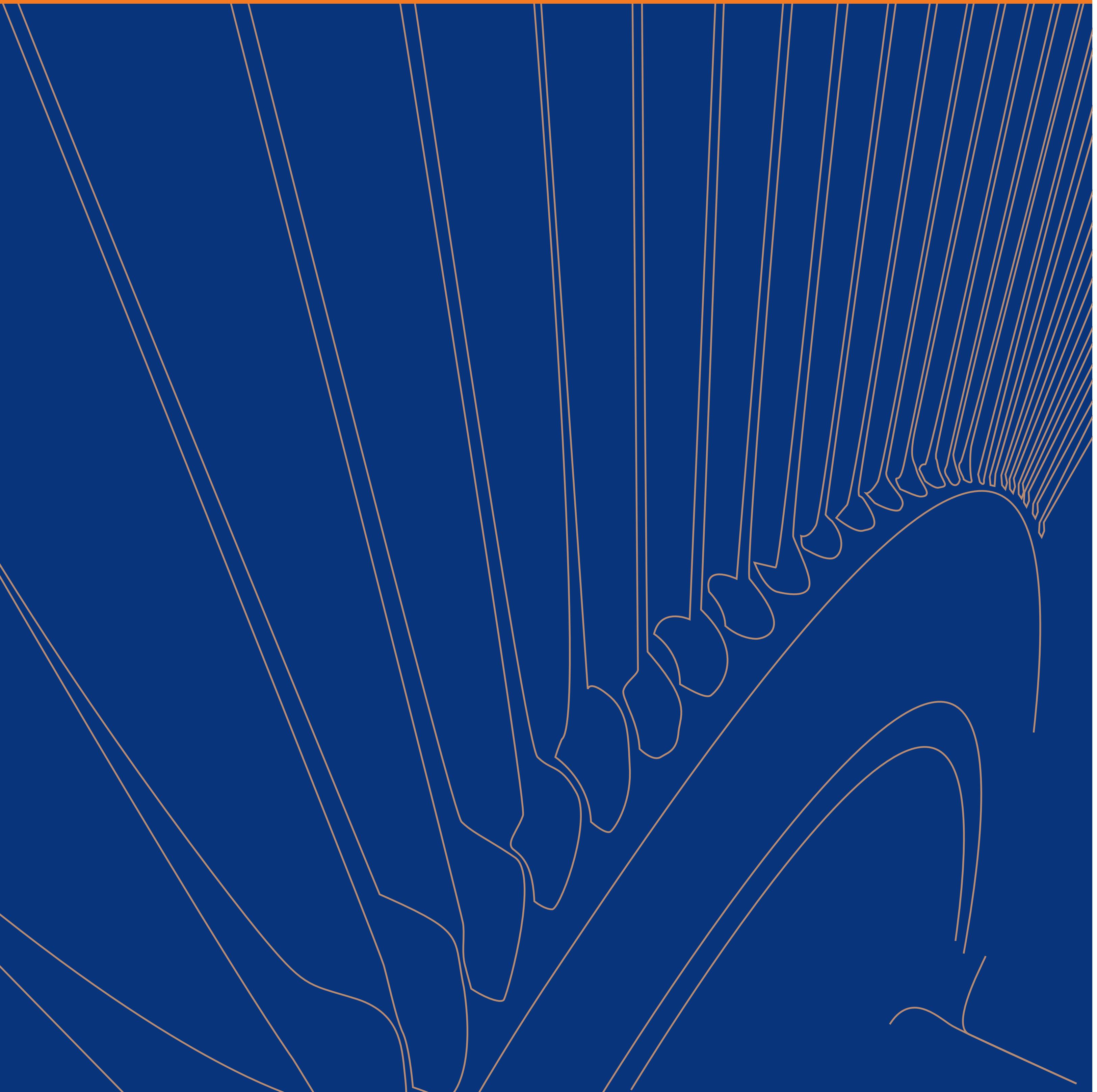
Supporting our way of life

Macquarie Generation Annual Report 2005



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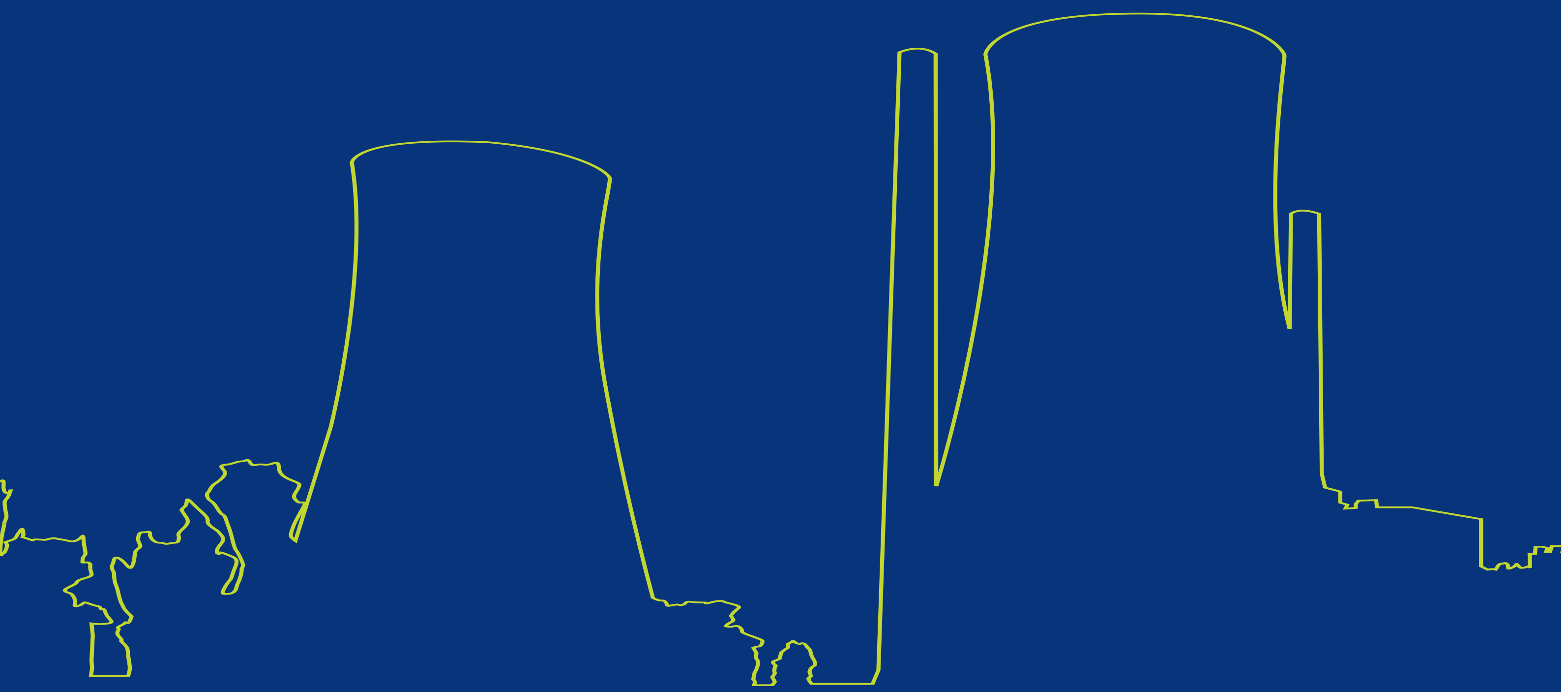


Hon Michael Costa MLC
Minister for Finance,
Minister for Infrastructure,
Minister for the Hunter

Hon John Della Bosca MLC
Special Minister of State,
Assistant Treasurer

Parliament of New South Wales
Macquarie Street
SYDNEY NSW 2000

Dear Shareholders

We have pleasure in submitting the Macquarie Generation Annual Report, including the Statement of Financial Performance, the Statement of Financial Position, the Statement of Cash Flows and Corporate Governance Statement for the financial year ended 30 June 2005, as audited by the Auditor-General of New South Wales.

This Report is consistent with the requirement of Section 24A of the State Owned Corporations Act, 1989 and Section 10 of the Annual Reports (Statutory Bodies) Act, 1984 and is submitted to the Shareholders for presentation to the Parliament.

Evan Rees
Chairman

Grant Every-Burns
Chief Executive and Managing Director

October 2005

Macquarie Generation seeks to become Australia's preferred provider of electrical energy and related products by adding value for its shareholders, customers and the community through the operation of a successful commercial business that supplies reliable and safe products at a competitive cost and in an environmentally sensitive manner.

About Macquarie Generation

Mission Statement Macquarie Generation seeks to become Australia's preferred provider of electrical energy and related products by adding value for its shareholders, customers and the community through the operation of a successful commercial business that supplies reliable and safe products at a competitive cost and in an environmentally sensitive manner.

Values Strong customer relationships, highly reliable production and services, people with meaningful and rewarding jobs, safe workplaces, environmentally responsible operations and good corporate citizenship.

Macquarie Generation is a State Owned Corporation formed in 1996. The Corporation's core business is the production, marketing and sales of electricity into the wholesale segment of the National Electricity Market.

Macquarie Generation owns and operates Bayswater and Liddell Power Stations—two of Australia's largest capacity thermal power stations.

In 2004/2005, Macquarie Generation supplied 14.94% of the electricity consumed by the National Electricity Market.

The National Electricity Market comprises New South Wales, Victoria, Queensland, South Australia, the Australian Capital Territory and Tasmania.

Bayswater and Liddell Power Stations are located in the upper Hunter Valley of New South Wales between the towns of Singleton and Muswellbrook. The power stations' combined rated generating capacity is 4,640 Megawatts (MW).

Within the power stations' precinct—approximately 9,000 hectares of former grazing land adapted for the purposes of electricity generation—Macquarie Generation also owns and operates two 25 MW oil-fired gas turbines and a 0.85 MW mini-hydroelectric generator.

The principal fuel for the power stations is black coal, most of which is delivered by overland conveyors and rail in conjunction with export operations at nearby mines. Liddell Power Station is also permitted under licence to co-fire biomass and recycled oil with coal at a maximum blend rate of 5%.

Macquarie Generation's corporate governance is vested in an independent Board of Directors, appointed by the Shareholders—the Special Minister of State and Assistant Treasurer of New South Wales and the Minister for Finance, Infrastructure and for the Hunter of New South Wales.

An executive team lead by the Chief Executive and Managing Director is responsible for the Corporation's day-to-day business activities.

At 30 June 2005, Macquarie Generation employed a total of 605 people, with 555 located at Bayswater and Liddell Power Stations and 50 at a corporate office in Newcastle.

This report covers the period from 1 July 2004 to 30 June 2005 inclusive and is presented to the Parliament of New South Wales.

The Board continues to take a long term view of critical operational infrastructure and fuel supplies to ensure the power stations will remain reliable and competitive. Current capital plans include essential rail receival facilities, power station improvements and upgrades to water treatment plants to make best use of our existing resources.

Chairman's Review

Despite the fact that the Corporation's opportunities were limited to some extent by the timing of outages and the lower average prices, it is pleasing to record a further modest increase in sales, profit and dividends over the previous period. Both Net Profit before Tax and Dividend have increased by 5% to $166.8 million and $105 million respectively.

The Board continues to take a long term view of critical operational infrastructure and fuel supplies to ensure the power stations will remain reliable and competitive. Current capital plans include essential rail receival facilities, power station improvements and upgrades to water treatment plants to make best use of our existing resources. We have encouraged the development of long term coal supply arrangements which will provide suitable domestic grade coal at prices that are more reflective of local mining costs and less reflective of international commodity costs. This year the Corporation announced the formation of a contract with Centennial Coal which will see the development of the Anvil Hill mine near Denman from 2008.

The implementation of the new Australian Equivalent of International Financial Reporting Standards have presented a major challenge during the year and the Board is concerned at the likely increase in the volatility of earnings that adoption of the new Standards may cause. Implementation of the new Standards has been time consuming and demanding both for Management and for the Board Audit and Assurance Committee which oversaw the effective and timely implementation for 2005/2006 on behalf of the Board.

On that note, it is timely to reflect on the increasing workload of Audit Committees. The need to work through the very detailed and complex accounting, risk and compliance matters which now face Directors demands an increasing workload for those on Audit Committees. Macquarie Generation is typical of the trend and I wish to express my special thanks to our three Directors who are very capably carrying this responsibility.

The release of the Energy Directions Green Paper in December 2004 by the New South Wales Government was a very important development in the debate and consideration around the need for new generation capacity. For some years the Corporation has been advocating the ultimate need for new baseload capacity to ensure that the reliable electricity supplies we have enjoyed in the past decades will be delivered well into the future. The Corporation has responded to the Green Paper and has continued to firm its plans for new power plant.

The debate over new plant inevitably moves into the areas of timing, capital, fuel type, environment and location.

The Corporation is carefully considering these matters and on this basis regards the location of its existing power stations, Liddell and Bayswater, as highly prospective for future baseload generation.

We are committed to the view that new baseload generation in New South Wales will be essential in the years beyond 2012 and that an attractive business model involving the private sector can be developed. Most importantly any new major power plant will require:

a) reduced greenhouse gas emissions compared with existing,
b) significantly reduced fresh water consumption,
c) a plentiful supply of competitively priced coal, and
d) reduced visual impact.

A site near Bayswater can offer all these advantages, especially noting that water from this area does not impact the Sydney catchment. The recent support of Muswellbrook Council for the Corporation's plans to conduct feasibility studies is appreciated and these studies are well underway.

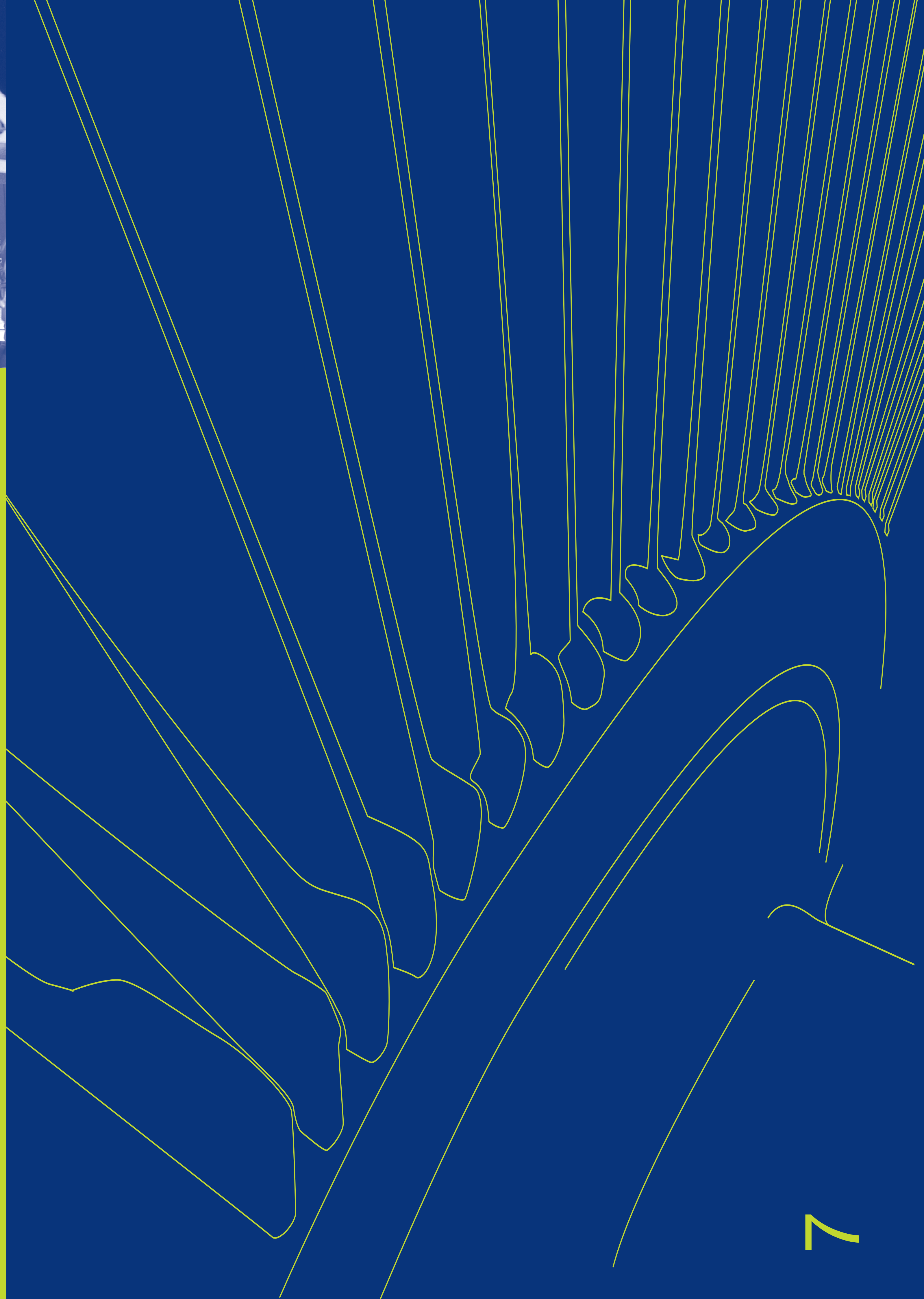
The Board continues to focus on ensuring high standards of environmental and safety performance. In this regard we congratulate Management on the achievement of accreditation of the Corporation's Environmental Management System to ISO 14001 standard in June this year. We are also very mindful of the need for never ending safety improvement to target zero injuries. The Board carefully considered its provisions for future dust disease claims in the light of the James Hardie enquiry this year and resolved to increase the provision.

I would again like to thank the Board and Committee members for their support and diligence, and all of our staff for a job well done in a highly competitive and at times trying environment.

E. Rees

Evan Rees
Chairman

Macquarie Generation Board of Directors (clockwise from top left) Deborah Page, James Watt, John Cahill and Robert Webster, Anna Buduls, Chief Executive Grant Every-Burns and Chairman Evan Rees



Maintenance and upgrades at both Liddell and Bayswater Power Stations have continued in accordance with our plans to ensure high reliability into the future. In particular, significant overhauls occurred at both the power stations in this period and the program to retrofit improved low pressure turbines at Liddell Power Station is now completed.

Chief Executive's Report

There is a real and emerging need for new electricity generation in New South Wales. A State of the size and economic importance of New South Wales cannot afford to become over reliant on the import of power from other States and geographic regions. The time is rapidly approaching for the installation of local peaking and black start capacity, from about 2007, and also for robust planning for new baseload capacity which will be needed in the period 2012–2015.

The Corporation experienced more difficult trading conditions in 2004/2005 with the effect of lower market prices particularly reducing the outcomes in the second half of the financial year. Despite this, revenue rose by 4% to $847 million, Net Profit before Tax rose by 5% to $166.8 million and the Dividend also rose by 5% to $105 million when compared with 2003/2004.

