Annual Report 2011

Macquarie Generation

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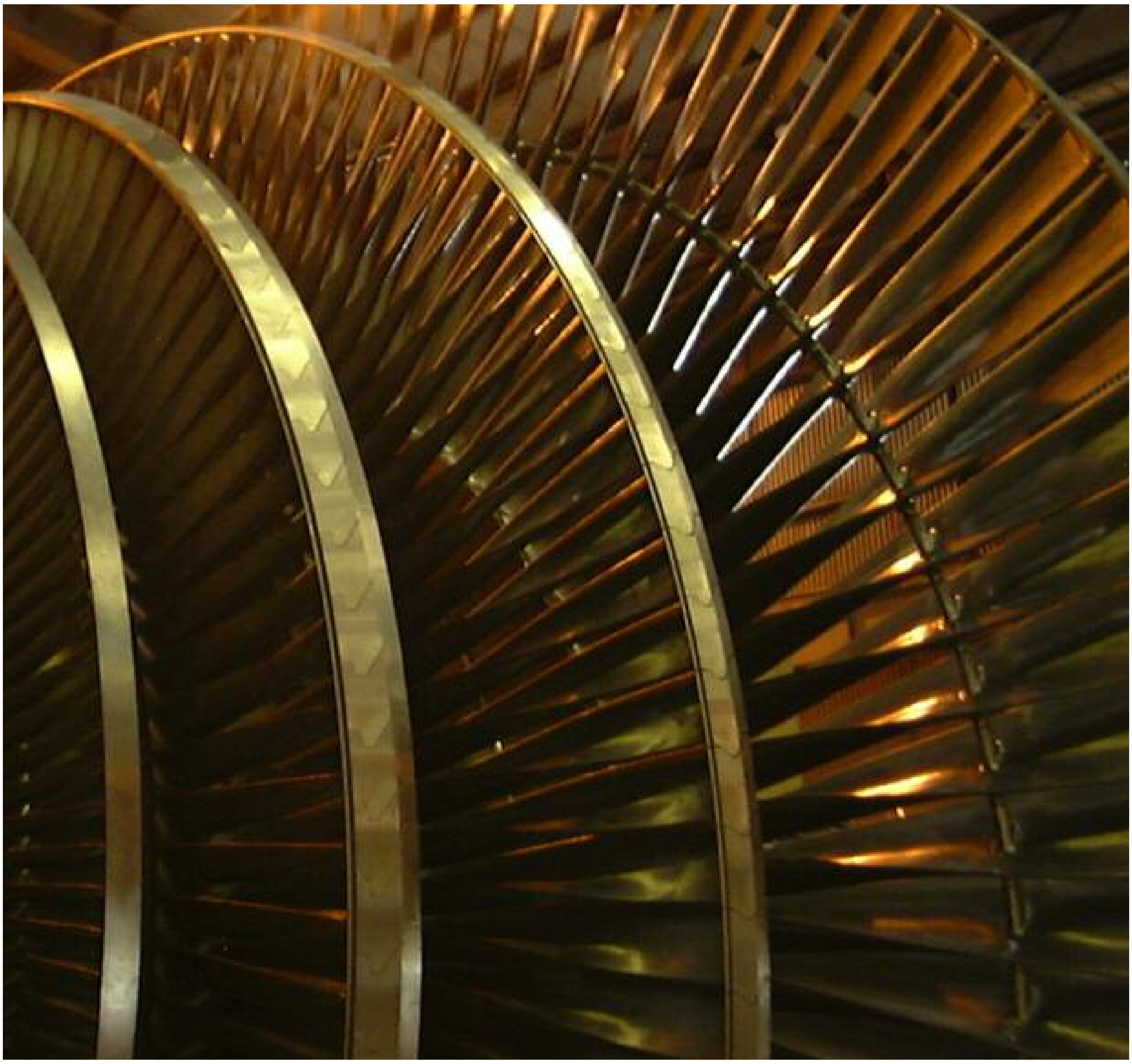



HELEN PAYNE

Letter To Shareholders

The Hon. Michael Baird
Treasurer

The Hon. Greg Pearce
Minister for Finance and Services

Parliament of New South Wales
Macquarie Street
SYDNEY NSW 2000

Dear Shareholders

It is with pleasure the Board of Macquarie Generation submits to the NSW Parliament the Corporation's Annual Report for the period 1 July 2010 to 30 June 2011.

The Report includes Consolidated Income Statements, the Consolidated Balance Sheets, the Consolidated Statements of Recognised Income and Expense and the Consolidated Cash Flow Statements, as audited by the Auditor-General of New South Wales.

The Report complies 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.

