REDBANK ENERGY LIMITED

ABN 67 116 665 608

REDBANK ENERGY

REDBANK ENERGY LIMITED
ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2012

CONTENTS

CHAIRMAN'S LETTER

Dear Shareholders,

Over the past financial year there have been a number of challenging issues concerning the operation and financing of the Redbank Power Station. The key issues are outlined below.

SALE OF REDBANK POWER STATION/BANK SUPPORT AGREEMENT

When the current Directors were appointed to the Board last year, the Redbank Project Bank Support Agreement (**BSA**) was in place. A condition of the BSA was that a sale of the Redbank Power Station was required to be concluded prior to the expiry of the Bank Support Agreement (which was initially 31 March 2012). No sale has taken place and there is now no sale process currently being undertaken in relation to the Power Station. As a result, the Board has been and continues to be focussed on arranging an amended long-term finance facility with the Redbank Project lenders. The Board's discussions with the Redbank Project lenders are ongoing and during this process Redbank Project has retained the support of its lenders. To date, in order to allow discussions to progress, Redbank Project and its lenders have agreed to roll the Bank Support Agreement on a monthly basis.

REDBANK POWER STATION OPERATIONS

From an operational perspective, it has been a challenging year for the Redbank Power Station. A series of operating issues impacted generation earnings, resulting in a 6% below budget performance. In particular, there was an electrical fault within the plant generator which caused a 7 week outage early this calendar year (**January Outage**). The Power Station has been operating more reliably over the past few months, and Redbank Project management and the Board have been working together closely to deliver consistent plant performance.

In Redbank Project's opinion, the January Outage is correctly characterised as a Force Majeure event as that term is defined under the Power Purchase Hedge Agreement with Ausgrid (**PPHA**). Assuming Redbank's view is correct, the January Outage will have no effect on revenue under the PPHA in 2013 or thereafter. Redbank Project is in discussions with Ausgrid regarding this issue. However, if, contrary to Redbank's view, the January Outage was not a Force Majeure event, the revenue Redbank receives under the PPHA may be reduced.

CARBON TAX

Redbank Project has spent a good deal of time preparing for and implementing the necessary measures in response to the introduction of the Federal Government's carbon tax on 1 July 2012.

Redbank Project is currently in dispute with Ausgrid concerning Redbank Project's ability to pass on its cost of carbon to Ausgrid under the terms of the PPHA. Redbank Project believes that it has a strong case and has issued a dispute notice to Ausgrid triggering the dispute resolution provisions of the PPHA. The arbitration has been given tentative hearing dates commencing 17 December 2012 for 4 days.

The Clean Energy Regulator has confirmed that Redbank Project is eligible to receive free carbon units to be issued in accordance with the Clean Energy Act.

ENERGY SECURITY FUND

Redbank Project applied for and received a cash payment of $8.77 million from the Energy Security Fund.

GOING CONCERN AND IMPAIRMENT

The financial statements for Redbank Energy have been prepared for the financial year to 30 June 2012 on a going concern basis. This is a change from the previous financial year (to 30 June 2011) when the financial statements for Redbank Energy were prepared on a non going concern basis. The primary reason for this change to a going concern basis is that the Redbank Power Station, being the sole operating asset of Redbank Energy, is no longer subject to a sale process and that there are ongoing discussions with Redbank Project's lenders concerning a long-term refinancing of the Redbank Project facilities.

As a result of the change to a going concern basis for the accounts of Redbank Energy, property, plant and equipment, and intangible assets were required to be valued using the "value in use" method for the 2012 financial year. As a result of applying this valuation method, Redbank Energy has had to recognise a non-cash impairment charge of $72.6 million for the 2012 financial year.

CORPORATE CASH POSITION

The cash resources available to Redbank Energy's "Corporate Office" (i.e. excluding Redbank Project) have been managed tightly and continue to be available to meet corporate debts as and when they fall due. During the year, corporate cash resources were augmented via receipt of the deferred consideration proceeds arising from the sale of Alinta Energy Markets to Infigen.

Finally, I would like to sincerely thank the management and staff of the Redbank Power Station for their hard work and perseverance throughout what has been a difficult year.

I look forward to seeing you at our AGM to be held on Friday, 16 November in Sydney.

Yours sincerely

Richard Butler

Richard Butler
Chairman

ASSET SUMMARY

REDBANK POWER STATION

Redbank Project is a 151MW coal-fired power station located in the Hunter Valley, NSW. It operates as a base load power generator and is fuelled by a combination of beneficiated dewatered coal tailings (**BDT**) and run of mine coal.
Both sources of fuel are supplied by the neighbouring Mount Thorley Warkworth coal mine. The BDT is a waste product from the mine's washery operations.

The Power Station contributed $26.3 million of Management EBITDA to 30 June 2012. While generation earnings were approximately 6% below budget due to a series of operating issues, operating costs were approximately 4% below budget as a result of rescheduling the plant outage for April 2012 to October 2012.

REDBANK ENERGY'S BOARD OF DIRECTORS

Richard Butler
(Chairman)

Richard Butler currently works as a consultant in the areas of finance and the law. Prior to commencing his consultancy business, Richard worked as a commercial barrister in New South Wales. Richard holds degrees in Economics and Law (Hons) from the University of Sydney.

Richard was appointed as the Chairman of the Redbank Energy Board on 12 August 2011, and is focused on working with the other members of the Board to maximise value for all shareholders.

Simon Maher
(Non-Executive Director)

Simon Maher has a Bachelor of Electrical Engineering (Hons.) from the University of New South Wales and an MBA from the University of Sydney. Simon is currently the Chief Operating Officer of Bronte Capital, a Sydney based global fund manager he co-founded in 2008. From 1998 to 2005, Simon was the CEO of Southern Hydro which operated 736MW of hydro, diesel peaking and wind capacity across Victoria, New South Wales and South Australia. Prior to Southern Hydro, Simon was the General Manager – Energy Trading & Retailing at CitiPower and a member of the working group responsible for the design of the Australian power market. Subsequent to Southern Hydro, Simon worked at Babcock & Brown from January 2007 to September 2008 on wind power and Asian infrastructure projects.

Todd Plutsky
(Non-Executive Director)

Todd Plutsky is a Managing Partner at Coastal Investment Management, L.P., an investment management firm. Prior to founding Coastal, Todd was an analyst at Ivory Capital in Los Angeles, a multi-billion dollar investment firm, where he was responsible for sourcing special situation opportunities and spearheaded various investments in the USA, Europe, and Latin America. Todd also previously worked in investment banking at J.P. Morgan in New York where he advised on the mergers and acquisitions and strategic transactions of several notable companies. Todd graduated magna cum laude with a B.A. from Northwestern University in Economics and Political Science, with a Juris Doctor from the Harvard Law School, and with an M.B.A. from the Harvard Business School. Todd is also a Director of Coastal Capital International, Ltd., which is Redbank Energy's largest shareholder.

Vlad Artamonov
(Non-Executive Director)

Vlad Artamonov is a Managing Partner at Coastal Investment Management, L.P. Prior to founding Coastal, Vlad was an analyst at Greenlight Capital in New York, a multi-billion dollar value-oriented investment firm. At Greenlight, Vlad was responsible for originating and researching numerous investment ideas that resulted in substantial investments by Greenlight. During his tenure, Vlad spent a considerable amount of time analysing financials, energy and power, chemicals, logistics, consumer products, and technology companies globally. Previously, Vlad worked at Merrill Lynch as a member of the investment banking team advising USA and international companies on acquisitions, divestments, strategic minority investments, joint ventures and leveraged buyouts. Vlad graduated magna cum laude with a B.S.E. from the Wharton School at the University of Pennsylvania and with an M.B.A. from the Harvard Business School. Vlad is also a Director of Coastal Capital International, Ltd., which is Redbank Energy's largest shareholder.

CORPORATE GOVERNANCE STATEMENT 2012

INTRODUCTION

This statement reflects Redbank Energy Limited's (**REL**) corporate governance framework as at 31 August 2012. A copy of this statement and other documents (or summaries thereof) can be accessed on the REL website at **www.redbankenergy.com**.

The establishment of a sound framework of corporate governance is one of the primary responsibilities of the REL Board. The REL Board recognises that it is accountable to shareholders for the performance of REL and, to that end, is responsible for instituting and ensuring REL maintains a system of corporate governance that operates in the best interests of shareholders whilst also addressing the interests of other key stakeholders.

The ASX Limited's Corporate Governance Council has issued a set of guidelines entitled *Corporate Governance Principles and Recommendations* (**Guide**). The ASX Listing Rules require listed entities such as REL to include a statement in their annual report disclosing the extent to which they have followed the ASX Principles and Recommendations during the reporting period, identifying any ASX Recommendations that have not been followed and giving reasons for that variance.

ASX PRINCIPLE 1

LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

REL has established the functions reserved to the Board and those it has chosen to delegate, as detailed in the Board Charter. It is noted that REL no longer employs any management staff, and instead engages a number of external service providers to assist with the conduct of REL business. A summary of the Board Charter is available in the Corporate Governance section on REL's website at **www.redbankenergy.com**.

ASX Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives

As noted in ASX Recommendation 1.1 above, REL no longer employs any management staff, and instead engages a number of external service providers to assist with the conduct of REL business. The Board of course carefully monitors the performance of the relevant external service providers so as to satisfy itself that the services are being performed efficiently and at an appropriate cost.

ASX Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.

REL has complied with Principle 1 during the reporting period to the extent relevant to its structure and circumstances. During the reporting period, REL did not employ any senior executives whose performance could be evaluated. A summary of the Board Charter has been publicly disclosed on the REL website.

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.

ASX Recommendation 2.1: A majority of the board should be Independent Directors

The REL Board is structured so as to comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds.

Early in the 2012 financial year, there was a change in the composition of the REL Board, with four new Directors being appointed, and the previous three Independent Directors resigning. Each of the four new Board appointees either owns or controls material shareholdings in REL, and thus should not be considered independent. Therefore, the current composition of the REL Board does not comply with ASX Recommendation 2.1.

It is the view of the Board that the larger shareholders are best placed to represent the interests of the shareholder base at large, given the current circumstances facing the Redbank Energy business. Redbank Energy is in essence comprised by a single material asset, being the Redbank Power Station. The asset is currently the subject of a Bank Support Agreement and the Board is actively engaged with the Redbank Project lenders with a view to placing the asset on a more stable financial footing. The outcome of this engagement with the Redbank Project lenders is a significant determinant of the longer term future of Redbank Energy and hence shareholder value. In addition, during the 2012 financial year, the balance of the Redbank Energy Group's other limited operations were wound down and concluded. Accordingly, in view of the limited agenda of the Redbank Energy business and its current financial position, the Board believes that the interests of Redbank Energy are best served by major shareholder representation. In accordance with the ASX Listing Rules and the REL Constitution, each new Director submitted himself to election at the 2011 AGM so that the shareholder base could endorse the appointments. All new Director appointments were approved at the 2011 AGM, and henceforth, the Directors will face re-election at future AGMs in accordance with the ASX Listing Rules and the REL Constitution.

Details of the Directors' skills, experience and expertise relevant to their position are set out elsewhere in the 2012 Annual Report. The REL Board considers that collectively, the Directors have the range of skills, experience and expertise necessary to appropriately govern REL.

ASX Recommendation 2.2: The chair should be an independent Director
Although the current REL Chairman is not a substantial shareholder, the Chairman's holding is material for an individual, and the Board has prudently assessed that the Chairman should not be considered as strictly independent. The rationale for non-compliance with ASX Recommendation 2.2 is the same as is outlined in ASX Recommendation 2.1 above.

ASX Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.
As noted in ASX Recommendation 1.1 above, REL no longer employs any management staff, including that of chief executive officer.

ASX Recommendation 2.4: The Board should establish a nomination committee
Having regard to the matters outlined in ASX Recommendation 2.1 above and the fact that external service providers have been engaged to assist with the conduct of REL business, it is not envisaged that a nomination committee will perform a material role for REL. Should any nomination issues arise in the future, they will be dealt with by the REL Board as a whole.

ASX Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its Committees and individual Directors.
The Chairman and the REL Board undertake both formal and informal processes to evaluate the performance of the Board and its individual Directors. The formal process would ordinarily involve the Company Secretary issuing a detailed questionnaire which is completed and returned by each Director. The results would be consolidated by the Company Secretary, and the Board as a whole would review and discuss the findings. Such a formal questionnaire based evaluation of the Board and its Directors took place in the previous reporting period, but not during this reporting period. The Board had regard to the matters outlined in ASX Recommendation 2.1 above in not undertaking a formal evaluation process. The Board notes that the Directors regularly face re-election at AGMs in accordance with the ASX Listing Rules and the REL Constitution.

ASX Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.
- Details of the background, qualifications, expertise and period of service of each Director are set out elsewhere in the 2012 Annual Report.
- REL does not utilise materiality thresholds for the purpose of assessing Director independence; instead, independence is assessed by the REL Board on a case by case basis.
- The REL Board may seek advice from independent experts whenever it is considered appropriate to do so. In addition, individual Directors may seek independent professional advice (including, but not limited to, legal, accounting and financial advice) on any matter connected with the discharge of their responsibilities, at REL's expense.
- REL does not currently have a nomination committee. Having regard to the matters outlined in ASX Recommendation 2.1 above, the engagement of external service providers on a contracted basis and the small composition of the REL Board, it is not envisaged that a nomination committee will perform any material role going forward for REL.
- A formal performance evaluation of the Board and its Directors was not undertaken during the reporting period for the reasons outlined in ASX Recommendation 2.5 above.
- The non-compliances with Principle 2 during the reporting period have been noted above.

ASX PRINCIPLE 3

PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Companies should actively promote ethical and responsible decision-making

ASX Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code.
The REL Board has established a Code of Conduct which deals with:
- the practices necessary to maintain confidence in REL's integrity;
- the practices necessary to take into account its legal obligations from time to time and the reasonable expectations of shareholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A summary of the key aspects of the Code of Conduct is available in the Corporate Governance section on REL's website at **www.redbankenergy.com**.

In addition to the Code of Conduct, the Board Charter requires 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.

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

ASX Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

ASX Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

ASX Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

ASX Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.
In view of the circumstances impacting Redbank Energy (as detailed in ASX Recommendation 2.1 above), the fact that external service providers have been engaged to assist with the conduct of REL business and the high degree of alignment between shareholding and Board membership, REL has chosen not to adopt the gender diversity recommendations.

ASX PRINCIPLE 4

SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

ASX Recommendation 4.1: The board should establish an audit committee
The REL Board is committed to the basic principle that REL's financial reports are true and fair and comply with the relevant accounting standards. The audit committee is comprised of the same membership as the REL Board.

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.**

As noted above, each member of the Board either owns or controls a material shareholding in REL, and thus should not be considered independent. Accordingly, having regard to the current Board composition (and the degree of alignment between shareholding and Board membership), the audit committee is not capable of complying with the requirements of ASX Recommendation 4.2.

ASX Recommendation 4.3: The audit committee should have a formal charter
The audit committee has adopted a Charter.

ASX Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.

- The names of the members of the audit committee and their attendance at meetings of the committee are set out elsewhere in the 2012 Annual Report.
- The non-compliance with ASX Recommendation 4.2 during the reporting period has been noted above.
- Having regard to the limited operations of the Redbank Energy Group over the forthcoming 12 months, REL does not anticipate changing either its external auditor or its external audit engagement partner.

ASX PRINCIPLE 5

MAKE TIMELY AND BALANCED DISCLOSURE

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

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

The Policy is designed to ensure that any material price sensitive information 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.

The REL Board is actively and regularly involved in discussing the company's disclosure obligations.

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

ASX Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.
There were no departures from Principle 5 during the reporting period.

A summary of the Continuous Disclosure Policy is available in the Corporate Governance section on REL's website at **www.redbankenergy.com**.