Business operating costs continue to be dominated by the cost of coal which is typical of thermal power generation. However, the Corporation has continued to pursue contracts with sound counterparties for the longer term, which will provide a continuous and reliable supply of domestic grade coal at prices which are expected to mirror the mining efficiencies that are available in the Hunter and Western coalfields of New South Wales. A substantial contract with Centennial Coal for a ten year supply of coal from the Anvil Hill mine was announced during the year.

Further, the Corporation made substantial progress in the design of additional large scale rail receival facilities at Antiene adjacent to the power stations. Construction of these facilities capable of handling 15 million tonnes per year will commence in the year ahead to enable receipt of coal from remote suppliers such as Wilpinjong and Anvil Hill and others. This will ensure low cost coal can be received in the most efficient manner for the future, to ensure the Corporation can sustain its competitive position.

Maintenance and upgrades at both Liddell and Bayswater Power Stations have continued in accordance with our plans to ensure high reliability into the future. In particular, significant overhauls occurred at both the power stations in this period and the program to retrofit improved low pressure turbines at Liddell Power Station is now completed. This retrofit was undertaken with the support of the Australian Greenhouse Office GGAP program and delivered savings of 225,000 tonnes of greenhouse gas emissions in the last year. The Corporation has made a further commitment, of almost $40 million to upgrade the high pressure turbines at Liddell over the next three years. This investment is justified by the commercial viability of the project.

Two particular highlights of the year deserve special mention. They are the achievement of an early and amicable settlement of a new Employment Award for a four year period and the achievement of environmental certification to the ISO 14001 standard. The Employee Award reflects a determined effort by the Corporation and its respondent unions to work more productively together over the past three years.

The achievement of ISO 14001 certification reflects a two year commitment by the Corporation. In both cases, small dedicated groups of people have consulted and worked together to achieve very worthwhile and beneficial goals. I take this opportunity to thank them all.

I reflect the Board's concern also that there is a real and emerging need for new electricity generation in New South Wales. A State of the size and economic importance of New South Wales cannot afford to become over reliant on the import of power from other States and geographic regions. The time is rapidly approaching for the installation of local peaking and black start capacity, from about 2007, and also for robust planning for new baseload capacity which will be needed in the period 2012–2015. Based on current technology, gas seems to be the fuel of choice for peaking plant and coal the fuel of choice for baseload plant. Macquarie Generation has well developed plans for the Tomago Gas Turbine site and is developing plans for an extension of baseload generation at Bayswater Power Station near Muswellbrook.

New investment requires market prices which are high enough to signal the likelihood of a commercial return to investors, and a regulatory environment which provides sufficient certainty for the future. Market prices are not currently high enough to sustain new baseload investment but there is growing perception that supply and demand tension will increase in the next few years causing greater volatility and higher prices which are necessary to drive investment. On the other hand regulatory certainty should improve with the commencement of the new National Market Institutions of the Australian Energy Regulator and the Australian Energy Market Commission. The development of these new institutions has been supported by the Corporation but an early task for the Australian Energy Market Commission must be completion of the Transmission Review. In our opinion a funding framework must be established which ensures that essential upgrades of the national transmission grid occur in a timely fashion to ensure dependable access for new and existing generation.

Safety is more than ever an important focus for all people in the Corporation. A number of opportunities for improvement have been identified from internal and external reviews over the past year and are now subject to implementation plans. A revised and updated Safety Policy was approved by the Board and circulated, and our first contribution under an incentive plan was made to the Hunter Rescue Helicopter Service for $10,000 when our people reached 100 days free of lost time injury. The goal remains zero injuries and we aim to reach a full year free of lost time injuries.

I take this opportunity to acknowledge the career and contribution of John Marcheff, who retired during the year after 21 years as Manager of Liddell Power Station. Among his many achievements, John championed the research work underway at Liddell Power Station to integrate solar heating into the coal power generation cycle. We are excited by the prospects which this offers. When proven it should be possible to enhance the output of coal-fired power stations with solar energy.

I would also like to record my thanks to all the staff of Macquarie Generation who have played such an important part in our successes. In particular, a number of long serving employees retired during the year, our congratulations, best wishes and thanks go to you all.

Grant Every-Burns
Chief Executive and Managing Director

A summary of Macquarie Generation's Financial Performance from 1 July 2004 to 30 June 2005

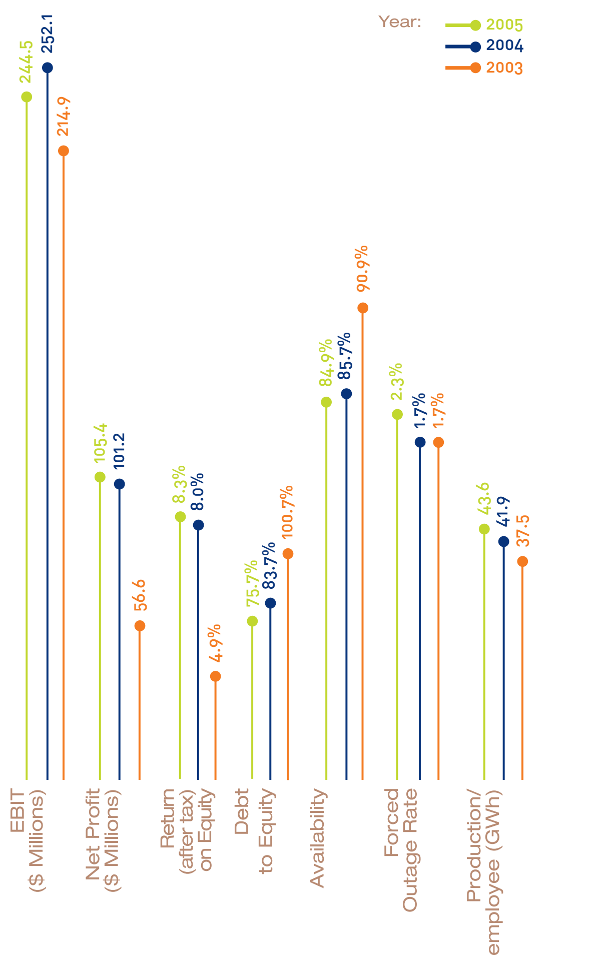
Financial Performance

	2005	2004	% CHANGE
Statement of Financial Performance ($ millions)			
Revenue excluding interest income	846.7	809.7	4.6
Other expenses from ordinary activities excluding depreciation	499.4	460.5	8.4
Earnings before depreciation, interest and tax	**347.3**	**349.2**	**-0.5**
Depreciation expense	102.8	97.1	5.9
Earnings before interest and tax (EBIT)	244.5	252.1	-3.0
Net borrowing costs expense	77.7	93.6	-17.0
Net profit before income tax expense	**166.8**	**158.6**	**5.2**
Income tax expense	61.4	57.3	7.1
NET PROFIT	**105.4**	**101.2**	**4.2**
Statement of Cash Flows ($ millions)			
Cash flows from operating activities (excluding borrowing costs)	381.7	324.6	17.6
Capital expenditure	51.6	37.2	38.7
Dividends paid	100.0	56.0	78.6
Statement of Financial Position ($ millions)			
Total Assets	2,881.6	2,907.8	-0.9
Total Debt	960.4	1,064.5	-9.8
Equity	1,269.1	1,268.6	0.0
Dividend provided	105.0	100.0	5.0
Financial Statistics			
EBIT to Revenue (%)	28.9	31.1	-7.3
Debt to Equity (%)	75.7	83.9	-9.8
Interest Cover (times)	3.1	2.7	16.8
Return (after tax) on Equity (%)	8.3	8.0	4.1
Operating Statistics			
EBIT per average employee ($ 000's)	400.8	413.3	-3.0
Equivalent forced outage (%)	2.3	1.7	32.4
Availability (%)	84.9	85.7	-1.0
Production per employee (GWh)	43.6	41.9	4.2

Macquarie Generation's Financial Highlights from 1 July 2004 to 30 June 2005

Financial Highlights

- Total Revenue increased by 4.7% to $852.0 million as a result of a 1.2% increase in average sales prices and a 3.6% increase in sales volume. The result was the outcome of improved revenue in the spot market in the first half of the year combined with low priced trading conditions in the second half of the year.
- The Corporation continued to control costs. An 8.0% increase in Expenses as per Note 3(b) to the Financial Statements included a 7.4% increase in fuel expenses predominantly related to an increase in production.
- This resulted in a 3.0% decrease in Earnings Before Interest And Tax (EBIT) from $252.1 million to $244.5 million.
- Net borrowing costs decreased by 17.0% to $77.7 million due to a reduction in average debt levels combined with a change in the calculation of the New South Wales Government Guarantee fee payable on the average debt levels.
- Debt levels decreased by 9.8% or $104.1 million due to debt prepayments as part of the Corporation's on-going debt repayment strategy. As a result the debt to equity ratio decreased by 9.8% to 75.7%.
- Net Profit Before Tax increased by 5.2% to $166.8 million due mainly to the increase in sales revenue and decrease in borrowing costs expense.
- Net Profit After Tax increased by 4.2% to $105.4 million.
- Return on Equity After Tax increased by 4.1% to 8.3% due to the increase in Net Profit After Tax as explained above.
- Dividend provided increased by 5.0% to $105 million, and will be paid during the 2005/2006 year.
- The Corporation maintained a high standard of plant performance including availability, incidences of forced outages and efficiency.



Macquarie Generation recognises that good environmental performance is the responsibility of all individuals within the organisation, and can be achieved by effective planning and management including establishment of objectives and targets, maintaining proper reporting systems and providing adequate training for all employees.

Supporting Our Environment

During the year the Corporation's Environmental Management System achieved accreditation to the ISO 14001 standard. This achievement reflects a two year commitment and ensures the Corporation will remain focused on the continual improvement of its environmental performance.

Environment Policy **Macquarie Generation supplies electricity from the operation of its Bayswater and Liddell coal-fired power stations within the upper Hunter Valley of New South Wales.**

Macquarie Generation accepts responsibility for environmental protection as an essential part of its business. Its objective is to comply with all applicable legal requirements and other requirements to which the organisation subscribes, in a commercially effective way, which is consistent with community expectations. Macquarie Generation is committed to continual improvement of its environmental performance.

Macquarie Generation recognises that good environmental performance is the responsibility of all individuals within the organisation, and can be achieved by effective planning and management including establishment of objectives and targets, maintaining proper reporting systems and providing adequate training for all employees.

Macquarie Generation is committed to:

- Developing and maintaining an appropriate Environmental Management System.
- Utilising operating practices which seek to prevent pollution and minimise environmental impacts in a commercially effective way by:
  - efficient use of energy and resources with a view to reducing consumption and minimising emissions or discharges to the environment;
  - waste management practices that include waste minimisation, recycling and approved waste handling and disposal; and
  - regular environmental assessment of the impact of existing operations.
- Implementing environmental incident response procedures for emergencies or other events which pose a risk to health, safety or the environment.
- Facilitating communication within the organisation as well as consultation with governments, contractors, industry groups and the public on matters relating to the environment.
- Periodically reviewing its Environmental Management System and progress towards achieving its environmental objectives and targets.

Macquarie Generation will review this Policy on a biennial basis. This policy is to be implemented, communicated to all persons working for or on behalf of Macquarie Generation and be available to the public.

Macquarie Generation is:

- A foundation member of the Commonwealth Government's Greenhouse Challenge.
- A partner in the Commonwealth Government's Greenhouse Gas Abatement Program.
- A signatory to the Commonwealth Generator Efficiency Standards Program.
- A signatory to the Energy Supply Association of Australia's Code of Environmental Practice.
- A member of the Clean Air Society of Australia and New Zealand (CASANZ).
- A member of the Australian Wind Energy Association (AUSWEA).
- A member of the Hunter Salinity Trading Scheme Operations Committee.
- A foundation sponsor of the Upper Hunter River Rehabilitation Initiative.
- Assessed and registered as complying with the requirements of the Australian Standard AS/NZS ISO 14001:2004—Environmental Management Systems—Requirements with Guidance for Use.

Environmental Performance

Regulatory Compliance	
NSW EPA Licences:	4
Other NSW Government Licences:	4
Breaches notified:	Nil
Coal consumed	
Bayswater	8,053,677 tonnes
Liddell	4,944,137 tonnes
Non-coal fuel consumption	
Biomass	
Liddell	70,237 tonnes
Coal replaced by biomass	40,607 tonnes
Coal replaced since August 1999	230,695 tonnes
Electricity produced from biomass since August 1999	449,350 MWh
Annual average production	74,892 MWh
Oils	
Liddell (Supplementary Fuels Program)	17,777 tonnes
Liddell (boiler start-up)	10,376 tonnes
Bayswater (boiler start-up)	4,004 tonnes
Air Emissions (i)	
Sulfur dioxide	5.67 kg/MWh (Bayswater)
	4.54 kg/MWh (Liddell)
Oxides of nitrogen	2.46 kg/MWh (Bayswater)
(expressed as NO_2)	2.59 kg/MWh (Liddell)
Particulate matter	0.022 kg/MWh (Bayswater)
	0.07 kg/MWh (Liddell)
Carbon dioxide (ii)	904.6 kg/MWh (Bayswater)
	990 kg/MWh (Liddell)
Water Management	
Water diverted (Hunter River)	43,694 ML
Salt extracted	11,340 tonnes
Hunter River Salinity Trading Scheme	
Salt discharged	Nil
Salinity Credits Days traded-in	Nil
Salinity Credits Days traded-out	Nil
Regional mine waters treated	Nil

Land Management

By-product sales:	
Fly ash	105,447 tonnes (iii)
Bottom ash	47,615 tonnes (iv)
Lime	4,947 tonnes
Gypsum	2966 tonnes
Cenospheres	710 m3
Eels (Plashett Reservoir)	499 kg

Power Stations' precinct hardwood plantation trials in association with State Forests (NSW) are continuing.

2005 Production

Bayswater	
Energy Sent Out:	16,867 GWh
Availability:	87.00%
Forced Outage Rate:	1.21
Station Trip Rate (per 1000 hrs):	0.39
Liddell	
Energy Sent Out:	9,737 GWh
Availability:	81.94%
Forced Outage Rate:	3.68
Station Trip Rate (per 1000 hrs):	1.05

(i) Annual average
(ii) Formulated from total fuel consumption minus biomass
(iii) Total classified and unclassified
(iv) Bayswater / Liddell total

Macquarie Generation will provide a work environment where risks and hazards are identified and eliminated or controlled. A safe working environment is fundamental to our business success and we are committed to achieving zero incidents and injuries.

Supporting our Workplace

Occupational Health and Safety Policy **The health and safety of our employees and those working with us takes priority at all times and must not be compromised.**

Macquarie Generation will provide a work environment where risks and hazards are identified and eliminated or controlled.

A safe working environment is fundamental to our business success and we are committed to achieving zero incidents and injuries.

We will:

- Meet our moral and legal obligations through effective consultation with employees.
- Deliver a systematic approach to Occupational Health and Safety Management to achieve continuous improvement.
- Train our people to ensure they have the competencies to work safely.
- Require others working on our sites to comply with all applicable legal obligations and Macquarie Generation OH&S instructions.
- Ensure the safety of visitors to our sites.
- Encourage everyone to positively contribute to our safety management program.
- Regularly review the ongoing safety performance of our operations.

Macquarie Generation will review this policy on an annual basis. This policy is to be implemented and communicated to all persons working for or on behalf of Macquarie Generation, and will be available to the public.

2005 Statistics

Accidents per million hours worked

2005	6.3
2004	6.6
% change	- 4.5

Longest lost-time injury free period (2005)

Bayswater:	225 days
Liddell:	197 days
Lambton:	333 days

Nature of recordable injuries

(ie where individuals lose time, require medical treatment or are unable to perform their normal duties)

Nature of Injury	%
Strain	48
Laceration	6
Eye Disorder	4
Jarring	2
Superficial	4
Multiple	4
Muscular Stress	6
Burns	2
Contusions	4
Electrocution—Minor	12
Ear Disorder	2
Fracture	2
Bruises	2
Skin Condition	2

During the year our first contribution under an incentive plan was made to the Hunter Rescue Helicopter Service for $10,000 when our people reached 100 days free of lost time injury. The goal remains zero injuries and we aim to reach a full year free of lost time injuries.

Occupational Health and Safety Committees

Bayswater

Employer Representatives

Peter Sampson, John Neely and John Dyson.

Employee Representatives

Nicholas Welbourne, Ian Thomas, Eli Serhan, Peter Jeffree, Scott Jennar, Gyln Joyce, Robert Clarke, Wayne Hermon (Chairperson), John Baker, William Greig, John Stubbs, Greg Cooper, Paul Millis, Grahame Smith and Glen Kollner.

Liddell

Employer Representatives

Peter Sampson, Kevin Wykes, Peter Sewell and Mal Humble.

Employee Representatives

Wayne McMillan, Dean Dunn, Richard Carey, Cliff Ryan, Ken Partridge (Chairperson), Peter Kirkman, James Reynolds, Lionel Gleeson, Paul Enderby and Peter Bowden.

Employees (at 30 June 2005)

Executive & senior management	32
Engineering officers	83
Professional officers	40
Administration officers	77
Operators	140
Mobile coal plant operators	10
Tradespersons (electrical)	26
Tradespersons (mechanical)	63
Tradespersons (metal fabrication)	9
Power workers	92
Trainees	2
Apprentices (electrical)	16
Apprentices (mechanical)	15
Total	**605**

Wages and Salaries

Total paid: $42.4 million

Our Community Support Program aims to enhance quality of life in the upper Hunter Region by encouraging the development of stronger communities through the financial support of Macquarie Generation and good citizenship of its employees. Support is provided in the areas of education, health, recreation, environment, community events and services.

Supporting our Community

Corporate Sponsorship and Community Support Macquarie Generation plays a prominent role in the Hunter Region, not only as a major economic contributor and employer but also as an active partner in community development. Each year support is provided for a variety of Hunter organisations that are making a valuable contribution to building the Hunter community.

Corporate Sponsorships

- Upper Hunter River Rehabilitation Initiative
- Hunter Medical Research Institute
- Hunter Rescue Helicopter Service
- Hunter Valley Research Foundation
- Malcolm Sargent Cancer Fund for Children
- Keep Australia Beautiful—NSW Schools Waste Watchers Program

Community Support The Community Support Program aims to enhance quality of life in the upper Hunter Region by encouraging the development of stronger communities through the financial support of Macquarie Generation and good citizenship of its employees. Support is provided in the areas of education, health, recreation, environment, community events and services.

