–3% p.a. growth rate (2009: 2.5%).

The impairment charge of $525 million has been recognised against goodwill carried in the Alinta West CGU. The Alinta West CGU has been impacted by significant increases in forecast gas prices in the immediate term as a result of an unfavourable gas arbitration outcome which it was unable to pass through in full, protracted soft gas and electricity demand and a general oversupply of generation capacity. A reasonably possible increase in the pre-tax discount rate of 25 basis points would result in an additional impairment charge against the Alinta West CGU of $39.0 million. The Directors do not consider a detrimental change in any of the other key assumptions to be reasonably possible.

(ii) WA Power

The WA Power CGU comprises AEG's gas-fired power station operations at Port Hedland and Newman in North Western Australia which predominantly service the resources industry in that region. The WA Power CGU also includes the Group's 11.8% interest in the Goldfield Gas Pipeline (**GGP**) which transports gas from the Carnarvon Basin to Kalgoorlie in Western Australia.

The WA Power CGU recognised an impairment of $25 million for the year to 30 June 2010 (2009: Nil). The impairment charge resulted from a revision to re-contracting price assumptions for the assets. The pre-tax discount rate applied in the WA Power CGU value in use calculation was 11.64% (2009: 11.81%). The WA Power CGU forms part of the Generation segment disclosed in Note 4 in which this impairment has been recognised.

Cash flow projections for the WA Power CGU are in accordance with the Group's five year forecasts based upon the contractual provisions of the energy supply and purchase agreements underlying the assets. Cash flow projections beyond the five year period have been extrapolated using a steady 2–3% growth rate (2009: 2–3%) with a terminal value that reflects the useful life of the assets. Holding other assumptions constant, a reasonably possible increase in the pre-tax discount rate of 25 basis points would result in an additional impairment charge against the WA Power assets of $13.7 million. Given the nature of the WA Power assets, the Directors do not consider a detrimental change in any of the other key assumptions to be reasonably possible.

(iii) Flinders

The Flinders CGU comprises the operations of the Northern and Playford Power Stations and the dedicated Leigh Creek coal fields in South Australia. No impairment has been recognised in relation to these assets. In determining the Flinders CGUs value in use, the pre-tax discount rate used was 12.0% (2009: 12.2%). The Flinders CGU forms part of the Generation segment. The Directors do not consider a reasonably possible change in key assumptions for this CGU to result in an impairment.

(iv) Braemar

The Braemar CGU represents a gas-fired power station located among the coal seam gas fields in southern Queensland. An impairment charge of $60 million has been recognised against the Braemar CGU for the year to 30 June 2010 (2009: Nil). The impairment charge was primarily a result of downwards revisions to forecast electricity prices in the Queensland market relative to previous analyses. The pre-tax discount rate applied in the Braemar CGU value in use calculation was 12.0% (2009: 12.2%). The Braemar CGU forms part of the Generation segment disclosed in Note 4 in which this impairment has been recognised.

Cash flow projections for the Braemar CGU are in accordance with the Group's five year forecasts based upon the contractual provisions applicable to the asset and forecast pool prices for the Queensland electricity market. Cash flow projections beyond the five year period have been extrapolated using a steady 2–3% growth rate (2009: 2–3%) with a terminal value that reflects the useful life of the asset. Holding other assumptions constant, a reasonably possible increase in the pre-tax discount rate of 25 basis points would result in an additional impairment charge against the Braemar CGU of $7.7 million. A reasonably possible decrease in forecast Queensland electricity pool prices of 5% would result in an additional impairment charge against the Braemar CGU of $44.9 million. The Directors do not consider a detrimental change in any of the other key assumptions to be reasonably possible.

(v) Bairnsdale

The Bairnsdale CGU comprises operations of an open cycle gas-fired generator in the East Gippsland region of Victoria. No impairment has been recognised in relation to this asset. In determining the Bairnsdale CGUs value in use, the pre-tax discount rate used was 11.6% (2009: 11.8%). The Bairnsdale CGU forms part of the Generation segment. The Directors do not consider a reasonably possible change in key assumptions for this CGU to result in an impairment.

(vi) Redbank

The Redbank CGU represents a coal-fired power station in the Hunter Valley of New South Wales. An impairment charge of $50 million has been recognised against the Redbank CGU for the year to 30 June 2010 (2009: Nil). The impairment charge was the result of increases in forecast operating costs and a short-term reduction in contract revenue rates. The pre-tax discount rate applied in the Redbank CGU value in use calculation was 11.6% (2009: 11.8%). The Redbank CGU forms part of the Generation segment disclosed in Note 4.

Cash flow projections for the Redbank CGU are in accordance with the Group's five year forecasts, based upon the contractual provisions applicable to the asset. Cash flow projections beyond the five year period have been extrapolated using a steady 2–3% growth rate (2009: 2–3%) with a terminal value that reflects the useful life of the asset. Holding other assumptions constant, a reasonably possible increase in the pre-tax discount rate of 25 basis points would result in an additional impairment charge against the Redbank CGU of $5.1 million. The Directors do not consider a detrimental change in any of the other key assumptions to be reasonably possible.

17. INTANGIBLES (CONTINUED)

(vii) Alinta Energy Services Limited

During the year, the Group acquired Babcock and Brown Services Limited, the Responsible Entity of the Alinta Energy Trust from the Babcock & Brown Group. The entity was subsequently renamed, Alinta Energy Services Limited. Goodwill of $5,000 was recognised on the acquisition of this entity.

(viii)Other

An impairment charge of $9.9 million was recognised in relation to the Cawse asset as a result of it being classified as an asset held for sale. Refer to Note 14 for further information.

18. TRADE AND OTHER PAYABLES

	2010 $'000	2009 $'000
Current		
Trade payables	44,287	68,100
Accrued expenses	97,563	144,080
Accrued interest	58,122	21,835
Deferred income	–	6,496
Other payables	1,259	6,230
GST payable	676	4,848
Management fee payable – related party (Note 35(d))	–	1,166
	201,907	**252,755**
Non-current		
Other payables	516	10,165
	516	**10,165**

Earnings related financial liability

During the 2010 financial year, AEG reached agreement to restructure its major borrowing facility (the AFA Syndicated Facility). At the same time, AEG also settled a pricing dispute with a major gas supplier. As part of these agreements, AEG committed to make payments to its debt financers and gas supplier where the operating performance of its Western Australian retail and co-generation operations exceeded certain defined benchmarks.

Payment obligations relate to discrete financial year periods ending on 30 June 2013. The maximum amount payable under the obligation is $150 million.

As at 30 June 2010 AEG has recognised a non-current liability of $450,000 in respect of these obligations.

Capital restructuring financial liability

During the 2010 financial year the Group reached agreement to restructure its major borrowing facility (the AFA Syndicated Facility). As part of this agreement, an amount will be payable to the AFA syndicated members and a major gas supplier in the event that certain defined capital events surpass benchmark levels.

The minimum amount payable under the obligation if the defined capital events occur and surpass benchmark levels is $125 million.

At 30 June 2010, the Directors are of the view that payment of any such amount is extremely remote and the liability has been valued at $nil.

19. PROVISIONS

	2010 $'000	2009 $'000
Current		
Provision for onerous contracts[(1)]	22,240	88,600
Others	6,725	11,761
	28,965	**100,361**
Non-current		
Provision for onerous contracts[(1)]	90,270	99,400
Site restoration provision[(2)]	164,902	124,303
Others	616	–
	255,788	**223,703**

(1) AEG has a number of onerous contracts in respect of its gas purchase and supply arrangements in its Alinta West business with fixed and variable price counterparties. These contracts run off between 2010 and 2015. Anticipated cashflows have been discounted using discount rates that most closely match the maturities of the underlying contracts in place, less a risk premium factor of 1%. The range of pre-adjusted, pre-tax discount rates is 4.45% to 5.50%.

(2) AEG has raised provisions for future site remediation obligations for a number of its operating sites forecast to occur between 2022 and 2045. Estimates of future cash outflows have been derived from independent specialist reports and experts within the AEG Group. Future cash outflows are discounted to their present value by using a pre-tax discount rate of 3.69%.