ASX PRINCIPLE 6

RESPECT THE RIGHTS OF SHAREHOLDERS

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

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, REL is committed to communicating with its shareholders in an effective and timely manner to provide them with ready access to information relating to REL. In this regard, REL maintains a website (**www.redbankenergy.com**) which provides access to the following information of interest to REL shareholders:

- all REL announcements to the ASX, which are posted to the website promptly following release;
- information regarding the Board and the Redbank Power Station;
- copies of full-year and half-year financial reports;
- summaries of the Board Charter and relevant corporate governance policies;
- copies of previous Annual Reports; and
- a link to the website of REL's Share Registry, Link Market Services.

REL encourages shareholders to utilise the REL website as their primary tool to access shareholder information and disclosures. In addition, the Annual Report facilitates the provision to shareholders by REL on a yearly basis of detailed information in respect of REL's financial results and direction.

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

REL's external auditor is required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

ASX Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.
There were no departures from Principle 6 during the reporting period. The manner in which REL communicates with its shareholders publicly is described in ASX Recommendation 6.1 above.

ASX PRINCIPLE 7

RECOGNISE AND MANAGE RISK

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

ASX Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.
The REL Board is ultimately responsible for overseeing and managing the material risks of Redbank Energy. REL has established appropriate policies for the oversight and management of the material risks facing the business.

Subsequent to the Court and Shareholder approved Scheme of Arrangement in March 2011, the scale of REL's business has reduced significantly, such that it now encompasses the Redbank Power Station and support provided by a corporate head office. Appropriate policies and procedures are in place at the Redbank Power Station to manage the risks inherent in operating a coal-fired power plant, as are appropriate procedures in place in connection with the services provided at corporate head office.

A summary of the REL Risk Management Policy is available in the Corporate Governance section on REL's website at **www.redbankenergy.com**.

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.
Subsequent to the Court and Shareholder approved Scheme of Arrangement in March 2011, the scale of REL's business has reduced significantly, such that it now encompasses the Redbank Power Station and support provided by a corporate head office. The REL Board receives reports not less than monthly (and more frequently as required) in relation to the operations of the Redbank Power Station and corporate head office. Issues of risk and the manner in which they are being managed are reported directly to the REL Board.

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.
Having regard to the limited operations of the Redbank Energy Group and the fact that REL now engages a number of external service providers to assist with the conduct of REL business, REL does not employ individuals who fulfil the role of CEO and CFO in the traditional sense. Notwithstanding, the REL Board has received analogous assurances from the applicable service providers that the section 295A declaration is founded on a sound system of risk management and internal compliance and control, and that the system operated effectively in all material respects in relation to financial reporting risks.

ASX Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.
There were no departures from Principle 7 during the reporting period, although it is noted that the assurance contemplated by ASX Recommendation 7.3 was not provided by a CEO and a CFO in the traditional sense (as a result of those positions no longer being occupied).

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.

ASX Recommendation 8.1: The board should establish a remuneration committee
Having regard to the matters outlined in ASX Recommendation 2.1 above and the fact that external service providers have been engaged to assist with the conduct of REL business, it is not envisaged that a remuneration committee will perform a material role for REL. Should any remuneration issues arise in the future, they will be dealt with by the REL Board as a whole. In addition, REL is not in the S&P/ASX 300 Index and is therefore not required by ASX Listing Rule 12.8 to have a remuneration committee.

ASX Recommendation 8.2: The remuneration committee should be structured so that it:
- **consists of a majority of independent directors;**
- **is chaired by an independent chair; and**
- **has at least three members.**

Refer to the matters outlined above in ASX Recommendation 8.1.

ASX Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives
For details of REL's remuneration structure and the amounts paid to Directors during the reporting period, please refer to the Remuneration Report set out elsewhere in the 2012 Annual Report. REL does not employ any senior executives.

ASX Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.
- REL did not utilise a remuneration committee during the reporting period. Having regard to the matters outlined in ASX Recommendation 2.1 above, the engagement of external service providers on a contracted basis and the small composition of the REL Board, it is not envisaged that a remuneration committee will perform any material role going forward for REL.
- During the reporting period, the REL Chairman was the only Director who received statutory superannuation from Redbank Energy. Details of the amount are disclosed in the Remuneration Report set out elsewhere in the 2012 Annual Report.
- Any remuneration to be paid to a Director is subject to the aggregate fee pool limit which has been approved by shareholders and must also be approved by the Board (other than the Director who is to be paid the remuneration).
- A summary of the REL Securities Trading Policy is available in the Corporate Governance section on REL's website at **www.redbankenergy.com**. REL does not have any equity-based remuneration schemes in place.
- The Board has engaged appropriately qualified service providers to prepare the REL Remuneration Report in accordance with the requirements of the Corporations Act. The content of the Remuneration Report is subject to review by Redbank Energy's external auditor.

CONSOLIDATED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012

The Directors of Redbank Energy Limited (REL or the Company) and its consolidated entities (REG or the Group) present their Directors' report together with the consolidated financial statements for the year ended 30 June 2012.

The Company together with its subsidiaries form Redbank Energy Group, a security traded on the Australian Securities Exchange (ASX code: AEJ).

DIRECTORS

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

Name	
Mr R Butler (Chairman)	appointed 13 July 2011
Mr S D Maher	appointed 13 July 2011
Mr T C A Plutsky	appointed 12 August 2011
Mr V Artamonov	appointed 12 August 2011
Mr L F Gill	appointed 29 October 2006; resigned 12 August 2011
Mr P M Kinsey	appointed 29 October 2006; resigned 12 August 2011
Mr R H Keller	appointed 27 April 2010; resigned 12 August 2011

Each of the four appointed directors either hold directly or are representatives of organisations that hold significant equity interests in the Group.

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

Mr R Butler – Non-Executive Director – Chairman from 12 August 2011
Richard Butler joined REL as a Non–Executive Director in July 2011. Richard is a shareholder of Redbank Energy Limited. He currently works as a consultant in the areas of finance and law. Prior to working as a consultant, Mr Butler worked as a commercial barrister in NSW, and holds degrees in Economics and Law (Hons) from the University of Sydney.

Mr S D Maher – Non-Executive Director
Simon Maher joined REL as a Non–Executive Director in July 2011. Simon has a Bachelor of Electrical Engineering (Hons.) from the University of New South Wales and an MBA from the University of Sydney. Simon controls a substantial shareholding in Redbank Energy.

Simon is currently the Chief Operating Officer of Bronte Capital, a Sydney based global fund manager he co-founded in 2008. From 1998 to 2005, Simon was the CEO of Southern Hydro which operated 736MW of hydro, diesel peaking and wind capacity across Victoria, New South Wales and South Australia. Subsequent to Southern Hydro, Simon worked at Babcock & Brown from November 2006 to September 2008 on wind power and Asian infrastructure projects.

Prior to Southern Hydro, Mr Maher was the General Manager – Energy Trading & Retailing at CitiPower and a member of the working group responsible for the design of the Australian power market.

Mr T C A Plutsky – Non-Executive Director
Todd Plutsky joined REL as a Non–Executive Director in August 2011. Todd is a Managing Partner at Coastal Investment Management, L.P., an investment management firm. Todd is also a Director of Coastal Capital International, Ltd., which is a substantial shareholder of Redbank Energy and an active investor in Australian infrastructure businesses.

Prior to founding Coastal, Todd was an Analyst at Ivory Capital in Los Angeles, a multi-billion dollar investment firm, where he was responsible for sourcing special situation opportunities and spearheaded various investments in the U.S., Europe, and Latin America. Todd also previously worked in investment banking at J.P. Morgan in New York where he advised on the mergers and acquisitions and strategic transactions of several notable companies.

Todd graduated magna cum laude with a B.A. from Northwestern University in Economics and Political Science, with a Juris Doctor from the Harvard Law School, and with an M.B.A. from the Harvard Business School.

Mr V Artamonov – Non-Executive Director
Vlad Artamonov joined REL as a Non–Executive Director in August 2011. Vlad is a Managing Partner at Coastal Investment Management, L.P., an investment management firm. Vlad is also a Director of Coastal Capital International, Ltd., which is a substantial shareholder of Redbank Energy and an active investor in Australian infrastructure businesses.

Prior to founding Coastal, Vlad was an Analyst at Greenlight Capital in New York, a multi-billion dollar value-oriented investment firm. At Greenlight, Vlad was responsible for originating and researching numerous investment ideas that resulted in substantial investments by Greenlight. During his tenure, Vlad spent a considerable amount of time analyzing financials, energy and power, chemicals, logistics, consumer products, and technology companies globally. Previously, Vlad worked at Merrill Lynch, where he was an integral member of an investment banking team advising U.S. and international companies on acquisitions, divestitures, strategic minority investments, joint ventures, and leveraged buyouts.

Vlad graduated magna cum laude with a B.S.E. from the Wharton School at the University of Pennsylvania and with an M.B.A. from the Harvard Business School.

Mr L F Gill – Independent Non-Executive Director – Chairman from 1 July 2008 to 12 August 2011
Leonard (Len) Gill joined REG 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.

Len Gill resigned from the Board on 12 August 2011.

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

Peter has been a corporate lawyer for over 28 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 as 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).

Peter Kinsey resigned from the Board on 12 August 2011.

Mr R H Keller – Independent Non-Executive Director
Rod Keller joined REL 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. 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.

Rod Keller resigned from the Board on 12 August 2011.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012

COMPANY SECRETARY

The Company Secretary of REL 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 Redbank Energy Group. Prior to joining Redbank 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 REG is the ownership and management of a power generation asset.

DISTRIBUTIONS

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

GOING CONCERN

The financial information presented in this financial report for the 30 June 2012 financial year has been prepared on the basis that the Redbank Energy Group (REG or Group) and Redbank Energy Limited (REL), the Group's ultimate parent entity, are going concerns for financial reporting purposes The comparative year had been presented on a non-going concern basis, however, this has been updated this year to reflect the current year accounting policies on a going concern basis.

Changes to accounting policies resulting from the change in basis of preparation are disclosed in note 2.

The Group had a net current asset deficiency as at 30 June 2012 of $166,113,000 (2011: $201,132,000) and a net asset deficiency of $12,780,000 (2011: $20,689,000). The net current asset deficiency is as a result of the classification of the external borrowings of $206,270,000 (2011: $219,559,000) as a current liability for the reasons explained below.

Redbank Project Pty Ltd (Redbank Project) is the Group's operating subsidiary which holds the Redbank Power Station and which has its own project finance facility (**Redbank Credit Facility**).

On 31 March 2011, Redbank Project entered into a Bank Support Agreement with its lenders (**BSA**) whereby the lenders conditionally agreed not to enforce their rights under the Redbank Credit Facility upon the satisfactory discharge of certain obligations prescribed in the BSA, including the injection of further equity capital into Redbank Project and the appointment of independent external advisors to work with the Group on a sale process or refinancing. The BSA was for an initial term which expired on 31 March 2012. The BSA has been extended on a number of occasions since 31 March 2012, during which time Redbank Energy has been engaged in negotiations with the lenders with the objective of agreeing a long term finance facility for Redbank Project. At the time of signing these accounts, these negotiations are progressing constructively and Redbank Project continues to enjoy the support of its lenders. However, if Redbank Energy is unable to realise a strategy that secures its longer term future, it is unlikely that the Group will be able to operate as a going concern for financial reporting purposes.

The Board continues to assess a range of options for the future of the Redbank Energy business, and reiterates its commitment to identifying and implementing a strategy that secures the Group's longer term future. As at the date of this report, the Board is focusing on a refinancing of the Redbank Credit Facility in priority to the prospect of realising the Group's interest in Redbank Project through a sale process. As noted above, the negotiations with the lenders have been proceeding in accordance with the Board's expectations. On this basis, the Board has determined that it is more appropriate that the Consolidated Financial Report be prepared on the basis that the Group is a going concern for financial reporting purposes.

If negotiations with the lenders are unsuccessful, it is likely REG would not be able to meets its financial obligations when they fall due. As such, in the absence of a finalised agreement, there exists material uncertainty in regards to the Group's ability to continue as a going concern.

The directors regularly monitor and review the Group's operating and financial performance, including the profile of its debt facilities and forecast cash flows. Therefore, the directors have a reasonable expectation that REL and its subsidiaries will continue to operate as a going concern. The directors are committed to ensuring that the Group delivers on its undertakings in relation to the Bank Support Agreement (in so far as those obligations continue to apply until such time as a refinancing of the Redbank Credit Facility may occur).

As the Group has prepared its financial report on a going concern basis, the directors have changed the valuation basis for the property, plant and equipment and intangible assets in the 30 June 2012 balance sheet to the historical cost measure less accumulated depreciation/amortisation and impairment losses. The assets and liabilities have also been classified based on their expected timing of settlement. As the 30 June 2011 financial report was prepared on a non-going concern basis, the Group's balance sheet was presented on a liquidity basis. The liquidity basis balance sheet presents assets and liabilities in their relative order of liquidity.

At 30 June 2011, property, plant and equipment and intangibles had been recorded at a value such that the net assets of the Group related to Redbank Project were carried at an amount equal to a zero net asset value. This was not the historical cost measured in accordance with the current policy of the Group, nor is it the value in use for the asset or fair value less costs to sell if the assets had been impairment tested in accordance with AASB 136 *Impairment of Assets*. The change in valuation basis for property, plant and equipment and intangible assets in the 30 June 2012 balance sheet has not impacted the 2011 comparative amounts. This is on the basis that had the assets been classified as held for sale at 30 June 2011, the carrying value of the assets was expected to have been realised through sale with no further impairment. At 30 June 2012 given the change in the Group's intentions in relation to the Redbank Project, its non-current assets have been assessed for impairment on the basis of the discounted long-term cash flows related to its operations. The impact of this at 30 June 2012 has been the recognition of an impairment expense for property, plant and equipment and intangibles related to Redbank Project of $72.6 million. This impairment expense includes the impact of changes in expected forward electricity prices and cost of carbon reflecting the implementation of the Clean Energy Act.

REVIEW OF OPERATIONS

Corporate structure matters

To the date of this report, the following important matters were addressed by the Group:

Bank support agreement – Redbank facility support agreement

The only external debt obligation of REG is the Redbank Credit Facility, a project finance obligation of Redbank Project.

Under the terms of the Redbank Credit Facility, Redbank Project was required to replace its previous liquidity facility in early 2011. In the absence of a replacement liquidity facility, the Redbank Project lenders had the ability to call an event of default and accelerate all amounts owing by Redbank Project. New facilities were obtained, comprising a $2.5 million liquidity facility and a $3.0 million working capital facility, both provided by a subset of the existing lender group. The facilities were initially for a term of 12 months and are available to support the liquidity and working capital requirements of Redbank Project.

In conjunction with the above facilities, Redbank Project entered into a Bank Support Agreement with the lenders which was for an initial term expiring on 31 March 2012. The Bank Support Agreement has been extended on a number of occasions since 31 March 2012, during which time Redbank Energy has been engaged in negotiations with the lenders with the objective of agreeing a long term finance facility for Redbank Project. The negotiations have been proceeding constructively and Redbank Project retains the ongoing support of its lenders. Subject to the occurrence of certain trigger events, including the occurrence of an event of default (in which case the Bank Support Agreement would terminate), the Bank Support Agreement continues to apply during the relevant extension periods (which have generally been on a month to month basis).

The Bank Support Agreement provides for, amongst other things, the following:

- the calculation of the financial covenants has been amended so as to ensure these can be met under most foreseeable operating conditions; and
- management will work to either refinance or sell the Redbank Project during the term of the Bank Support Agreement.

Until such time as a new long term finance facility is agreed between the parties, it will be necessary for Redbank Energy and the Redbank Project lenders to continue to agree to the applicable extensions to the Bank Support Agreement.

Orderly winding down of the remainder of the Group

During the financial year, the remaining components of the Group have been rationalized as previously foreshadowed. On 1 July 2011, the Group completed the sale of its interest in the Oakey Power Station. In addition, all companies in the Group other than REL and those entities affiliated with the Redbank Power Station have been subject to closure and deregistration by ASIC.