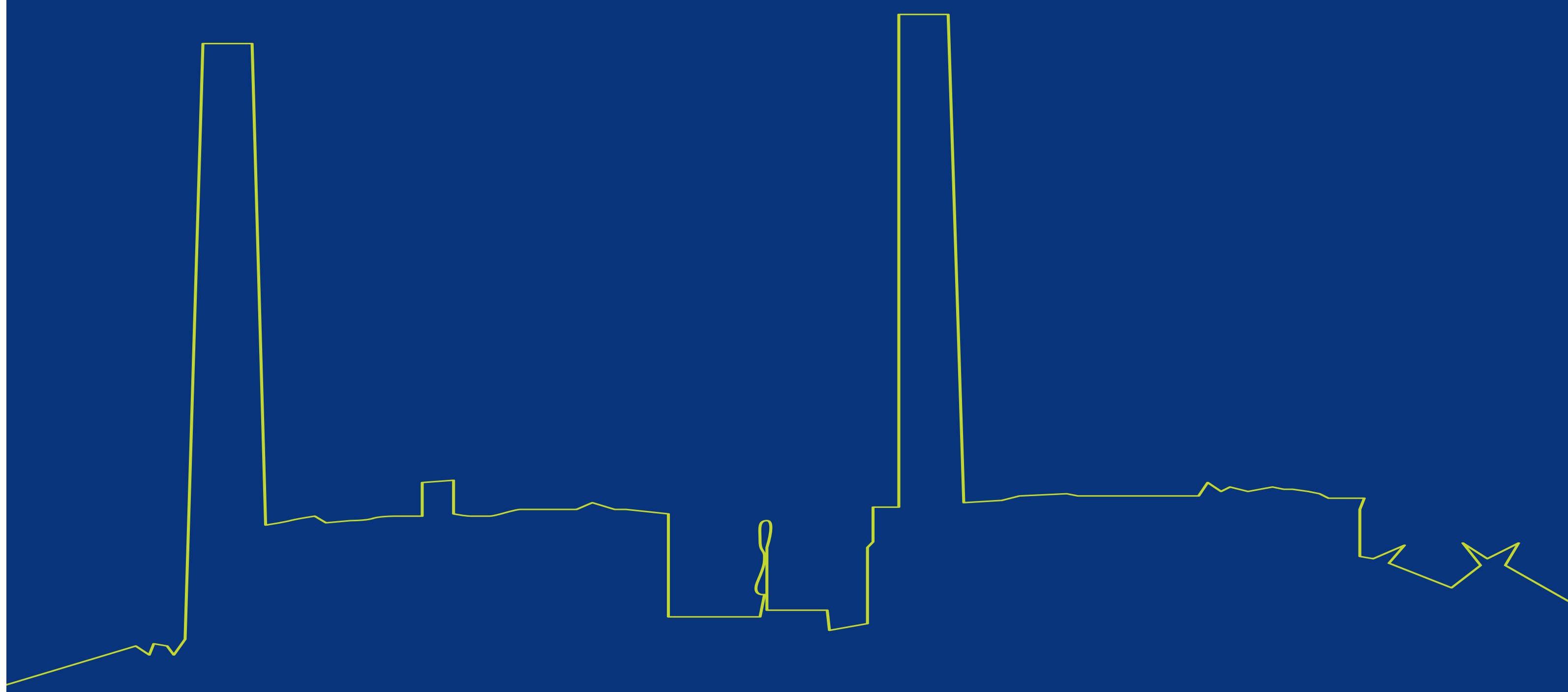
Community Support Advisory Committee An advisory committee of Corporation employees manages the Community Support Program. Committee members are appointed in recognition of their active commitment to local communities and organisations.

Ms Sandra Carter (Bayswater Power Station)
Ms Lisa Elliott (Bayswater Power Station)
Mr David Murphy (Liddell Power Station)
Mr Dave Dallah (Liddell Power Station)
Mr Darren Armitage (Lambton Corporate Office)
Ms Christine Feeney (Lambton Corporate Office)

Projects supported by the Community Support Program included:

- Singleton Neighbourhood Centre family crisis accommodation
- Hunter Wildlife Aid
- Muswellbrook Touch Association
- Hunter Valley Cricket Council
- Singleton and Muswellbrook Amateur Theatrical Societies
- Murrurundi District Arts Council
- King of the Ranges Stockman's Challenge Murrurundi
- Singleton Pipes and Drums
- St James Primary School Playground Security
- Singleton Art Prize
- Upper Hunter Veterans Golf Week
- Gundy Gourmet Sunday
- Aberdeen Highland Games
- Singleton Public Library Summer Reading Program.

Financial Statements



The Board of Directors present their report together with the financial statements of the Corporation for the year ended 30 June 2005 and the auditors' report thereon:

Directors

The following persons were Directors of Macquarie Generation during the whole of the financial year and up to the date of this report:

Evan Rees
Grant Every-Burns
Anna Buduls
John Cahill
Deborah Page
James Watt
The Hon. Robert Webster

Information on Directors

Evan Rees FIE Aust CPMetallurgy—Chairman and Non-executive Director

Mr Rees was appointed Chairman of Macquarie Generation on 1 March 1996. Mr Rees was reappointed as Chairman on 1 March 2003 for a three year term ending on 28 February 2006.

Mr Rees worked for Australian National Industries (ANI), Australia's largest publicly listed engineering company for over 34 years. Mr Rees was an ANI Board member from 1986 when he was appointed Executive Director with the responsibility for the manufacturing and steel distribution business. He was appointed ANI Managing Director in 1991 until retirement in 1996. Mr Rees is also a Director of Bluestone Mortgages.

Mr Rees has no former directorships in the last three years.

Grant Every-Burns BE(Hons) FAICD—Chief Executive and Managing Director

Mr Every-Burns was appointed as Chief Executive and Managing Director on 1 March 1996. Mr Every-Burns was reappointed as Chief Executive and Managing Director on 1 September 2002 for a three year term ending on 31 August 2005.

Mr Every-Burns is a Director of the Energy Supply Association of Australia Limited and the National Generators Forum Limited.

Mr Every-Burns has over 30 years of extensive engineering and managerial experience in running thermal power stations in New South Wales. His former roles include Manager of Bayswater and Eraring Power Stations, and Assistant General Manager of Pacific Power.

Mr Every-Burns completed terms as Chairman of the NEMMCO Participant Advisory Committee and Deputy Chairman of the National Generators Forum Limited during the year ended 30 June 2005.

Mr Every-Burns has no other former directorships in the last three years.

Anna Buduls BA MComm—Non-executive Director

Ms Buduls was appointed Director of Macquarie Generation on 1 March 1996, is the Chairman of the Board Remuneration and Human Resources Committee and a member of the Board Audit and Assurance Committee. Ms Buduls was reappointed as a Director on 29 February 2004 for a two year period ending on 28 February 2006.

Ms Buduls has a financial background, including seven years at Macquarie Bank Limited. Ms Buduls is a Non-executive Director of several listed and public sector entities, including SAI Global Limited and The Smith Family. Ms Buduls is also Chairman of HJ & B Group Limited and Beyond Empathy Limited.

Ms Buduls was a Non-executive Director of Mirvac Group Limited from February 1997 to July 2005. Ms Buduls was a Non-executive Director of Freedom Furniture Limited from early 2000 to November 2003. Ms Buduls was a Non-executive Director of Alzheimer's Australia (New South Wales) from October 2002 to November 2003.

John Cahill Non-executive Director

Mr Cahill was appointed Director of Macquarie Generation on 3 May 1996 and is a member of the Board Remuneration and Human Resources Committee. Mr Cahill was reappointed as a Director on 14 April 2005 for a year ending on 13 April 2006.

Mr Cahill is the Assistant General Secretary of the Public Service Association of New South Wales and a member of that organisation's Executive and Central Council, and Assistant State Secretary of the Community and Public Sector Union and a member of that Union's State Executive, State Council and National Council. He is also a Director of the Bowlers Club of New South Wales and a member of the Board Finance Committee; and a Director of the State Government Employees Credit Union and Chair of the Board Audit Committee.

Mr Cahill has 28 years industrial experience in the electricity generation industry.

Mr Cahill has no former directorships in the last three years.

Deborah Page BEc FCA MAICD—Non-executive Director

Mrs Page was appointed Director of Macquarie Generation on 1 March 2000 and is a member of the Board Audit and Assurance Committee. Mrs Page was reappointed as a Director on 1 March 2003 for a three year term ending on 28 February 2006.

Mrs Page, a Chartered Accountant, has held senior executive positions with the Commonwealth Bank, Allen Allen & Hemsley, IBM and the Lend Lease Group and is a former KPMG partner. Mrs Page is Non-executive Director of Investa Properties Limited and the New South Wales Internal Audit Bureau.

Mrs Page has no former directorships in the last three years.

James Watt FAICD BSc(For) BA MF—Non-executive Director

Mr Watt was appointed Director of Macquarie Generation on 1 March 1996. He is the Chairman of the Board Audit and Assurance Committee and a member of the Board Remuneration and Human Resources Committee. Mr Watt was reappointed as a Director on 1 March 2003 for a three year term ending on 28 February 2006.

Mr Watt has a financial background including 20 years as a senior executive of New South Wales Treasury and New South Wales Treasury Corporation.

Mr Watt has no former directorships in the last three years.

The Hon. Robert Webster AFAIM—Non-executive Director

Mr Webster was appointed Director of Macquarie Generation on 1 March 1996 and is a member of the Board Remuneration and Human Resources Committee. Mr Webster was reappointed as a Director on 29 February 2004 for a two year period ending on 28 February 2006.

Mr Webster is a Senior Client Partner of Korn/Ferry International, a former New South Wales Government Minister and Executive Director of International Banks and Securities Association of Australia. He is a Non-executive Director of Allianz Australia Limited and Brickworks Limited.

Mr Webster was Chairman of the National Science and Technology Centre from 1996 to May 2004. Mr Webster was a Non-executive Director of the Australian Stock Exchange Settlement and Transfer Corporation Pty Ltd from 1998 to June 2003. Mr Webster was a Non-executive Director of Mirvac Group Limited from February 1997 to December 2004.

David Ipkendanz BEc Dip Ed FCPA—Company Secretary

Mr Ipkendanz was appointed to the position of Chief Financial Officer and Company Secretary in 1996. Before joining Macquarie Generation he held similar positions with the Australian Submarine Corporation Pty Limited and Namoi Cotton Co-operative. Mr Ipkendanz has held a range of senior financial management positions continuously since 1984.

Directors' Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors during the financial year ended 30 June 2005 were:

	Board Meetings		Board Audit and Assurance Committee Meetings		Board Remuneration and Human Resources Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Mr Evan Rees (3)	11	10	—	—	—	2
Mr Grant Every-Burns (1) (2)	11	11	—	6	—	2
Ms Anna Buduls	11	11	6	6	2	2
Mr John Cahill	11	7	—	—	2	1
Mrs Deborah Page (4)	11	11	6	6	—	1
Mr James Watt	11	10	6	6	2	2
The Hon. Robert Webster	11	10	—	—	2	2

1 Although not a member of the Board Audit and Assurance Committee, Mr Every-Burns attended all meetings of the Committee by invitation.

2 Although not a member of the Board Remuneration and Human Resources Committee, Mr Every-Burns attended all meetings of the Committee by invitation.

3 Although not a member of the Board Remuneration and Human Resources Committee, Mr Rees attended all meetings of the Committee by invitation.

4 Although not a member of the Board Remuneration and Human Resources Committee, Mrs Page attended one meeting of the Committee by invitation.

Principal Activities

The principal activities of the Corporation during the course of the financial year were:

- the operation and maintenance of coal-fired thermal power stations for the purpose of generating and selling electricity into the wholesale energy market;
- the marketing and sale of electricity into the New South Wales region of the National Energy Market, and
- the management of market risk arising from participation in the New South Wales region of the National Energy Market.

There have been no significant changes in the nature of the activities of the Corporation during the year.

Operating Results

The Operating Profit After Tax of the Corporation for the financial year ended 30 June 2005 was $105.4 million.

Review of Operations

The operations of the Corporation during the financial year and the results of those operations are outlined in the attached Financial Statements.

Dividends

Dividends paid or proposed by the Corporation since the end of the previous financial year were:

- an interim dividend of $50 million in respect of the year ended 30 June 2004 was paid on the 2 August 2004;
- a final dividend of $50 million in respect of the year ended 30 June 2004 was paid on the 1 December 2004; and
- a dividend of $105 million in respect of the year ended 30 June 2005 has been provided for in the Financial Statements.

State of Affairs

There were no significant changes in the state of affairs of the Corporation during the financial year.

International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to International Accounting Standards Board interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AEIFRS.

The Corporation will apply the AEIFRS from the reporting period beginning 1 July 2005. In accordance with AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* the Corporation has disclosed details on how the transition is being managed, key differences in accounting policies expected to arise from adopting AEIFRS and known or reliably estimable information about the impacts on the Financial Statements had they been prepared under AEIFRS. The details and differences are disclosed in Note 1(z) to the Financial Statements.

Remuneration Report

Information on the Remuneration of Directors and Executives is disclosed in Note 27 to the Financial Statements.

Likely Developments

In the opinion of the Directors, all appropriate information concerning likely developments in, and the likely results of, the operations of the Corporation are contained in the attached Financial Statements.

The Shareholders have released the New South Wales Energy Directions Green Paper outlining possible initiatives to restructure the New South Wales energy sector and to provide for future energy supply in the State. The Corporation provided a detailed response to the Green Paper and has communicated with the Shareholders on industry issues. A White Paper is expected to be released in the coming period which should provide guidance on the future development requirements and opportunities for Macquarie Generation.

At the New South Wales Australian Labor Party State Conference on 11 June 2005, the Premier announced the intention to proceed with the development of the Tomago Gas Turbine project in partnership with the private sector. At this time the Corporation has not received a formal mandate for this project and Management and the Board are in discussion with the New South Wales Treasury and the Shareholders on this issue.

Further information as to the likely developments in the operations of the Corporation and the expected results of those operations in subsequent financial years has not been included in this report because the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the Corporation.

Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation, in subsequent financial years, with the exception of the impact of International Financial Reporting Standards as referred to above.

Directors' Report

Environment Performance Report

Protection of the Environment Operations Act 1997

Bayswater and Liddell Power Stations are licensed by the Environment Protection Authority (EPA) under the Protection of the Environment Operations Act 1997.

Both stations are required to monitor atmospheric emissions of particulate matter, sulphur dioxide, nitrogen oxides and total fluoride emissions which must not exceed limits or concentrations specified in the licences.

The Bayswater licence also regulates the volume, concentration and type of pollutants in aqueous discharges to Lake Liddell and Tinkers Creek, as well as the discharge from Lake Liddell to the Hunter River under the Hunter River Salinity Trading Scheme. It also permits the discharge of ash to the Ravensworth Ash Disposal site.

The Liddell licence also includes the operation of the adjacent Hunter Valley Gas Turbines and the Ravensworth Rail Unloader.

The licences also include requirements for reporting to the EPA of:

- information obtained from monitoring;
- exceedances of licensed discharge limits; and
- events or occurrences which caused actual or potential environmental harm not otherwise permitted by the licence.

Macquarie Generation complied fully with all relevant discharge limits, monitoring and reporting requirements. No limits for atmospheric emissions or aqueous discharges were exceeded for Bayswater Power Station.

Liddell Power Station had two reportable events, which are not breaches of the licence, in relation to sulphur dioxide. Reports were submitted to the EPA in accordance with the licence.

A certificate of compliance has been completed for the Bayswater licence.

A certificate of compliance for the Liddell licence is due to be completed by 25 September 2005 for the 12 months ending 27 July 2005.

Water Management Act 2000

In December 2000 Macquarie Generation was issued with a Part 9 Water Management Licence in accordance with the Water Act 1912.

This Licence enables the Corporation to obtain sufficient water for the operation of Bayswater and Liddell Power Stations in the long term, and combines all of the previously existing water licences and entitlements, including conditions of the Glennies Creek Dam Act (1979) and the Glennies Creek Agreement, into a single instrument.

The conversion of the licence to the requirements of the Water Management Act 2000 had not taken place at 30 June 2005. The Department of Infrastructure, Planning and Natural Resources has advised of the licence transfer process and a Conversion Working Group has now been established to have a Water Licence Package, containing entitlements and licences, in place by December 2005.

Waste Minimisation and Management Act 1995

Liddell Power Station is licensed to store coal tar substances under the Waste Minimisation and Management Act 1995. This material must be stored, contained and handled to prevent contamination of surface and ground waters and the generation of dust. The station has complied with the conditions of the licence.

Environmentally Hazardous Chemical Act 1985

An asbestos burial site is regulated by a Chemical Control Order issued by the EPA. The stations have complied with the order which regulates the management of the waste. There are no reporting requirements for the site.

Renewable Energy (Electricity) Act 2000

Macquarie Generation has a physical supply contract with Tomago Aluminium. Due to this contract Macquarie Generation has an obligation under the Renewable Energy (Electricity) Act 2000 to source power from renewable sources. Macquarie Generation has entered into a commercial arrangement to meet this obligation.

Waste Reduction and Purchasing Policy (WRAPP)

The Waste Reduction and Purchasing Policy requires all New South Wales State Owned Corporations to reduce waste and to increase purchases of operating supplies and materials that include recycled content from the following four areas:

- paper products (eg stationery);
- office equipment and consumables (eg toner cartridges);
- vegetation material (eg biomass); and
- construction and demolition material (eg concrete, fill or asphalt).

Macquarie Generation has implemented the Policy, including preparing a Waste Reduction and Purchasing Plan and reporting to Resource NSW. The items reported in the plan are a minor component of Macquarie Generation's operations.

More significant waste reduction activities during the financial year include:

- re-use of 153,062 tonnes of ash in cement manufacture, landscaping and road works representing 4% of the total of 3,761,906 tonnes of ash produced during the financial year;
- re-use of approximately 7,913 tonnes of lime and gypsum by-products by the agricultural industry representing 67% of the total of 11,730 tonnes produced during the financial year;
- co-firing wood waste from licensed sawmills. Since the program trials in August 1999, over 390,000 tonnes of waste biomass has been utilised, and 493 GWh of greenhouse neutral electricity has been produced;
- efficiency improvements at the Power Stations resulting in less coal burnt per MWh generated; and
- use of recycled oil for boiler start-up at Bayswater and Liddell Power Stations.

Directors' Report

Directors' Interests

The Corporation did not enter into any contracts during the financial year with entities in which Directors declared an interest, except as disclosed in Note 25 to the Financial Statements.

No Director holds an interest in the share capital of the Corporation.

Directors' Benefits

No Director has declared the receipt of, or has declared an entitlement to receive, during or since the financial year, a benefit as a result of a contract made by the Corporation with a Director, an entity of which a Director is a member or an entity in which a Director has a substantial financial interest.

Indemnification of Directors and Officers

During the financial year Macquarie Generation paid a premium of $251,724 including GST and stamp duty, to insure the Directors and certain officers of the Corporation. The policy covers losses and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the Directors and officers in their capacity as Directors and officers of the Corporation. At the date of this report no claims have been made against the policy.