Reconciliation of movement in provisions

	Onerous contract provision $'000	Site restoration provision $'000	Other provisions $'000
Description			
Carrying amount at 1 July 2008	391,303	56,640	20,902
Additional provision – site restoration assets capitalised (Note 16)	–	61,656	–
Additional provision recognised	112,390	3,241	4,374
Charge to income statement – unwind of discount	22,403	2,766	–
Decrease in provisions – sale of onerous contract (Note 7)	(148,681)	–	–
Decrease in provisions – sale of Tamar (Note 34)	(81,000)	–	–
Decrease in provisions – purchase price settlement	(66,273)		
Unused amounts reversed	–	–	(8,740)
Amount used during the period	(42,142)	–	(4,775)
Total provisions at 30 June 2009	**188,000**	**124,303**	**11,761**
Description			
Carrying amount at 1 July 2009	188,000	124,303	11,761
Additional provision – site restoration assets capitalised (Note 16)	–	34,926	–
Additional provision recognised	15,479	6,890	2,830
Charge to income statement – unwind of discount	4,508	5,895	–
Decrease in provisions – payments	(48,000)	–	(7,250)
Unused amounts reversed	(24,054)	–	–
Liabilities associated with assets held for sale	–	(7,112)	–
Amount used during the period	(23,423)	–	–
Total provisions at 30 June 2010	**112,510**	**164,902**	**7,341**

20. EMPLOYEE BENEFITS

	2010 $'000	2009 $'000
Current		
Provision for employee benefits	**26,589**	**22,947**
Non-current		
Provision for employee benefits	658	1,042
Defined benefit plan liability	49,184	46,854
	49,842	**47,896**

Disclosure on defined benefit superannuation plan

Scheme information

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. Some defined benefit members are also eligible for pension benefits in some cases. The defined benefit section of the plan is closed to new members. All new members receive accumulation only benefits, under a defined contribution plan.

The following balances relate to the Flinders Power Electricity Industry Superannuation Scheme. An actuarial review of the Flinders Power Electricity Industry Superannuation Scheme is performed every three years, with the last one performed for the year to 30 June 2008. AEG receives six monthly updates to its defined benefit plan obligations from the Plan's Trustee and its actuaries.

Reconciliation of the present value of the defined benefit obligation

Period ending	30 June 2010 $'000	30 June 2009 $'000
Present value of defined benefit obligations at the beginning of the period	**131,993**	**112,346**
Current service cost	3,677	3,175
Interest cost	6,027	6,287
Contributions by Scheme participants	2,141	2,461
Actuarial (gains)/losses	10,088	14,287
Benefits paid	(3,146)	(5,126)
Taxes and premiums paid	(1,763)	(1,440)
Transfers in	26	27
Curtailments	–	–
Settlements	–	(24)
Present value of defined benefit obligations at end of the year	**149,043**	**131,993**

Reconciliation of the fair value of plan assets

Fair value of plan assets at the beginning of the period	**85,139**	**98,175**
Expected return on plan assets	5,594	6,103
Actuarial gains/(losses)	2,532	(22,263)
Employer contributions	9,336	7,226
Contributions by Scheme participants	2,141	2,461
Benefits paid	(3,146)	(5,126)
Taxes and premiums paid	(1,763)	(1,440)
Transfers in	26	27
Settlements	–	(24)
Fair value of plan assets at end of the year	**99,859**	**85,139**

Reconciliation of the assets and liabilities recognised in the balance sheet

As at	30 June 2010 $'000	30 June 2009 $'000
Defined Benefit Obligation^	149,043	131,993
(–) Fair value of plan assets	99,859	85,139
Net superannuation liability/(asset)	**49,184**	**46,854**

^ includes contributions for tax provision

Expense recognised in income statement

Financial year ending	30 June 2010 $'000	30 June 2009 $'000
Service cost	3,677	3,175
Interest cost	6,027	6,287
Expected return on assets	(5,594)	(6,103)
Effect of curtailments/settlements	–	–
Superannuation expense/(income)	**4,110**	**3,359**

Amounts recognised in the Statement of Comprehensive Income

Financial year ending	30 June 2010 $'000	30 June 2009 $'000
Actuarial gains/(losses)	(7,556)	(36,550)

Cumulative amount recognised in the Statement of Comprehensive Income

As at	30 June 2010 $'000	30 June 2009 $'000
Cumulative amount of actuarial gains/(losses)	(35,898)	(28,342)

Scheme assets

The percentage invested in each asset class at the balance sheet date was:

As at	30 June 2010 %	30 June 2009 %
Australian equities	29	29
International equities	19	21
Fixed income	15	19
Property	12	16
Alternatives	17	8
Cash	7	6

Fair value of scheme assets

The fair value of scheme assets includes no amounts relating to:

- any of AEG's own financial instruments; or
- any property occupied by, or other assets used by AEG.

Expected rate of return on scheme assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has also been deducted from the expected return.

20. EMPLOYEE BENEFITS (CONTINUED)

Defined benefit superannuation plan (continued)

Actual return on scheme assets

Period ending	30 June 2010 $'000	30 June 2009 $'000
Actual return on scheme assets	8,126	(16,160)

Principal actuarial assumptions at the balance sheet date

As at	30 June 2010 % p.a	30 June 2009 % p.a.
Discount rate (active members)	4.75	5.00
Discount rate (pensioners)	5.00	5.50
Expected rate of return on scheme assets (active members)	6.60	6.50
Expected rate of return on scheme assets (pensioners)	7.60	8.00
Expected salary increase rate	4.20	5.00
Expected pension increase rate	3.00	3.00

Historical information

Period ending	30 June 2010 $'000	30 June 2009 $'000	30 June 2008 $'000	30 June 2007 $'000
Present value of defined benefit obligation	149,043	131,993	112,346	121,976
Fair value of scheme assets	99,859	85,139	98,175	109,610
(Surplus)/deficit in scheme	49,184	46,854	14,171	12,366
Experience adjustments (gain)/loss – scheme assets	(2,532)	22,263	6,044	(8,304)
Experience adjustments (gain)/loss – scheme liabilities	4,628	(4,078)	2,649	4,267

Expected contributions

Period ending	30 June 2011 $'000	30 June 2010 $'000
Expected employer contributions	9,494	9,563

Inherent uncertainties in determination of the defined benefit obligation

The present value of the defined benefit pension obligation depends on a number of assumptions covering future salary increases, expected returns on assets, inflation rates, discount rates, mortality and the proportion of members who take benefits as lump sums. Any changes in these assumptions will impact the present value of the defined benefit pension obligations.

AEG determines the appropriate discount rate at the end of each year following advice from an independent firm of actuaries. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit pension obligations. In determining the appropriate discount rate, AEG considers the interest rates of government bonds that are denominated in Australian dollars (the currency in which the benefits will be paid), and that have terms to maturity approximating the terms of the defined pension liability.

21. BORROWINGS

	2010 $'000	2009 $'000
Current		
Secured		
AFA Syndicated Facility Agreement[1]	–	2,541,477
Redbank Credit Facility Agreement[2]	16,701	13,960
Total secured current borrowings	16,701	2,555,437
Unsecured		
Babcock & Brown Group Facility – related party[3]	–	397,610
Other borrowings[4]	3,920	–
Other related party loans[4]	–	3,223
Total unsecured current borrowings	3,920	400,833
Total current borrowings	**20,621**	**2,956,270**
Non-current		
Secured		
AFA Syndicated Facility Agreement[1]	2,649,173	–
Redbank Credit Facility Agreement[2]	219,559	231,758
Total secured non-current borrowings	2,868,732	231,758
Unsecured		
Other borrowings[4]	32,930	–
Related parties[5]	–	39,744
Total unsecured non-current borrowings	32,930	39,744
Total non-current borrowings	**2,901,662**	**271,502**

Information on credit risk, fair value and interest rate risk exposure of the Group is provided at Note 5.

(1) AFA Syndicated Facility Agreement

AEG agreed terms to restructure the Alinta Finance Australia Syndicated Facility Agreement (formerly the "BBPF Syndicated Facility Agreement") on 22 December 2009. Financial Close in respect to the restructured facility was achieved on 22 January 2010. The borrowings associated with the Syndicated Facility were classified as non-current liabilities from that date. The restructured facility consists of the following six tranches:

- Tranche A: $1,600,000,000 maturing 16 June 2011, but extendable to 30 September 2012 at AEG's option
- Tranche B: $960,000,000 maturing 30 September 2012
- Working Capital: $60,000,000 revolving working capital facility maturing 16 June 2011, but extendable to 30 September 2012 at AEG's option
- Letter of Credit: $80,000,000 revolving letter of credit facility maturing 16 June 2011, but extendable to 30 September 2012 at AEG's option
- NWS Price Dispute facility: $70,000,000 maturing 22 July 2011 used to settle the North West Shelf arbitrated outcome
- Liquidity facility: $30,000,000 additional liquidity facility maturing 22 November 2010 (not drawn).

The amounts outstanding as at 30 June 2010 were $2,552,167,000 for Tranche A & B (30 June 2009: $2,531,477,000), $50,000,000 for Working Capital (30 June 2009: $10,000,000) and $70,000,000 (30 June 2009: nil) for NWS Price Dispute Facility. The effective interest rate on the debt as at 30 June 2010 was 7.82% (30 June 2009: 8.54%).

Letters of Credit amounting to $58,379,000 were outstanding as at 30 June 2010 (30 June 2009: $37,950,000).

The AFA syndicated debt is presented net of $22,995,000 capitalised borrowing costs.