Lucio Di Bartolomeo
Chairman

Russell Skelton
Chief Executive and Managing Director

October 2011

About Macquarie Generation

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.

Macquarie Generation Values:

- Strong customer relationships
- Highly reliable production and services
- People with meaningful and rewarding jobs
- Safe workplaces
- Environmentally responsible operations
- Good corporate citizenship

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

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

Macquarie Generation operates under the *Energy Services Corporations Act 1995* and the *State Owned Corporations Act 1989*.

In 2010–2011, Macquarie Generation supplied 11.24% 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.

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

Within the power stations' precinct, approximately 9,000 hectares of former grazing land, 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 Hunter Valley mines and NSW western coalfield operations.

Both power stations are permitted under licence to co-fire biomass with coal at a maximum blend rate of 5%. Liddell is also permitted to co-fire recycled oil to a maximum blend rate of 5%.

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

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

At 30 June 2011, Macquarie Generation employed a total of 628 people, with 296 located at Bayswater Power Station, 263 located at Liddell Power Station and 69 at a corporate office in Newcastle.

Executive Management

Russell Skelton
Chief Executive and Managing Director

David Ipkendanz
Chief Financial Officer and Company Secretary

John Neely
General Manager Operations

Peter Sewell
Manager Liddell Power Station

Leisl Baumgartner
General Manager Corporate Affairs

Tim Allen
General Manager Marketing

Ray Durie
General Manager Fuel

Terryl Frazer
General Manager Human Resources

Lucio Di Bartolomeo *BE (Civil) MESc*
Chairman and Non-executive Director
Mr Di Bartolomeo was appointed Chairman of Macquarie Generation on 14 August 2009 for a three year term ending on 13 August 2012. Mr Di Bartolomeo is a member of the Board Remuneration and Human Resources Committee.

Deborah Page *AM FCA MAICD BEc*
Non-executive Director
Mrs Page was appointed Director of Macquarie Generation on 1 March 2000. Mrs Page is the Chair of the Board Audit and Assurance Committee. Mrs Page was reappointed as a Director on 1 March 2009 for the period ending on 31 August 2011.

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 15 November 2009 for a two year period ending 14 November 2011.

Phil Arnall *BCom (Accounting)*
Non-executive Director
Mr Arnall was appointed as a Director of Macquarie Generation on 24 April 2009 for a three year period ending on 23 April 2012. Mr Arnall is a member of the Board Audit and Assurance Committee and is the Chairman of the Board Remuneration and Human Resources Committee.

James Evans *BEc CPA FFIN FAICD*
Non-executive Director
Mr Evans was appointed Director of Macquarie Generation on 1 July 2010 for a three year period ending 30 June 2013. Mr Evans is a member of the Board Audit and Assurance Committee.

Ron Finlay *LLB*
Non-executive Director
Mr Finlay was appointed as a Director of Macquarie Generation on 1 July 2010 for a three year period ending on 30 June 2013. Mr Finlay is as a member of the Board Remuneration and Human Resources Committee.

Russell Skelton *BE (Mech)*
Chief Executive and Managing Director
Mr Skelton was appointed as Chief Executive on 1 March 2011 and Managing Director on 20 May 2011.

David Ipkendanz *Dip Ed BEc FCPA*
Company Secretary
Mr Ipkendanz was appointed to the position of Chief Financial Officer and Company Secretary in 1996.

Bayswater and Liddell use approximately 12 million tonnes of black coal each year

Coal is delivered by overland conveyor from Hunter Valley mines, and by rail from Western NSW mines

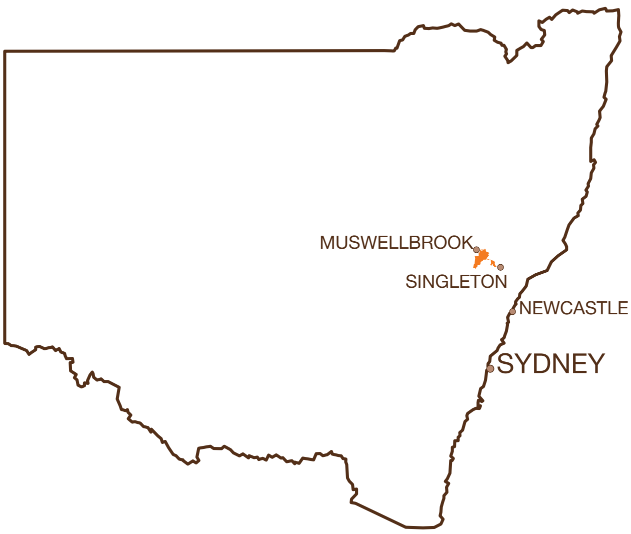
Long term economic supply contracts place Macquarie Generation amongst the lowest cost electricity generators in the country