Rounding of Amounts

Amounts in the Financial Statements and Directors' Report have been rounded to the nearest thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of the Directors.

E. Rees.

H E REES
CHAIRMAN

G V Every-B.

G V EVERY-BURNS
CHIEF EXECUTIVE AND MANAGING DIRECTOR

19 August 2005

Start of Audited Financial Statements

Statement of Financial Performance

For the year ended 30 June 2005

		2005	2004
	Note	$'000	$'000
Revenue from ordinary activities	2	852,040	813,645
Borrowing costs expense	3(a)	(83,028)	(97,468)
Other expenses from ordinary activities	3(b)	(602,168)	(557,601)
Profit from ordinary activities before income tax expense		166,844	158,576
Income tax expense	4	(61,423)	(57,335)
Net profit		105,421	101,241
Net increase in asset revaluation reserve	18(b)	—	105,241
Total changes in equity other than those resulting from transactions with owners as owners		105,421	206,482

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

Statement of Financial Position
As at 30 June 2005

	Notes	2005 $'000	2004 $'000
Current Assets			
Cash assets	6	135,199	96,738
Receivables	7	82,706	88,077
Inventories	8	95,535	104,868
Other	12	10,091	3,075
TOTAL CURRENT ASSETS		323,531	292,758
Non-current Assets			
Receivables	7	19	77
Property, plant and equipment	9	2,543,221	2,600,000
Deferred tax assets	10	13,398	10,030
Intangible assets	11	1,393	841
Other	12	—	4,096
TOTAL NON-CURRENT ASSETS		2,558,031	2,615,044
TOTAL ASSETS		2,881,562	2,907,802
Current Liabilities			
Payables	13	94,379	94,085
Interest bearing liabilities	14	330,771	258,560
Provisions	16	119,109	117,438
TOTAL CURRENT LIABILITIES		544,259	470,083
Non-current Liabilities			
Interest bearing liabilities	14	629,660	805,958
Deferred tax liabilities	15	362,843	298,054
Provisions	16	39,743	29,071
Other	17	36,000	36,000
TOTAL NON-CURRENT LIABILITIES		1,068,246	1,169,083
TOTAL LIABILITIES		1,612,505	1,639,166
NET ASSETS		1,269,057	1,268,636
Equity			
Contributed equity		281,078	281,078
Reserves	18 (b)	972,034	975,245
Retained profits	18 (c)	15,945	12,313
TOTAL EQUITY		1,269,057	1,268,636

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Cash Flows
For the year ended 30 June 2005

	Notes	2005 $'000	2004 $'000
Cash Flows from Operating Activities			
Cash received in the course of operations		920,540	902,448
Cash paid in the course of operations		(538,808)	(577,883)
Interest received		5,370	3,906
Borrowing costs		(93,319)	(96,743)
NET CASH INFLOWS FROM OPERATING ACTIVITIES	19	293,783	231,728
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(50,980)	(36,651)
Payments for intangible assets		(616)	(551)
Proceeds from sale of property, plant and equipment		362	1,321
NET CASH (OUTFLOWS) FROM INVESTING ACTIVITIES		(51,234)	(35,881)
Cash Flows from Financing Activities			
Repayment of borrowings		(104,088)	(105,570)
Dividends paid		(100,000)	(56,000)
NET CASH (OUTFLOWS) FROM FINANCING ACTIVITIES		(204,088)	(161,570)
Net Increase (Decrease) In Cash Held		38,461	34,277
Cash at the beginning of the reporting period		96,738	62,461
CASH AT THE END OF THE REPORTING PERIOD	6	135,199	96,738

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Note 1 — Summary of Significant Accounting Policies

This general purpose financial report has been prepared, as required by the State Owned Corporations Act, 1989, in accordance with the provisions of Part 3 of the Public Finance and Audit Act, 1983, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Consensus Views.

(a) Basis of Accounting
These Financial Statements have been prepared in accordance with the principles of accrual accounting and the historical cost convention, except for certain assets, which as noted, are at independent or Directors' valuation. The accounting policies adopted have been consistently applied except as otherwise noted.

(b) Income Tax
Macquarie Generation is subject to the National Tax Equivalent Regime which reflects Federal Income Tax Legislation.

Tax effect accounting procedures are followed whereby the income tax expense, calculated in accordance with the provisions of the National Tax Equivalent Regime, in the Statement of Financial Performance is matched with the accounting profit after allowing for permanent differences. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

Future income tax benefits attributable to income tax losses are not carried forward as assets unless they are virtually certain of being realised. Recognised income tax losses are carried as a reduction in deferred income tax liabilities where it is expected that the benefit will be utilised in the same periods as the liability is incurred.

(c) Foreign Currency Translation
(i) Transactions
Transactions denominated in a foreign currency are converted to Australian dollars at the exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Resulting exchange differences are recognised in determining the profit or loss for the year.

(ii) Specific Commitments
Hedging is undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. Gains or losses arising upon entry into a hedging transaction intended to hedge the purchase or sale of goods and services, together with subsequent exchange gains or losses resulting from those transactions are deferred in the Statement of Financial Position from the inception of the hedging transaction up to the date of the purchase or sale and included in the measurement of the purchase or sale. The net amounts receivable or payable under the hedging transaction are also recorded in the Statement of Financial Position. Any gains or losses arising on the hedging transaction after the recognition of the hedged purchase or sale are included in the Statement of Financial Performance.

When the anticipated purchase or sale transactions have been hedged, actual purchases or sales, which occur during the designated hedged period are accounted for as having been hedged until the amounts of those transactions in the designated period are fully allocated against the hedged amounts.

If the hedged transaction is not expected to occur as originally designated, or if the hedge is no longer expected to be effective, any previously deferred gains or losses are recognised as revenue or expense immediately.

If the hedging transaction is terminated prior to its maturity date and the hedged transaction is still expected to occur as designated, deferral of any gains and losses, which arose prior to termination, continues and those gains and losses are included in the measurement of the hedged transaction.

In circumstances where a hedging transaction is terminated prior to maturity because the hedged transaction is no longer expected to occur as designated, any previously deferred gains and losses are recognised in the Statement of Financial Performance on the date of termination.

Notes to the Financial Statements
For the year ended 30 June 2005

Note 1 — Summary of Significant Accounting Policies (continued)

(c) Foreign Currency Translation (continued)
(ii) Specific Commitments (continued)
If a hedged transaction relating to a commitment for the purchase or sale of goods or services is redesignated as a hedge of another specific commitment and the original transaction is still expected to occur as designated, the gains or losses that arise on the hedge prior to its redesignation continue to be deferred and included in the measurement of the original purchase or sale when it takes place. If the hedge transaction is redesignated as a hedge of another commitment because the original purchase or sale transaction is no longer expected to occur as designated, the gains and losses that arise on the hedge prior to its redesignation are recognised in the Statement of Financial Performance at the date of the redesignation.

(d) Revenue Recognition
Electricity sales are recognised when metered as delivered. Electricity sales revenue comprises National Electricity Market settlements at spot market prices and payments due to the Corporation by counterparties in respect of Electricity Hedging Contracts and a direct supply contract.

Electricity option fee income is recognised when the income is earned which is upon entering a contract.

Interest and other investment income is recognised in the period in which it is earned.

(e) Receivables
Trade debtors are primarily attributable to electricity sales.

Receivables are recorded at the amounts expected to be ultimately collected in cash and therefore net of any allowance for bad or doubtful debts.

Secured sundry debtors represent loans advanced to employees to assist in the purchase of housing in the Hunter region. These are secured by mortgages over the subject properties. The carrying amount of the debt excludes any unearned income. Interest revenue is brought to account over the term of each contract.

Bad debts are written off in the period in which they are identified.

(f) Inventories
Stores and materials, coal, biomass and oil stocks are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method, which is updated upon the receipt of new items and is separately determined for each location.

(g) Recoverable Amount of Non-current Assets
The recoverable amount of a non-current asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal, discounted to present values using the Corporation's weighted average cost of capital, which was 11.0% for the 2004/2005 year.

Where the carrying amount of a non-current asset is greater than its recoverable amount the asset is revalued to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. Any decrement in carrying amount is recognised as an expense in the net profit or loss in the reporting period in which the recoverable amount write down occurs.

(h) Property, Plant and Equipment
(i) Capitalisation and Initial Recognition
Property, plant and equipment is brought to account at cost or at independent or Directors' valuation, less, where applicable, any accumulated depreciation

In general, non-current physical assets with a value greater than $1,000 are capitalised.

Costs arising from the installation, start-up and development of assets acquired or constructed are included in the carrying value of those assets.

Note 1 — Summary of Significant Accounting Policies (continued)

(h) Property, Plant and Equipment (continued)

(ii) Valuation of Property, Plant and Equipment

Property, plant and equipment are valued at fair value in accordance with Australian Accounting Standard AASB 1041 *Revaluation of Non-current Assets* and New South Wales Treasury Accounting Policy *Valuation of Physical Non-current Assets at Fair Value,* which provides additional guidance on applying AASB 1041 to public sector assets.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Where available, fair value is determined having regard to the highest and best use of an asset that market participants would be prepared to pay. Where a quoted market price in an active and liquid market is available, that price represents the best evidence of fair value. Where a quoted market price is not available, fair value is estimated by reference to the best available market evidence.

Where an asset is specialised, or the market buying price and market selling price differ materially because the asset is usually bought and sold in different markets, or the asset would only be sold as part of the sale of the cash-generating operation of which the asset is a part, fair value is measured at its market buying price. The best indicator of an asset's market buying price is the replacement cost of the asset's remaining future economic benefits.

However where the assets belong to a cash-generating operation, and the sum of the market buying prices of the assets forming that cash-generating operation exceeds the fair value of that operation, the fair values of the asset would be determined after deducting that excess.

Non-specialised buildings, which included commercial and general purpose buildings for which there is a secondary market, are valued at fair value.

Specialised buildings are buildings designed for a specific, limited purpose and include the specialised buildings to house specialised power station plant and equipment.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not materially differ from fair value at reporting date. Subject to the above, assets are revalued at least every five years.

Where an entity revalues depreciable assets by reference to current prices for assets newer that those being revalued, the gross amount and accumulated depreciation are separately stated. Otherwise, any accumulated depreciation is generally offset against the carrying amount of the assets to which they relate, and the net asset carrying amount is increased or decreased by the revaluation increment or decrement.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the Statement of Financial Performance, the increment is recognised immediately in revenue.

Revaluation decrements are recognised immediately as expenses, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

Assets acquired or constructed since the last revaluation are valued at cost.

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment, other than freehold land, over its expected useful life to the Corporation.

Major spares purchased specifically for the infrastructure plant are capitalised and depreciated on the same basis as the plant to which they relate.

Estimates of useful lives are made on a regular basis for all assets and these are:

Power Stations	50 years
Other Buildings	35 years
Other Plant and Equipment	2.5 – 10 years

Provision is not made for potential capital gains tax arising from the disposal of property, plant and equipment unless there is an intention to sell the assets concerned.

Notes to the Financial Statements
For the year ended 30 June 2005

Note 1 — Summary of Significant Accounting Policies (continued)

(i) Sale of Non-current Assets

Proceeds from the sale of property, plant and equipment are included in revenue. The depreciated value of such assets is included in expenditure.

(j) Leased Assets

Macquarie Generation leases a large proportion of its mobile plant under fully maintained operating leases. Operating lease payments are charged to the Statement of Financial Performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(k) Intangible Assets — Water Entitlements

Costs incurred in the purchase of water entitlements are deferred and amortised on a straight line basis over the period of their expected economic benefits which is estimated to be 15 years.

(l) Other Assets — New South Wales Greenhouse Abatement Certificates (NGACs)

As a consequence of the New South Wales Greenhouse Gas Abatement Scheme legislation, Macquarie Generation has an obligation to acquire and acquit NGACs with respect to the Tomago Aluminium direct supply contract.

NGACs are recognised at cost and have been purchased in advance and carried forward for the purposes of acquitting against future years' liabilities.

In accordance with the business rules of the NGAC register as administered by IPART, the NGACs are surrendered on a first in, first out, basis.

When NGACs which have been previously carried forward, are surrendered for the purposes of acquitting against the current year's liability, the amount is accounted for in the Statement of Financial Performance.

(m) Payables

These amounts represent liabilities for goods and services provided to the Corporation prior to the end of the financial year and which are unpaid at that date. These amounts include payments due to counterparties in respect of electricity hedge contract sales.

(n) Interest Bearing Liabilities

Interest bearing liabilities are recognised at current capital value. Current capital value is the face value of the debt less unamortised discount or plus unamortised premiums. The discount or premiums are treated as borrowing costs expense in the Statement of Financial Performance and amortised over the term of the debt.

Interest is recognised as an expense in the period to which it relates. It is included in borrowing costs expense and accrued as part of payables.

(o) Derivative Instruments

(i) Financial

New South Wales Treasury Corporation has been engaged to manage the treasury risk of Macquarie Generation in accordance with both approved Board policies and the Treasury Management Guidelines issued by New South Wales Treasury. To achieve this, New South Wales Treasury Corporation enters into derivative financial instruments, as disclosed in Note 23(b), on Macquarie Generation's behalf. Derivative financial instruments are not recognised in the financial statements on inception.

The accounting for forward foreign exchange contracts is in accordance with Note 1(c)(ii).

(ii) Commodity

Macquarie Generation is a participant in the wholesale electricity market. The Corporation forward sells electricity production using commodity based contracts which are settled other than by physical delivery in accordance with normal market practice. The Corporation employs a range of electricity hedging instruments to manage market risk, as disclosed in Note 23(b). Derivative financial instruments are not recognised in the financial statements on inception.

Note 1 — Summary of Significant Accounting Policies (continued)

(p) Maintenance and Repairs
Plant of the Corporation is required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated over the asset's remaining useful life in accordance with Note 1(h). Other routine operating maintenance, repairs and minor renewal costs are also charged as expenses as incurred.

(q) Employee Benefits
(i) Wages, Salaries and Annual Leave
Liabilities for wages, salaries and annual leave are recognised and are measured as the amount unpaid at balance date, at the remuneration rates expected to be paid when these obligations are settled in respect of employees' services up to that date.

Unused non-vesting sick leave does not give rise to a liability, as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

(ii) Long Service Leave
A liability for long service leave is recognised, and is determined using an actuarial shorthand method of calculation and represents the present value of expected future payments to be made in respect of services provided by employees up to balance date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on Commonwealth Government Bonds with terms to maturity that match, as far as possible, the estimated future cash outflows.

(iii) Superannuation
A liability or asset in respect of defined benefit superannuation is recognised, and is measured as the difference between the present value of employees' accrued benefits at balance date and the estimated net market value of the schemes' assets at that date. The liability is assessed annually by actuaries based on data maintained by the SAS Trustee Corporation. It is calculated using the latest actuarial economic assumptions applied to the schemes as a whole.

The present value of the gross liability is based on expected future payments, which arise from membership of the schemes to balance date in respect of the contributory service of current and past employees.

Consideration is given to expected future wage and salary levels, expected future investment earnings rate, growth rate in Consumer Price Index, experience of employee departures and periods of service. Expected future payments are discounted using the expected investment earnings rate. The amount included in the Statement of Financial Performance in respect of superannuation represents the contributions made by the Corporation to the superannuation schemes, adjusted by the movement in the superannuation asset or liability.

(iv) Employee Benefit On-costs
Employee benefit on-costs, including payroll tax, fringe benefits tax and workers' compensation insurance premiums are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(r) Provision for Insurance
Macquarie Generation has an Insurance Program which covers the Corporation for catastrophic Public Liability and Property claims and motor vehicle damage.

It is more cost effective for the Corporation to maintain an internal Provision for Insurance to provide for non-catastrophic losses and other non-insurable claims.

The Provision for Insurance includes future dust diseases Workers' Compensation claims for employees, and existing and future dust diseases Public Liability claims for employees of contractors and their relatives, associated with Liddell Power Station.

The existing and future dust diseases Public Liability claims relate to the period from 1970 to 1974 during the construction phase of Liddell Power Station and the period from 1974 to 1984 when asbestos was being removed from Liddell Power Station.

Notes to the Financial Statements
For the year ended 30 June 2005

Note 1 — Summary of Significant Accounting Policies (continued)

(r) Provision for Insurance (continued)
The future dust diseases Workers Compensation claims also relate to the period from 1974 to 1984 when asbestos was being removed from Liddell Power Station.

The Directors' assessment of the Provision for Insurance relating to existing and future claims for dust diseases is based on an Actuarial Valuation carried out as at February 2005 by certified actuary David G. Hart Consulting Pty Ltd.

The Actuarial Valuation of the future claims for dust diseases contained a wide range of estimates and uncertainty as to the number of, amount and timing of the future liabilities. The total Non-current Provision for Insurance is made up of a provision for future dust diseases related Workers' Compensation and Public Liability claims of $10,200,000 being the most factually based estimate of the actuarial range of estimates.

The balance of the Provision for Insurance is represented by the amounts of reported claims, which have not been settled at the reporting date, in relation to Public Liability and Property claims.

(s) Dividends
Provision is made for the amount of any dividend determined by the Directors on or before the end of the financial year but not distributed at the reporting date and is in accordance with New South Wales Treasury Dividend Policy.

(t) Mine Rehabilitation
The Corporation owns land, which includes mine sites that have attached to them a statutory obligation to rehabilitate that land, under the terms of a license issued by the Department of Primary Industries. The future rehabilitation costs are expected to be incurred from the present until the 2021/2022 year and have been estimated by specialist internal technical staff. The balance of the provision represents the net present value of the estimated future cash flows required to complete the rehabilitation process, discounted by the Corporation's weighted average cost of capital.

(u) Accounting for Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred by the Corporation as a purchaser that is not recoverable from the Australian Taxation Office (ATO) is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the ATO is included as a current asset or current liability in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis.

(v) Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous year.

(w) Segment Reporting
The Corporation operates predominantly in one business segment, that being the generation of electricity, and within one geographical segment, Australia.

(x) Rounding of Amounts
Amounts shown in these financial statements are rounded to the nearest thousand dollars when presented in tabular form. However, amounts quoted within text are stated as whole dollars.

Note 1 — Summary of Significant Accounting Policies (continued)

(y) Comparative Figures
Where necessary, comparative information has been reclassified to enhance comparability in respect of changes in presentation adopted in the current year.

In Note 9 Property, Plant and Equipment the Directors' Valuation 2004 of Power Stations Buildings has been combined with the Directors' Valuation 2004 of Power Stations Plant and Equipment due to the integral operational nature of the infrastructure Plant and Equipment including the specialised buildings which house that plant and equipment.

Interest rate futures call deposits held with New South Wales Treasury Corporation have been reclassified from Note 14 Interest Bearing Liabilities to Note 6 Cash Assets.

(z) Impacts of adopting Australian equivalent to International Financial Reporting Standards (AEIFRS)
The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued AASB equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to International Accounting Standards Board interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The Australian equivalents to IFRS are referred to hereafter as AEIFRS.