Operating performance

Redbank Power Station

Redbank Power Station contributed $26.3 million Management EBITDA to 30 June 2012.

Generation earnings were approximately 6% below budget due to a series of operating issues. Operating costs were approximately 4% below budget as a result of rescheduling the plant outage for April 2012 to October 2012 due to operating issues.

Impairment

As the Group has prepared its financial report on a going concern basis, the directors have changed the valuation basis for the property, plant and equipment and intangible assets in the 30 June 2012 balance sheet to the historical cost measure less accumulated depreciation/amortisation and impairment losses.

At 30 June 2011, property, plant and equipment and intangibles had been recorded at a value such that the net assets of the Group related to Redbank Project were carried at an amount equal to a zero net asset value. This was not the historical cost measured in accordance with the current policy of the Group, nor is it the value in use for the asset or fair value less costs to sell if the assets had been impairment tested in accordance with AASB 136 *Impairment of Assets*. The change in valuation basis for property, plant and equipment and intangible assets in the 30 June 2012 balance sheet has not impacted the 2011 comparative amounts. This is on the basis that had the assets been classified as held for sale at 30 June 2011, the carrying value of the assets was expected to have been realised with no further impairment.

As noted earlier, the Group has recognised an impairment expense of $72.6 million at 30 June 2012 in relation to Redbank Project property, plant and equipment and intangibles.

Discontinued operations

In the prior year, the Group disposed of its beneficially owned operating entities, other than those associated with the Redbank Power Station, as part of the Court and Shareholder approved Scheme of Arrangement.

The discontinued operations contributed a profit of nil for the year to 30 June 2012 (30 June 2011: loss $390.8 million).

Significant changes to the state of affairs

During the year ended 30 June 2012 there were no significant changes to the state of affairs of the Group other than those disclosed in the financial statements and notes thereof.

Matters subsequent to end of the financial year

Other than the extensions to the Bank Support Agreement which have been procured from the Redbank Project lenders subsequent to the end of the financial year, there are no material matters to report.

Future developments

The directors are working with the Redbank Project lenders with the objective of agreeing a long term finance facility for Redbank Project. The discussions are ongoing and Redbank Project continues to retain the support of its lenders. In the meantime, the directors are committed to ensuring that the obligations under the Bank Support Agreement are performed in accordance with their terms.

Redbank Project is currently in dispute with Ausgrid, a NSW Government owned utility. The dispute relates to the entitlement of Redbank Project to pass through to Ausgrid under the Power Purchase and Hedge Agreement the costs incurred under the *Commonwealth Government's Clean Energy Act, 2011*. Redbank Project considers that it is entitled to pass these costs through to Ausgrid, and Ausgrid takes a contrary view. The dispute resolution provisions under the PPHA have been invoked, and they establish a process of settlement discussions followed by arbitration. In the event that this matter goes to formal arbitration, the outcome may not be known until 2013.

REMUNERATION REPORT (AUDITED)

Executive and Director Remuneration report for the year to 30 June 2012

This report outlines the remuneration philosophy and framework currently applicable to REG in the year to 30 June 2012.

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 & APPROACH

Upon the implementation of the Court and Shareholder approved Scheme of Arrangement on 29 March 2011, the scale of REG's business reduced significantly. REL ceased to employ executive management (i.e. their employment either ceased or they transferred to the new owners of the transferred business), and REL is now currently serviced by its Board of Directors and a range of externally contracted service providers. The usual business approach of recruiting, retaining and rewarding the best available employees to meet the organisation's ongoing and strategic objectives is not appropriate for REL, given its single asset structure, its constrained access to resourcing, its limited agenda and its ongoing commercial negotiations with the Redbank Project financiers to secure REG's immediate future.

Having regard to these circumstances facing the REG business and the extent to which external service providers have been engaged to assist with the conduct of the business, it is not envisaged that a remuneration committee will perform a material role for REL. Should any remuneration related issues arise, they will be dealt with by the REL Board as a whole.

In addition, REL is not in the S&P/ASX 300 Index and is therefore not required by ASX Listing Rule 12.8 to have a remuneration committee.

KEY MANAGEMENT PERSONNEL

As a consequence of the implementation of the abovementioned Court and Shareholder approved Scheme of Arrangement, REG ceased to employ any Key Management Personnel (KMP) in an executive capacity. The Board of Directors of REL has the authority and responsibility for planning, directing and controlling the activities of REG, and each Director is a KMP for the year to 30 June 2012. The KMPs for the year to 30 June 2012 are as follows:

Name	
Mr R Butler (Chairman)	Director (appointed 13 July 2011; appointed as Chairman on 12 August 2011)
Mr S D Maher	Director (appointed 13 July 2011)
Mr T C A Plutsky	Director (appointed 12 August 2011)
Mr V Artamonov	Director (appointed 12 August 2011)
Mr L Gill	Independent Chairman (resigned 12 August 2011)
Mr P M Kinsey	Independent Director (resigned 12 August 2011)
Mr R H Keller	Independent Director (resigned 12 August 2011)

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012

REMUNERATION OF THE KEY MANAGEMENT PERSONNEL FOR THE 2012 FINANCIAL YEAR

Details of the nature and amount of each element of the emoluments of each KMP of REG for the years ended 30 June 2012 and 2011 are set out in the table below.

		Short-term employee benefits				
	Year	Salary (cash) $	Short term incentive $	Retention incentive $	Non-monetary benefits $	Total of short term employee benefits $
Key management personnel						
Mr Richard Butler	**2012**	**189,808**	**–**	**–**	**–**	**189,808**
	2011	–	–	–	–	–
Mr Simon Maher	**2012**	**100**	**–**	**–**	**–**	**100**
	2011	–	–	–	–	–
Mr Todd Plutsky	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	–	–	–	–	–
Mr Vlad Artamonov	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	–	–	–	–	–
Mr Len Gill*	**2012**	**15,500**	**–**	**–**	**–**	**15,500**
	2011	–	–	–	–	–
Mr Peter Kinsey*	**2012**	**11,833**	**–**	**–**	**–**	**11,833**
	2011	–	–	–	–	–
Mr Rod Keller*	**2012**	**11,833**	**–**	**–**	**–**	**11,833**
	2011	–	–	–	–	–
Mr Ross Rolfe**	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	1,089,694	641,106	–	–	1,730,800
Mr Peter Brook**	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	417,708	283,425	141,000	–	842,133
Mr Brian Green**	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	418,629	275,327	146,250	–	840,206
Mr Len Chersky**	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	499,671	352,817	270,000	–	1,122,488
Mr Scott Turner**	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	395,505	220,511	168,750	–	784,766
Mr Geoff Hobley**	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	468,580	242,596	56,250	–	767,426
Mr Tim Hunt-Smith**	**2012**	**–**	**–**	**–**	**–**	**–**
	2011	219,865	78,769	–	–	298,634
Total remuneration for key management personnel	**2012**	**229,074**	**–**	**–**	**–**	**229,074**
	2011	3,509,652	2,094,551	782,250	–	6,386,453

* During the FY2012 financial year, each of these directors served as REL Board members between 1 July 2011 and 12 August 2011. For the FY2011 financial year, these directors were not considered to be KMP's.

** Each of these senior executives ceased to be employed as a consequence of the implementation of the Court and Shareholder approved Scheme of Arrangement on 29 March 2011.

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 $	Cash settled $	$
17,328	**–**	**–**	**–**	**–**	**–**	**207,136**
–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**100**
–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–
1,395	**–**	**–**	**–**	**–**	**–**	**16,895**
–	–	–	–	–	–	–
1,065	**–**	**–**	**–**	**–**	**–**	**12,898**
–	–	–	–	–	–	–
1,065	**–**	**–**	**–**	**–**	**–**	**12,898**
–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**
12,666	1,114,615	517,731	–	–	–	3,375,812
–	**–**	**–**	**–**	**–**	**–**	**–**
12,098	611,000	61,114	–	–	–	1,526,345
–	**–**	**–**	**–**	**–**	**–**	**–**
12,068	351,000	58,513	–	–	–	1,261,787
–	**–**	**–**	**–**	**–**	**–**	**–**
12,068	156,000	21,943	54,680	–	–	1,367,179
–	**–**	**–**	**–**	**–**	**–**	**–**
12,068	234,000	36,571	–	–	–	1,067,405
–	**–**	**–**	**–**	**–**	**–**	**–**
12,613	312,138	117,000	89,693	–	–	1,298,870
–	**–**	**–**	**–**	**–**	**–**	**–**
11,399	–	–	–	–	–	310,033
20,853	**–**	**–**	**–**	**–**	**–**	**249,927**
84,980	2,778,753	812,872	144,373	–	–	10,207,431

EXECUTIVE EMPLOYMENT CONTRACTS

REG did not employ any executive management during the 30 June 2012 financial year.

As required by section 300A(1)(e)(vii) of the *Corporations Act 2001*, the key terms of the employment contract of Mr Richard Butler during the reporting period contained the conditions below:

Length of contract	Annual, and subject to review/renewal on an annual basis.
Base remuneration	Fixed annual remuneration.
Incentives and other benefits	Statutory superannuation only.
Termination of employment	May be terminated by REL or by Mr Butler on the giving of one week's notice in writing to the other party.
Termination payments	None; however, REL may at its election pay Mr Butler an amount in lieu of notice equal to seven days pay at the base remuneration rate.

INDEPENDENT DIRECTORS

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

Mr L F Gill (former Independent Chairman)	Appointed 29 October 2006, appointed chairman on 1 July 2008, resigned 12 August 2011
Mr P M Kinsey (former Independent Non-Executive Director)	appointed 29 October 2006, resigned 12 August 2011
Mr R H Keller (former Independent Non-Executive Director)	appointed 27 April 2010, resigned 12 August 2011

NON-INDEPENDENT DIRECTORS

The following persons were Non-Independent Directors of REG during the financial year and up to the date of this report:

Mr R Butler (Chairman)	appointed 13 July 2011
Mr S D Maher (Non-Executive Director)	appointed 13 July 2011
Mr T C A Plutsky (Non-Executive Director)	appointed 12 August 2011
Mr V Artamonov (Non-Executive Director)	appointed 12 August 2011

REMUNERATION POLICY AND STRUCTURE

During the 2012 financial year, the Chairman and the former Independent Directors received a cash fee for service. The Chairman and the former Independent Directors did not receive any performance-based remuneration or any retirement benefits, other than receiving statutory superannuation.

The cash fee paid to the current Chairman was the subject of review and approval by the REL Board (other than the Chairman who did not take any part in the consideration and approval of the agreed fee). Any fees paid or payable to Directors must fall within the shareholder approved aggregate fee pool. The current maximum aggregate amount which may be paid to all Directors is $750,000 per annum.

During the 2012 financial year, the remaining members of the REL Board were either paid a nominal sum of $100 (Mr Maher) or served as a Director on a gratis basis (Messrs Plutsky and Artamonov).

The agreed fee payable per annum to the current Chairman is $235,000. The source of funding for this payment is drawn from both Redbank Energy Limited and Redbank Project Pty Ltd.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year ended 30 June 2012, and the number of meetings attended by each director, are as follows:

Board or Committee	Redbank Energy Board Meetings		Audit Committee Meetings	
Held/Attended	H	A	H	A
Len Gill	8	8	–	–
Rod Keller	8	8	–	–
Peter Kinsey	8	8	–	–
Richard Butler	10	8	4	4
Simon Maher	10	9	4	3
Todd Plutsky	4	4	4	4
Vlad Artamonov	4	4	4	4

- 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.
- Len Gill, Rod Keller and Peter Kinsey resigned from the REL Board on 12 August 2011.
- Simon Maher and Richard Butler were appointed to the REL Board on 13 July 2011.
- Todd Plutsky and Vlad Artamonov were appointed to the REL Board on 12 August 2011.

Remuneration of Directors for the years ended 30 June 2012 and 2011

Details of the nature and amount of each element of the emoluments of each Director of REG for the years ended 30 June 2012 and 2011 are set out in the table below.

		Short-term employee benefits	Post-employment benefits	
	Year	Fees	Superannuation	Total
Directors				
Mr L F Gill (Chairman) (until 12 August 2011)	**2012**	**15,500**	**1,395**	**16,895**
	2011	252,122	14,061	266,183
Mr P M Kinsey (until 12 August 2011)	**2012**	**11,833**	**1,065**	**12,898**
	2011	159,250	14,333	173,583
Mr R H Keller (until 12 August 2011)	**2012**	**11,833**	**1,065**	**12,898**
	2011	152,875	13,759	166,634
Mr R L Butler (from 13 July 2011; Chairman from 12 August 2011)	**2012**	**189,808**	**17,328**	**207,136**
	2011	–	–	–
Mr S D Maher (from 13 July 2011)	**2012**	**100**	**–**	**100**
	2011	–	–	–
Mr T C A Plutsky (from 12 August 2011)	**2012**	**–**	**–**	**–**
	2011	–	–	–
Mr V Artamonov (from 12 August 2011)	**2012**	**–**	**–**	**–**
	2011	–	–	–
Total Remuneration for Directors	**2012**	**229,074**	**20,853**	**249,927**
	2011	564,247	42,153	606,400

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012

Indemnification of officers and auditors

REG 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. REG has not been advised of any claims under any of the abovementioned indemnities.

During the financial year, REG has paid insurance premiums for a directors' and officers' liability insurance contract that provides cover for current and former directors, secretaries and officers of REG and its controlled entities. 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

REG is subject to environmental regulations under both Commonwealth and State legislation including the reporting requirements of both the *Energy Efficiency Opportunities Act 2006* (REG 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 REG 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 REG and to the best of their knowledge and enquiries all activities have been undertaken in compliance with environmental regulations.

Carbon Scheme

The Federal Government has introduced a Carbon Scheme commencing from 1 July 2012. The Scheme will commence with a starting price of $23 per tonne, rising by 2.5% per year until 2015. Redbank Project has already received cash assistance in June 2012 for the first year of the Scheme and expects further assistance in the form of free permits during years two through to five of the Carbon Scheme.

The impacts of the Carbon Scheme on Redbank Project operations has been factored into both impairment and asset valuations where affected.

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 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 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.

	2012 $	2011 $
Transaction Support Services		
PricewaterhouseCoopers Australian firm:		
Due diligence services	–	940,000
Audit of regulatory returns and accounting advice	55,715	248,248
Total remuneration for other assurance services	**55,715**	**1,188,248**
Other services		
PricewaterhouseCoopers Australian firm:		
Legal services	–	–
Total remuneration for other services	–	–
Total remuneration for non-audit services	**55,715**	**1,188,248**

Auditors independence declaration
The auditor's independence declaration is included on page 15 and forms a part of the Director's report.

Rounding off of amounts
The Company is of a kind referred in Class Order 98/0100, 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.

Richard Butler

Mr R Butler
Director

Dated at Sydney this 31st day of August 2012.

AUDITOR'S INDEPENDENCE DECLARATION

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Redbank Energy Limited for the year ended 30 June 2012, 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 Redbank Energy Limited and the entities it controlled during the period.