The restructured facilities continue to be guaranteed by Alinta Finance Australia Pty Ltd (**AFA**) and its subsidiary entities (**AFA Group**). In addition the facilities are secured by an all assets security given by each member of the AFA Group. Each AFA Group entity is also required to use best endeavours to enter into tripartite arrangements with material contract counterparties in connection with the security being provided.

The Group reached an understanding with the Syndicated Lenders on 21 September 2010 to pursue a proposal to exchange the AFA Syndicated Facility Agreement debt for the equity interests of the subsidiaries of Alinta Finance Australia Pty Ltd. The transaction is subject to credit approvals, court approval, documentation and Securityholder approval. The arrangements are expected to have been substantially completed by 31 March 2011.

21. BORROWINGS (CONTINUED)

(2) Redbank Credit Facility Agreement

This facility consists of two tranches.

– Tranche 1, expiring in 2018 has $48,590,000 outstanding as at 30 June 2010 (30 June 2009: $52,944,000).

– Tranche 2, expiring in 2023 has $183,170,000 outstanding as at 30 June 2010 (30 June 2009: $189,074,000).

The effective average interest rate was 8.05% as at 30 June 2010 (30 June 2009: 8.05%).

In addition there is a working capital facility that is drawn to $4,500,000 (30 June 2009: $3,700,000).

In accordance with the terms of the Redbank Credit Facility the working capital facility and liquidity facility are reviewed after five years. This review was concluded on 3 March 2010. Both the working capital and liquidity facility have been extended to 15 November 2010 and are to be reviewed annually thereafter.

(3) Unsecured Related Party Loan (current) – Babcock & Brown Facility

AEG agreed to settle its outstanding borrowings and other amounts payable with Babcock & Brown International Pty Ltd and various of its related entities (**B&B**) on 2 December 2009. The terms of the settlement were finalised following securityholder approval of the settlement terms at an Extraordinary General Meeting of AEG on 22 February 2010. An amount of $70,000,000 remains payable to B&B as at 30 June 2010. The Group will be released from this obligation when either; the Oakey asset is sold to a third party and the proceeds of sale pass to B&B; or by 31 December 2011. Should the asset sale not be completed by 31 December 2010, B&B has the option to acquire the Oakey power station by 31 October 2011. Where the Oakey asset is sold, the Group is released from the $70,000,000 obligation regardless of the consideration paid by the acquirer. The Oakey asset is presented as an asset “held for sale” in the Group balance sheet. As such the $70,000,000 is not disclosed as borrowings on the Group balance sheet. It is disclosed in “Liabilities directly associated with non-current assets held for sale”.

(4) Other borrowings

This is a loan payable to Prime Infrastructure (formerly “Babcock & Brown Infrastructure”). Prime Infrastructure is not a related party of AEG in the current financial year. At balance date, the loan was to be repaid by 2017; it had an effective interest rate of 11.3%.

On 24 August 2010, Alinta EATM entered into an agreement with subsidiaries of Prime Infrastructure (**Prime**) which allows it to defer indefinitely payment of its otherwise scheduled monthly instalments to Prime. Alinta EATMs requirement to make monthly repayments would be reinstated if the Group conducts a significant recapitalisation. At that point the Directors of Alinta EATM would seek parent support in respect of the outstanding obligations. Directors of AEG will consider any such request at the time. As part of the agreement, AEG will pay Prime an amount of approximately $4.7 million upon agreement becoming effective, reducing the balance of its financial obligation of $35.9 million. This agreement is subject to the approval of Prime’s lenders.

(5) Unsecured Related Party Loans

This represents the loan payable to Prime Infrastructure (formerly “Babcock & Brown Infrastructure”), which was a related party at that time. At 30 June 2010 Prime Infrastructure is no longer a related party.

22. BORROWING COSTS

	2010 $’000	2009 $’000
Borrowing costs capitalised during the financial year	**3,726**	**23,907**
Weighted average capitalisation rate on funds borrowed generally	6.17%	8.48%

23. ASSETS PLEDGED AS SECURITY

The Group's borrowings are secured by a combination of fixed and floating charges over the assets of the entities supported by such borrowings.

	2010 $'000	2009 $'000
Current		
Cash and cash equivalents	56,569	105,540
Receivables	305,112	152,183
Derivative financial instruments	40,660	–
Inventories	42,037	–
Total current assets pledged as security	**444,378**	**257,723**
Non-current		
Receivables	73,029	137,821
Property, plant and equipment	2,156,422	2,118,916
Derivative financial instruments	9,035	–
Identifiable intangibles	433,774	–
Goodwill	847,685	1,482,007
Total non-current assets pledged as security	**3,519,945**	**3,738,744**
Total assets pledged as security	**3,964,323**	**3,996,467**

24. CONTRIBUTED EQUITY

	Stapled security in AEG		Units in AET		Shares in AEL	
	Number '000	$'000	Number '000	$'000	Number '000	$'000
Balance 1 July 2008	**726,329**	**1,771,931**	**726,329**	**1,115,713**	**726,329**	**656,218**
30 June 2009 movements	–	–	–	–	–	–
Balance 30 June 2009	**726,329**	**1,771,931**	**726,329**	**1,115,713**	**726,329**	**656,218**
Balance 1 July 2009	**726,329**	**1,771,931**	**726,329**	**1,115,713**	**726,329**	**656,218**
30 June 2010 movements	80,730	6,430	80,730	6,424	80,730	6
Balance 30 June 2010	**807,059**	**1,778,361**	**807,059**	**1,122,137**	**807,059**	**656,224**

	$'000
Stapled securities attributable to Company – AEL	656,224
Stapled securities attributable to Trust – AET	1,122,137
Total securities in consolidated Group as at 30 June 2010	**1,778,361**

25. RESERVES

	2010 $'000	2009 $'000
Hedge reserve	(43,643)	(99,243)
Foreign currency translation reserve	(514)	(715)
Transactions with non-controlling interests and other reserves	(28,722)	(23,629)
Total reserves	**(72,879)**	**(123,587)**
Attributable to:		
Equity holders of the Company – AEL	(72,879)	(123,587)
	(72,879)	**(123,587)**
Hedge reserve		
Balance at beginning of financial year	(99,243)	94,316
Gain/(loss) recognised	55,161	26,005
Cash flow hedges – movement in fair value of derivatives	32,153	(293,078)
Deferred tax arising on hedges	(31,714)	73,514
Balance at end of financial year	**(43,643)**	**(99,243)**
Foreign currency translation reserve		
Balance at beginning of financial year	(715)	(2,800)
Translation of foreign operations	201	2,085
Balance at end of financial year	**(514)**	**(715)**
Other		
Balance at beginning of financial year	(23,629)	(23,629)
Acquisition of additional ownership in Neighbourhood Energy	(5,545)	–
Other movements	452	–
Balance at end of financial year	**(28,722)**	**(23,629)**

Cessation of hedge accounting in relation to interest rate swaps

As at 30 June 2009 AEG was in negotiations with Alinta Finance Australia Pty Ltd (**AFA**) banking syndicate members, and did not have a unilateral right to defer settlement of the AFA Syndicated Debt facility for a 12 month period beyond 30 June 2010. As a consequence the debt was classified as a current liability. As part of these considerations, uncertainty arose as to whether the ongoing relationship between the debt (the hedged item) and interest rate swaps associated with the debt (the hedging instrument), would hold throughout their originally designated maturities.

Maintaining an effective accounting hedge relationship requires the transactions underpinning the arrangement to be highly probable. This is generally considered to require a degree of confidence in excess of 90%. While AEG was confident that the tenor of the hedged item would be extended periodically to re-match the maturities of the hedging instruments, there existed at 30 June 2009 a risk that the renegotiated loan tenor and interest rate would be such that the originally designated accounting hedge relationship would be broken and there would be a mismatch in term and duration of the debt and the hedging instruments. As a consequence AEG ceased hedge accounting as at 30 June 2009. Hedge accounting has not since been reinstated.

From 30 June 2009, changes in the fair value of the underlying interest rate swaps have been recognised directly in the profit and loss account. The balance held in reserves as at 30 June 2010 relating to the interest rate swaps of $73 million (30 June 2009: $105 million) was to be amortised out of reserves and into the profit and loss account over the remaining life of the interest rate swaps. The interest rate swaps had a remaining life of between five to 11 years.

The Group reached an understanding with the Syndicated Lenders on 21 September 2010 to pursue a proposal to exchange the AFA Syndicated Facility Agreement debt for the equity interests of the subsidiaries of Alinta Finance Australia Pty Ltd. The transaction is subject to various approval processes. If the proposed transaction is realised, the balance held in reserves will be expensed to the profit and loss account in full.