Entities complying with AEIFRS for the first time will be required to restate their comparative Financial Statements to amounts reflecting the application of AEIFRS to that comparative period. Most adjustments required on transition to AEIFRS will be made, retrospectively, against opening Retained Profits as at 1 July 2004.

Macquarie Generation will apply the Australian equivalents to International Financial Reporting Standards (AEIFRS) from the reporting period beginning on 1 July 2005.

The following strategy has been implemented to manage the transition to AEIFRS.

The Corporation established a project to manage the transition to AEIFRS. This included obtaining external specialist advice, training of staff, analysis of changes to accounting policies and accounting impacts, preparation of Policy documentation and system and internal control changes necessary to gather all the required financial information. Members of the project team participated in Industry and Shareholder Discussion Group meetings.

The project team was chaired by the Chief Financial Officer and Company Secretary and reported at each meeting of the Board Audit and Assurance Committee on the progress against the project plan.

The Corporation has determined the key areas where changes in accounting policies are likely to impact the Financial Statements. Some of these impacts arise because AEIFRS requirements are different from existing AASB requirements (AGAAP). Other impacts are likely to arise from options in AEIFRS. To ensure consistency at the whole of government level, New South Wales Treasury has advised the Corporation of options it is likely to mandate for the New South Wales Public Sector. The impacts disclosed below reflect Treasury's likely mandates (referred to as "Indicative Mandates").

Shown below are the Corporation's best estimates as at the date of preparing the 30 June 2005 Financial Statements of the estimated financial impacts of AEIFRS on the Corporation's Equity and Profit and Loss. No material impacts are expected in relation to the Statement of Cash Flows.

The actual effects of the transition may differ from the estimated figures below. This could be due to pending changes to the AEIFRS, including the UIG Interpretations and emerging accepted practice in their interpretation and application, and any changes to Treasury's Indicative Mandates. The Corporation's accounting policies may also be affected by a proposed standard designed to harmonise Accounting Standards with Government Finance Statistics (GFS). However, the impact is uncertain because it depends on when this Standard is finalised and whether it can be adopted in 2005/2006.

Notes to the Financial Statements
For the year ended 30 June 2005

Note 1 — Summary of Significant Accounting Policies (continued)

(z) Impacts of adopting Australian equivalent to International Financial Reporting Standards (AEIFRS) (continued)
(a) Reconciliation of key aggregates

Reconciliation of Equity under existing Standards (AGAAP) to Equity under AEIFRS:

	Notes	30 June 2005** $'000	1 July 2004* $'000
Total Equity under AGAAP		1,269,057	1,268,636
Adjustments to Retained Profits (net of tax)			
Defined benefit superannuation adjustment for change in discount rate	1	(41,701)	(21,218)
Tax effect adjustment of Defined Benefit superannuation adjustment	1	12,510	6,365
Effect of discounting long-term annual leave	2	228	100
Tax effect adjustment of effect of discounting long-term annual leave	3	(68)	(30)
Tax effect adjustment of accounting depreciation on Asset Revaluation Reserve	5	35,689	24,228
Total Adjustments to Retained Profits (net of tax)		6,658	9,445
Adjustments to Asset Revaluation Reserve (net of tax)			
Tax effect adjustment of Asset Revaluation Reserve	4	(291,611)	(292,574)
Total Equity under AEIFRS		984,104	985,507

* Adjustments as at the date of transition on 1 July 2004
** Cumulative adjustments as at date of transition plus the year ended 30 June 2005

Reconciliation of Net Profit under AGAAP to Net Profit under AEIFRS:

Year ended 30 June 2005	Notes	$'000
Net Profit as reported under AGAAP		105,421
Defined benefit superannuation	1	(20,483)
Long term annual leave	2	128
Income tax expense	5	17,568
Net Profit under AEIFRS		102,634

Note 1 — Summary of Significant Accounting Policies (continued)

(z) Impacts of adopting Australian equivalent to International Financial Reporting Standards (AEIFRS) (continued)
(a) Reconciliation of key aggregates (continued)

Notes and Accounting Policies applying to tables above:

1. AASB 119 *Employee Benefits* requires the defined benefit superannuation obligation to be discounted using the government bond rate as at each reporting date, rather than the long-term expected rate of return on plan assets. This will have the effect of increasing the defined benefit superannuation liability and increasing the amount of superannuation expense.
2. AASB 119 *Employee Benefits* requires present value measurement for all long-term employee benefits. Current AGAAP provides that wages, salaries, annual leave and sick leave are measured at nominal value in all circumstances. The Corporation has long-term annual leave benefits and accordingly will measure these benefits at present value, rather than nominal value, thereby decreasing the employee benefits liability and changing the amount of the annual leave expense.
3. AASB 112 *Income Taxes* uses a balance sheet approach which requires the differences between the accounting and tax value of assets and liabilities to be recognised as deferred tax assets or deferred tax liabilities. Current AGAAP uses an operating statement method that accounts for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach alters the amount and timing of tax assets and liabilities recognised.
4. In particular, the Balance Sheet approach under AASB 112 *Income Taxes* results in the recognition of a Deferred Tax Liability in relation to the Asset Revaluation Reserve and revalued assets that was not generally recognised under current AGAAP.
5. The Balance Sheet approach under AASB 112 *Income Taxes* also changes the amount and timing of the Income Tax Expense. Under AGAAP a permanent difference was recognised in relation to the accounting depreciation on the Asset Revaluation Reserve, which was not deductible for tax purposes. This had the accounting affect of increasing Income Tax Expense and Deferred Tax Liabilities. This transaction is not required under AASB 112 *Income Taxes* and the permanent differences relating to the accounting depreciation on the Asset Revaluation Reserve for the years ending 30 June 2003, 30 June 2004 and 30 June 2005 are reversed.

(b) Financial Instruments

In accordance with New South Wales Treasury's indicative mandates, Macquarie Generation will apply the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* not to apply the requirements of AASB 132 *Financial Instruments: Presentation and Disclosures* and AASB 139 *Financial Instruments: Recognition and Measurement* for the financial year ended 30 June 2005. These Standards will apply from 1 July 2005. None of the information provided above includes any impacts for Financial Instruments. However, when these Standards are applied, they will impact on Retained Profits (on first adoption) and the amount and volatility of the Net Profit. Further, the impact of these Standards will in part depend on whether the fair value option can or will be mandated consistent with Government Finance Statistics.

Notes to the Financial Statements
For the year ended 30 June 2005

	2005	2004
	$' 000	$' 000
Note 2 — Revenue		
Revenue from operating activities		
Sales revenue	842,357	804,604
Miscellaneous sources	3,951	3,696
	846,308	808,300
Revenue from outside the operating activities		
Net foreign exchange gains	—	2
Interest revenue	5,370	3,906
Sale of property, plant and equipment	362	1,322
Revaluation increment – other buildings	—	115
	5,732	5,345
Revenue from ordinary activities	852,040	813,645

Note 3 — Operating Profit

(a) Net gains and expenses
Profit from ordinary activities before income tax expense includes the following specific net gains and expenses:

	2005	2004
Net gains		
Net gain on disposal of land	—	483
	—	483
Expenses		
Borrowing costs		
Interest and related finance charges	83,028	97,468
Depreciation of		
Buildings	116	88
Plant and equipment	102,717	96,978
Total depreciation	102,833	97,066
Amortisation – water entitlements	64	49

	2005	2004
	$' 000	$' 000
Note 3 — Operating Profit (continued)		
(a) Net gains and expenses (continued)		
Expenses (continued)		
Bad and doubtful debts		
Sundry debtors	13	—
Total bad and doubtful debts	13	—
Net loss on disposal of non-current assets		
Buildings—other	—	198
Plant and equipment—other	113	172
Plant and equipment—Power Stations	3,274	1,755
Total loss on disposal of non-current assets	3,387	2,125
Other provisions		
Employee entitlements	8,582	9,325
Superannuation contributions to defined benefit funds	(2,308)	(309)
Superannuation contributions to accumulation funds	1,358	1,353
Total superannuation (income)/expense	(950)	1,044
Net loss on foreign currency transactions	148	—
Operating lease rentals	3,377	3,049
Non-executive Directors' remuneration	446	443
Auditors' remuneration		
Audit of the financial statements	161	139
Consultants' fees	1,814	1,786
(b) Expenses from ordinary activities, excluding borrowing costs expense, included in the Statement of Financial Performance by function:		
Electricity generation operational expenditure	602,168	557,601

Notes to the Financial Statements
For the year ended 30 June 2005

	2005	2004
	$' 000	$' 000
Note 4 — Income Tax		
(a) Income tax on operating profit differs from the prima facie tax on that profit as follows:		
Prima facie income tax on the operating profit at 30% (2004 - 30%)	50,053	47,573
Tax effect of permanent differences:		
Asset revaluation increment	—	(35)
Superannuation contributions to defined benefit funds	(2,116)	(1,587)
Depreciation on revaluation of non-current assets	12,444	11,535
Entertainment expenses	15	14
Consultants' fees	43	15
Legal expenses	15	12
Sundry items	(23)	(56)
	10,378	9,898
Income tax adjusted for permanent differences	60,431	57,471
Under (over) provision in previous year	992	(136)
Income tax expense	61,423	57,335
Aggregate income tax expense comprises:		
Tax profit recognised	25,398	13,178
Deferred income tax provision	39,393	45,528
Future income tax benefit	(3,368)	(1,371)
	61,423	57,335

(b) Future income tax benefits attributable to tax losses have been recognised as a reduction to the provision for deferred income tax and are disclosed in Note 15. Future income tax benefits disclosed in Note 10 are attributable to timing differences and do not include tax losses.

Note 5 — Dividend

In accordance with the share dividends scheme determined by the voting shareholders, and as required by the Energy Services Corporation Act, 1995, the Board has provided for a dividend payment of $105,000,000 (2004 – $100,000,000). This will be paid during the course of the 2005/2006 year and is represented by the balance of the provision at 30 June 2005 as disclosed in Note 16.

	2005	2004
	$' 000	$' 000
Note 6 — Cash Assets		
Cash on hand	9	3
Deposits at call	135,190	96,735
	135,199	96,738

The above figures agree to cash at the end of the period as shown in the Statement of Cash Flows.

Deposits at Call

The deposits are bearing floating interest rates which at balance date averaged 5.6% (2004 - 5.5%).

	2005	2004
Note 7 — Receivables		
Current		
Trade debtors	76,510	85,407
Less: Provision for doubtful debts	840	849
	75,670	84,558
Sundry debtors – secured*	40	65
Sundry debtors – unsecured	6,996	3,454
	82,706	88,077
Non-current		
Sundry debtors – secured*	19	77

*Secured by mortgages over the subject properties.

	2005	2004
Note 8 — Inventories		
Coal stocks (at cost)	44,751	55,315
Biomass (at cost)	15	—
Stores and materials (at cost)	48,176	47,607
Oil stocks (at cost)	2,593	1,946
	95,535	104,868

	2005	2004
Note 9 — Property, Plant and Equipment		
Power Stations		
Land		
At fair value	17,634	17,634
	17,634	17,634
Plant and Equipment		
At fair value	2,789,455	2,746,653
Less: Accumulated depreciation	284,146	185,518
	2,505,309	2,561,135
Total Power Stations	2,522,943	2,578,769

Notes to the Financial Statements
For the year ended 30 June 2005

	2005	2004
	$' 000	$' 000
Note 9 — Property, Plant and Equipment (continued)		
Non-infrastructure		
Land		
At fair value	1,400	1,400
	1,400	1,400
Buildings		
At fair value	2,163	2,163
Less: Accumulated depreciation	279	163
	1,884	2,000
Plant and equipment		
At fair value	26,798	24,433
Less: Accumulated depreciation	9,804	6,602
	16,994	17,831
Total non-infrastructure	20,278	21,231
Total depreciated value of property, plant and equipment	2,543,221	2,600,000

Independent Valuation 2004 of Non-infrastructure Land and Buildings

The valuation of non-infrastructure land and buildings is based on the capitalisation of the estimated rental value of the property in the open market. The 2004 revaluation was carried out by members of the Australian Property Institute on behalf of Aon Valuation Services (formerly International Valuation Consultants) as at February 2004.

Directors' Valuation 2004

The Directors' valuations of infrastructure land, specialised plant and equipment associated with the power stations and non-infrastructure plant and equipment are based on fair value.

In accordance with AASB 1041 *Revaluation of Non-current Assets* the Directors are required to assess on an annual basis whether the carrying value of assets equates to fair value.

A revaluation of the Corporation's infrastructure assets was carried out by members of the Australian Property Institute on behalf of Aon Valuation Services as at February 2004.

As the assets belong to a cash generating operation and the sum of the depreciated replacement costs was less than the discounted cash flow valuation of the operations, the Directors have determined that the depreciated replacement costs equates to fair value. This is in accordance with the requirements of AASB 1041 *Revaluation of Non-current Assets*. The asset values were apportioned on the basis of the depreciated replacement costs as determined by the independent valuers.

The Directors' valuation of non-infrastructure plant and equipment, not associated with the power stations, is based on fair value equating to the written down value of the assets as at 30th June 2004. This is in accordance with New South Wales Treasury Accounting Policy *Valuation of Non-current Assets at Fair Value*.

	2005	2004
	$' 000	$' 000

Note 9 — Property, Plant and Equipment (continued)

Reclassification of Power Stations – Buildings

The Directors' Valuation 2004 of Power Stations – Buildings has been reclassified as Power Stations Plant and Equipment due to the integral nature of the power station plant and equipment generally and the buildings housing that plant and equipment.

Reconciliations

Reconciliations of the carrying amount of each class of current and non-current property, plant and equipment at the beginning and end of the current and previous financial year are set out below.

	2005 $' 000	2004 $' 000
Power Stations — Land		
Carrying amount at start of year	17,634	10,700
Revaluation increments	—	6,934
Additions	—	—
Disposals	—	—
Depreciation expense	—	—
Carrying amount at end of year	17,634	17,634
Power Stations — Plant and Equipment		
Carrying amount at start of year	2,561,135	2,529,547
Revaluation increments	—	97,598
Additions	46,555	29,422
Disposals	3,284	1,767
Depreciation expense	99,097	93,665
Carrying amount at end of year	2,505,309	2,561,135
Non-infrastructure — Land		
Carrying amount at start of year	1,400	900
Revaluation increments	—	600
Additions	—	—
Disposals	—	100
Depreciation expense	—	—
Carrying amount at end of year	1,400	1,400
Non-infrastructure — Buildings		
Carrying amount at start of year	2,000	2,306
Revaluation increments	—	115
Additions	—	48
Disposals	—	381
Depreciation expense	116	88
Carrying amount at end of year	1,884	2,000

	2005 $' 000	2004 $' 000
Note 9 — Property, Plant and Equipment (continued)		
Non-infrastructure — Plant and Equipment		
Carrying amount at start of year	17,831	18,574
Revaluation increments	—	108
Additions	3,247	3,210
Disposals	464	748
Depreciation expense	3,620	3,313
Carrying amount at end of year	16,994	17,831
Total		
Carrying amount at start of year	2,600,000	2,562,027
Revaluation increments	—	105,355
Additions	49,802	32,680
Disposals	3,748	2,996
Depreciation expense	102,833	97,066
Carrying amount at end of year	2,543,221	2,600,000
Note 10 — Deferred Tax Assets		
Non-current		
Future income tax benefit	13,398	10,030
Note 11 — Intangible Assets		
Non-current		
Water entitlements	959	910
Deposits paid	567	—
Less: Accumulated amortisation	133	69
	1,393	841

The deposits paid represent holding deposits held in trust on the signing of a conditional contract for the sale of water entitlements to the Corporation. The balance is payable upon notification of completion of the transfer process of the water entitlements to Macquarie Generation by the Department of Infrastructure, Planning and Natural Resources after which the water entitlements are included in Macquarie Generation's Water Licence.

	2005	2004
	$' 000	$' 000
Note 12 — Other Assets		
Current		
Prepayments	6,055	581
New South Wales Greenhouse Abatement Certificates (NGACs)	4,036	2,494
	10,091	3,075
Non-current		
New South Wales Greenhouse Abatement Certificates (NGACs)	—	4,096
	—	4,096

	2005	2004
Note 13 — Payables		
Current (Unsecured)		
Trade creditors	81,136	82,392
Accrued interest on borrowings	13,243	11,693
	94,379	94,085

	2005	2004
Note 14 — Interest Bearing Liabilities		
Current (Unsecured)		
Borrowings	330,771	258,560
Non-current (Unsecured)		
Borrowings	629,660	805,958

Borrowings are comprised of fixed rate debt of $887,931,009 (2004 – $1,002,018,427) bearing interest rates of between 5.2% and 6.8% and the remainder bearing floating interest rates of between 5.6% and 5.9%. These rates are exclusive of the government guarantee fee and New South Wales Treasury Corporation administration fees.

Maturity Analysis

The following table summarises the maturity pattern of Macquarie Generation's borrowings.

	2005	2004
Up to one year	330,771	258,560
Over one and up to five years	263,270	462,154
Over five years	366,390	343,804
Total	960,431	1,064,518

Notes to the Financial Statements
For the year ended 30 June 2005

	2005	2004
	$' 000	$' 000
Note 14 — Interest Bearing Liabilities (continued)		
Financing Arrangements		
Facilities Available		
Bank overdraft	2,000	2,000
Intra-day credit facility	20,000	20,000
Bank guarantee facility	4,000	4,000
Credit card facility	500	500
New South Wales Treasury Corporation loans	1,650,000	1,650,000
New South Wales Treasury Corporation come and go facility	390,000	390,000
Total available	2,066,500	2,066,500
Facilities Utilised		
Bank overdraft	—	—
Intra-day credit facility	—	—
Bank guarantee facility	3,491	3,491
Credit card facility	—	—
New South Wales Treasury Corporation loans	960,431	1,064,518
New South Wales Treasury Corporation come and go facility	—	—
Total utilised	963,922	1,068,009

Macquarie Generation has approval from the Treasurer under the Public Authorities (Financial Arrangements) Act 1987, to obtain the bank overdraft, intra-day credit, bank guarantee and credit card facilities from a Commercial Bank.

Macquarie Generation, with the exception of the above commercial facilities, is required to undertake all borrowings through the New South Wales Treasury Corporation.

	2005	2004
Note 15 — Deferred Tax Liablities		
Non-current		
Provision for deferred income tax	362,843	298,054

Deferred Income Tax

The provision for deferred income tax has been reduced by $5,247,162 (2004 – $30,645,430) in respect of future income tax benefits attributable to tax losses (See also Note 4(b)).