Marc Upcroft
Partner
PricewaterhouseCoopers

31 August 2012

PricewaterhouseCoopers, ABN 52 780 433 757
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Revenue from continuing operations	8	62,674	63,174
Other income	8	–	32,798
Net gain on disposal of business	33	26,958	1,800
Financing income	8	760	3,991
Total income		**90,392**	**101,763**
Operating expenses	8	(36,615)	(46,443)
Depreciation and amortisation expense	8	(11,472)	(11,455)
Finance costs	8	(17,807)	(20,044)
Fair value loss on derivatives	8	49,729	(18,455)
Impairment losses	8	(72,592)	(13,964)
Total expense from ordinary activities		**(88,757)**	**(110,361)**
Profit/(loss) before income tax		**1,635**	**(8,598)**
Income tax benefit/(expense)	9	6,274	(32,549)
Profit/(loss) from continuing operations		**7,909**	**(41,147)**
Loss from discontinued operations	33	**–**	**(390,763)**
Profit/(loss) for the year		**7,909**	**(431,910)**
Profit/(loss) attributable to security holders as:			
Equity holders of the Company – REL		7,909	(431,910)
Equity holders of the Trust – AET (non-controlling interest)		–	–
		7,909	**(431,910)**
Other comprehensive income from continuing operations			
Other comprehensive income		–	–
		–	–
Other comprehensive income from discontinued operations		–	76,879
Other comprehensive income for the year, net of tax		–	**76,879**
Total comprehensive income for the year		**7,909**	**(355,031)**
Profit/(loss) and other comprehensive income attributable to security holders are as follows:			
Equity holders of the Company – REL		**7,909**	**(355,031)**
Equity holders of the Trust – AET (non-controlling interest)		–	–
Subsidiary company non-controlling interests		–	–
		7,909	**(355,031)**

		Cents	Cents
Earnings per share of the parent based on earnings attributable to the equity holders of the parent			
Basic earnings per share	10	1,005.85	(68.28)
Diluted earnings per share	10	1,005.85	(68.28)

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	2012 $'000	2011 $'000	2010 $'000
Current assets				
Cash and cash equivalents	27	16,634	20,638	105,085
Trade and other receivables	12	8,919	7,827	222,678
Current tax receivable	9	–	4	–
Derivative financial instruments	7	24,738	23,036	67,205
Inventories	13	2,535	2,366	42,004
Other assets	14	1,786	4,258	36,992
		54,612	58,129	473,964
Non-current assets classified as held for sale	15	–	41,002	71,516
Total current assets		**54,612**	**99,131**	**545,480**
Non-current assets				
Trade and other receivables	12	–	105	61,822
Derivative financial instruments	7	91,124	43,097	67,078
Property, plant and equipment	16	114,542	185,433	2,156,417
Intangibles	17	8,536	14,138	1,298,043
Deferred tax assets	9	–	–	128,538
Other assets	14	19,753	18,915	20,219
Total non-current assets		**233,955**	**261,688**	**3,732,117**
Total assets		**288,567**	**360,819**	**4,277,597**
Current liabilities				
Trade and other payables	18	13,429	9,753	201,907
Current tax payables	9	–	–	626
Derivative financial instruments	7	–	–	5,507
Borrowings	21	206,270	219,559	20,621
Employee benefits	20	1,026	951	26,589
Provisions	19	–	–	28,965
		220,725	230,263	284,215
Liabilities directly associated with non-current assets held for sale	15	–	70,000	80,735
Total current liabilities		**220,725**	**300,263**	**364,950**
Non-current liabilities				
Borrowings	21	–	–	2,901,662
Deferred tax liabilities	9	56,613	62,890	157,357
Derivative financial instruments	7	–	–	132,471
Other payables	18	–	–	516
Employee benefits	20	118	120	49,842
Provisions	19	23,891	18,235	255,788
Total non-current liabilities		**80,622**	**81,245**	**3,497,636**
Total liabilities		**301,347**	**381,508**	**3,862,586**
Net (deficit)/assets		**(12,780)**	**(20,689)**	**415,011**

The above statements of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	2012 $'000	2011 $'000	2010 $'000
Equity holders of the Company – REL				
Contributed equity	23	656,224	656,224	656,224
Reserves	24	1,038,409	1,038,409	(72,879)
Accumulated losses	25	(1,707,413)	(1,715,322)	(1,289,042)
		(12,780)	**(20,689)**	**(705,697)**
Equity holders of the Trust – AET (Minority interest)				
Contributed equity	23	–	–	1,122,137
Accumulated losses	25	–	–	(1,429)
		–	–	**1,120,708**
Total equity holding of security holders – REG		(12,780)	(20,689)	415,011
Subsidiary company minority interests		–	–	–
Total equity		**(12,780)**	**(20,689)**	**415,011**

The above statements of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

	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 2010	**1,778,361**	**(72,879)**	**(1,284,496)**	**420,986**	**–**	**420,986**
Adjustment on correction of error (net of tax)	–	–	(5,975)	(5,975)	–	(5,975)
	1,778,361	**(72,879)**	**(1,290,471)**	**415,011**	**–**	**415,011**
Total comprehensive income for the year	**–**	**69,821**	**(424,852)**	**(355,031)**	**–**	**(355,031)**
Transactions with owners in their capacity as owners:						
De-stapling of Trust securities	(1,122,137)	–	–	(1,122,137)	–	(1,122,137)
Alinta Energy Trust acquisition reserve	–	1,041,467	–	1,041,467	–	1,041,467
Total transactions with owners in their capacity as owners	**(1,122,137)**	**1,041,467**	**–**	**(80,670)**	**–**	**(80,670)**
Balance at 30 June 2011	**656,224**	**1,038,409**	**(1,715,322)**	**(20,689)**	**–**	**(20,689)**

	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 2011	**656,224**	**1,038,409**	**(1,715,322)**	**(20,689)**	**–**	**(20,689)**
Total comprehensive income for the year	**–**	**–**	**7,909**	**7,909**	**–**	**7,909**
Transactions with owners in their capacity as owners:						
Shares issued	–	–	–	–	–	–
Total transactions with owners in their capacity as owners	**–**	**–**	**–**	**–**	**–**	**–**
Balance at 30 June 2012	**656,224**	**1,038,409**	**(1,707,413)**	**(12,780)**	**–**	**(12,780)**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		67,963	1,174,482
Payments to suppliers and employees (inclusive of GST)		(37,739)	(1,004,978)
Interest received		715	5,170
Interest and other costs of finance paid		(17,475)	(165,395)
Dividends received		–	2,280
Income/withholding tax paid		–	(1,747)
Net cash inflow from operating activities	27	**13,464**	**9,812**
Cash flows from investing activities			
Payment for property, plant and equipment		(2,328)	(35,458)
Proceeds from sale of property, plant and equipment		–	3
Payment for purchase of subsidiaries (net of cash acquired from subsidiaries, inclusive of GST on transaction costs)		–	–
Proceeds from sale of subsidiaries (net of cash and cash equivalents disposed of)		(1,851)	(64,127)
Net cash outflow from investing activities		**(4,179)**	**(99,582)**
Cash flows from financing activities			
Payments for trust units bought back		–	(80,706)
Proceeds from borrowings		–	81,616
Repayment of borrowings		(13,289)	(59,695)
Loans from/repaid by related party		–	64,510
Loan establishment costs		–	–
Net cash (outflow)/inflow from financing activities		**(13,289)**	**5,725**
Net decrease in cash and cash equivalents		(4,004)	(84,045)
Cash and cash equivalents at the beginning of the year		20,638	105,085
Effect of exchange rate changes on cash and cash equivalents		–	(402)
Cash and cash equivalents at the end of the year	27	**16,634**	**20,638**

Non-cash financing and investing activities are reflected in note 27 (d).

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

1. CORPORATE INFORMATION

The financial statements of the Redbank Energy Group (**REG** or **Group**) for the year ended 30 June 2012 were authorised in accordance with a resolution of directors on 30 August 2012.

The ultimate parent entity of REG consolidated group, is Redbank Energy Limited (**REL**), an Australian public company listed on the Australian Securities Exchange (**ASX**). REG trades under the ASX ticker code of "AEJ".

These REG financial statements consist of the consolidated financial statements of Redbank Energy Limited and its controlled entities (including the Alinta Energy Trust for the prior comparative period).

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 Redbank 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 on a non-going concern basis. The consolidated financial statements have also been prepared in accordance with the historical cost convention, except for certain assets which, as noted, are 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 basis of preparation

The financial information presented in this financial report has been prepared on the basis that the Redbank Energy Group (REG or Group) and Redbank Energy Limited (**REL**), the Group's ultimate parent entity are going concerns for financial reporting purposes. Changes to accounting policies resulting from the change in basis of preparation are disclosed in the following summary of accounting policies. The comparative year had been presented on a non-going concern basis, however, this has been updated this year to reflect the current year accounting policies on a going concern basis.

The Group had a net current asset deficiency as at 30 June 2012 of $166,113,000 (2011: $201,132,000) and a net asset deficiency of $12,780,000 (2011: $20,689,000). The net current asset deficiency is as a result of the classification of the external borrowings of $206,270,000 (2011: $219,559,000) as a current liability for the reasons explained below.

Redbank Project Pty Ltd (**Redbank Project**) is the Group's operating subsidiary which holds the Redbank Power Station and which has its own project finance facility (**Redbank Credit Facility**).

On 31 March 2011, Redbank Project entered into a Bank Support Agreement with its lenders (**BSA**) whereby the lenders conditionally agreed not to enforce their rights under the Redbank Credit Facility upon the satisfactory discharge of certain obligations prescribed in the BSA, including the injection of further equity capital into Redbank Project and the appointment of independent external advisors to work with the Group on a sale process or refinancing. The BSA was for an initial term which expired on 31 March 2012. The BSA has been extended on a number of occasions since 31 March 2012, during which time Redbank Energy has been engaged in negotiations with the lenders with the objective of agreeing a long term finance facility for Redbank Project. At the time of signing these accounts, these negotiations are progressing constructively and Redbank Project continues to enjoy the support of its lenders. However, if Redbank Energy is unable to realise a strategy that secures its longer term future, it is unlikely that the Group will be able to operate as a going concern for financial reporting purposes.

The Board continues to assess a range of options for the future of the Redbank Energy business, and reiterates its commitment to identifying and implementing a strategy that secures the Group's longer term future. As at the date of this report, the Board is focusing on a refinancing of the Redbank Credit Facility in priority to the prospect of realising the Group's interest in Redbank Project through a sale process. As noted above, the negotiations with the lenders have been proceeding in accordance with the Board's expectations. On this basis, the Board has determined that it is more appropriate that the Consolidated Financial Report be prepared on the basis that the Group is a going concern for financial reporting purposes.

If negotiations with the lenders are unsuccessful, it is likely REG would not be able to meets its financial obligations when they fall due. As such, in the absence of a finalised agreement, there exists material uncertainty in regards to the Group's ability to continue as a going concern.

The directors regularly monitor and review the Group's operating and financial performance, including the profile of its debt facilities and forecast cash flows. Therefore, the directors have a reasonable expectation that REL and its subsidiaries will continue to operate as a going concern. The directors are committed to ensuring that the Group delivers on its undertakings in relation to the Bank Support Agreement (insofar as those obligations continue to apply until such time as a refinancing of the Redbank Credit Facility may occur).

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Going concern basis of preparation (continued)

As the Group has prepared its financial report on a going concern basis, the directors have changed the valuation basis for the property, plant and equipment and intangible assets in the 30 June 2012 balance sheet to the historical cost measure less accumulated depreciation/amortisation and impairment losses. The assets and liabilities have also been classified based on their expected timing of settlement. As the 30 June 2011 financial report was prepared on a non-going concern basis, the Group's balance sheet was presented on a liquidity basis. The liquidity basis balance sheet presents assets and liabilities in their relative order of liquidity.

At 30 June 2011, property, plant and equipment and intangibles had been recorded at a value such that the net assets of the Group related to Redbank Project were carried at an amount equal to a zero net asset value. This was not the historical cost measured in accordance with the current policy of the Group, nor is it the value in use for the asset or fair value less costs to sell if the assets had been impairment tested in accordance with AASB 136 Impairment of Assets. The change in valuation basis for property, plant and equipment and intangible assets in the 30 June 2012 balance sheet has not impacted the 2011 comparative amounts. This is on the basis that had the assets been classified as held for sale at 30 June 2011, the carrying value of the assets was expected to have been realised through sale with no further impairment. At 30 June 2012 given the change in the Group's intentions in relation to the Redbank Project, its non-current assets have been assessed for impairment on the basis of the discounted long-term cash flows related to its operations. The impact of this at 30 June 2012 has been the recognition of an impairment expense for property, plant and equipment and intangibles related to Redbank Project of $72.6 million. This impairment expense includes the impact of changes in expected forward electricity prices and cost of carbon reflecting the implementation of the Clean Energy Act.

Compliance with IFRS

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

Parent entity financial information

The financial information for the parent entity, Redbank Energy Limited, disclosed in note 37 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Tax consolidation legislation

REL and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

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 9.

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 judgements

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 judgement in the process of applying accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Certain areas involving a higher degree of judgement 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 9), impairment testing of goodwill and non-current assets (note 17 and above), valuation of defined benefit obligations (note 20), valuation of site restoration provisions (note 19), valuation of electricity derivatives (note 7) and the fair value of loans for Redbank Energy Limited (note 37).

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 Redbank Energy Limited (the "Company" or "parent entity") including all subsidiaries that Redbank Energy Limited controlled from time to time during the period and at the reporting date. Redbank Energy Limited and its subsidiaries 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.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(c) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall 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 polices 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 the profit and loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(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 Board of Directors (the "Board").

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 has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentational 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. All 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.

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.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(j) Investments and other financial assets (continued)

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.

(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.

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 judgemental 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 of financial assets

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 assets 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.

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

30 June 2012 – Change in accounting policy during the year

The Group has changed its policy for accounting for property, plant and equipment in the year to 30 June 2012. At 30 June 2011, property, plant and equipment had been recorded at a value such that the net assets of the Group related to Redbank Project were carried at an amount equal to a zero net asset value. This was not the historical cost measured in accordance with the current policy of the Group, nor was it the value in use for the asset or fair value less costs to sell if the assets had been impairment tested in accordance with AASB 136 Impairment of Assets. The change in accounting policy for property, plant and equipment in the 30 June 2012 balance sheet has not impacted the 2011 comparative amounts. This is on the basis that had the assets been classified as held for sale at 30 June 2011, the carrying value of the assets was expected to have been realised through sale with no further impairment.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(l) Property, plant and equipment (continued)

Current accounting policy

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. 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 assets 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 plant is 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.

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
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 amount 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 values 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 3 and 30 years.

Other
Other intangibles include computer software. 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 1 and 20 years.

(n) Impairment of assets

30 June 2012 – Impairment due to change in accounting policy
The Group has changed its policy for accounting for property, plant and equipment and intangibles in the year to 30 June 2012.

At 30 June 2011, property, plant and equipment and intangibles had been recorded at a value such that the net assets of the Group related to Redbank Project were carried at an amount equal to a zero net asset value. This is not the historical cost measured in accordance with the previous policy of the Group, nor it is the value in use for the asset or fair value less costs to sell if the assets had been impairment tested in accordance with AASB 136 *Impairment of Assets*.

The change in accounting policy for property, plant and equipment and intangibles in the 30 June 2012 balance sheet has not impacted the 2011 comparative amounts. This is on the basis that had the assets been classified as held for sale at 30 June 2011, the carrying value of the assets was expected to have been realised through sale with no further impairment.

Current accounting policy
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.

(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) REL 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) REL 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 REG is the lessor, income is recognised on a straight line basis over the term of the supply agreement.

Finance leases

(i) REL 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, which 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 co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

(q) Trade and other payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The 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.

Ordinarily 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. In the current year financial report, which has been prepared on a non-going concern liquidity basis, the current versus non-current distinction is not relevant.

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.

(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. Since the de-leveraging transaction, within the retirement benefit plans in the subsidiaries of the Group there are only defined contribution plans. The defined contribution plans receive fixed contributions from Group entities and the Group's legal or constructive obligation is limited to these contributions.

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.