26. RETAINED EARNINGS

	2010 $'000	2009 $'000
Balance at beginning of financial year	(694,875)	(498,772)
Prior period adjustments	1,889	(4,077)
Net (loss)/profit attributable to stapled securityholders	(577,510)	(167,681)
Movement in Defined Benefit Obligation (Note 20)	(5,289)	(24,345)
Balance at end of financial year	(1,275,785)	(694,875)
Attributable to:		
Equity holders of the Company – AEL	(1,274,356)	(698,921)
Equity holders of the Trust – AET	(1,429)	4,046
	(1,275,785)	**(694,875)**

27. NET ASSETS PER SECURITY

	30 June 2010	30 June 2009
Net tangible assets per stapled security	(1.13)	(1.48)
Net assets per stapled security	0.53	1.31

AEG has negative net tangible assets per security of –$1.13 (2008: –$1.48). This is primarily attributable to the significant amount of goodwill paid by the Group when it acquired businesses in the 2008 financial year. While the intangibles and goodwill acquired at that time continue to represent future economic value to the Group, they are deducted for the purposes of calculating net tangible assets per security.

Net assets per security at 30 June 2010 was $0.53 (2009: $1.31).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

28. NOTES TO THE CASH FLOW STATEMENTS

(a) Reconciliation of cash and cash equivalents

	2010 $'000	2009 $'000
Cash and cash equivalents including:		
Restricted cash[1]		
Current	30,324	33,084
Non-current	–	54,499
Unrestricted cash		
Cash at bank	26,696	149,419
Deposits	48,065	2,813
	105,085	**239,815**

(1) Cash held on restricted deposit is interest bearing and its use is mainly restricted as a requirement of the Group's financing agreements. Amounts may be released for defined purposes if specified requirements are met to facilitate establishing reserve accounts for debt repayments, meeting the cost of future interest payments and capital expenditure, or as a deposit supporting a letter of credit or guarantee issued on behalf of the Group.

(b) Reconciliation of profit for the period to net cash flows from operating activities

	2010 $'000	2009 $'000
Loss for the period	(577,393)	(168,933)
Adjustments for:		
Share of associates' profit (less dividends)	(1,408)	559
Interest expense on discount unwind	10,798	–
Impairment loss	669,870	56,700
Depreciation and amortisation of non-current assets	174,833	176,613
Decrement on revaluation of financial derivatives	59,199	31,382
Debt forgiveness	(345,818)	–
Decrement on revaluation of PPHA derivative	13,629	37,523
Profit on sale of non-current assets	(18,651)	(94,117)
Amortisation of deferred borrowing costs	6,541	69,717
Foreign exchange gain/(loss)	(50)	418
Changes in net assets and liabilities, including items classified as held for sale:		
(Increase)/decrease in trade receivables and other receivables	2,815	190,010
(Increase)/decrease in inventories	(3,313)	(2,766)
Increase/(decrease) in trade and other payables	(68,109)	(91,796)
Increase/(decrease) in provisions	(61,537)	(109,517)
(Increase)/decrease in deferred tax assets	2,984	(54,049)
Increase/(decrease) in deferred tax liabilities	(112)	(21,219)
Increase/(decrease) in current tax liability	992	(12,852)
Net cash from operating activities	**(134,730)**	**7,673**

(c) Financing facilities

	2010 $'000	2009 $'000
Working capital facility		
Amount used	50,000	10,000
Amount unused	10,000	50,000
	60,000	**60,000**

(d) Non-cash financing activities

2010

AEG Securities with a fair value of $6,429,600 were issued to the Babcock & Brown Group in settlement of the Babcock & Brown debt. This debt settlement also included $345.8 million debt forgiven by the Babcock & Brown Group.

2009

No non-cash financing activities took place in 2009.

29. LEASES

Operating leases as a lessee

Certain AEG subsidiaries are lessees under operating leases relating to certain land, motor vehicles and roads.

	2010 $'000	2009 $'000
Non-cancellable operating lease payments		
Not longer than 1 year	2,122	2,261
Longer than 1 year and not longer than 5 years	2,698	3,752
Longer than 5 years	177	253
	4,997	**6,266**

Operating leases as a lessor

At certain power stations the contracts for sale of electricity to another party have been assessed as meeting the definition of an operating lease.

Total contingent rents recognised as income in the period were $51.8 million (2009: $60.3 million).

Future minimum lease receipts under non-cancellable operating leases in the aggregate and for each of the following periods:

	2010 $'000	2009 $'000
Non-cancellable operating lease		
Not longer than 1 year	63,110	29,284
Longer than 1 year and not longer than 5 years	250,976	146,593
Longer than 5 years	219,169	183,391
	533,255	**359,268**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

29. LEASES (CONTINUED)

Finance leases as a lessor

At certain power stations the benefits and risks associated with ownership have been assessed as being passed to the lessee, hence meeting the definition of finance leases.

	2010			2009		
	Total future payments	Unearned interest income	Present value	Total future payments	Unearned interest income	Present value
Finance lease receivable						
Not longer than 1 year[1]	**30,110**	12,987	17,123	**11,739**	6,494	5,244
Longer than 1 year and not longer than 5 years	**37,731**	12,511	25,220	**63,009**	22,238	40,772
Longer than 5 years	**22,245**	1,873	20,372	**34,366**	3,029	31,337
	90,086	27,371	62,715	**109,114**	31,761	77,353

(1) Current finance lease receivables have been classified as follows:

	2010			2009		
	Total future payments	Unearned interest income	Present value	Total future payments	Unearned interest income	Present value
Finance lease receivable						
Current						
Trade and other receivables (Note 11)	7,738	4,277	3,461	11,739	6,494	5,245
Assets classified as held for sale (Note 14)	22,372	8,710	13,662	–	–	–
	30,110	**12,987**	**17,123**	**11,739**	**6,494**	**5,245**
Non-current						
Trade and other receivables (Note 11)	**59,976**	**14,384**	**45,592**	**97,375**	**25,267**	**72,108**
	90,086	27,371	62,715	109,114	31,761	77,353

30. COMMITMENTS FOR EXPENDITURE

(a) Capital expenditure commitments

	2010 $'000	2009 $'000
Not longer than 1 year	26,097	68,454
Longer than 1 year and not longer than 5 years	74,188	34,815
	100,285	**103,269**

Capital expenditure commitments are required for power plant maintenance and expansion.

(b) Lease commitments
AEG has non-cancellable operating lease commitments (Note 29). At 30 June 2010 AEG did not have any commitments under finance leases.

(c) Other expenditure commitments

	2010 $'000	2009 $'000
Not longer than 1 year	78,066	72,142
Longer than 1 year and not longer than 5 years	306,435	284,694
Longer than 5 years	198,814	305,580
	583,315	**662,416**

Other expenditure commitments relate to significant commitments as a result of existing contracts such as purchase of gas, purchase of SRA's energy contracts, rail freight of coal and IT Infrastructure.

31. CONTINGENT ASSETS AND LIABILITIES

Contingent assets

Deferred consideration

Alinta Energy Markets
On 31 March 2010, AEL sold its 100% interest in Alinta Energy Markets Pty Ltd (**Alinta Energy Markets**). In the event that Alinta Energy Markets achieves certain performance criteria during the period 1 April 2010 to 31 December 2011 as specified in a "deferred consideration" clause in the sale and purchase agreement, additional cash consideration equal to 30% of the net positive margin (as agreed by both parties) could be received.

Tamar Power Project
During the prior year AEG sold its interest in the Tamar Power Station to the Tasmanian Government (Aurora Energy Tamar Valley). The asset was under construction at the date of sale and the contract for sale provided for AEG to continue to manage the construction to completion. While AEG was to be paid (and has received) fees for its services, AEG was also entitled, as an incentive, to share in any unspent contingency. Until the contract is complete and all costs and charges discharged, there is uncertainty on the recoverability of this sum. At the date of this report AEG estimates that it is probable, but not virtually certain, to receive a share of the unspent contingency amounting to approximately $1.6 million, in addition to receipts received during the current year of $15.6 million.

Contingent liabilities

Price determinations
As part of the normal operations of an energy company, there are prescribed contractual price determinations at regular intervals. These price reviews are typical in gas contracts and any retrospective adjustments arising out of the process would immediately crystallise into a liability.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

32. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1. Ownership interest is equal to the proportion of voting power held. All ownership interest is through ordinary shares.