	2005	2004
	$' 000	$' 000
Note 16 — Provisions		
Current		
Insurance	1,218	2,591
Dividend	105,000	100,000
Employee benefits	8,288	7,866
Mine rehabilitation	550	680
Employee superannuation	4,053	6,301
	119,109	117,438
Non-current		
Insurance	10,200	—
Employee benefits	22,877	22,116
Mine rehabilitation	6,666	6,955
	39,743	29,071

Movements in Provisions

Movements in each class of provision during the financial year, other than employee benefits and unfunded superannuation liability, are set out below.

	Insurance $'000	Dividend $'000	Mine Rehabilitation $'000	Total $'000
Current				
Carrying amount at the start of the year	2,591	100,000	680	103,271
Additional provisions recognised	849	105,000	290	106,139
Payments/other sacrifices of economic benefits	(2,222)	(100,000)	(420)	(102,642)
Carrying amount at the end of the year	1,218	105,000	550	106,768
Non-current				
Carrying amount at the start of the year	—	—	6,955	6,955
Additional provisions recognised	10,200	—	—	10,200
Payments/other sacrifices of economic benefits	—	—	(289)	(289)
Carrying amount at the end of the year	10,200	—	6,666	16,866

The total Non-current Insurance Provision is made up of a provision for future dust diseases related Workers' Compensation and Public Liability claims of $10,200,000 being the most factually based estimate of the actuarial range of estimates.

	2005	2004
Note 17 — Other Liabilities		
Non-current		
Security deposit	36,000	36,000
	36,000	36,000

Security Deposit

The security deposit was provided under the terms of a long term electricity supply contract. The deposit is non-interest bearing and is repayable upon any breach of the contract by Macquarie Generation or upon completion of the contract in 2017.

Notes to the Financial Statements
For the year ended 30 June 2005

	2005	2004
	$' 000	$' 000
Note 18 — Equity		
(a) Share Capital	No. of Shares	No. of Shares
Ordinary Shares, fully paid	2	2

In accordance with the State Owned Corporations Act, 1989, the two voting shareholders at 30 June 2005, the Honourable A. Refshauge MLC, Treasurer and the Honourable J.J. Della Bosca MLC, Special Minister of State held one share each valued at $1.00 per share.

	2005	2004
(b) Reserves		
Asset Revaluation Reserve		
Asset revaluation reserve at the beginning of the financial year	975,245	870,898
Increment on revaluation of land, buildings, plant and equipment	—	105,241
Realisation of asset increments transferred to retained profits	(3,211)	(894)
Asset revaluation reserve at the end of the financial year	972,034	975,245
(c) Retained Profits		
Retained profits at the beginning of the financial year	12,313	10,178
Transfer of realised asset revaluation increments from reserves	3,211	894
Net profit	105,421	101,241
Dividends provided for	(105,000)	(100,000)
Retained profits at the end of the financial year	15,945	12,313

Note 19 — Cash Flow Information

Cash includes cash on hand and deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

	2005	2004
Reconciliation of net cash flows from operating activities to operating profit after income tax		
Operating profit after income tax	105,421	101,241
Depreciation and amortisation	102,897	97,115
Revaluation (increments)	—	(115)
(Decrease) increase in net borrowings accruals	(10,291)	725
Net loss on sale of non-current assets	3,387	1,642
Tax profit recognised	25,398	13,178
Increase in net deferred taxes payable	36,024	44,158
Changes in assets and liabilities		
Decrease in trade and other debtors	5,428	7,013
Decrease (increase) in inventories	9,333	(5,947)
Decrease (increase) in other operating assets	1,885	(6,854)
Increase (decrease) in trade and other creditors, employee entitlements and other provisions	14,301	(20,428)
Net cashflows from operating activities	293,783	231,728

	2005	2004
	$' 000	$' 000
Note 20 — Capital Expenditure Commitments		
Commitments for the acquisition of assets contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	27,969	36,445
Later than one year but not later than five years	28,658	31,072
	56,627	67,517
Note 21 — Lease Commitments		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	3,357	3,264
Later than one year but not later than five years	7,329	10,398
Later than 5 years	190	510
	10,876	14,172

Note 22 — Events Occurring After Balance Date

There have been no events occurring after balance date, and prior to completion of this financial report, that have significantly or may significantly affect the operations of the Corporation, the results of those operations or the state of affairs of the Corporation in subsequent financial years, with the exception of the impact of International Financial Reporting Standards as detailed in Note 1(z).

Notes to the Financial Statements
For the year ended 30 June 2005

Note 23 — Financial Instruments

(a) Recognised Financial Instruments
Macquarie Generation has recognised certain financial instruments in the accounts. These financial instruments have been disclosed in Notes 6,7,13,14 and 17.

(b) Unrecognised Financial Instruments
Interest Rate Exposure
The Corporation manages interest rate risk with the assistance of interest rate swaps, interest rate futures and options.
These products are also used to assist in the management of Macquarie Generation's financial assets, with positions being marked to market and a gain or loss recognised in the accounts. All derivatives are managed through New South Wales Treasury Corporation in accordance with Board policies including total value and credit risk and can only be used for hedging purposes.

(i) Interest Rate Swap Contracts
The Corporation's borrowings at 30 June 2005 include securities that bear an average variable interest rate of 5.8%. It is the policy to protect the borrowings from exposure to increasing interest rates. Accordingly New South Wales Treasury Corporation has entered into interest rate swap contracts on Macquarie Generation's behalf under which the Corporation is obliged to receive and pay interest at variable rates and fixed rates. The contracts are settled on a net basis each 90 days and the net amount receivable or payable at the reporting date is included in other debtors or other creditors. Liability swaps in place at 30 June 2005 have fixed interest rates of 6.3%.

At 30 June 2005, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2005	2004
	$ 000's	$ 000's
Less than 1 year	—	18,400
1 – 2 years	11,600	—
2 – 3 years	—	11,600
	11,600	30,000

(ii) Interest Rate Futures
All gains or losses incurred in the use of interest rate futures are included in the Statement of Financial Performance as part of the Corporation's borrowing costs for the year.

The futures position at the end of the year is as follows:

	Delivery Month	Number Contracts Sold	Number Contracts Bought	Total Nominal Value 2005	Total Nominal Value 2004
				$'000	$'000
3 Year Bond Futures	Sep-05	579	—	57,900	—
10 Year Bond Futures	Sep-05	533	—	53,300	—
		1,112	—	111,200	—

Note 23 — Financial Instruments (continued)

(b) Unrecognised Financial Instruments (continued)
Foreign Currency Exposure
In the normal course of business the Corporation enters foreign currency contracts for payments for the supply of parts and equipment. Macquarie Generation Board approved policy requires exposures exceeding A$250,000 to be fully hedged through the use of forward foreign exchange contracts. Gains and losses are brought to account on a basis consistent with the underlying asset or liability.

At balance date the details of the outstanding contracts are:

	2005	2004	2005	2004
	Aust Dollars		Average Exchange Rate	
	$'000	$'000		
Buy United States Dollars				
Maturity				
0 – 6 months	—	687	—	0.690
Buy Swiss Francs				
Maturity				
0 – 6 months	519	580	0.977	0.874
1 – 2 years	—	572	—	0.874
Buy Euros				
Maturity				
0 – 6 months	106	8,717	0.631	0.571
1 – 2 years	6,323	3,632	0.631	0.571
2 – 3 years	6,503	3,275	0.631	0.571
3 – 4 years	6,226	6,664	0.631	0.571
4 – 5 years	—	6,402	—	0.571
Buy Japanese Yen				
Maturity				
6 - 12 months	943	832	84.138	74.706
Buy British Pounds				
Maturity				
0 – 6 months	1,714	—	0.4218	—
1 – 2 years	222	—	0.4218	—

As these contracts are hedging anticipated future purchases, any unrealised gains and losses on the contracts, together with the cost of the contracts, are deferred and will be recognised in the measurement of the underlying transaction provided the underlying transaction is still expected to occur as originally designated. Amounts receivable and payable on open contracts are included in other debtors and other creditors respectively. As at 30 June 2005 the Corporation's foreign exchange position gave rise to an unrealised loss of $2,184,480 (2004 - $44,691) which has been deferred.

Note 23 — Financial Instruments (continued)

(b) Unrecognised Financial Instruments (continued)
Electricity Hedging Contracts
The terms and face values of the Corporation's outstanding electricity hedging contracts at the reporting date are detailed in the following table:

	2005	2004
	$'000	$'000
	Face Values	
Less than 1 year	240,000	238,000
1 to 5 years	191,000	250,000
5 to 10 years	—	50,000
	431,000	538,000

The Corporation manages exposure to fluctuations in wholesale electricity market prices through the use of various types of hedging contracts in accordance with Board approved policy.

The unrealised loss in respect of electricity hedging contracts at 30 June 2005 was $20,990,000 based on the forward curve at 30 June 2005 (2004 – $30,000,000 unrealised loss).

The gain or loss is determined using readily available independent market price estimates as provided by the Australian Financial Markets Association, using conventional market valuation techniques and is quoted in net present value terms discounted by appropriate discount rates as applied by market conventions.

The details disclosed above on electricity hedging contracts represent outstanding electricity swap contracts entered into by the Corporation. The unrealised loss includes a range of forward contracts with major electricity retailers.

(c) Interest Rate Risk Exposure
Interest rate risk is the risk that the financial instrument will fluctuate due to changes in market interest rates. The Corporation's exposure to interest rate risks and the weighted average interest rate for each class of financial assets and financial liabilities, both recognised and unrecognised at balance date, are listed over the page.

Note 23 — Financial Instruments (continued)

(c) Interest Rate Risk Exposure (continued)

	Floating interest rate 2005 $'000	Fixed interest rate maturing in: 1 year or less 2005 $'000	1 – 5 years 2005 $'000	Over 5 years 2005 $'000	Non-interest bearing 2005 $'000	Total 2005 $'000
Financial assets						
Cash	135,190	—	—	—	9	135,199
Receivables	59	—	—	—	82,666	82,725
	135,249	—	—	—	82,675	217,924
Weighted average interest rate	5.6%	—	—	—		
Financial liabilities						
Trade creditors	—	—	—	—	81,136	81,136
Accrued interest	—	—	—	—	13,243	13,243
Borrowings	72,500	288,271	233,270	366,390	—	960,431
Security deposit	—	—	—	—	36,000	36,000
Interest rate futures **	(111,200)	—	57,900	53,300	—	—
Interest rate swaps *	(11,600)	—	11,600	—	—	—
	(50,300)	288,271	302,770	419,690	130,379	1,090,810
Weighted average interest rate	4.3%	5.9%	5.8%	5.9%		
Net financial assets (liabilities)	185,549	(288,271)	(302,770)	(419,690)	(47,704)	(872,886)

Notes to the Financial Statements
For the year ended 30 June 2005

Note 23 — Financial Instruments (continued)

(c) Interest Rate Risk Exposure (continued)

	Floating interest rate 2004 $'000	Fixed interest rate maturing in: 1 year or less 2004 $'000	1 – 5 years 2004 $'000	Over 5 years 2004 $'000	Non-interest bearing 2004 $'000	Total 2004 $'000
Financial assets						
Cash	96,735	—	—	—	3	96,738
Receivables	142	—	—	—	88,012	88,154
	96,877	—	—	—	88,015	184,892
Weighted average interest rate	5.5%	—	—	—		
Financial liabilities						
Trade creditors	—	—	—	—	82,392	82,392
Accrued Interest	—	—	—	—	11,693	11,693
Borrowings	62,500	248,560	409,654	343,804	—	1,064,518
Security deposit	—	—	—	—	36,000	36,000
Interest rate swaps *	(30,000)	18,400	11,600	—	—	—
	32,500	266,960	421,254	343,804	130,085	1,194,603
Weighted average interest rate	5.6%	5.5%	6.1%	6.0%		
Net financial assets (liabilities)	64,377	(266,960)	(421,254)	(343,804)	(42,070)	(1,009,711)

* Notional principal amounts

** Notional principal amounts - negative liability amounts indicate sold futures

(d) Credit Risk Exposure

Recognised

Credit risk is the risk of financial loss arising from another party to a contract or financial position failing to discharge a financial obligation thereunder. Macquarie Generation's exposure to credit risk is represented by the carrying amounts of financial assets, net of any provision for doubtful debts on the Statement of Financial Position. The recognised financial assets of the Corporation include amounts receivable from Government owned agencies (66%), secured debtors (20%) and other debtors (14%).

Unrecognised

The Corporation is exposed to credit related losses in the event of non-performance by counterparties to derivative instruments.

Note 23 — Financial Instruments (continued)

(d) Credit Risk Exposure (continued)
Unrecognised (continued)

i) Electricity Hedging Contracts
The Corporation manages its credit risk exposure to electricity hedging contracts by applying a Board approved policy under which the exposure limit applicable to each respective counterparty is determined with reference to an acceptable public credit rating assigned by an approved credit rating agency.

In the absence of an acceptable public rating, the Corporation requires a bank guarantee or other acceptable security exercisable in the state of New South Wales.

The Corporation calculates credit risk in accordance with Australian Prudential Regulation Authority guidelines and the amount calculated at balance date under this method was $22,650,000. (2004 – $32,109,000).

ii) Forward foreign exchange contracts, interest rate swaps and interest rate futures
Credit exposures are represented by the net fair value position of the contracts, as disclosed.

(e) Net Fair Value of Financial Assets and Liabilities

Bases for determining net fair values
Recognised
The net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities is represented by their carrying value, except in regard to a non-interest bearing security deposit where the net fair value is disclosed in the table below.

The net fair value of other monetary financial assets and liabilities including the security deposit is based on the market prices where markets exist or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Unrecognised
The net fair value of unrecognised financial assets or liabilities is represented by the amounts receivable or payable at the reporting date based on appropriate interest rates, exchange rates or wholesale electricity spot prices at that date.

Notes to the Financial Statements
For the year ended 30 June 2005

Note 23 — Financial Instruments (continued)

(e) Net Fair Value of Financial Assets and Liabilities (continued)

The recognised and unrecognised financial assets and financial liabilities of the Corporation are recorded at net fair value except as disclosed in the following table.

	2005	2005	2004	2004
	Carrying Amount $'000	Net Fair Value $'000	Carrying Amount $'000	Net Fair Value $'000
Recognised financial instruments				
Financial assets				
Loans to employees	59	56	142	129
Total	59	56	142	129
Financial liabilities				
Borrowings and accrued interest	973,674	989,474	1,076,211	1,073,326
Security deposit	36,000	13,768	36,000	12,044
Total	1,009,674	1,003,242	1,112,211	1,085,370
Unrecognised financial instruments				
Financial liabilities				
Electricity hedging contracts	—	20,990	—	30,000
Forward foreign exchange contracts	—	2,184	—	46
Interest rate swaps	—	161	—	205
Total	—	23,335	—	30,251

Although loans to employees are carried at an amount above net fair value, the Directors have not caused those assets to be written down as it is intended to retain those assets to maturity.

Note 24 — Superannuation

Macquarie Generation contributes to defined benefit and accumulation superannuation funds on behalf of all employees and Directors.

(a) Defined Benefit Superannuation Funds
Macquarie Generation contributes to three defined benefit superannuation schemes: the State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and the State Authorities Non-contributory Superannuation Scheme (SANCS). Employees contribute to the schemes at various percentages of their wages and salaries. Macquarie Generation contributes to the schemes at rates as advised by Pillar Administration.

Contributions to the schemes are expensed when paid or payable and reduce the superannuation liabilities. These payments are held in Investment Reserve Accounts by SAS Trustee Corporation (STC). The Investment Reserve Accounts are invested by STC and the resultant investment income or deficit adds to or subtracts from the balance of these accounts.

At balance date any net unfunded superannuation liability is recognised as a liability in the Statement of Financial Position. Similarly the amount of any net overfunded position is brought to account as revenue and recognised as an asset in the Statement of Financial Position in the form of prepaid superannuation contributions. The net unfunded superannuation liabilities included in the Statement of Financial Position as at 30 June are composed of:

	SASS(i) 2005	SANCS(ii) 2005	SSS(iii) 2005	Total 2005
	$'000	$'000	$'000	$'000
Gross liability assessed by actuaries as at 30 June 2005	28,886	10,634	70,637	110,157
Investment reserve	25,893	9,574	75,442	110,909
(Unfunded superannuation liabilities) prepaid contributions	(2,993)	(1,060)	4,805	752
	2004	2004	2004	2004
	$'000	$'000	$'000	$'000
Gross liability assessed by actuaries as at 30 June 2004	25,706	9,729	66,238	101,673
Investment reserve	21,902	8,298	65,172	95,372
(Unfunded superannuation liabilities)	(3,804)	(1,431)	(1,066)	(6,301)

(i) SASS - State Authorities Superannuation Scheme
(ii) SANCS - State Authorities Non-contributory Superannuation Scheme
(iii) SSS - State Superannuation Scheme

Triennial actuarial reviews of the above schemes are carried out by the Scheme's Actuary. The last review was conducted as at 30 June 2003. On an annual basis the Scheme's Actuary will review the key actuarial assumptions employed in the last triennial review and determine the financial position of each fund as at 30 June.

Notes to the Financial Statements
For the year ended 30 June 2005

Note 24 — Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)
The actuarial assumptions used in determining the financial positions of each of the schemes shown above are as follows:

	2005/2006	2006/2007	2007/2008 & thereafter
	% p.a.	% p.a.	% p.a.
Investment return	7.0	7.0	7.0
Salary growth rate	4.0	4.0	4.0
Consumer price index	2.5	2.5	2.5

(b) Accumulation Superannuation Funds
Macquarie Generation also contributes to various accumulation superannuation funds on behalf of employees and Directors at the statutory rate of salaries and wages or Directors' fees as determined by the Superannuation Guarantee (Administration) Act 1992 which was 9% (2004 – 9%).

Note 25 — Directors' Interests

No Director has declared the receipt of, or has declared an entitlement to receive, or become entitled to receive, during or since the financial year, a benefit as a result of a contract between Macquarie Generation and a Director, an entity of which a Director is a member or an entity in which a Director has a substantial financial interest.

The following Director has disclosed that he holds a position with the following organisation. The Corporation has business dealings with a subsidiary of that organisation, which are all made in the normal course of business and on normal commercial terms.

Director	Position	Organisation – Subsidiary
The Honourable Robert Webster	Senior Client Partner	Korn/Ferry International - Futurestep

Note 26 — Exemptions

The financial statements have been prepared in accordance with the requirements of Part 3 of the Public Finance and Audit Act, 1983 and the Public Finance and Audit Regulation, 2000, except that the following exemptions have been granted by the Treasurer to allow disclosure for the electricity industry on a basis broadly consistent with the Corporations Act 2001:

1. Exemption from preparing manufacturing, trading and profit and loss statements;
2. Exemption from reporting amounts set aside for renewal or replacement of fixed assets;
3. Exemption from reporting amounts set aside to any provision for known commitments;
4. Exemption from reporting amounts appropriated for repayment of loans, advances, debentures and deposits;
5. Exemption from reporting material items of income and expenditure on a program or activity basis in respect of commercially sensitive information; and
6. Exemption from reporting the excess of non-current asset value over the replacement cost.