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.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(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 5.
- 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 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 share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

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

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

(a) Changes in accounting policy and disclosures

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2011:

- AASB 2009-12 *Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]*
- AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]
- AASB 2010-5 *Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]*

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

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2012. 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 9 *Financial Instruments* effective for annual reporting periods beginning on or after 1 January 2015
- AASB 10 *Consolidated Financial Statements* effective for annual reporting periods beginning on or after 1 January 2013
- AASB 11 *Joint Arrangement* effective for annual reporting periods beginning on or after 1 January 2013
- AASB 12 *Disclosure of Interests in Other Entities* effective for annual reporting periods beginning on or after 1 January 2013
- AASB 13 *Fair Value Measurement* effective for annual reporting periods beginning on or after 1 January 2013
- AASB 119 *Employee Benefits* effective for annual reporting periods beginning on or after 1 January 2013

4. CORRECTION OF AN ERROR

In preparing the accounts for the year ended 30 June 2012, a deferred tax liability amounting to $5,975,000 should have been recognised since 30 June 2001 relating to the tax effect accounting for prepayments. This additional liability would have resulted in an increase in the deferred tax liability and a reduction in retained earnings in the opening statement of financial position at 1 July 2010.

Consequently the impairment charge recognised against property, plant and equipment at 30 June 2011, in accordance with the accounting policy stated in Note 2 above, would have been lower by $8,536,000 resulting in an increase in income tax expense of $2,561,000 (overall a $5,975,000 reduction to the reported loss for the year ended 30 June 2011).

The impact on the 30 June 2011 statement of financial position is an increase in deferred tax liabilities of $8,536,000 with a corresponding increase in property, plant & equipment of $8,536,000. There is no impact on retained earnings.

5. 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. The chief operating decision-maker of the Group is the Board of Directors ('the Board'). The Group assesses the performance of its operations principally on the basis of normalised earnings before interest, tax, depreciation and amortisation ('Management EBITDA'). The Board considers the performance of the Generation business in assessing the performance of the Group and making decisions about the allocation of resources. Segment disclosures have been presented on this basis.

Generation

This segment incorporates the coal fired power generation asset of the Group.

Generation revenue includes:

- 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;

5. SEGMENT INFORMATION (CONTINUED)

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'.

The Alinta Energy business was sold effective from 29 March 2011. Information about this discontinued business is provided in note 33.

(a) Segment performance

The Group's operations are in Australia. The segment information provided to the Board of Directors for the year ended 30 June 2012 is as follows:

	Generation Aust $'000	Other Aust $'000	Elimination $'000	Total $'000
30 June 2012				
Revenue from external customers	61,858	816	–	62,674
Inter-segment revenue[(1)]	–	1,746	(1,746)	–
Total segment revenue	**61,858**	**2,562**	**(1,746)**	**62,674**
Management EBITDA	**26,272**	**(213)**	**–**	**26,059**
30 June 2011				
Revenue from external customers	63,328	(154)	–	63,174
Inter-segment revenue[(1)]	–	1,681	(1,681)	–
Total segment revenue	**63,328**	**1,527**	**(1,681)**	**63,174**
Management EBITDA	**24,500**	**(7,769)**	**–**	**16,731**

The Board 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 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 to reconcile to the Group result.

(b) Reconciliation of Management view EBITDA to Statutory EBITDA

	Generation Aust $'000	Other Aust $'000	Elimination $'000	Total $'000
30 June 2012				
Management EBITDA	**26,272**	**(213)**	**–**	**26,059**
Impairment	(68,159)	(4,433)	–	(72,592)
Gain on disposal of business	–	26,958	–	26,958
Mark to market derivative movements	49,729	–	–	49,729
Debt forgiveness	–	–	–	–
Management adjustments	**(18,430)**	**22,525**	**–**	**4,095**
Statutory EBITDA	**7,842**	**22,312**	**–**	**30,154**
Net finance costs				(17,047)
Amortisation and depreciation				(11,472)
Taxation				6,274
Loss from continuing operations				**7,909**

	Generation Aust $'000	Other Aust $'000	Elimination $'000	Total $'000
30 June 2011				
Management EBITDA	**24,500**	**(7,769)**	**–**	**16,731**
Impairment	(12,447)	(1,517)	–	(13,964)
Gain on disposal of business	–	1,800	–	1,800
Mark to market derivative movements	(18,455)	–	–	(18,455)
Debt forgiveness	–	32,798	–	32,798
Management adjustments	**(30,902)**	**33,081**	**–**	**2,179**
Statutory EBITDA	**(6,402)**	**25,312**	**–**	**18,910**
Net finance costs				(16,053)
Taxation				(32,549)
Amortisation and depreciation				(11,455)
Loss from continuing operations				**(41,147)**

6. FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives

Exposure to credit, liquidity, interest rate and electricity market prices arise in the normal course of business. The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes, rather it enters into these products to manage its exposure to the electricity market. 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.

REG has appropriate principles and policies in place which address the financial risks affecting the Group.

As a result of the disposal of the Alinta Energy business in the prior year, the Group is no longer exposed to foreign exchange risk.

(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, which arises from its merchant generation in the National Electricity Market.

Redbank has a long term power purchase agreement with Ausgrid 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 mega-watt 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.

6. 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
2012							
Electricity derivatives	24,738	58,928	32,196	115,862	–	115,862	49,729
2011							
Electricity derivatives	23,036	37,768	5,329	66,133	–	66,133	(18,455)

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
2012		
Profit/(loss) before tax	(39,268)	39,268
Other component of equity increase/(decrease)	–	–
2011		
Profit/(loss) before tax	(42,536)	42,536
Other component of equity increase/(decrease)	–	–

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

Redbank's long term debt is provided by the Redbank Credit Facility Agreement. The Redbank Credit Facility is provided at fixed interest rates. The Group is exposed to floating interest rates through cash balances held and the working capital facility.

Interest rate risk sensitivity

As a result of the disposal of the Alinta Energy business, the Group is no longer exposed to interest rate risk through interest rate swaps contracts previously held.

Prior year sensitivity analysis to profit/(loss) before tax, and equity, was determined based on the exposure to interest rates at the reporting date and assumed that there were concurrent movements in interest rates and parallel shifts in the yield curves. A sensitivity of 100 basis points was selected as this was considered reasonable given the level of short term and long term interest rates.

	Increase by 1% $'000	Decrease by 1% $'000
2012		
Profit/(loss) before tax	–	–
Other component of equity increase/(decrease)	–	–
2011		
Profit/(loss) before tax	–	–
Other component of equity increase/(decrease)	–	–

(d) Credit risk

All of the Group's electricity generation revenue is paid or payable by government instrumentalities and accordingly credit risk is considered to be inherently low.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the consolidated entity's maximum exposure to credit risk.

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

Loans and receivables	Past due not impaired					Past due impaired	Collateral held
	1–30 $'000	31–60 $'000	61–90 $'000	91–120 $'000	Over 120 $'000	$'000	$'000
2012	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2011	–	–	–	–	–	–	–

(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. REL'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 short term debt maturities that need to be refinanced.

The following tables detail 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	**2012**	**3,064**	**–**	**–**	**–**	**3,064**
	2011	2,580	–	–	–	**2,580**
Other payables	**2012**	**10,365**	**–**	**–**	**–**	**10,365**
	2011	7,173	–	–	–	**7,173**
Interest bearing liabilities	**2012**	**206,270**	**–**	**–**	**–**	**206,270**
	2011	289,559	–	–	–	**289,559**

(f) Capital risk management

The Group manages its capital 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 23, 24 and 25. The quantitative analysis of each of these categories of capital is provided in their respective notes to these financial statements.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities must be estimated for recognition, measurement and disclosure purposes. REG 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);
- **Level 3** – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	30 June 2012				30 June 2011			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets								
Electricity derivatives	–	–	115,862	**115,862**	–	–	66,133	**66,133**
Total assets	**–**	**–**	**115,862**	**115,862**	**–**	**–**	**66,133**	**66,133**

7. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Electricity derivatives
Electricity derivatives are financial instruments which are recognised at fair value through the statement of comprehensive income.

This balance comprises the PPHA derivative relating to Redbank. Redbank has a long term power purchase agreement with Ausgrid 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 mega-watt 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 2012 the value of this derivative has increased by $49,729,000 to $115,862,000. At 30 June 2011 the value of this derivative had decreased by $18,455,000 to $66,133,000.

On the 18th May 2012, REL released to the market a notice that it had triggered the dispute resolution provisions under the Power Purchase Hedge Agreement (PPHA) which it is a party to with Ausgrid.

The dispute relates to the entitlement to pass through under the PPHA the cost incurred by Redbank Project under the Commonwealth Governments Clean Energy Act 2011. Redbank Project has had to trigger the dispute resolution mechanisms under the PPHA as Redbank Project and Ausgrid have been unable to come to an agreement on the pass through clause contained within the PPHA. The dispute resolution process is currently continuing with Redbank hopeful of an outcome by the end of the 2012 calendar year, however it may take longer.

Due to the nature of this dispute and the reliance of an estimate in regards to the extent of the pass through in valuing the PPHA at fair value, the effect of a change in the assumption regarding the amount of carbon cost able to be passed through to Ausgrid will have a material financial impact on the value of the PPHA, and hence on the Redbank Power Station. In the absence of an agreed quantum of pass through, the valuation of the PPHA is largely subjective and dependent on assumptions which can have the effect of materially changing the valuation of the PPHA. The key assumption in this context is how much carbon liability can be passed through. Having regard to this matter, the Board reasonably considers that the potential range of fluctuation in the value of the PPHA may vary between –$2.7 million and $160 million.

	30 June 2012				30 June 2011			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities								
Interest rate derivatives	–	–	–	–	–	–	–	–
Foreign exchange derivatives	–	–	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Level 3 derivatives – additional information
The following tables present the changes in the Group's Level 3 derivative financial instruments for the years ended 30 June 2012 and 30 June 2011.

	Electricity Derivatives $'000	Total $'000
2012		
Assets		
Opening balance	66,133	**66,133**
Discontinued operations	–	**–**
Recognised as profit or (loss)	49,729	**49,729**
Closing balance	**115,862**	**115,862**
2011		
Assets		
Opening balance	134,283	**134,283**
Discontinued operations	(49,695)	**(49,695)**
Recognised as profit or (loss)	(18,455)	**(18,455)**
Closing balance	**66,133**	**66,133**

8. PROFIT/(LOSS) FROM OPERATIONS

	2012 $'000	2011 $'000
Revenue		
Revenue from the sale of energy products	61,858	63,138
Other revenue	816	36
	62,674	**63,174**
Other income		
Debt forgiveness	–	32,809
Net loss on disposal of property, plant and equipment	–	(11)
	–	**32,798**
Financing income		
Interest income		
Bank deposits	760	3,991
	760	**3,991**
(Loss)/profit before income tax has been arrived at after charging the following expenses:		
Operating expenses:		
Operating costs	22,431	30,088
Corporate and administrative costs	6,690	9,436
Employee benefit expenses		
Salaries and wages	7,494	6,919
	36,615	**46,443**
Impairment losses		
Property, plant and equipment (note 16)(1)	67,691	12,293
Intangibles (note 17)(1)	4,901	1,671
	72,592	**13,964**
Depreciation and amortisation		
Depreciation of property, plant and equipment (note 16)	10,771	10,680
Amortisation of intangible assets (note 17)	701	775
	11,472	**11,455**
(Loss)/profit before income tax has been arrived at after charging the following expenses:		
Finance costs:		
Interest expense – external third parties	17,475	21,126
Unwinding of discount on provisions	332	(1,156)
Other borrowing costs	–	74
	17,807	**20,044**
Derivative movement		
Fair value gain/(loss) on Redbank PPHA derivative(2)	49,729	(18,455)
	49,729	**(18,455)**

(1) Impairment charges of $72,592,000 were recognised against the property, plant and equipment and intangible assets associated with the Redbank cash generating unit. In the 2011 comparative period, an impairment charge of $13,964,000 was recognised against the property, plant and equipment and intangible assets of the Redbank cash generating unit. Refer to note 17 for further discussion on impairment.

(2) The non-cash derivative movement reported in the accounts represents an assessment of the present value of the difference between the 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 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 REG. The impact of the Federal Government's Carbon Scheme commencing 1 July 2012 has been included in the calculation of the Redbank PPHA contract.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

9. INCOME TAX (BENEFIT)/EXPENSE

	2012 $'000	2011 $'000
(a) Income tax (benefit)/expense		
Current tax expense	1,324	1,571
Deferred tax	(6,277)	11,810
Under/(over) provided in prior year	(1,321)	(1,621)
	(6,274)	**11,760**
Deferred income tax (benefit)/expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	955	69,744
(Decrease)/increase in deferred tax liabilities	(7,232)	(15,581)
Transfer ineffective hedge from equity	–	(42,353)
	(6,277)	**11,810**
(b) Reconciliation of income tax (benefit)/expense to prima facie tax payable		
Net profit/(loss) before income tax	1,635	(420,150)
Tax at the Australian tax rate of 30% (2011: 30%)	491	(126,045)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	948	–
Gain/(loss) on debt forgiveness	–	5,378
Impairment of goodwill	–	150,000
De-recognition of deferred tax assets	1,791	18,825
Reduction of losses due to debt forgiveness	–	1,093
Hedge amortisation from equity	–	(12,560)
Under/(over) provision in prior years	(1,321)	(1,621)
Disposal of investments in subsidiaries	(8,087)	(28,585)
Other	(96)	5,275
Income tax (benefit)/expense	**(6,274)**	**11,760**
Income tax (benefit)/expense is attributable to:		
Continuing operations	(6,274)	32,549
Discontinued operations	–	(20,789)
	(6,274)	**11,760**
(c) Deferred tax amounts recognised directly in equity		
Revaluations of financial instruments treated as cash flow hedges	–	5,795
Others	–	(3,071)
	–	**2,724**

(d) Tax consolidation legislation
Redbank Energy Limited (REL) 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, REL.

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

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.

Redbank Project Holdco Pty Ltd, Redbank Project Pty Ltd and Redbank Construction Pty Ltd 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.

	2012 $'000	2011 $'000
(e) Current tax liabilities		
Income tax payable/(receivable)	–	(4)
(f) Deferred tax balances		
Deferred tax liabilities comprise:		
Cash flow hedges	34,758	19,840
Intangibles	2,331	1,925
Land, plant and equipment	15,260	39,597
Inventories	(1)	(75)
Fuel prepayment	5,922	5,975
Other	11,751	9,991
Total deferred tax liability	70,021	77,253
Offset against deferred tax asset	(13,408)	(14,363)
Reclass to held for sale	–	–
	56,613	**62,890**
Deferred tax assets comprise:		
Unused revenue tax losses – corporate[(1)]	3,050	8,180
Provisions	7,510	5,799
Other	2,848	384
Total deferred tax asset	13,408	14,363
Offset against deferred tax liability	(13,408)	(14,363)
Reclass to held for sale	–	–
	–	**–**

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

9. INCOME TAX (BENEFIT)/EXPENSE (CONTINUED)

(f) Deferred tax balances (continued)

Taxable and deductible temporary differences arise from the following:

	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Closing balance $'000
2012					
Gross deferred tax liabilities:					
Cash flow hedges	(19,840)	(14,918)	–	–	(34,758)
Intangibles	(1,925)	(406)	–	–	(2,331)
Land, plant and equipment	(39,597)	24,337	–	–	(15,260)
Inventories	75	(74)	–	–	1
Fuel prepayment	(5,975)	53	–	–	(5,922)
Other	(9,991)	(1,760)	–	–	(11,751)
	(77,253)	**7,232**	**–**	**–**	**(70,021)**
Gross deferred tax assets:					
Unused revenue tax losses	8,180	(5,130)	–	–	3,050
Accruals	27	2	–	–	29
Expenses capitalised	357	(168)	–	–	189
Provisions	5,799	1,711	–	–	7,510
Other	–	2,630	–	–	2,630
	14,363	**(955)**	**–**	**–**	**13,408**
2011					
Gross deferred tax liabilities:					
Cash flow hedges	(37,194)	5,643	(147)	11,858	(19,840)
Intangibles	(134,097)	94	–	132,078	(1,925)
Operating lease rent receivable	(6,661)	3,931	–	2,730	–
Borrowing costs	(5,099)	780	–	4,319	–
Land, plant and equipment	(181,514)	16,364	–	125,553	(39,597)
Inventories	(5,258)	(10,412)	–	15,745	75
Fuel prepayment	(5,975)	–	–	–	(5,975)
Other	(10,532)	(819)	–	1,360	(9,991)
	(386,330)	**15,581**	**(147)**	**293,643**	**(77,253)**
Gross deferred tax assets:					
Unused revenue tax losses	130,969	36,661	–	(159,451)	8,180
Intangibles	317	–	–	(317)	–
Deductible equity raising costs	567	–	–	(567)	–
Accruals	1,873	(2,062)	–	217	27
Expenses capitalised	1,129	(18,312)	–	17,540	357
Provisions	131,047	(15,658)	3,071	(112,661)	5,799
Borrowing cost	15,685	(21,433)	–	5,748	–
Land, plant and equipment	6,327	1,928	–	(8,255)	–
Effect of hedge movements	63,708	(51,454)	(5,648)	(6,606)	–
Other	4,409	586	–	(4,995)	–
	356,031	**(69,744)**	**(2,577)**	**(269,347)**	**14,363**

10. EARNINGS PER SHARE

	2012 Cents per share	2011 Cents per share
Basic earnings per share		
Earnings per share attributable to the ordinary equity holders of REL shares:		
From continuing operations	1,005.85	(6.50)
From discontinued operations	–	(61.78)
	1,005.85	(68.28)
Diluted earnings per share		
Earnings per share attributable to the ordinary equity holders of REL shares:		
From continuing operations	1,005.85	(6.50)
From discontinued operations	–	(61.78)
	1,005.85	(68.28)
The earnings and weighted average number of shares used in the calculation of basic and diluted earnings per share are as follows:		
Profit/(losses) attributable to shareholders ($)		
From continuing operations	7,908,884	(41,146,372)
From discontinued operations	–	(390,763,633)
	7,908,884	(431,910,005)
Weighted average number of shares for the purposes of basic and diluted earnings per share	**786,287**	**632,550,559**

11. DIVIDENDS

The Group has not paid any dividends to shareholders and does not expect to be in a position to do so for the foreseeable future (2011: No dividends).