Name of the entity	Country of incorporation	Ownership interest 2010 %	Ownership interest 2009 %
Parent entity			
Alinta Energy Limited (formerly Babcock & Brown Power Limited)*	Australia		
Stapled entity			
Alinta Energy Trust (formerly Babcock & Brown Power Trust)	Australia		
Subsidiaries of AEL			
Alinta Energy Services Limited (formerly Babcock & Brown Power Services Limited)	Australia	100	–
Alinta Holdings Pty Limited (formerly BBP Holdings Pty Limited)*	Australia	100	100
CMO Energy NZ Ltd	New Zealand	100	100
Alinta Advisory Pty Ltd (formerly Babcock & Brown Power Advisory Pty Ltd)*	Australia	100	100
Alinta Braemar Pty Ltd (formerly BBP Braemar Power Pty Ltd)	Australia	100	100
Alinta Braemar 2 Pty Ltd (formerly Babcock & Brown Braemar 2 Pty Ltd)	Australia	100	100
Braemar Power Partners Pty Limited	Australia	100	100
Alinta Braemar 1 Pty Ltd (formerly Babcock & Brown Braemar 1 Pty Ltd)	Australia	100	100
Alinta Braemar 3 Pty Ltd (formerly Babcock & Brown Braemar 3 Pty Ltd)	Australia	100	100
Braemar Power Project Pty Limited	Australia	100	100
Braemar Power Finance Pty Limited	Australia	100	100
Alinta Oakey Pty Ltd (formerly BBP Oakey Power Pty Ltd)*	Australia	100	100
Alinta Flinders Pty Ltd (formerly Babcock & Brown Flinders Pty Ltd)	Australia	100	100
Flinders Operating Services Pty Limited	Australia	100	100
Flinders Power Finance Pty Limited	Australia	100	100
Flinders Power Partnership	Australia	100	100
Flinders Coal Pty Limited	Australia	100	100
Flinders Osborne Trading Pty Limited	Australia	100	100
Alinta Osborne Pty Ltd (formerly Babcock & Brown Osborne Pty Ltd)	Australia	100	100
Alinta Malta Holdings Limited (formerly B&B Power Malta Holdings Limited)	Malta	100	100
Alinta Malta Flinders Limited (formerly B&B Power (Malta) Flinders Limited)	Malta	100	100
Alinta Luxembourg Sarl (formerly B&B Power Luxembourg Sarl)	Luxemburg	100	100
Flinders Power Holdings GmbH	Switzerland	100	100
Flinders Labuan (No.1) Ltd	Australia	100	100
Flinders Labuan (No.2) Ltd	Australia	100	100
NPP Redbank LLC*	USA	100	100
NPP Redbank 2 LLC*	USA	100	100
Alinta Redbank Pty Ltd (formerly BBP Redbank Power Pty Ltd)	Australia	100	100
Redbank Project Pty Limited	Australia	100	100
Redbank Construction Pty Limited	Australia	100	100
Alinta Ecogen Pty Ltd (formerly BBP Ecogen Power Pty Ltd)*	Australia	100	100
Alinta Power Cat Pty Ltd (formerly BB Power Cat Pty Ltd)	Australia	100	100
Alinta Uranquinty Pty Ltd (formerly BBP Uranquinty Pty Ltd)*	Australia	100	100

Name of the entity	Country of incorporation	Ownership interest 2010 %	2009 %
Alinta One Pty Ltd (formerly BBP One Pty Ltd)*	Australia	100	100
Alinta Energy Trading Pty Limited (formerly BBP Energy Trading Pty Limited)*	Australia	100	100
Alinta Neerabup Pty Ltd (formerly BBP Neerabup Holdings Pty Ltd)*	Australia	100	100
Alinta Servco Pty Ltd (formerly BBP Servco Pty Ltd)*	Australia	100	100
Neighbourhood Energy Pty Limited	Australia	100	65
Alinta Finance Australia Pty Ltd (formerly BBP Finance Australia Pty Ltd)*	Australia	100	100
Alinta Energy Markets Pty Ltd (formerly BBP Energy Markets Pty Ltd)	Australia	–	100
Alinta Power Cat Sub 1 Pty Ltd (formerly BB Power Cat Sub 1 Pty Ltd)	Australia	100	100
Alinta Power Cat Sub 2 Pty Ltd (formerly BB Power Cat Sub 2 Pty Ltd)	Australia	100	100
Alinta Power Cat Sub 3 Pty Ltd (formerly BB Power Cat Sub 3 Pty Ltd)	Australia	100	100
Alinta Power Cat Sub 4 Pty Ltd (formerly BB Power Cat Sub 4 Pty Ltd)	Australia	100	100
Alinta Power Cat Sub 5 Pty Ltd (formerly BB Power Cat Sub 5 Pty Ltd)*	Australia	100	100
Alinta Energy (Australia) Pty Ltd (formerly Alinta Energy Pty Ltd)	Australia	100	100
Alinta Energy Power Generation Pty Limited*	Australia	100	100
Alinta EATM Pty Limited*	Australia	100	100
Alinta Energy (New Zealand) Ltd	New Zealand	100	100
Alinta Pty Limited	Australia	100	100
Alinta Sales Pty Limited	Australia	100	100
Alinta Cogeneration (Pinjarra) Pty Limited	Australia	100	100
Alinta Cogeneration (Wagerup) Pty Limited	Australia	100	100
Alinta Cogeneration Finance Pty Limited	Australia	100	100
Alinta APG Pty Limited	Australia	100	100
Alinta APGMW Pty Limited	Australia	100	100
Alinta ACP Pty Limited	Australia	100	100
Alinta ENZ Ltd	Bermuda	100	100
Alinta ENZF Pty Limited	New Zealand	100	100
Alinta DVP Pty Limited	Australia	100	100
Alinta DEBH Pty Limited	Australia	100	100
Alinta DEBP Pty Limited	Australia	100	100
Alinta DEBO Pty Limited	Australia	100	100
BB Power Unit Trust No 1	Australia	100	100
Alinta ED Limited	Australia	100	100
Alinta Power Trust	Australia	100	100
Alinta DAPH Pty Limited	Australia	100	100
Alinta DAPF Pty Limited	Australia	100	100
Alinta DEWAH Pty Limited	Australia	100	100
Alinta DEWAP Pty Limited	Australia	100	100
Alinta DIC Pty Limited	Australia	100	100
Alinta Power Sub Pty Limited	Australia	100	100
Alinta Energy (LPG) Pty Limited	Australia	100	100
Alinta Electricity Trading Pty Limited	Australia	100	100

* These companies are members of the Alinta Energy Limited tax consolidated group at 30 June 2010.

33. MATERIAL INTERESTS IN ENTITIES WHICH ARE NOT CONTROLLED ENTITIES

Name of equity accounted associates, joint ventures and other investments	Ownership interest held as at 30 June 2010 %	Contribution to net profit/(loss) after tax for the year ended 30 June 2010 $'000	Ownership interest held as at 30 June 2009 %	Contribution to net profit/(loss) after tax for the year ended 30 June 2009 $'000
Oakey Power Holdings Pty Ltd[(1)]	50	1,408	50	2,202
Summit Kwinana Holdings Pty Limited (formerly Babcock and Brown Kwinana Pty Ltd)[(2)]	–	–	–	(2,761)
		1,408		**(559)**

(1) On 2 December 2009, AEG entered into agreements with Babcock & Brown International Pty Limited (**B&B**), to terminate the various management and advisory agreements between the two groups and to settle outstanding debts and fees payable to the B&B. The settlement was approved at the Extraordinary General Meeting of 22 February 2010. As part of the settlement arrangements, AEG undertook to appoint B&B as agent to realise AEG's 50% interest in the Oakey Power Station with the sale proceeds (after certain allowed deductions) passing to B&B. As a result of the settlement, AEG no longer has any rights to profits or dividends from Oakey from 23 February 2010. The net contributions noted above therefore reflect contributions received from the start of the year up until 22 February 2010.

(2) AEG's 40% interest in ERM Power Investments Pty Ltd (**ERM**) was sold on 18 December 2008. ERM held 50% of the Newgen Power Kwinana Partnership. AEG maintained a 50% interest in the Newgen Power Kwinana Partnership via its subsidiary, Summit Kwinana Holdings Pty Limited (formerly Babcock and Brown Kwinana Pty Ltd), which was equity accounted until Summit Kwinana Holdings Pty Limited (formerly Babcock and Brown Kwinana Pty Ltd) was disposed on 19 March 2009.

34. CHANGES IN THE COMPOSITION OF THE CONSOLIDATED GROUP

(a) Disposal of business

30 June 2010

(i) Energy Markets

On 31 March 2010, AEL sold its 100% interest in Alinta Energy Markets. Alinta Energy Markets holds an agreement to supply power to the Sydney Desalination Plant (owned by Sydney Water). There is a contingent asset in relation to further proceeds that may be realised up until 31 December 2011 subject to Energy Markets' operating performance. For more information, refer to Note 31 – Contingent assets and liabilities

(ii) Tamar Power Project

During the previous financial year AEG sold its interest in the Tamar Power Station to the Tasmanian Government (Aurora Energy Tamar Valley). The asset was under construction at the date of sale and the contract for sale provided for AEG to continue to manage the construction to completion. While AEG was to be paid (and has received) fees for its services, AEG was also entitled, as an incentive, to share in any unspent contingency. Until the contract was complete and all costs and charges discharged, there was uncertainty on the recoverability of this sum. During the 2010 year, the contingent consideration received was $15.6 million.