Note 27 — Director and Executive Disclosures

Remuneration of Directors and Executives

(a) Principles used to determine the nature and amount of remuneration
The performance of the Corporation depends upon the quality of its Directors and Executives.

The Shareholders appoint the Directors of the Corporation for a specified term. The reappointment of the Director at the end of the specified term is subject to the review and approval of the Shareholders.

To meet the Shareholders' objectives the Corporation must have highly skilled and competent Directors, and attract, motivate and retain highly skilled and competent Executives, who contribute to the success of the Corporation.

To this end, the Corporation embodies the following principles in its remuneration framework:
- provide competitive rewards to attract highly skilled and competent executives;
- an appropriate portion of Executive remuneration is 'at risk' dependent upon meeting pre-determined performance benchmarks; and
- establish appropriate and specific stretching targets derived from the Business Plan relating to corporate profit improvement, cost reduction, business growth and personal development in relation to variable Executive remuneration.

(i) Remuneration and Human Resources Committee
The Board of Directors is responsible for determining and reviewing remuneration arrangements for the Chief Executive and Managing Director and the Senior Executives reporting to him and the total remuneration costs of the Corporation.

The Remuneration and Human Resources Committee assesses the appropriateness of the nature and amount of remuneration of the Chief Executive and Managing Director and the Senior Executives reporting to him on an annual basis by reference to industry trends, expert external advice and experience with the overall objectives of ensuring maximum Shareholder benefit from the retention of a high quality Senior Executive Team. The Remuneration and Human Resources Committee makes recommendations to the Board of Directors on the remuneration aspects after their assessments.

(ii) Remuneration Structure
The structure of Non-executive Directors and Executive remuneration is separate and distinct.

(iii) Non-executive Director Remuneration
Objective
The Shareholders seek to set aggregate remuneration at a level which provides the Shareholders with the ability to attract Directors of high calibre, whilst incurring an acceptable cost.

Note 27 — Director and Executive Disclosures (continued)

Remuneration of Directors and Executives (continued)

(a) Principles used to determine the nature and amount of remuneration (continued)
(iii) Non-executive Director Remuneration (continued)
Structure
Under the State Owned Corporations Act 1989, the Voting Shareholders determine the remuneration of the State Owned Corporation's Chairpersons and Directors. At the Premier's request the Statutory and Other Offices Remuneration Tribunal (SOORT) recommends such remuneration.

The remuneration levels are reviewed annually by SOORT. SOORT considers advice from external consultants as well as fees paid to Non-executive Directors of comparable and private sector entities when undertaking the annual review process.

The latest increase was effective 1 October 2003 when a 3% increase in remuneration was recommended by SOORT. The review by SOORT in December 2004 recommended no increase in Directors' Fees.

Each Director receives a fee for being a Director of the Corporation. An additional fee is paid to Directors who are members of the Board Audit and Assurance Committee.

Likewise the Chair of the Board of Directors and the Chairs of the Board Audit and Assurance and Remuneration and Human Resources Committees receive additional fees in recognition of the additional time and responsibility involved in these positions.

The remuneration of Non-executive Directors for the period ending 30 June 2005 is detailed in Table 1(a) below.

(iv) Managing Director and Senior Executive Remuneration
Objective
The Corporation aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Corporation and so as to:
- reward Executives for the Corporation's and individual's performance against stretching targets set by reference to appropriate benchmarks;
- align the interests of executives with those of the Shareholders;
- link reward with the strategic goals and performance of the Corporation; and
- ensure total remuneration is competitive by market standards.

Structure
In determining the level and make-up of the Chief Executive and Managing Director's and Senior Executive's remuneration, the Remuneration and Human Resources Committee engages an external consultant to provide independent expert advice in the form of a written report detailing market levels of remuneration for comparable executive roles.

It is the Board's Policy to enter an employment contract with the Chief Executive and Managing Director and Executives reporting directly to him. Details are provided below.

Remuneration consists of the following key elements:
- Fixed Remuneration; and
- Variable Remuneration based on performance.

Note 27 — Director and Executive Disclosures (continued)

Remuneration of Directors and Executives (continued)

(a) Principles used to determine the nature and amount of remuneration (continued)
(iv) Managing Director and Senior Executive Remuneration (continued)
The fixed remuneration and structure of variable remuneration are established for the Chief Executive and Managing Director and Senior Executives by the Remuneration and Human Resources Committee and recommended to the Board of Directors for approval. Table 2 below details the variable and fixed remuneration.

(v) Fixed Remuneration
The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration and Human Resources Committee with access to external independent expert advice.

The Chief Executive and Managing Director and Senior Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and other non-monetary benefits, such as motor vehicles and other cost effective salary sacrificed amounts.

(vi) Variable Remuneration
Objective
The objective of the incentive program is to link the Corporation's operational and strategic targets as agreed with the Shareholders in the annual Statement of Corporate Intent and Business Plan with the remuneration received by the Executives responsible for meeting those targets. The total potential incentive payments available are set at a level so as to provide sufficient incentive to the Executive to achieve the operational and strategic targets and such that the cost to the Corporation is reasonable.

The Chief Executive and Managing Director and Senior Executives' remuneration, performance criteria and performance assessments are subject to formal yearly review by the Remuneration and Human Resources Committee of the Board which then makes recommendation to the Board of Directors.

Structure
The Chief Executive and Managing Director and Senior Executives' performance targets are set early in the financial year based on specific and measurable stretching targets derived from the Business Plan relating to corporate profit improvement, cost reduction, business growth and Shareholder value. The Business Plan is agreed with the Shareholders on an annual basis.

Actual incentive payments granted to each Executive depend on the extent to which the specific stretching targets are met.

Performance reviews for the Chief Executive and Managing Director and Senior Executives' take place in the first quarter of each financial year dependent upon audited figures from the Corporation's accounts.

Note 27 — Director and Executive Disclosures (continued)

Remuneration of Directors and Executives (continued)

(a) Principles used to determine the nature and amount of remuneration (continued)
(vii) Employment Contracts
It is the Board's Policy to enter a performance based employment contract with the Chief Executive and Managing Director.

The Chief Executive has a current three year contract expiring on 1 September 2005.

The Chief Executive's salary review is conducted with respect to 1 September each year, which is the contract renewal date.

The Executives reporting directly to the Chief Executive and Managing Director are also employed under performance based employment contracts.

(viii) Specified Executives
The specified Executives of the Corporation being those with the greatest authority for the strategic direction and management of the Corporation are as follows:

Position	Name
Chief Executive and Managing Director	Grant Every-Burns
Chief Financial Officer and Company Secretary	David Ipkendanz
Manager Marketing and Trading	Russell Skelton
Manager Bayswater Power Station	John Neely
Manager Liddell Power Station	John Marcheff/Peter Sewell (Refer Notes 1 and 2 of Table 2(a) below)
Manager Fuel and Environment	Stephen Ireland
Manager Human Resources	Colin Peebles (Refer Note 3 of Table 2(a) below)

(b) Details of Remuneration
Table 1(a): Non-executive Directors' Remuneration for the year ending 30 June 2005

	Primary Benefits			Post Employment	
2005	Travel Allowance	Directors' Base Fees	Committee Fees	Superannuation Expense	Total
	$	$	$	$	$
Name					
Evan Rees (Chairman)	850	100,300	—	9,027	110,177
Anna Buduls	211	56,800	10,000	6,012	73,023
John Cahill	580	56,800	—	5,112	62,492
Deborah Page	791	56,800	5,000	5,562	68,153
James Watt	1,002	56,800	7,000	5,742	70,544
The Hon. Robert Webster	—	56,800	—	5,114	61,914
Total Directors' Fees	3,434	384,300	22,000	36,569	446,303

Note 27 — Director and Executive Disclosures (continued)

Remuneration of Directors and Executives (continued)

(b) Details of Remuneration (continued)

Table 1(b): Non-executive Directors' Remuneration for the year ending 30 June 2004

2004	Primary Benefits: Travel Allowance	Primary Benefits: Directors' Base Fees	Committee Fees	Post Employment: Superannuation Expense	Total
	$	$	$	$	$
Name					
Evan Rees (Chairman)	922	99,567	—	8,961	109,450
Anna Buduls	—	56,374	10,000	5,974	72,348
John Cahill	634	56,374	—	5,074	62,082
Deborah Page	731	56,374	5,000	5,524	67,629
James Watt	634	56,374	7,000	5,704	69,712
The Hon. Robert Webster	227	56,374	—	5,074	61,675
Total Directors' Fees	3,148	381,437	22,000	36,311	442,896

Table 2(a): Remuneration of the Chief Executive and Managing Director and Senior Executives who report directly to him for the year ending 30 June 2005

2005	Primary Benefits: Cash Salary	Primary Benefits: Cash Bonus Receivable	Non-monetary Benefits	Post Employment: Superannuation Expense	Total
	$	$	$	$	$
Name					
Mr Grant Every-Burns	347,784	65,570	13,553	—	426,907
Mr David Ipkendanz	133,256	38,500	41,628	37,851	251,235
Russell Skelton	111,560	41,000	19,731	95,905	268,196
John Neely	171,562	37,000	17,829	15,600	241,991
John Marcheff (Note 1)	172,531	27,750	15,535	16,922	232,738
Peter Sewell (Note 2)	120,302	18,000	17,821	23,474	179,597
Steve Ireland	160,899	35,300	14,009	20,963	231,171
Colin Peebles (Note 3)	87,353	8,000	12,590	30,111	138,054
Total Executive Remuneration	1,305,247	271,120	152,696	240,826	1,969,889

Note 1. John Marcheff went on Long Service Leave on 11 March 2005 and retired from the Corporation as Manager Liddell Power Station on 7 July 2005.

Note 2. Peter Sewell was appointed as Manager Liddell Power Station effective from 14 March 2005.

Note 3. Colin Peebles was appointed as Manager Human Resources on 28 September 2004.

The 2005 Cash Bonus Receivable was earned during the year ending 30 June 2005 and will be paid during the year ending 30 June 2006.

Non-monetary benefits include cost effective salary sacrificed amounts for motor vehicles, electricity and laptops.

Notes to the Financial Statements
For the year ended 30 June 2005

Note 27 — Director and Executive Disclosures (continued)

Remuneration of Directors and Executives (continued)

(b) Details of Remuneration (continued)

Table 2(b): Remuneration of the Chief Executive and Managing Director and Senior Executives who report directly to him for the year ending 30 June 2004

2004	Primary Benefits: Cash Salary	Primary Benefits: Cash Bonus Receivable	Non-monetary Benefits	Post Employment: Superannuation Expense	Total
	$	$	$	$	$
Name					
Mr Grant Every-Burns	274,991	154,880	13,436	60,000	503,307
Mr David Ipkendanz	132,600	53,500	41,658	39,294	267,052
Russell Skelton	107,846	72,600	20,584	91,140	292,170
John Neely	101,841	54,600	17,045	79,200	252,686
John Marcheff	166,222	49,625	15,571	16,345	247,763
Stephen Ireland	155,800	81,500	13,046	20,248	270,594
Total Executive Remuneration	939,300	466,705	121,340	306,227	1,833,572

The 2004 Cash Bonus Receivable was earned during the year ending 30 June 2004 and was paid during the year ending 30 June 2005.

(c) Additional Shareholder Disclosures

The additional details requiring disclosure in compliance with New South Wales Treasury Circular NSW TC 00/24 Annual Reporting Requirements – Executive Remuneration are as follows.

For the purposes of this note, Executive Officers are defined consistent with the Corporations Act 2001 and includes those Officers who take part in the management of Macquarie Generation and are employed under a performance based employment contract.

The number of Executive Officers with remuneration (excluding incentive payments) equal to or exceeding the equivalent of Senior Executive Service (SES) Level 1 ($127,400 for the year ending 30 June 2005) at the end of the reporting period was 12 (2004 – 13).

The number of Executive Officer positions equal to or exceeding SES Level 1 filled by women in the current year was nil (2004 – nil).

End of Audited Financial Statements

Directors' Declaration

Pursuant to Section 41C of the Public Finance and Audit Act, 1983, we state that in the opinion of the Directors of Macquarie Generation:

(a) the accompanying Financial Statements and notes comprise a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards, the State Owned Corporations Act, 1989, the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000, and mandatory professional reporting requirements and give a true and fair view of the Corporation's financial position as at 30 June 2005 and its performance for the year ended on that date;

(b) at the date of this statement, there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable;

(c) we are not aware of any circumstances at the date of this declaration that would render any particulars included in the financial report to be misleading or inaccurate.

This declaration is made in accordance with a resolution of the Directors.

H E REES
CHAIRMAN

G V EVERY-BURNS
CHIEF EXECUTIVE AND MANAGING DIRECTOR

19 August 2005

Independent Audit Report

AUDITOR-GENERAL
NEW SOUTH WALES

GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

MACQUARIE GENERATION

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of Macquarie Generation:

(a) presents fairly the Corporation's financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and

(b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

The opinion should be read in conjunction with the rest of this report.

The Board's Role

The financial report is the responsibility of the members of the Board of Macquarie Generation. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Board in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does not guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that Board members had failed in their reporting obligations.

My opinion does not provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable professional independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

R J Sendt
Auditor-General

SYDNEY
19 August 2005

Charter and Legislation

Macquarie Generation is a statutory State Owned Corporation, in accordance with the State Owned Corporations Act 1989. It was constituted on 1 March 1996 under the Energy Services Corporations Act 1995 as an electricity generator.

Section 8 of the State Owned Corporations Act 1989 sets out the principal objectives of State Owned Corporations while the Energy Services Corporations Act 1995, Part 2 Section 5 sets out the principal objectives of electricity generators.

Corporate Governance Framework

The Board of Directors and Management of Macquarie Generation are committed to achieving and demonstrating high standards of corporate governance.

The Board has assessed the Corporation's governance framework against the governance principles released by the ASX Corporate Governance Council in March 2003 and against best practice guidelines provided by the Audit Office of New South Wales.

The Corporation's governance framework is largely consistent with the principles and guidelines.

The relationship between the Board and Management is important to the Corporation's long term success. Day to day management of the Corporation's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives as set out in the Corporation's delegations policy. These delegations are reviewed on an annual basis.

The Directors are responsible to the Shareholders for the performance of the Corporation in both the short and the longer term. Their focus is to enhance the interests of Shareholders and other key stakeholders and to ensure the Corporation is efficiently managed.

A description of the Corporation's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

The Board of Directors

The Board operates in accordance with the governing legislation and the Corporation's Memorandum and Articles of Association. The Board has developed a formal Charter for its role and responsibilities which is available from the corporate governance information section of the Corporation's web site.

Board Composition

The Board comprises six Non-executive Directors and one Executive Director. Non-executive Directors bring an external perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of Management.

In recognition of the importance of independent views and the Board's role in supervising the activities of Management, the Chairman is an independent Non-executive Director.

The Chairman is nominated by the Shareholders and meets regularly with the Managing Director.

The Corporation has a mix of Directors on the Board from different backgrounds with complementary skills and experience.

The Board undertakes periodic assessments of the performance of the Board in order to ensure maximum contribution to the strategic management and governance of the Corporation.

Responsibilities

The responsibilities of the Board include:

- Contributing to the development of and approving the corporate strategy.
- Reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives.
- Overseeing and monitoring:
  - organisational performance and the achievement of the Corporation's strategic goals and objectives,
  - compliance with the Corporation's Code of Conduct, and
  - progress of major capital expenditures and other significant corporate projects.
- Monitoring financial performance including approval of the annual and half-yearly financial reports and liaison with the Corporation's internal and external auditors through the Board Audit and Assurance Committee.

Corporate Governance Statement 2005

Responsibilities (continued)

- Appointment, performance assessment and, if necessary, removal of the Managing Director, allowing for consultation with the Shareholders.
- Ratifying the appointment, removal and performance assessment of the members of the senior management team.
- Reviewing and approving the remuneration and performance incentive arrangements for the Managing Director and the senior executive team.
- Ensuring there are effective management processes in place and approving major corporate initiatives.
- Enhancing and protecting the reputation of the Corporation.
- Ensuring the significant risks facing the Corporation, including those associated with its legal compliance obligations, have been identified and appropriate and adequate control, monitoring, accountability and reporting mechanisms are in place.
- Reporting to Shareholders on the operation of the Corporation.

Board Members

Details of the members of the Board including their experience, expertise, qualifications, term of office and independent status are set out in the Directors' Report.

The Directors in office were considered and nominated by the Shareholders based on the skills and experience they could bring to Board deliberations on current and emerging issues. The Shareholders set the term of office of each Director and consult with the Chairman on Director appointments.

Chairman and Chief Executive

The Chairman is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring Directors are properly briefed for meetings. The Board delegates to the Chief Executive and Managing Director responsibility for implementing strategic direction and for managing the day to day operations of the Corporation. The Chief Executive and Managing Director consults with the Chairman, in the first place, on matters which are sensitive, extraordinary or of a strategic nature.

Commitment

The Board held eleven board meetings and one corporate strategy session during the year. Two of those meetings were held at operational sites of the Corporation.

The number of meetings of the Corporation's Board of Directors and of each Board Committee held during the year ended 30 June 2005, and the number of meetings attended by each Director is disclosed on page 4 of the Directors' Report.

It is the Corporation's practice to allow its Managing Director to accept appointments outside the Corporation with the prior written approval of the Board. Two new appointments of this nature were accepted during the year ended 30 June 2005.

During the year ended 30 June 2005 the Chief Executive and Managing Director accepted an appointment as a Director of the Energy Supply Association of Australia Ltd and as a Director of National Generators Forum Limited. He is also a member of the NEMMCO Participant Advisory Committee.

During the year ended 30 June 2005 the Chief Executive and Managing Director completed terms as Chairman of the NEMMCO Participant Advisory Committee and Deputy Chairman of the National Generators Forum Limited.

Conflict of Interests

The Corporation did not enter into any contracts during the financial year with entities in which Directors declared a conflict of interest.

Directors and Board Committees have the right, in connection with their duties and responsibilities, to seek reasonable independent professional advice at the Corporation's expense.

Corporate Reporting

The Chief Executive and Managing Director and Chief Financial Officer and Company Secretary have made the following certifications to the Board:

- that the Corporation's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Corporation and are in accordance with applicable Accounting Standards;
- that the above statement is founded on a sound system of internal control and risk management which implements the policies adopted by the Board and that the Corporation's risk management and internal control is operating efficiently and effectively in all material respects; and
- there have been no significant environmental incidents during the year.

Board Committees

The Board has established Committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current Committees of the Board are the Audit and Assurance Committee and the Remuneration and Human Resources Committee. Each is comprised entirely of Non-executive Directors. The Committees' structure and membership is reviewed on an annual basis.