The parent entity, REL has a franking account credit balance of $11.9 million as at 30 June 2012 (30 June 2011: $13.8 million credit balance).

12. TRADE AND OTHER RECEIVABLES

	2012 $'000	2011 $'000
Current		
Trade receivables	8,821	7,667
Provision for doubtful debts	–	(23)
	8,821	7,644
Goods and services tax receivable	15	118
Other receivables		
External third parties	83	65
	8,919	**7,827**
Non-current		
Other receivables		
External third parties	–	105
	–	**105**

Information on credit risk and interest rate risk exposure of the Group is provided at note 6.

Reconciliation of provision for doubtful debts

	2012 $'000	2011 $'000
Opening balance – 1 July	23	1,943
Charge for the year	–	1,994
Amounts recovered	–	–
Amounts written off	(23)	(2,185)
Amounts transferred via Creditors' Schemes	–	(1,729)
Closing balance – 30 June	**–**	**23**

13. INVENTORIES

	2012 $'000	2011 $'000
Stores	2,347	2,087
Raw materials including:		
Coal	140	206
Fuel oil	48	73
Natural gas	–	–
	2,535	**2,366**

14. OTHER ASSETS

	2012 $'000	2011 $'000
Current		
Prepayment of operational expenses	355	243
Fuel prepayment(1)	1,000	1000
Other	431	3,015
	1,786	**4,258**
Non-current		
Fuel prepayment(1)	17,971	18,915
Other	1,782	–
	19,753	**18,915**

(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.

15. ASSETS AND LIABILITIES HELD FOR SALE

	2012 $'000	2011 $'000
Assets classified as held for sale		
Oakey(1)	–	41,002
	–	**41,002**
Liabilities classified as held for sale		
Oakey(2)	–	70,000
	–	**70,000**

(1) On 2 December 2009, REG 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 REG security holders on 22 February 2010. As part of the settlement arrangements, REG 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. This sale was completed on 1 July 2011. In the prior year, the Group recognised $70 million worth of borrowings payable to B&B, which were extinguished at the completion of the sale of the interest in Oakey on 1 July 2011. Accordingly, the Group's interest in Oakey was classified as a held for sale asset at 30 June 2011.

As disclosed in the 2010 annual report, following the settlement of debt arrangements with Babcock & Brown International Pty Ltd (BBIPL), REL no longer has any rights to profits or dividends from Oakey, effective 23 February 2010. Any dividends received from this date were distributed to BBIPL.

	2012 $'000	2011 $'000
Movements in carrying amounts		
Carrying amount at the beginning of the financial year	41,002	43,282
Dividend received/receivable	–	(2,280)
Disposal	(41,002)	–
Carrying amount at the end of the financial year	–	41,002
Shares of associates' profit or losses		
Profit before income tax	–	–
Income tax expense	–	–
Profit after income tax	–	–

(2) Babcock & Brown Group Facility

REG 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 security holder approval of the settlement terms at an Extraordinary General Meeting of REG on 22 February 2010. An amount of $70 million remained payable to B&B as at 30 June 2011. The Group was released from this obligation on 1 July 2011 when the Oakey asset was sold to a third party and the proceeds of sale passed to B&B.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

16. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings $'000	Plant and equipment $'000	Assets under construction $'000	Furniture, fittings and equipment $'000	Total $'000
Cost					
Balance at 1 July 2010	**48,183**	**2,421,827**	**62,010**	**1,855**	**2,533,875**
Additions	–	2,403	–	50	2,453
Disposals	–	(701)	–	–	(701)
Decommissioning costs	–	(142)	–	–	(142)
Discontinued operations	(47,307)	(2,149,297)	(62,010)	(1,852)	(2,260,466)
Balance at 30 June 2011	**876**	**274,090**	**–**	**53**	**275,019**
Balance at 1 July 2011	**876**	**274,090**	**–**	**53**	**275,019**
Additions	–	2,328	–	–	2,328
Decommissioning costs	–	5,324	–	–	5,324
Disposals	–	(56)	–	(53)	(109)
Balance at 30 June 2012	**876**	**281,686**	**–**	**–**	**282,562**
Accumulated depreciation					
Balance at 1 July 2010	**(1,670)**	**(374,578)**	**–**	**(1,210)**	**(377,458)**
Depreciation expense	–	(10,670)	–	(10)	(10,680)
Disposals	–	131	–	–	131
Impairment	–	(12,293)	–	–	(12,293)
Discontinued operations	1,670	307,831	–	1,213	310,714
Balance at 30 June 2011	**–**	**(89,579)**	**–**	**(7)**	**(89,586)**
Balance at 1 July 2011	**–**	**(89,579)**	**–**	**(7)**	**(89,586)**
Depreciation expense	–	(10,768)	–	(3)	(10,771)
Disposals	–	18	–	10	28
Impairment	–	(67,691)	–	–	(67,691)
Balance at 30 June 2012	**–**	**(168,020)**	**–**	**–**	**(168,020)**
Net book value					
As at 30 June 2011	876	184,511	–	46	185,433
As at 30 June 2012	**876**	**113,666**	**–**	**–**	**114,542**

Refer to note 17 for discussion of current year impairment.

17. INTANGIBLES

	Goodwill $'000	Software & Licences $'000	Customer Base $'000	Other $'000	Total $'000
Cost					
Balance at 1 July 2010	**1,941,994**	**83,340**	**460,233**	**69,798**	**2,555,365**
Additions	–	–	–	–	–
Discontinued operations	(1,941,989)	(40,590)	(460,233)	(67,588)	(2,510,400)
Balance at 30 June 2011	**5**	**42,750**	**–**	**2,210**	**44,965**
Balance at 1 July 2011	**5**	**42,750**	**–**	**2,210**	**44,965**
Additions	–	–	–	–	–
Balance at 30 June 2012	**5**	**42,750**	**–**	**2,210**	**44,965**
Accumulated amortisation and impairment					
Balance at 1 July 2010	**(1,094,304)**	**(46,216)**	**(115,837)**	**(965)**	**(1,257,322)**
Amortisation expense	–	(702)	–	(74)	(775)
Impairment loss	(5)	(1,512)	–	(154)	(1,671)
Discontinued operations	1,094,304	18,513	115,837	288	1,228,941
Balance at 30 June 2011	**(5)**	**(29,917)**	**–**	**(905)**	**(30,827)**
Balance at 1 July 2011	**(5)**	**(29,917)**	**–**	**(905)**	**(30,827)**
Amortisation expense	–	(627)	–	(74)	(701)
Impairment loss	–	(4,434)	–	(467)	(4,901)
Balance at 30 June 2012	**(5)**	**(34,978)**	**–**	**(1,446)**	**(36,429)**
Net book value					
As at 30 June 2011	**–**	**12,833**	**–**	**1,305**	**14,138**
As at 30 June 2012	**–**	**7,772**	**–**	**764**	**8,536**

Current year impairment
Included in the 2012 result is $72.6 million worth of impairment recognised against the Redbank CGU. The impairment was recognised against property, plant and equipment ($67.7 million) and intangible assets ($4.9 million).

The recoverable amount of the Redbank CGU was determined based on 'value-in-use' calculations. These calculations use cash flow projections based on management approved annual financial budgets and forecasts. 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 has changed its policy for accounting for property, plant and equipment and intangibles in the current year. In the prior year, property, plant and equipment and intangibles have been recorded at values such that the net assets of the Group related to Redbank Project were carried at an amount equal to a zero net asset value. This was not the historical cost measured in accordance with the previous policy of the Group, nor was it is the value in use for the asset or fair value less costs to sell if the assets had been impairment tested in accordance with AASB 136 *Impairment of Assets*.

Cash flow projections for the Redbank CGU are based on a long term business forecast till the end of the plant's useful life which is currently 2031. The long term Cash flow projections have been extrapolated from shorter term Cash Flow projections using a steady 2–3% growth rate (2011: 2–3%) 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 $3.1 million. The directors do not consider a detrimental change in any of the other key assumptions to be reasonably possible.

Prior year impairment
Included in the 2011 result was $14.0 million worth of impairment recognised against the Redbank CGU. The impairment was recognised against property, plant and equipment ($12.3 million) and intangible assets ($1.7 million).

In 2011, property, plant and equipment and intangibles have been recorded at values such that the net assets of the Group related to Redbank Project were carried at an amount equal to a zero net asset value. This was not the historical cost measured in accordance with the previous policy of the Group, nor it is the value in use for the asset or fair value less costs to sell if the assets had been impairment tested in accordance with AASB 136 Impairment of Assets.

18. TRADE AND OTHER PAYABLES

	2012 $'000	2011 $'000
Current		
Trade payables	3,064	2,580
Accrued expenses	1,226	1,619
Accrued interest	–	–
Deferred revenue	8,766	–
Other payables	297	5,490
GST payable	76	64
	13,429	**9,753**
Non-current		
Other payables	–	–
	–	**–**

19. PROVISIONS

	2012 $'000	2011 $'000
Current		
Site restoration provision[1]	–	–
	–	**–**
Non-current		
Site restoration provision[1]	23,891	18,235
	23,891	**18,235**

(1) Provision for site restoration
REG has raised provisions for future site remediation obligations for its operating site forecast to occur in 2031. Estimates of future cash outflows have been derived from independent specialist reports and experts within the REL group. Future cash outflows are discounted to their present value by using a pre-tax discount rate of 2.37% (2011: 3.74%).

Reconciliation of movement in provisions

	Onerous contract provision $'000	Site restoration provision $'000	Other provisions $'000
Description			
Carrying amount at 1 July 2010	**112,510**	**164,902**	**7,341**
Reduction in provision – site restoration assets capitalised (note 16)	–	(701)	–
Credit to income statement – unwind of discount	–	(1,156)	–
Reclass to PPE	–	–	(616)
Discontinued operations	(4,259)	(13,814)	470
Disposals	(108,251)	(130,996)	(7,195)
Total provisions at 30 June 2011	**–**	**18,235**	**–**
Carrying amount at 1 July 2011	**–**	**18,235**	**–**
Additional provision – site restoration assets capitalised (note 16)	–	5,324	–
Debit to income statement – unwind of discount	–	332	–
Total provisions at 30 June 2012	**–**	**23,891**	**–**

20. EMPLOYEE BENEFITS

	2012 $'000	2011 $'000
Current		
Provision for employee benefits	**1,026**	**951**
Non-current		
Provision for employee benefits	118	120
Defined benefit plan liability	–	–
	118	**120**

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. The Scheme was disposed of as part of the Alinta Energy disposal.

Reconciliation of the present value of the defined benefit obligation

Period ending	30 June 2012 $'000	30 June 2011 $'000
Present value of defined benefit obligations at the beginning of the period	**–**	**149,043**
Current service cost	–	2,631
Interest cost	–	5,103
Contributions by Scheme participants	–	1,404
Actuarial gains	–	(7,999)
Benefits paid	–	(3,732)
Taxes & premiums paid	–	(1,211)
Transfers in	–	18
Curtailments	–	–
Settlements	–	–
Disposal of Alinta Energy	–	(145,257)
Present value of defined benefit obligations at end of the year	**–**	**–**

Reconciliation of the fair value of plan assets

Period ending	30 June 2012 $'000	30 June 2011 $'000
Fair value of plan assets at the beginning of the period	**–**	**99,859**
Expected return on plan assets	–	5,271
Actuarial gains	–	2,237
Employer contributions	–	6,405
Contributions by Scheme participants	–	1,404
Benefits paid	–	(3,732)
Taxes & premiums paid	–	(1,211)
Transfers in	–	17
Settlements	–	–
Disposal of Alinta Energy	–	(110,250)
Fair value of plan assets at end of the year	**–**	**–**

20. EMPLOYEE BENEFITS (CONTINUED)

Defined benefit superannuation plan (continued)

Reconciliation of the assets and liabilities recognised in the balance sheet

As at	30 June 2012 $'000	30 June 2011 $'000
Defined Benefit Obligation^	–	–
(–) Fair value of plan assets	–	–
Net superannuation liability/(asset)	**–**	**–**

^ includes contributions tax provision

Expense recognised in income statement

Financial year ending	30 June 2012 $'000	30 June 2011 $'000
Service cost	–	2,631
Interest cost	–	5,103
Expected return on assets	–	5,272
Effect of curtailments/settlements	–	–
Superannuation expense/(income)	**–**	**13,005**

Amounts recognised in the Statement of Comprehensive Income

Financial year ending	30 June 2012 $'000	30 June 2011 $'000
Actuarial gains/(losses)	–	10,235

Cumulative amount recognised in the Statement of Comprehensive Income

As at	30 June 2012 $'000	30 June 2011 $'000
Cumulative amount of actuarial losses	–	(25,663)

Scheme assets

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

As at	30 June 2012 %	30 June 2010 %
Australian equities	–	–
International equities	–	–
Fixed income	–	–
Property	–	–
Alternatives	–	–
Cash	–	–

Fair value of scheme assets

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

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

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.

Actual return on scheme assets

Period ending	30 June 2012 $'000	30 June 2011 $'000
Actual return on scheme assets	–	7,507

Principal actuarial assumptions at the balance sheet date

As at	30 June 2012 % p.a	30 June 2011 % p.a
Discount rate (active members)	–	–
Discount rate (pensioners)	–	–
Expected rate of return on scheme assets (active members)	–	–
Expected rate of return on scheme assets (pensioners)	–	–
Expected salary increase rate	–	–
Expected pension increase rate	–	–

Historical information

Period ending	30 June 2012 $'000	30 June 2011 $'000	30 June 2010 $'000	30 June 2009 $'000
Present value of defined benefit obligation	–	–	149,043	131,993
Fair value of scheme assets	–	–	99,859	85,139
(Surplus)/deficit in scheme	–	–	49,184	46,854
Experience adjustments (gain)/loss – scheme assets	–	–	(2,532)	22,263
Experience adjustments (gain)/loss – scheme liabilities	–	–	4,628	(4,078)

Expected contributions

Period ending	30 June 2012 $'000	30 June 2011 $'000
Expected employer contributions	–	–

21. BORROWINGS

	2012 $'000	2011 $'000
Current		
Secured		
Redbank Credit Facility Agreement(1)	206,270	219,559
Total secured current borrowings	206,270	219,559
Total current borrowings	**206,270**	**219,559**
Non-current		
Secured		
Redbank Credit Facility Agreement(1)	–	–
Total secured non-current borrowings	–	–
Total non-current borrowings	**–**	**–**

Information on credit risk, fair value and interest rate risk exposure of the group is provided at note 6.