Financial performance of entities disposed

	Tamar Power Project $'000	Energy Markets $'000	Total $'000
Revenue	–	22,163	22,163
Expenses	–	(18,545)	(18,545)
Profit before income tax of disposed businesses	**–**	**3,618**	**3,618**
Gain on disposal before income tax	–	6,326	6,326
Profit from disposed businesses	**–**	**9,944**	**9,944**

Details of sale of entities

	Tamar Power Project $'000	Energy Markets $'000	Total $'000
Net consideration received or receivable	15,611	9,944	25,555
Carry amount of net assets sold	–	(3,618)	(3,618)
Gain on disposal before tax	**15,611**	**6,326**	**21,937**

30 June 2009

The results of the disposed operations within the year to 30 June 2009 are presented below.

	Uranquinty $'000	Ecogen $'000	Tamar $'000	ERM $'000	Kwinana $'000	Neerabup $'000	Total $'000
Revenue	–	20,472	–	–	7,322	–	**27,794**
Expenses	–	(19,508)	(1,796)	–	(8,683)	–	**(29,987)**
Profit/(loss) before income tax		964	(1,796)	–	(1,361)	–	**(2,193)**
Income tax (expense)/income	–	1,422	(11,141)	–	292	–	**(9,427)**
Profit/(loss) after income tax of disposed operations	**–**	**2,386**	**(12,937)**	**–**	**(1,069)**	**–**	**(11,620)**

The following is a summary of the details of operations disposed of during the year to 30 June 2009.

	Uranquinty $'000	Ecogen $'000	Tamar $'000	ERM $'000	Kwinana $'000	Neerabup $'000	Total $'000
Net consideration received or receivable	168,121	79,000	100,000	21,197	58,150	1,672	**428,140**
Selling cost	(3,301)	(30)	(2,365)	–	(613)	(960)	**(7,269)**
Net disposal consideration	164,820	78,970	97,635	21,197	57,537	712	**420,871**
Carry amount of net assets sold	64,047	78,224	98,547	21,703	60,089	4,144	**326,754**
Gain/(loss) on disposal before tax	**100,773**	**746**	**(912)**	**(506)**	**(2,552)**	**(3,432)**	**94,117**

(b) Acquisition of business

During the year ended 30 June 2010, AEG acquired the following entities.

Name of business acquired in 2010 year	Date of acquisition	Ownership interest in shares/units %	Cost of acquisition $'000
Neighbourhood Energy[(1)]	1 October 2009	100	2,950
Alinta Energy Services Limited[(2)]	15 December 2009	100	5,000

(1) During the year, the Group acquired the remaining 36% of shares in Neighbourhood Energy Pty Ltd (already a subsidiary of the Group) for $2,950,000 in cash. Following the acquisition of the shares Neighbourhood Energy Pty Ltd became a 100% owned subsidiary of AEG.

(2) The Group acquired 100% of Babcock & Brown Power Services Limited on 15 December 2009 and renamed the entity Alinta Energy Services Limited (**AES**). AES is the Responsible Entity of Alinta Energy Trust. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration	
Cash	**5,000**
The assets and liabilities recognised as a result of the acquisition are as follows:	
Cash	5,213
Other receivables	4
Other payables	(222)
Net identifiable assets acquired	**4,995**
Goodwill acquired on acquisition	5
Net assets	**5,000**

During the year ended 30 June 2009, AEG did not acquire any businesses.

35. RELATED PARTIES DISCLOSURES

(a) Equity interests in related parties

Equity interests in subsidiaries
Details of the percentage ownership held in subsidiaries are disclosed in Note 32 to the financial statements.

Equity interests in associates
Details of interests in associates are disclosed in Note 15 to the financial statements.

(b) Directors and key management personnel disclosures

Detailed remuneration disclosures are provided in the Remuneration Report section of the Directors report on pages 37 to 42 of the annual report.

Details of Directors and key management personnel
The following persons were Directors of AEL at any time during the year, up to the date of this report:

Name	
Mr Len Gill (Chairman)	
Mr Ross Rolfe (Managing Director and Chief Executive Officer)	
Mr Peter Kinsey	
Mr Rod Keller	Appointed 27 April 2010
Mr John Fletcher	Resigned 13 April 2010

Senior Executives of the business considered to be key management personnel (**KMP**) of AEG during the year were:

Name		
Mr Ross Rolfe	Chief Executive Officer	
Mr Peter Brook	Chief Financial Officer	
Mr Brian Green	Chief Operating Officer	
Mr Len Chersky	General Manager, Business Strategy and Performance	Appointed 2 March 2010[*]
Mr Scott Turner	General Manager, Energy Markets	Appointed 1 September 2009[*]
Mr Zeki Akbas	General Manager, Alinta Sales	Appointed 10 August 2009, resigned 31 July 2010
Mr Victor Browner	General Manager, Alinta Sales (Acting)	Acting up until 30 June 2009
Mr Andrew Bills	General Manager, Investments	Resigned 30 November 2009
Mr Andrew Kremor	General Manager, Energy Markets	Resigned 31 August 2009

Unless otherwise stated, the Directors and KMP have held their position for the entire financial year.

* Messrs Chersky and Turner were employees of the Group prior to their appointment to the KMP roles above.

Key management personnel remuneration
The aggregate remuneration of the KMP of AEG for the year ended 30 June 2010 and 2009 is set out below:

	2010 $'000	2009 $'000
Short-term employee benefits	6,558,972	4,709,296
Post-employment benefits	105,129	126,282
Other long-term benefits	777,206	227,509
Termination benefits	–	406,615
Share-based payments[(1)]	–	(360,455)
Total	**7,441,307**	**5,109,247**

(1) The 2009 balances include losses as a result of Executives forfeiting benefits previously available under Babcock & Brown Group (**B&B**) sponsored equity settled and cash settled share-based payment schemes, including Share Awards, B&B Bonus Deferral Rights (**BDRs**) and performance-based option schemes. Benefits were forfeited as a result of the cessation of employment relationships with B&B during 2009.

Options held in AEG

The KMP did not hold any options in AEG over the years ending 30 June 2010 and 30 June 2009, nor are there any options outstanding in AEG.

Security holdings in AEG

Outlined below are the security holdings of the KMP over the years ending 30 June 2009 and 30 June 2010 in AEG:

	Balance 30 June 2008 Number	Acquired during the year Number	Sold during the year Number	Balance 30 June 2009 Number	Acquired during the year Number	Sold during the year Number	Balance 30 June 2010 Number
Directors							
Mr Ross Rolfe	–	–	–	–	–	–	–
Mr Len Gill	78,000	4,229[1]	–	82,229	–	–	82,229
Mr Peter Kinsey	16,000	–	–	16,000	–	–	16,000
Mr Rod Keller	–	–	–	–	–	–	–
Mr John Fletcher	108,767	–	–	108,767	–	–	108,767[2]
KMP							
Mr Peter Brook	–	–	–	–	28,000	–	28,000
Mr Brian Green	300	–	–	300	–	–	300
Mr Len Chersky	–	–	–	–	–	–	–
Mr Scott Turner	–	–	–	–	–	–	–
Mr Zeki Akbas	–	–	–	–	–	–	–
Mr Victor Browner	6,978	–	–	6,978	–	–	6,978[2]
Mr Andrew Bills	–	–	–	–	–	–	–[2]
Mr Andrew Kremor	–	–	–	–	–	–	–[2]

(1) Acquired as a consequence of the closure of a financial product in which Mr Gill's superannuation fund had invested. Refer to ASX announcement dated 22 January 2009.

(2) Effective as at date of respective resignation.

Securities granted as remuneration

No securities were granted as remuneration to the Directors and KMP during the financial year and no securities were acquired upon the exercise of options during the financial year. Directors are not eligible for securities as remuneration.

(c) Key management personnel disclosures

Loans to key management personnel and their personally related entities from AEG

No loans have been made by AEG to Directors and KMP over the years ending 30 June 2010 and 30 June 2009.

(d) Other related party transactions

Transactions involving other related parties

Payables to related parties are disclosed in Note 18. Transactions were made on normal commercial terms and conditions and under normal market rates. Transactions between wholly owned subsidiaries eliminate on consolidation. Transactions with associates are with Oakey Power Holdings Pty Ltd while transactions with other related parties are associated with Babcock & Brown International Group and Babcock & Brown Infrastructure. During the period, Babcock & Brown International Group and Babcock & Brown Infrastructure sold their shareholdings in AEG and is not considered to be a related party at balance date.

There were no consultancy payments made for the year ended 30 June 2010 (30 June 2009: $nil). In addition, there were no receivables or payables at year end to other related parties for 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

35. RELATED PARTIES DISCLOSURES (CONTINUED)

(d) Other related party transactions (continued)

Custodian, responsible entity and manager fees and costs
During the year, the Group announced the settlement of its arrangements with Babcock & Brown International Pty Ltd and its related entities (**B&B**). This settlement resulted in the termination of the management and advisory agreements. The management agreements had previously resulted in B&B being entitled to various fees, which included a base fee, incentive fee, Responsible Entity fee and financial advisory fees. Total fees accrued in relation to these arrangements during the current year were $259,000 (2009: $5,134,000). As a result of the settlement, all amounts accrued in the current year were forgiven. During the period, B&B sold its shareholdings in AEG and is not considered to be a related party at balance date.