The Board also forms other Committees on a needs basis to address specific issues. In the past a Legal Affairs Committee and a Strategic Issues Management Committee have operated.

Each of the Committees has its own written Charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate. The Charters for the Committees are available on the corporate governance section of the Corporation's web site.

Matters determined by Committees are submitted to the full Board as recommendations for Board decision and minutes of Committee meetings are made available to all members of the Board for information.

Board Remuneration and Human Resources Committee

The Board Remuneration and Human Resources Committee consists of the following Non-executive Directors:

Anna Buduls (Chairman)
John Cahill
James Watt
The Hon. Robert Webster

The Board Remuneration and Human Resources Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for the Chief Executive and Managing Director and other senior executives. Committee members receive regular input from an external remuneration expert on recent developments on remuneration and related matters.

Executive remuneration and other terms of employment are reviewed annually by the Committee having regard to personal and corporate performance, contribution to long term business growth, relevant comparative information and independent expert advice.

The Committee also ensures that the key performance targets contained within the remuneration packages of the Chief Executive and Managing Director and other senior executives are closely aligned to the Shareholders' objectives. The key performance targets are based on specific stretching targets derived from the annual Business Plan relating to corporate profit improvement, short term and long term cost reductions, business growth and personal development.

As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, and fringe benefits.

Further information on the Remuneration of Directors and Executives is set out in Note 27 to the Financial Statements.

The Committee has oversight responsibility for Management succession planning, including the implementation of appropriate executive development programs.

Corporate Governance Statement 2005

Board Audit and Assurance Committee

The Board Audit and Assurance Committee consists of the following Non-executive Directors:

James Watt (Chairman)
Anna Buduls
Deborah Page

The Board Audit and Assurance Committee has appropriate financial expertise and all members have a working knowledge of the industry in which the Corporation operates.

The main responsibilities of the Committee are to review and assess financial reports, monitor the performance of the Corporation's internal control systems, ensure that internal and external audit plans address areas of high operational and financial risk, oversee the effective operation of the Enterprise Risk Management framework, recommend the appointment and remuneration of the Internal Auditor, monitor the performance of the Corporation's auditors and review and monitor related party transactions.

In fulfiling its responsibilities, the Audit and Assurance Committee receives regular reports from Management and the Internal and External Auditors and requires the Chief Executive and Managing Director and Chief Financial Officer and Company Secretary to state in writing to the Board that the Corporation's financial reports present a true and fair view, in all material respects, of the Corporation's financial condition, operational results and are in accordance with relevant accounting standards.

The Board Audit and Assurance Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External Auditors

The Audit Office of New South Wales is appointed by New South Wales Parliament as the Corporation's external auditors. The Audit Office of New South Wales complies with all professional independence requirements. Fees paid to the external auditors are provided at Note 3 to the Financial Statements.

Risk Assessment, Internal Control and Management Reporting

The Board is responsible for ensuring there are adequate policies in relation to risk oversight and management, and internal control systems. In summary, the Corporation's policies are designed to ensure strategic, operational, occupational health and safety, legal, environmental, reputation and financial risks are identified, assessed, addressed and monitored to enable achievement of the Corporation's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisational structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

The Corporation has contracted for the provision of an effective internal audit function. PricewaterhouseCoopers provided this service until 31 December 2004. Following a selective tender process Ernst & Young was appointed as Internal Auditor for a three year period commencing in January 2005.

The Board Audit and Assurance Committee receives status reports from the Internal Auditor at most meetings of the Committee to ensure that a strong internal control environment is being maintained and appropriate follow up action is taken by Management.

The Board receives reports from Management at each meeting of the Board on compliance with Risk Management Policies and material financial and operational risks that may impede meeting business objectives.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues.

Corporate Governance Statement 2005

Risk Assessment, Internal Control and Management Reporting (continued)

The Chief Financial Officer and Company Secretary consolidates the business unit reports from each member of the Executive for the annual corporate strategy process, which includes sessions attended by the Board and senior management. The strategy planning sessions review the Corporation's strategic direction and business plan in detail, and include specific focus on the identification of the key business, operational and financial risks which could prevent the Corporation from achieving its objectives.

In addition the Board requires that each major proposal submitted to the Board for decision be accompanied by a comprehensive risk assessment and evaluation, and where required, Management's proposed mitigation strategies. Following implementation and operation, Management is required to complete post implementation evaluations on major projects and to report outcomes to the Board.

The Board monitors the operational and financial performance of the Corporation against budget and other key performance measures through monthly management reports received from each member of the Executive.

Executive Committees

The management of business risk is conducted through Management Committees covering the following areas:

- Executive
- Energy Trading
- Environment
- Occupational, Health and Safety
- Generation Development

All of these Committees have formal Charters setting out responsibility and authority.

In addition to the above Committees, working Committees have been formed to address the following major issues:

- Australian equivalents to International Financial Reporting Standards Implementation
- Budget Review
- Information Technology

Code of Conduct

The Corporation has developed a formal Code of Conduct, which applies to all Directors and employees. The Code covers fairness and equity, confidentiality, the use of corporate resources, acceptance of gifts and benefits, conflicts of interests, corrupt conduct and accountability.

The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Corporation's integrity.

Continuous Disclosure and Shareholder Communication

Management is responsible for ensuring compliance with the continuous disclosure requirements to the Shareholders and overseeing and coordinating information disclosure to the Shareholders' representatives, the New South Wales Treasury.

The Shareholders and officers of New South Wales Treasury receive a copy of the Corporation's yearly and half-yearly financial reports which are lodged in Parliament on or near 30 November and 28 February each year respectively.

Statutory Information

Senior Management Team

Title	Name and Qualification	Executive Committee Representation
Chief Executive and Managing Director	Mr Grant Every-Burns BE(Hons) FAICD	1,2,4,5,6
Chief Financial Officer and Company Secretary (8)	Mr David Ipkendanz BEc DipEd FCPA	1,3,4,6,7
Manager Bayswater (8)	Mr John Neely BSc(Eng)	1,2,3,5,6
Manager Liddell (8) (9)	Mr John Marcheff BE	1,2,3,5,6
	Mr Peter Sewell BSc(Eng) MEM	1,2,3,5,6
Manager Human Resources (8)	Mr Colin Peebles Cert Teach MAHRI AFAIM	1,3,5
Manager Marketing and Trading (8)	Mr Russell Skelton BE	1,3,4,7
Manager Fuel and Environment (8)	Mr Steve Ireland BE BLegS	1,2,7

Notes:

1. Reflects membership of Executive Committee
2. Executive Environment Committee
3. Executive Information Technology Governance Committee
4. Executive Trading Committee
5. Executive Occupational, Health and Safety Committee
6. Executive Budget Review Committee
7. Generation Development Committee
8. Direct report to the Chief Executive
9. Mr John Marcheff went on Long Service Leave on 11 March 2005 and retired as Manager Liddell Power Station on 7 July 2005. Mr Peter Sewell was appointed as Manager Liddell Power Station effective from 14 March 2005.

Annual Report Costs

Macquarie Generation's Annual Report fulfils dual roles as a marketing tool and vehicle for the disclosure of statutory information. The total external costs (including consultants and printing costs) incurred in the production of the annual report was $35,651.00. The annual report is available on the Corporation's web site at www.macgen.com.au.

Chief and Senior Executive Officers

Macquarie Generation has not been included as a Declared Authority under Schedule 3 of the Public Sector Management Act 1988. Accordingly, Macquarie Generation senior managers are not members of the Government's Senior Executive Service (SES) and terms and conditions of their employment are set out in the Macquarie Generation Contract of Employment as disclosed in Note 27 of the Financial Statements.

Controlled Entities

Macquarie Generation has no controlled entities of the kind referred to in Section 39 (1A) of the Public Finance and Audit Act, 1983.

Statement of Corporate Intent

The State Owned Corporations Act, 1989 requires Macquarie Generation to identify and set out reasons for departures from the Performance Targets contained in the Statement of Corporate Intent.

The major departures from the Statement of Corporate Intent (SOCI) are reported in the following table.

	2004/2005 Actual ($m)	2004/2005 SOCI Target ($m)
Earnings Before Interest and Tax	244.5	264.2
Operating Profit before tax	166.8	173.9
Target Dividend	105.0	115.0

Macquarie Generation's performance is the outcome of improved revenue in the spot market in the first half of the year combined with low priced trading conditions in the second half of the year.

Equal Employment Opportunity (EEO)

As at 30 June 2005, Macquarie Generation's workforce comprised 604 employees (excluding casuals) including trainees and apprentices in the following categories by percentage of the total staff numbers:

Trends in the Representation of EEO Groups

EEO Group:	Government target	2005	2004	2003	2002
			% of Total Staff		
Women	50%	12%	12%	11%	11%
People identifying as Aboriginal or Torres Strait Islander	2%	1.2%	1.2%	1.2%	1%
People whose first language as a child was not English	20%	3%	3%	4%	4%
People with a disability	12%	9%	10%	10%	10%
People with a disability requiring adjustment in the workplace	7%	3.1%	3.2%	3.2%	3.2%

Trends in the Distribution of EEO Groups (Note 1)

EEO Group:	Benchmark or target	2005	2004	2003	2002
			Distribution Index		
Women	100	87	88	89	83
People identifying as Aboriginal or Torres Strait Islander	100	N/a	N/a	N/a	N/a
People whose first language as a child was not English	100	N/a	N/a	N/a	N/a
People with a disability	100	99	98	96	94
People with a disability requiring adjustment in the workplace	100	N/a	N/a	N/a	N/a

Notes:

1. A distribution index of 100 indicates that the centre of distribution of the EEO group across salary level is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for the other staff. The more pronounced this tendency is, the lower the index will be. The Distribution Index is determined from data included in Workforce Profile reporting.

Achievements during 2004/2005 and key strategies proposed for 2005/2006

Key activities promoting workforce equity and diversity during the 2004/2005 financial year included:

- Broadening flexible work options to meet employees' family responsibilities;
- Financial support to community groups supporting employment and other services to EEO groups;
- Workplace programs supporting and promoting equity and diversity principles;
- Survey of employee workplace experiences;
- Promoting and encouraging participation of EEO groups in traineeship programs;
- Identifying opportunities to introduce phased retirement options;
- Continuous improvement in EEO Data Collection; and
- Implement Equity and Diversity Plan 2005-2008.

Ethnic Affairs Priorities Statement

A formal Ethnic Affairs Priorities Statement applies in regard to the recognition of and appropriate support for cultural differences in the conduct of all business dealings.

Freedom of Information

Macquarie Generation received one request for release of information under the New South Wales Freedom of Information Act 1989 during the reporting period. In accordance with the provisions of the Act this request was declined as to disclose the information would cause commercial damage to the Corporation.

Funds Granted to Non-Government Community Organisations

Macquarie Generation donations and sponsorships during the reporting year to Hunter region community organisations totalled $273,780.

Overseas Visits

Name	Title	Country	Purpose
D. Ipkendanz	Chief Financial Officer and Company Secretary	United Kingdom/Singapore	Presentations and meetings with insurance underwriters
P.Sewell	Manager Liddell Power Station	United Kingdom	London Business School course attendance
F.Fetherston	Team Leader Turbines Bayswater Power Station	Japan	Turbine Engineers training course
B.Seriese	Information Systems Technology Specialist	United States of America	SAP Portal and Plumtree Portal course attendance
C.Duck	Performance and Controls Engineer Liddell Power Station	United States of America United Kingdom/Germany	Viewing new power generating technologies
S.Ireland	Manager Fuel and Environment	United States of America United Kingdom/Germany	Viewing new power generating technologies
C.Beacher	Professional Officer Turbines Bayswater Power Station	South Africa	Engineering Exchange Program (ESKOM)
M.Humble	Production Manager Liddell Power Station	Poland	HP/IP Heaters change over (ALSTROM)
J.Dyson	Production Manager Bayswater Power Station	United Kingdom	London Business School course attendance

Promotion

A variety of communication vehicles were produced to inform stakeholders of corporate activities during the reporting year as follows:

- Annual Report 2004;
- Awareness advertising, Rural Press Ltd (Upper Hunter TV Guide);
- Media releases, radio and TV interviews;
- Internet web site updates: www.macgen.com.au;
- Community Billboard, Radio 2NM; and
- Casual newspaper and magazine advertising.

Consultants' Fees

Consultants equal to or more than $30,000

Consultant	$ Cost	Nature
Finance, accounting and tax		
Deloitte Touche Tohmatsu	120,373	International Financial Reporting Standards accounting advice
ABN Amro	85,000	Electricity derivatives valuation advice
Fuel and Environment		
Trevor Hudson & Associates	39,590	Coal resource advice
Inteplan Pty Ltd	43,625	Rail services advice
State Water	45,960	Barnard River consulting
Sinclair Knight Merz	68,035	Coal advice
Connell Wagner	72,328	Alternative fuel consulting

Statutory Information

Consultants' Fees (continued)

Consultants equal to or more than $30,000 (continued)

Consultant	$ Cost	Nature
Fuel and Environment (continued)		
GA Brown & Associates	81,333	ISO 14001 compliance consulting
Marston International	82,065	Mine assessment advice
Katestone Environmental	84,748	New generation advice
Hunwick Consultants	159,569	General environmental advice
Marston & Marston Inc	173,335	Mine assessment advice
Information Technology		
Bearing Point Australia	30,000	IT services review
Record Keeping Innovation	30,473	Records Management consulting
Marketing and Trading		
Garrad Hassan Pacific	85,430	Wind development consultancy
Frontier Economics	87,511	Electricity Market advice
Training		
Foresight Management Group	42,750	Executive coaching program
Total consultancies equal to or more than $30,000	**1,332,125**	

Consultancies less than $30,000

During the financial year 44 other consultancies were engaged in the following areas:

Area	$ Cost
Finance, accounting and tax	93,776
Engineering	54,257
Information technology	3,020
Environmental	59,096
Marketing and Trading	192,453
Human Resources	62,018
Training	17,500
Total consultancies less than $30,000	**482,120**
Total consultancies per Note 3(a) to the Financial Statements	**1,814,245**

Contact Details

Macquarie Generation
Corporate Office
34 Griffiths Road
LAMBTON NSW 2299
AUSTRALIA

Postal Address
PO Box 3416
HAMILTON DC NSW 2303
AUSTRALIA

Telephone
61 2 4968 7499

Facsimile
61 2 4968 7489
61 2 4968 7433

Business Hours
8am–5pm Monday to Friday

Bayswater Power Station
Liddell Power Station
New England Highway,
MUSWELLBROOK NSW 2333
AUSTRALIA

Postal Address
Private Mail Bag 2
MUSWELLBROOK NSW 2333
AUSTRALIA

Bayswater Telephone
61 2 6542 0711

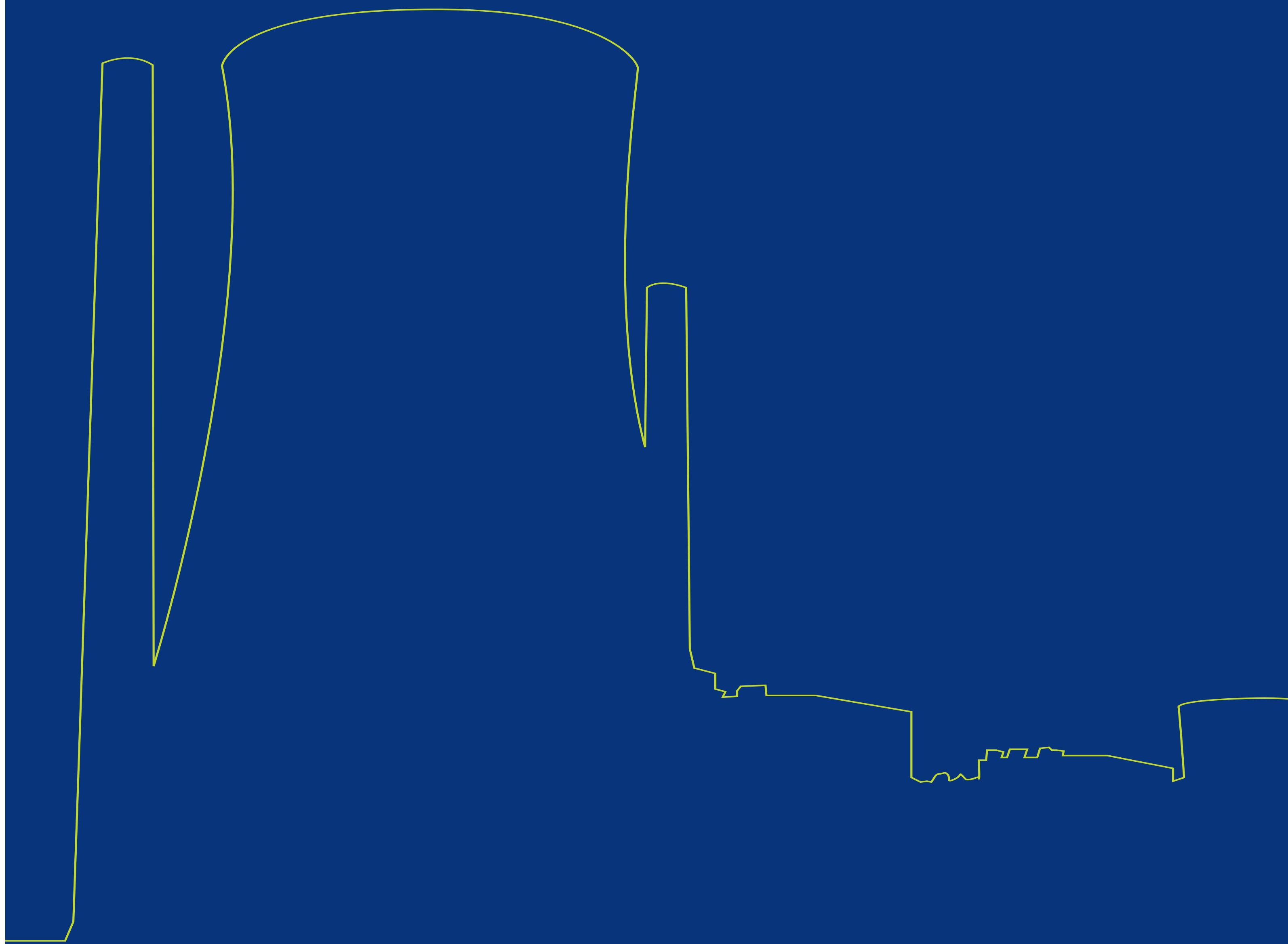
Liddell Telephone
61 2 6542 1611

Business Hours
Administration
8am–4pm Monday to Friday

Security and Operations
24 hours 7 days

Web site address
www.macgen.com.au

FOR THE PURPOSES OF THIS REPORT, THE YEAR 2005 REFERS TO THE FISCAL YEAR 1 JULY 2004 TO 30 JUNE 2005.



Macquarie Generation