(1) Redbank Credit Facility Agreement

This facility consists of two tranches.

- Tranche 1, expiring in 2018 has $37,775,000 outstanding as at 30 June 2012 (30 June 2011: $43,413,000).
- Tranche 2, expiring in 2023 has $168,495,000 outstanding as at 30 June 2012 (30 June 2011: $176,146,000).

The effective average interest rate was 8.05% as at 30 June 2012 (30 June 2011: 8.05%).

The Group also has liquidity and working capital facilities which were undrawn at 30 June 2012. In the prior year an equivalent liquidity and working capital facilities were undrawn.

Redbank Project Pty Ltd (Redbank Project), the operating and borrowing subsidiary, was required under the terms of its financing documents to replace its previous liquidity facility in early 2011. In the absence of a replacement liquidity facility, the Redbank lending syndicate had the ability to call an event of default and accelerate all amounts owing to it by Redbank.

New facilities were obtained, comprising a $2.5 million liquidity facility and a $3.0 million working capital facility, both provided by a subset of the existing lender group. The facilities were initially for a term of 12 months and available to support the liquidity and working capital requirements of Redbank Project.

In conjunction with the above facilities, Redbank Project entered into a Bank Support Agreement with the lenders which was for an initial term expiring on 31 March 2012. The Bank Support Agreement has been extended on a number of occasions since 31 March 2012, during which time Redbank Energy has been engaged in negotiations with the lenders with the objective of agreeing a long term finance facility for Redbank Project. The negotiations have been proceeding constructively and Redbank Project retains the ongoing support of its lenders. Subject to the occurrence of certain trigger events, including the occurrence of an event of default (in which case the Bank Support Agreement would terminate), the Bank Support Agreement continues to apply during the relevant extension periods (which have generally been on a month to month basis).

The Bank Support Agreement provides for, amongst other things, the following:

- the calculation of the financial covenants has been amended so as to ensure these can be met under most foreseeable operating conditions; and
- management will work to either refinance or sell the Redbank Project during the term of the Bank Support Agreement.

Until such time as a new long term finance facility is agreed between the parties, it will be necessary for Redbank Energy and the Redbank Project lenders to continue to agree to the applicable extensions to the Bank Support Agreement.

22. 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.

	2012 $'000	2011 $'000
Cash and cash equivalents	12,937	8,878
Receivables	28,230	27,867
Derivative financial instruments	115,862	66,133
Inventories	2,535	2,366
Property, plant and equipment	114,542	185,336
Identifiable intangibles	764	1,305
Goodwill	–	–
Total assets pledged as security	**274,870**	**291,885**

23. CONTRIBUTED EQUITY

	Stapled security in REG[1]		Units in AET		Shares in REL	
	Number '000	'000	Number '000		Number '000	
Balance 1 July 2010	**807,059**	**1,778,361**	**807,059**	**1,122,137**	**807,059**	**656,224**
30 June 2011 movement[1,2]	(807,059)	(1,778,361)	(807,059)	(1,122,137)	(806,273)	–
Balance 30 June 2011	**–**	**–**	**–**	**–**	**786**	**656,224**
Balance 1 July 2011	**–**	**–**	**–**	**–**	**786**	**656,224**
30 June 2012 movement	–	–	–	–	–	–
Balance 30 June 2012	**–**	**–**	**–**	**–**	**786**	**656,224**

	$'000
Ordinary shares attributable to Company – REL	656,224
Total securities in consolidated group as at 30 June 2012	**656,224**

(1) De-stapling of units
In accordance with the Trust Scheme implementation, the AEG units and shares were de-stapled and the Trust units were de-listed from the ASX and purchased by Redbank Finance Pty Ltd on 29 March 2011. Redbank Energy Limited remains admitted to the official list of ASX under the ticker code 'AEJ'.

(2) Share consolidation
On 19 April 2011, Redbank Energy Limited announced the completion of its share consolidation. Every 1,000 Redbank Energy Limited shares on issue were consolidated into one share in Redbank Energy Limited. In circumstances where the consolidation process resulted in a fraction of a share being held by a shareholder, the fractional entitlement to shares was rounded down to the nearest whole number or zero (as applicable). Therefore, those shareholders who held fewer than 1,000 shares as at the Share Consolidation Record Date (12 April 2011) had their shares rounded down to zero and no longer have any interest in the Group.

Following the consolidation process, Redbank now has 786,287 ordinary shares on issue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

24. RESERVES

	2012 $'000	2011 $'000
Hedge reserve	–	–
Foreign currency translation reserve	–	–
Trust units acquisition reserve	1,041,467	1,041,467
Other reserves	(3,058)	(3,058)
Total reserves	**1,038,409**	**1,038,409**
Attributable to:		
Equity holders of the Company – REL	1,038,409	1,038,409
	1,038,409	**1,038,409**
Hedge reserve		
Balance at beginning of financial year	–	(43,643)
Hedge reserve write-off to profit & loss	–	122,257
Tax effect of hedge reserve write-off to profit and loss	–	(42,353)
Cash flow hedges – movement in fair value of derivatives	–	(19,028)
Deferred tax arising on hedges	–	5,795
Write-off of reserves related to disposed businesses	–	(23,028)
Balance at end of financial year	**–**	**–**
Foreign currency translation reserve		
Balance at beginning of financial year	–	(514)
Translation of foreign operations	–	(1,134)
Write-off of reserves related to disposed businesses	–	1,648
Balance at end of financial year	**–**	**–**
Trust units acquisition reserve		
Balance at beginning of financial year	1,041,467	–
Alinta Energy Trust units acquisition	–	1,041,467
Balance at end of financial year	**1,041,467**	**1,041,467**
Other		
Balance at beginning of financial year	(3,058)	(28,722)
Other movements	–	575
Write-off of reserves related to disposed businesses	–	25,089
Balance at end of financial year	**(3,058)**	**(3,058)**

Hedge reserve write-off
At 30 June 2010, a negative hedge reserve of $73.4 million in the equity section of the Group's balance sheet was recognised representing historic movements in the interest rate swaps associated with the AFA Syndicated Facility when the Group was able to apply hedge accounting. Despite the Group's inability to continue hedge accounting in June 2009, it retained the balance in reserves, amortising it to the profit and loss account over the remaining life of the swaps, as at that time, the economic hedge relationship between the swaps and the AFA debt was expected to continue.

Following the Group's entry into the Creditors' Schemes, the relationship between the swaps and the debt was severed. Therefore, as at 30 June 2011, the remaining balance in the reserve was written back to the profit and loss account. This event has been separately identified and disclosed in the statement of comprehensive income as part of the discontinued operations; the gross value of $122.3 million disclosed as a hedge reserve write-off expense and the associated tax credit write back of $42.4 million forming part of the income tax expense.

Trust units acquisition reserve
During the 30 June 2011 financial year, in accordance with the Trust Scheme implementation, REG units and shares were de-stapled and the AET units were purchased by Redbank Finance Pty Ltd on 7 April 2011. This resulted in the recognition of the trust units acquisition reserve.

25. RETAINED EARNINGS

	2012 $'000	2011 $'000
Balance at beginning of financial year	(1,715,322)	(1,290,471)
Prior period adjustments	–	–
Net (loss)/profit attributable to shareholders	7,909	(431,910)
Movement in Defined Benefit Obligation (note 20)	–	7,059
Balance at end of financial year	**(1,707,413)**	**(1,715,322)**
Attributable to:		
Equity holders of the Company – REL	(1,707,413)	(1,715,322)
	(1,707,413)	**(1,715,322)**

26. NET ASSETS PER SECURITY

	30 June 2012	30 June 2011
Net tangible assets per security	44.89	0.04
Net assets per security	(16.25)	(0.03)

27. NOTES TO THE CASH FLOW STATEMENTS

(a) Reconciliation of cash and cash equivalents

	2012 $'000	2011 $'000
Cash and cash equivalents including:		
Restricted cash[1]	12,793	15,504
Unrestricted cash	3,841	5,134
	16,634	**20,638**

(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.

27. NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

(b) Reconciliation of profit for the period to net cash flows from operating activities

	2012 $'000	2011 $'000
Loss for the period	7,909	(431,910)
Adjustments for:		
Interest expense on discount unwind	332	4,545
Impairment loss	72,592	523,771
Depreciation and amortisation of non-current assets	11,472	128,107
Decrement/(Increment) on revaluation of financial derivatives	–	(16,003)
Hedge reserve write-off	–	122,257
Write-off of reserves related to disposed businesses	–	10,680
Debt forgiveness	–	(532,309)
Decrement on revaluation of PPHA derivative	(49,729)	18,455
Loss/(profit) on disposal of business	(26,958)	28,873
Foreign exchange gain/(loss)	–	3,177
Changes in net assets and liabilities, including items classified as held for sale		
(Increase)/decrease in trade receivables & other receivables	647	65,666
(Increase)/decrease in inventories	(169)	(899)
Increase/(decrease) in trade & other payables	3,641	78,114
Increase/(decrease) in provisions	–	(40,928)
(Increase)/decrease in deferred tax assets	–	(104,633)
Increase/(decrease) in deferred tax liabilities	(6,277)	153,152
Increase/(decrease) in current tax liability	4	(303)
Net cash from operating activities	**13,464**	**9,812**

(c) Financing facilities

	2012 $'000	2011 $'000
Working capital facility		
Amount used	–	–
Amount unused	5,500	5,500
	5,500	**5,500**

(d) Non-cash financing activities

2012

Debt settlement during the year included debt forgiveness of $70.0 million in relation the loan payable to B&B.

2011

Debt settlement during the year included debt forgiveness of $32.8 million in relation the loan payable to Prime Infrastructure and $464.0 million debt forgiveness in relation to loans payable to the Alinta Finance Australia Syndicated Facility Agreement.

28. LEASES

Operating leases as a lessee
Certain REG subsidiaries are lessees under operating leases relating to certain land, motor vehicles and roads.

	2012 $'000	2011 $'000
Non-cancellable operating lease payments		
Not longer than 1 year	22	61
Longer than 1 year and not longer than 5 years	–	23
Longer than 5 years	–	–
	22	**84**

29. COMMITMENTS FOR EXPENDITURE

(a) Capital expenditure commitments

	2012 $'000	2011 $'000
Not longer than 1 year	–	1,020
Longer than 1 year and not longer than 5 years	–	–
	–	**1,020**

Capital expenditure commitments are required for power plant maintenance and expansion.

(b) Lease commitments

REG has non-cancellable operating lease commitments (note 28).

(c) Other expenditure commitments

REG has nil other expenditure commitments at 30 June 2012 (2011: nil).

30. CONTINGENT ASSETS AND LIABILITIES

Contingent assets
REG has no contingent assets as at 30 June 2012.

Contingent liabilities
REG has no contingent liabilities as at 30 June 2012.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

31. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2. Ownership interest is equal to the proportion of voting power held. All ownership interest is through ordinary shares.

		Ownership interest	
Name of the entity	Country of incorporation	2012 %	2011 %
Parent entity			
Redbank Energy Limited*	Australia		
Former co-parent stapled entity			
Alinta Energy Trust	Australia	–	100
Subsidiaries of REL			
Redbank Energy (NZ) Limited	New Zealand	100	100
Redbank Energy Services Limited (formerly Alinta Energy Services Limited)	Australia	–	100
Redbank Energy Holdings Pty Ltd (formerly Alinta Holdings Pty Ltd)	Australia	–	100
Redbank Advisory Pty Ltd (formerly Alinta Advisory Pty Ltd)	Australia	–	100
Redbank Oakey Pty Ltd (formerly Alinta Oakey Pty Ltd)	Australia	–	100
NPP Redbank LLC*	USA	100	100
NPP Redbank 2 LLC*	USA	100	100
Redbank Project Holdco Pty Ltd (formerly Alinta Redbank Pty Ltd)	Australia	100	100
Redbank Project Pty Ltd	Australia	100	100
Redbank Construction Pty Ltd	Australia	100	100
Redbank Ecogen Pty Ltd (formerly Alinta Ecogen Pty Ltd)	Australia	–	100
Redbank Uranquinty (formerly Alinta Uranquinty Pty)	Australia	–	100
Redbank Energy Trading Pty Ltd (formerly Alinta Energy Trading Pty Ltd)	Australia	–	100
Redbank Neerabup Pty Ltd (formerly Alinta Neerabup Pty Ltd)	Australia	–	100
Redbank Finance Pty Ltd (formerly Alinta Finance Australia Pty Ltd)	Australia	–	100
Redbank Sub 5 Pty Ltd (formerly Alinta Power Cat Sub 5 Pty Ltd)	Australia	–	100
Redbank Generation Pty Ltd (formerly Alinta Energy Power Generation Pty Ltd)	Australia	–	100
Redbank EATM Pty Ltd (formerly Alinta EATM Pty Ltd)	Australia	–	100

* These companies are members of the Redbank Energy Limited tax consolidated group at 30 June 2012.

32. 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 2012 %	Contribution to net profit/(loss) after tax for the year ended 30 June 2012 %	Ownership interest held as at 30 June 2011 %	Contribution to net profit/(loss) after tax for the year ended 30 June 2011 %
Oakey Power Holdings Pty Ltd(1)	–	–	50	–
		–		**–**

(1) On 2 December 2009, REG entered into agreements with Babcock & Brown International Pty Ltd (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, REG undertook to appoint B&B as agent to realise REL's 50% interest in the Oakey power station with the proceeds from sale proceeds (after certain allowed deductions) passing to B&B. As a result of the settlement, REL 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 prior year up until 22 February 2010.

33. CHANGES IN THE COMPOSITION OF THE CONSOLIDATED GROUP

(a) Disposal of business

30 June 2012

Oakey
On 1 July 2011, the Group disposed of its 50% interest in the Oakey Power Station to ERM Power Limited. In accordance with the terms of its debt compromise arrangement with Babcock & Brown International Pty Ltd (BBIPL) which was approved by securityholders in February 2010, all proceeds from the sale of Oakey have been paid to BBIPL in full and final discharge of the Group's outstanding debt to BBIPL. The group made a gain on sale of $26.9 million.

Energy Markets
During the 2010 financial year, REG sold its interest in Alinta Energy Markets. As part of the sale, deferred consideration was set out in the sale and purchase agreement such that in the event that Alinta Energy Markets achieved certain performance criteria during the period 1 April 2010 to 31 December 2011, additional cash consideration equal to 30% of the net positive margin (as agreed by both parties) would be received. In March 2012, REG received a deferred consideration amount of $0.8 million in relation to the sale.

30 June 2011

(i) Details of operations disposed

Alinta Energy
On 29 March 2011, REG successfully implemented a Trust Scheme and four Creditors' Schemes to substantially de-leverage the Group.

As part of this de-leveraging exercise, the Creditors' Schemes saw the full discharge of the AFA Syndicate debt in exchange for the equity interests in Redbank Finance Pty Ltd's (RFA, formerly Alinta Finance Australia Pty Ltd) subsidiary entities and the provision of approximately 70% of the funding to enable the acquisition of the Alinta Energy Trust units under the Trust Scheme. As a result, the subsidiaries of RFA transferred to a new entity wholly owned by the AFA Syndicate Lenders.