Finance costs
As referred to in Note 14, the separation of AEL from Babcock & Brown Limited (**B&B**) was formalised and made effective on 22 February 2010. As part of the capital restructuring process, it was agreed that a portion of the debt ($345.8 million) owed to B&B would be forgiven. As noted above, B&B sold its shareholdings in AEG and is not a related party at balance date. Finance costs noted below relate to costs incurred up until the date in which B&B sold their shares in AEG.

(e) Balances outstanding arising from Related Party transactions

	Note	2010 $	2009 $
Trade and other payables			
Current			
Trade payables			
Other		–	32,366,000
	18	**–**	**32,366,000**
Borrowings			
Current – Unsecured			
Other		–	400,833,000
	21	**–**	**400,833,000**
Non-Current Unsecured			
Associates		–	2,905,000
Other		–	36,839,000
	21	**–**	**39,744,000**
Revenue			
Dividend income			
Associates		–	8,465,000
	7	–	**8,465,000**
Other revenue			
Associates		–	89,000
	7	**–**	**89,000**
Expenses			
Management charges			
Other		259,000	5,134,000
	7	**259,000**	**5,134,000**
Finance costs			
Subsidiaries		–	–
Other		22,942,000	56,753,000
	7	**22,942,000**	**56,753,000**
Other expenses			
Other		–	2,212,000
	7	**–**	**2,212,000**

36. REMUNERATION OF AUDITORS

The following fees were paid or payable for services provided by the auditor of their related practices and non-related audit firms.

	2010 $	2009 $
(a) Audit services		
*PricewaterhouseCoopers (**PwC**) Australian firm*		
Audit and review of financial statements	2,306,000	2,464,000
Non-PricewaterhouseCoopers audit firms for the audit or review of financial statements of any entity in the Group(1)	70,000	153,000
Total remuneration for audit services	**2,376,000**	**2,617,000**
(b) Non-audit services		
PricewaterhouseCoopers Australian firm		
Due diligence services	2,441,000	977,000
Legal services(2)	54,000	2,015,000
Other	34,000	68,000
Non-PricewaterhouseCoopers audit firms		
Tax compliance services	420,000	579,000
Transition consulting and other services	1,006,000	2,002,000
Total remuneration for non-audit services	**3,955,000**	**5,641,000**

(1) Fees paid to Deloitte for audit services provided in respect of the Group's subsidiary Redbank Project Pty Limited.

(2) Fees paid to PwC for legal services in relation to Redbank. PwC was engaged by the previous owner of Redbank and does not perform the statutory audit of Redbank Project Pty Ltd in accordance with the Group's auditor independence policy.

37. SUBSEQUENT EVENTS

Syndicate Lender deleveraging proposal

On 21 September 2010, AEG reached an understanding with the Syndicate Lenders to discharge all of the AFA Syndicated Facility debt owed to the Syndicate Lenders by its primary financing subsidiary Alinta Finance Australia Pty Ltd (**AFA**) in exchange for the equity interests in AFA's subsidiaries. The proposed arrangements which are subject to Securityholder approval would see the Group's operating assets, with the exception of the Redbank and Oakey Power Stations, transferring to a new entity wholly owned by the Syndicate Lenders. Under the proposal, Securityholders will also be asked to approve the destapling of the Alinta Energy Limited shares from the Alinta Energy Trust units, permit a Group subsidiary to acquire all Securityholders' Trust units for 10 cents per unit and agree to constitutional changes which will facilitate the future management of the remaining business. Following implementation of the proposal, Securityholders will continue to own their Alinta Energy Limited shares which will have a continuing economic interest in the Redbank Power Station. No further distributions are expected to be made from the continuing Group. The continuing group's 50% interest in the Oakey Power Station is currently held for the economic benefit of Babcock & Brown International Pty Ltd.

If the proposal is realised, there will be a number of significant changes to the financial position of the Group including but not limited to an extinguishment of the AFA Syndicated Facility debt obligation and a significant loss on disposal of the Group's interest in the assets in the AFA subsidiaries. The consequences of the transaction are being considered by the Directors and will be reflected in information releases from the Group in the 2011 financial year.

Alinta EATM

On 24 August 2010, Alinta EATM Pty Ltd entered into an agreement with subsidiaries of Prime Infrastructure (**Prime**), which allows it to defer indefinitely, payment of its otherwise scheduled monthly instalments to Prime. The requirement to make monthly repayments would be reinstated if the Group conducts a significant recapitalisation. At that point the Directors of Alinta EATM would seek parent support in respect of the outstanding obligations. The Directors of AEG will consider any such request at the time. As part of the agreement, AEG will pay Prime an amount of approximately $4.7 million upon the agreement becoming effective, reducing the balance of its financial obligation of $35.9 million. This agreement is subject to the approval of Prime's lenders.

Cawse settlement

On 10 August 2010, AEG agreed to sell the Cawse Power Station and associated infrastructure to Norilsk Nickel Cawse Pty Ltd (**Norilsk**) and to terminate the associated energy supply and ancillary agreements. The transaction realised proceeds of $17.5 million. In anticipation of the sale, the Group had classified its interest in Cawse as an asset held for sale as at 30 June 2010 with an impairment charge of $9.9 million, which limits the profit and loss impacts of the Cawse sale to the 30 June 2010 financial year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

38. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

	Parent	
Balance sheet	2010 $'000	2009 $'000
Current assets	103,453	36,851
Total assets	134,068	898,552
Current liabilities[1]	(1,229,539)	(436,910)
Total liabilities	(1,229,539)	(1,496,241)
Net assets	**(1,095,471)**	**(597,689)**
Shareholders' equity:		
Issued capital	656,224	656,218
Reserves	–	–
Retained earnings	(1,751,695)	(1,253,907)
Total equity	**(1,095,471)**	**(597,689)**
Profit/(loss)	**(497,789)**	**(1,733,079)**
Total comprehensive income for the year	**(497,789)**	**(1,733,079)**

(1) Includes $1,120 million loan payable to Alinta Energy Trust. The terms of the loan require that the loan is payable by June 2017 or earlier at the request of Alinta Energy Trust. The Directors do not anticipate the loan being called in the immediate future.

(b) Guarantees entered into by Alinta Energy Limited
Alinta Energy Limited has not provided any secured financial guarantees.

Alinta Energy Limited has given unsecured guarantees in respect of the following:

(i) The provision of financial support to Neighbourhood Energy Pty Ltd to enable it to pay its debts as and when they become due (subject to annual review).

(ii) As a condition to Alinta Energy Limited utilising Babcock & Brown International Pty Ltd's (**BBIPL**) credit rating as a means of providing the necessary support and/or guarantees in respect of the Osborne Contracts, BBIPL required Alinta Energy Limited to provide an indemnity to the extent of any liability incurred by BBIPL as guarantor.

(iii) A financial support letter in favour of Alinta Holdings Pty Ltd (**AEH**) to facilitate (**AEH**) providing a solvency warranty in connection with the Kwinana sale and purchase agreement.

(iv) Alinta Energy Limited guarantees the obligations of Alinta Power Cat Pty Ltd in relation to the Participation Deed December 2007 (the transaction document executed as part of the 2007 Alinta acquisition consortium arrangements).

No liability was recognised by Alinta Energy Limited in relation to these guarantees, as the likelihood of payment is not probable and the fair value of the guarantees cannot be reliably estimated.

(c) Contingent liabilities of the Alinta Energy Limited
There are no material contingent liabilities in existence at the time of this report.

(d) Contractual commitments for the acquisition of property, plant or equipment
There are currently no contractual commitments for the acquisition of property plant or equipment by Alinta Energy Limited.

(e) Critical accounting estimates and judgments
AEL has inter-company loans receivable from, and an investment in, Alinta Holdings Pty Ltd (**AEH**) which has a combined carrying amount of $75 million. Significant judgment has been applied in order to derive a value for its recoverability which included an impairment charge of $749.6 million (2009: $791 million) based on various assumptions about the available equity within the AEH Group.

39. ADDITIONAL INFORMATION
Alinta Energy Limited is incorporated and operates in Australia.

Registered Office of the Company
Level 7
50 Pitt Street
Sydney NSW 2000
Telephone: +61 2 9372 2600

Principal place of business
Level 7
50 Pitt Street
Sydney, NSW 2000
Telephone: +61 2 9372 2600

DIRECTORS' DECLARATION

1 In the opinion of the Directors of Alinta Energy Limited (formerly Babcock & Brown Power Limited) ("the Company"):
   (a) the financial statements and notes, set out on pages 46 to 112, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2010 and of their performance, for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   (b) there are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they become due and payable within the context of the disclosures of the Directors Report and the financial statements and notes.

2 The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

Signed in accordance with a resolution of the Directors:

Mr L F Gill
Director, Alinta Energy Limited

Dated at Sydney this 27th day of September 2010

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ALINTA ENERGY LIMITED

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the members of Alinta Energy Limited (formerly Babcock & Brown Power Limited)

Report on the financial report

We have audited the accompanying financial report of Alinta Energy Limited (formerly Babcock & Brown Power Limited) (the company), which comprises the balance sheet as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Alinta Energy group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Alinta Energy Limited (formerly Babcock & Brown Power Limited) (continued)

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Alinta Energy Limited (formerly Babcock & Brown Power Limited) is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001,* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

Significant uncertainty regarding continuation as a going concern

Without qualification to our opinion expressed above, we draw attention to Note 2(a) to the financial statements which comments on the level of debt carried by the consolidated entity and the proposed deleveraging transaction announced on 21 September 2010. These conditions indicate that there is a significant uncertainty as to whether the Alinta Energy group will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

Significant uncertainty regarding the value of investments and loans to controlled entities of the parent entity

Without qualification to our opinion expressed above, we draw attention to Note 38(e) to the financial statements which comments on the significant uncertainty regarding the carrying value of loans receivable from, and investment in, Alinta Holdings Pty Limited with an aggregate carrying amount of $75.0 million at 30 June 2010.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ALINTA ENERGY LIMITED

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Alinta Energy Limited (formerly Babcock & Brown Power Limited) (continued)

Report on the Remuneration Report

We have audited the remuneration report included in pages 9 to 15 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Alinta Energy Limited (formerly Babcock & Brown Power Limited) for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Marc Upcroft
Partner

Sydney
27 September 2010

ADDITIONAL INFORMATION

This report is based on accounts to which one of the following applies.

- ■ The accounts have been audited.
- ☐ The accounts have been subject to review.
- ☐ The accounts are in the process of being audited or subject to review.
- ☐ The accounts have not yet been audited or reviewed.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review
Not applicable

Description of dispute or qualification if the accounts have been audited or subjected to review
None

Unquoted equity securities shareholdings greater than 20%
Nil

Other stock exchanges on which securities are quoted
Nil

Company Secretary
Mr John Remedios

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Share registry
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Fax: +61 2 9287 0303

INVESTOR INFORMATION

Further information required by the Australian Securities Exchange (or other regulators) and not shown elsewhere in this Report is as detailed below. The information is current as at 22 September 2010.

NUMBER OF STAPLED SECURITIES AND HOLDERS

One share in each of AEL and one unit in AET, have been stapled together to form a single AEG stapled security. As at 22 September 2010, the total number of AEG stapled securities on issue was 807,058,872 and the number of holders of these stapled securities was 64,479.

SUBSTANTIAL SECURITYHOLDERS

The names of substantial AEG Securityholders who have notified AEG in accordance with section 671B of the *Corporations Act 2001* are set out below.

	AEG Stapled Securities Held	
Substantial AEG Securityholders	Number	Percentage
Guinness Peat Group plc and its subsidiaries	160,604,744	19.90

VOTING RIGHTS

It is generally expected that General Meetings of shareholders of AEL and unitholders of AET will be held concurrently where proposed resolutions relate to both AEG entities. At these General Meetings of AEL and AET the voting rights outlined below will apply.

Voting rights in relation to General Meetings of AEL:

- on a show of hands, each shareholder of AEL who is present in person and each other person who is present as a proxy, attorney or duly appointed corporate representative of a shareholder has one vote; and
- on a poll, each shareholder of AEL who is present in person has one vote for each share they hold. Also each person present as a proxy, attorney or duly appointed corporate representative of a shareholder, has one vote for each share held by the shareholder that the person represents.

Voting rights in relation to General Meetings of AET:

- on a show of hands, each unitholder who is present in person and each other person who is present as a proxy, attorney or duly appointed corporate representative of a unitholder has one vote; and
- on a poll, each unitholder who is present in person has one vote for each one dollar of the value of the units in the Trust held by the unitholder. Also, each person present as proxy, attorney or duly appointed corporate representative of a unitholder has one vote for each one dollar of the value of the units in the Trust held by the unitholder that the person represents.

DISTRIBUTION OF AEG STAPLED SECURITIES

Category	Holders	Securities	% Issued Capital
1–1,000	41,509	13,893,002	1.72
1,001–5,000	14,932	35,084,634	4.35
5,001–10,000	3,516	26,459,966	3.28
10,001–100,000	3,808	115,303,290	14.29
100,001–and over	714	616,317,980	76.37
Total	**64,479**	**807,058,872**	**100.00**

The number of Securityholders holding less than a marketable parcel of 5,556 AEG stapled securities ($0.090 on 22 September 2010) is 56,899 and they hold 51,390,596 AEG stapled securities.

TWENTY LARGEST SECURITYHOLDERS

Rank	AEG Securityholder	AEG Stapled Securities Held Number	Percentage
1	Merrill Lynch (Australia) Nominees Pty Ltd <Berndale A/C>	160,604,744	19.90
2	CS Fourth Nominees Pty Ltd <Unpaid A/C>	14,667,207	1.82
3	HHH Group Pty Ltd	12,500,000	1.55
4	Citicorp Nominees Pty Limited	11,805,859	1.46
5	ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	11,605,940	1.44
6	HHH Group Pty Ltd	10,200,000	1.26
7	Ultragas Pty Ltd	10,000,000	1.24
8	JP Morgan Nominees Australia Limited	9,320,318	1.15
9	Comsec Nominees Pty Limited	9,296,870	1.15
10	National Nominees Limited	9,167,994	1.14
11	HSBC Custody Nominees (Australia) Limited	8,970,714	1.11
12	Mr Yi Jing Cai and Mrs Yan Ling Zen	8,303,141	1.03
13	ICM Australia Pty Ltd	8,235,500	1.02
14	Bond Street Custodians Limited <Officium Special Situat A/C>	7,825,562	0.97
15	Mr Allan Douglas Christie	7,500,000	0.93
16	Octanex NL	7,263,289	0.90
17	Dylide Pty Ltd	6,500,000	0.81
18	ANZ Nominees Limited <Cash Income A/C>	6,322,328	0.78
19	High Australian Investment Corporation Pty Ltd	5,820,000	0.72
20	Mr Changrok Oh	4,798,800	0.59
Total		**330,708,266**	**40.98**

EXCHANGES ON WHICH AEG STAPLED SECURITIES ARE QUOTED
AEG stapled securities are currently only quoted on the Australian Securities Exchange.

ON-MARKET BUY-BACK
There is no current on-market buy-back of AEG stapled securities.

STAPLED SECURITIES THAT ARE RESTRICTED OR SUBJECT TO VOLUNTARY ESCROW
There are currently no AEG stapled securities which are restricted or subject to voluntary escrow.

DISCLOSURE OF ASX'S RESERVATION OF RIGHT TO DE-LIST
AEG advise that the ASX has reserved the right (but without limiting its absolute discretion) to remove either or both of AEL and AET from the official list if any of the AEG stapled securities cease to be stapled together, or any equity securities are issued by either AEL or AET which are not stapled to corresponding securities in the other.

UNIT PRICING POLICY
On 30 May 2007, in accordance with ASIC Class order 05/1236, AES in its capacity as responsible entity for AET adopted a unit pricing discretion policy. A copy of this policy is available free of charge on our website: **www.alintaenergy.com**.

CORPORATE DIRECTORY

ALINTA ENERGY LIMITED
(ACN 116 665 608)
Level 7
50 Pitt Street
Sydney NSW 2000
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www.alintaenergy.com

DIRECTORS
Len Gill (Independent Chairman)
Rod Keller
Peter Kinsey
Ross Rolfe (CEO & Managing Director)

COMPANY SECRETARY
John Remedios

RESPONSIBLE ENTITY FOR ALINTA ENERGY TRUST
(ARSN 122 375 562)

ALINTA ENERGY SERVICES LIMITED
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Website: www.linkmarketservices.com.au

AUDITOR
PRICEWATERHOUSECOOPERS
Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000

ANNUAL GENERAL MEETING
The Annual General Meeting of Alinta Energy Group will be held at Customs House, Level 1, 31 Alfred Street, Circular Quay, Sydney, NSW Australia at 11.00am on Tuesday, 23 November 2010.

ABOUT ALINTA ENERGY AND THIS ANNUAL REPORT
Each stapled security in Alinta Energy Group (ASX:AEJ) comprises one share in Alinta Energy Limited, an Australian public company, and one unit in Alinta Energy Trust, an Australian registered managed investment scheme whose responsible entity is Alinta Energy Services Limited.

All amounts expressed in dollars ($) in this annual report are Australian Dollars, unless otherwise specified.

DISCLAIMER

Investments in AEG are subject to investment risk including possible loss of income and capital invested. Neither Alinta Energy Limited nor any member of the Alinta Energy Group guarantees the performance of AEG or the payment of a particular rate of return on AEG securities.

This report is not an offer or invitation for subscription.