(ii) Financial performance and cash flow information of operations disposed
The results of the discontinued operations for the year until disposed are presented below:

	2011 $'000
Revenue	1,478,343
Expenses	(1,859,222)
Loss before income tax	(380,879)
Income tax benefit	20,789
Loss before tax from discontinued operations	(360,090)
Loss on sale of the division before income tax	(30,673)
Income tax expense	–
Loss on sale of the division after income tax	(30,673)
Loss from discontinued operation	**(390,763)**
Loss attributable to owners of the parent entity relates to:	
Loss from continuing operations	(47,122)
Loss from discontinued operation	(390,763)
	(437,885)
Net cash inflow from operating activities	15,164
Net cash outflow from investing activities	(24,540)
Net cash inflow from financing activities	41,616
Net increase in cash generated by the division	**32,240**

33. CHANGES IN THE COMPOSITION OF THE CONSOLIDATED GROUP (CONTINUED)

(iii) Details of sale of the division

	2011 $'000
Net consideration received or receivable[1]	–
Carrying amount of net assets sold	30,673
Loss on sale before income tax	**(30,673)**
Income tax expense	–
Loss on sale after income tax	**(30,673)**

1 Nil consideration was received for the disposal of Alinta Energy. Cash balances in entities disposed totalled $74.7 million.

(iv) Statement of financial position at 16 March 2011

	16 Mar 11 $'000
Assets	
Cash and cash equivalents	74,645
Trade and other receivables	233,071
Inventories	40,570
Other assets	37,920
Derivative financial instruments	25,761
Deferred tax assets	269,347
Property, plant and equipment	1,870,481
Intangibles	747,731
Total assets	**3,299,526**
Liabilities	
Trade and other payables	205,231
Current tax payables	323
Derivative financial instruments	117,155
Deferred tax liabilities	293,643
Employee benefits	56,729
Borrowings	2,349,329
Provisions	246,443
Total liabilities	**3,268,853**
Net assets	**30,673**

Cawse Power Station
On 10 August 2010, the Group disposed of its 100% interest in the Cawse Power Station, a gas-fired co-generation plant located in Western Australia. The Group had previously impaired this asset to its recoverable value and did not make a gain on sale. The proceeds from sale of the Cawse Power Station were $8.5 million.

Energy Markets
During the 2010 financial year, REG sold its interest in Alinta Energy Markets. A working capital adjustment amount of $0.3 million related to the sale was received in July 2011. In March 2012, REG received a deferred consideration amount of $0.8 million in relation to the sale.

Tamar Power Project
During the 2009 financial year, REG 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 REG to continue to manage the construction to completion. Under the terms of the sale, REG was also entitled, as an incentive, to share in any unspent contingency. During the 2011 financial year, contingent consideration was received in the amount of $1.8 million.

(b) Acquisition of business

30 June 2012
No entities were acquired by REG during the year ended 30 June 2012.

30 June 2011
No entities were acquired by REG during the year ended 30 June 2011.

34. 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 31 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 8 to 12.

Details of directors and key management personnel
The following persons were directors of REL at any time during the year, up to the date of this report:

Mr Richard Butler (Chairman)	Appointed 13 July 2011
Mr Simon Maher	Appointed 13 July 2011
Mr Todd Plutsky	Appointed 12 August 2011
Mr Vlad Artamonov	Appointed 12 August 2011
Mr Len Gill	Resigned 12 August 2011
Mr Peter Kinsey	Resigned 12 August 2011
Mr Rod Keller	Resigned 12 August 2011

As a consequence of the implementation of the Court and Shareholder approved Scheme of Arrangement on 29 March 2011, REG ceased to employ any Key Management Personnel (KMP) in an executive capacity. The only KMP of REG are the directors of REL.

Key management personnel remuneration
The aggregate remuneration of the KMP of REG for the year ended 30 June 2012 and 2011 is set out below:

	2012 $	2011 $
Short-term employee benefits	229,074	6,386,453
Post-employment benefits	20,853	84,980
Other long-term benefits	–	957,245
Termination benefits	–	2,778,753
Total	**249,927**	**10,207,431**

Options held in REG
The KMP did not hold any options in REG over the years ending 30 June 2012 and 30 June 2011, nor are there any options outstanding in REG.

34. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Directors and key management personnel disclosures (continued)

Security holdings in REG

Outlined below are the security holdings of the KMP over the years ending 30 June 2011 and 30 June 2012 in REG:

	Balance 30 June 2010 Number	Acquired or sold during the year Number	Share consolidation in April 2011 Number	Balance 30 June 2011 Number	Acquired during the year Number	Sold during the year Number	Balance 30 June 2012 Number
Current Directors							
Mr Richard Butler[(1)]	–	–	–	26,000	–	–	26,000
Mr Simon Maher[(1)]	–	–	–	122,638	–	–	122,638
Mr Todd Plutsky[(2)]	–	–	–	141,274	–	–	141,274
Mr Vlad Artamonov[(2)]	–	–	–	141,274	–	–	141,274
Former Directors							
Mr Ross Rolfe[(3)]	–	–	–	–	–	–	–
Mr Len Gill[(4)]	82,229	–	(82,147)[(5)]	82	–	–	–
Mr Peter Kinsey[(4)]	16,000	–	(15,984)[(5)]	16	–	–	–
Mr Rod Keller[(4)]	–	–	–	–	–	–	–
Former Executive KMP							
Mr Peter Brook[(3)]	28,000	–	(27,972)[(5)]	28[(6)]	–	–	–
Mr Brian Green[(3)]	300	–	(300)[(5)]	–	–	–	–
Mr Len Chersky[(3)]	–	–	–	–	–	–	–
Mr Scott Turner[(3)]	–	–	–	–	–	–	–

(1) Messrs Richard Butler and Simon Maher were appointed to the REL Board on 13 July 2011. The shareholdings were acquired progressively through FY2011 and hence only the 30 June 2011 balance has been disclosed (on a post share consolidation basis).

(2) Messrs Todd Plutsky and Vlad Artamonov were appointed to the REL Board on 12 August 2011. Coastal Capital International Ltd holds 141,274 REL shares. Messrs Plutsky and Artamonov are directors of Coastal Capital International Ltd and thus have the power to control the voting rights and disposal of the REL shareholding noted. The shareholding was acquired progressively through FY2011 and hence only the 30 June 2011 balance has been disclosed (on a post share consolidation basis).

(3) Messrs Ross Rolfe, Peter Brook, Brian Green, Len Chersky and Scott Turner resigned as senior executives and KMP of REL effective from 6 April 2011. Accordingly, their shareholdings as at 30 June 2011 and 2012 have not been disclosed.

(4) Messrs Len Gill, Peter Kinsey and Rod Keller resigned from the REL Board effective from 12 August 2011. Accordingly, their shareholdings as at 30 June 2012 have not been disclosed.

(5) Reflects the share consolidation process approved by shareholders at the EGM held on 15 March 2011. Under the share consolidation, shareholders received one REL share for every 1,000 REL shares previously held. Fractional entitlements, being holdings of less than 1,000 REL shares, were rounded down to zero. The share consolidation process completed on 19 April 2011.

(6) Mr Brook's shareholding is disclosed as at the date of the completion of the share consolidation process, being 19 April 2011.

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 REG

No loans have been made by REG to directors and KMP over the years ending 30 June 2012 and 30 June 2011.

(d) Other related party transactions

Transactions involving other related parties

No transactions involving related parties took place during the 2012 financial year. Transactions between wholly owned subsidiaries eliminate on consolidation.

(e) Balances outstanding arising from Related Party transactions

There are no outstanding balances arising from transactions with related parties at 30 June 2012 (2011: $nil).

(f) Revenue and expense arising from Related Party transactions

	2012 $	2011 $
Revenue		
Dividend income – Associates	–	–
	–	**–**
Other revenue – Associates	–	–
	–	**–**
Expenses		
Management charges – Other	–	–
	–	**–**
Finance costs – Other	–	–
	–	**–**
Other expenses – Other	–	–
	–	**–**

35. 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.

	2012 $	2011 $
(a) Audit services		
PricewaterhouseCoopers (PwC) Australian firm		
Audit and review of financial statements	280,500	1,352,133
Non PwC audit firms for the audit or review of financial statements of any entity in the Group(1)	–	118,000
Total remuneration for audit services	**280,500**	**1,470,133**
(b) Non-audit services		
PricewaterhouseCoopers Australian firm		
Due diligence services	–	940,000
Other	55,715	248,248
Total remuneration for non-audit services	**55,715**	**1,188,248**

(1) Fees paid to Deloitte for audit services provided in respect of the Group's subsidiary Redbank Project Pty Ltd.

36. SUBSEQUENT EVENTS

Other than the extensions to the Bank Support Agreement which have been procured from the Redbank Project lenders subsequent to the end of the financial year, there are no material matters to report.

37. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

	Parent	
Balance sheet	2012 $'000	2011 $'000
Assets	5,977	37,980
Liabilities	(183)	(177,910)
Net assets[1]	**5,795**	**(139,930)**
Shareholders' equity:		
Issued capital	656,224	656,224
Reserves	–	–
Retained earnings	(650,429)	(796,154)
Total equity	**5,795**	**(139,930)**
Profit/(loss)	**145,725**	**906,987**
Total comprehensive income for the year	**145,725**	**906,987**

(1) At 30 June 2011, the net asset deficiency predominantly relates to the $70 million loan payable to Babcock and Brown International Pty Ltd, which was settled on 1 July 2011, and intercompany payables which eliminate on consolidation.

(b) Guarantees entered into by Redbank Energy Limited

Redbank Energy Limited has not provided any secured or unsecured financial guarantees.

(c) Contingent liabilities of the Redbank 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 Redbank Energy Limited.

(e) Critical accounting estimates and judgements

REL has inter-company loans receivable from Redbank Project HoldCo Pty Ltd, NPP Redbank LLC and NPP Redbank 2 LLC which have carry amounts of nil. Significant judgement has been applied in order to derive a value for intercompany loans receivable and recoverability based on various assumptions about the available equity within the Redbank Project HoldCo Group, NPP Redbank LLC and NPP Redbank 2 LLC.

38. ADDITIONAL INFORMATION

Redbank Energy Limited is incorporated and operates in Australia.

Registered Office of the Company
Level 11
20 Bridge Street
Sydney NSW 2000
Telephone: +61 2 9372 2600

Principal place of business
Level 11
20 Bridge Street
Sydney, NSW 2000
Telephone: +61 2 9372 2600

DIRECTORS' DECLARATION

Redbank Energy Limited (formerly Alinta Energy Group Limited)

1 In the opinion of the directors of Redbank Energy Limited ("the Company"):

(a) the financial statements and notes, set out on pages 16 to 73, 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 2012 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.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

2 The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the relevant officers for the financial year ended 30 June 2012.

Signed in accordance with a resolution of the directors:

Richard Butler

Mr R Butler
Director, Redbank Energy Limited

Dated at Sydney this 31st day of August 2012

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF REDBANK ENERGY LIMITED

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Independent auditor's report to the members of Redbank Energy Limited

Report on the financial report

We have audited the accompanying financial report of Redbank Energy Limited (the company), which comprises the consolidated statements of financial position as at 30 June 2012, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Redbank Energy Limited (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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
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pwc

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 Redbank Energy 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 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) on a non-going concern basis and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 2(a) to the financial statements which comments on the deficiency of current assets of the consolidated entity and the status of the consolidated entity's external project finance facility. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Redbank Energy Limited group's ability to continue as a going concern and, therefore, the group may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

Report on the Remuneration Report

We have audited the remuneration report included in pages 8 to 11 of the directors' report for the year ended 30 June 2012. 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 Redbank Energy Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

PricewaterhouseCoopers

Marc Upcroft
Partner

Sydney
31 August 2012

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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Level 11, 20 Bridge Street
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Principal administration office
Level 11, 20 Bridge Street
Sydney NSW 2000
Telephone: +61 2 9372 2600

Share registry
Link Market Services Limited
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Sydney South NSW 1235
Telephone: 1800 260 668
International: +61 2 8280 7619
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 11 September 2012.

NUMBER OF SHARES AND SHAREHOLDERS

As at 11 September 2012, the total number of REL shares on issue was 786,287 and the number of holders of these shares was 17,702.

SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified Redbank Energy in accordance with section 671B of the *Corporations Act 2001* are set out below.

	REL Shares Held	
Substantial Shareholders of Redbank Energy Limited	Number	Percentage
Coastal Capital International Limited & its associates	141,274	17.97%
Phelbe Pty Ltd & its associates	122,638	15.60%
Nexif Pte Ltd	63,445	8.07%

VOTING RIGHTS

Voting rights in relation to General Meetings of REL:

- on a show of hands, each shareholder of REL 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 REL 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.

DISTRIBUTION OF REL SHARES

Category	Holders	Shares	% Issued Capital
1–1,000	17,646	184,676	23.48%
1,001–5,000	38	80,958	10.30%
5,001–10,000	7	47,017	5.98%
10,001–100,000	10	331,260	42.13%
100,001–and over	1	142,376	18.11%
Total	**17,702**	**786,287**	**100%**

The number of shareholders holding less than a marketable parcel of 89 REL shares ($5.65 on 11 September 2012) is 17,268 and they collectively hold 90,511 REL shares.

TWENTY LARGEST SHAREHOLDERS

		REL Shares Held	
Rank	REL Shareholder	Number	Percentage
1	HSBC Custody Nominees (Australia) Limited-GSCO ECA	142,376	18.11%
2	Phelbe Pty Ltd <Rock Valley Family A/C>	66,472	8.45%
3	Nexif Pte Ltd	59,762	7.60%
4	ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	58,908	7.49%
5	Cardona Pty Ltd <Hutchinson No 6 A/C>	34,230	4.35%
6	Mr Thomas Frank Curnow	27,557	3.50%
7	Phelbe Pty Ltd <Kiewa River Super Fund A/C>	23,333	2.97%
8	Alara Finance Pty Ltd	20,000	2.54%
9	UBS Wealth Management Australia Nominees Pty Ltd	15,610	1.99%
10	Mr Changrok Oh	12,888	1.64%
11	Excelsior Holdings Pty Ltd <Ord River Investments A/C>	12,500	1.59%
12	Mr Campbell Edwin Dawson	8,390	1.07%
13	Ms Franciska Lasic	7,738	0.98%
14	HSBC Custody Nominees (Australia) Limited	7,676	0.98%
15	Mr Paul Sze Yuen Cheung & Mrs Pauline Kwok Sim Cheung	6,421	0.82%
16	Citicorp Nominees Pty Limited	6,040	0.77%
17	Robens Holdings Pty Ltd <Maron Inv Emp Prov Fund A/C>	5,500	0.70%
18	Mr Sean Dennehy	5,252	0.67%
19	HBD Services Pty Ltd <The Dale Grayson Family A/C>	5,000	0.64%
19	Mr Richard Charles Oakes & Ms Jan Susan Rodda <Mixolydian Invest Fund A/C>	5,000	0.64%
20	JP Morgan Nominees Australia Limited	4,644	0.59%
Total		**535,297**	**68.08%**

EXCHANGES ON WHICH REL SHARES ARE QUOTED

REL Shares are currently only quoted on the Australian Securities Exchange.

ON-MARKET BUY-BACK

There is no current on-market buy-back of REL Shares.

SHARES THAT ARE RESTRICTED OR SUBJECT TO VOLUNTARY ESCROW

There are currently no REL Shares which are restricted or subject to voluntary escrow.

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CORPORATE DIRECTORY

REDBANK ENERGY LIMITED
(ACN 116 665 608)
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Telephone: +61 2 9372 2600
www.redbankenergy.com

DIRECTORS
Richard Butler (Chairman)
Simon Maher
Todd Plutsky
Vlad Artamonov

COMPANY SECRETARY
John Remedios

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Outside Australia: +61 2 8280 7619
Fax: +61 2 9287 0383
Email: registrars@linkmarketservices.com.au
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 Redbank Energy Limited will be held at Customs House, Level 1, 31 Alfred Street, Circular Quay, Sydney, NSW Australia at 11.00am on Friday, 16 November 2012.