Mark Southcombe
Engineering Officer Fuel

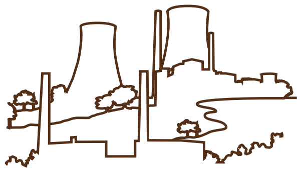
Location Map

BAYSWATER POWER STATION
2640 MW capacity
Operating since 1985
Produces 25% of electricity used in NSW
2010-2011 production of 13,661 GWh

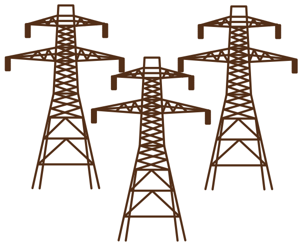
LIDDELL POWER STATION
2000 MW capacity
Operating since 1971
Produces 15% of electricity used in NSW
2010-2011 Production of 7,763 GWh



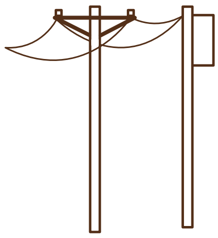
KEY TO MAP
Macquarie Generation Landholding



Power Stations like Liddell and
Bayswater generate electricity



Transmission towers carry the electricity
around the country



Power lines carry the electricity
to consumers

Electricity is used in homes, schools, hospitals
and businesses for lighting and appliances

Liddell Power Station has now been in operation for 40 years

After system upgrades and technology improvements over recent years, Liddell is now more productive and cleaner than when first built

Liddell produces approximately 15% of the electricity used in NSW

Margaret Pemberton

Power Worker Liddell

While it has been a difficult 12 months, Macquarie Generation has had another successful year of operation. We have maintained an outstanding safety record and achieved high levels of power station availability.

2010–2011 has been a tough year for the power sector. As the electricity market restructures, demand has been flattening. Carbon has also become a growing issue during this transitional phase.

While it has been a difficult 12 months, Macquarie Generation has had another successful year of operation. We have maintained an outstanding safety record and achieved high levels of power station availability.

Liddell and Bayswater Power Stations remain among Australia's low cost producers of base load electricity, and are a foundation of the NSW economy and quality of life enjoyed by the people of NSW.

Financial and Market Performance

The 2010–11 year was subdued in the National Electricity Market, due in part to the Global Financial Crisis.

The combination of rising retail electricity prices, demand management initiatives, renewable energy incentives and continued economic downturn has created a challenging business environment for electricity generation companies. A number of new generation projects have also been commissioned in recent years, creating a surplus of supply, at a time when demand growth is falling.

These conditions have muted the wholesale electricity market, therefore reducing volatility and limiting high price opportunities for generators.

Despite this difficult environment, the Corporation has continued to return pleasing financial results. Notwithstanding the electricity market's transition, the Corporation has been able to maintain sales revenue over $1 billion each year.

Other financial highlights include:

- Earnings before interest and tax of $228.1 million
- Net profit before tax of $178.1 million
- Net profit after tax of $125.7 million
- Total expenses decreased by 8.8%

Debt levels have remained steady and capital expenditure decreased by 42.2% due to the completion of a number of large projects during the previous financial year.

The Corporation was particularly pleased to have negotiated an extension to the supply contract with Tomago Aluminium during 2010-11. This contract secures Macquarie Generation's largest electricity customer until 2028 and ensures the continued operation of one of the Hunter region's largest employers.

A further challenge emerged during the year as a result of NSW's energy reform strategy. Following the sale of the NSW retail businesses and gentrader contracts for Eraring Energy and part of Delta Electricity, Macquarie Generation is left as one of only two merchant generators in the NSW electricity network. This has placed the Corporation in competition with mostly privately owned, vertically integrated companies who enjoy greater flexibility, access to a range of fuel types and avenues for revenue.

People and Safety

One of our most valuable assets is our people. Macquarie Generation is fortunate to have a committed and professional workforce.

As our workforce continues to age, and the job market becomes increasingly competitive, we face the challenge of attracting and retaining new employees. For this reason we are maintaining a strategy of providing employment and training opportunities for young people. The Corporation is now the largest employer of apprentices in the Upper Hunter and a sought after host for administration traineeship positions. We are also offering a range of scholarship and vacation employment opportunities to undergraduates.

Liddell and Bayswater Power Stations remain among Australia's low cost producers of base load electricity, and are a foundation of the NSW economy and quality of life enjoyed by the people of NSW.

In recent years Macquarie Generation has made significant strides forward in addressing staff safety. We have committed to a zero harm and zero injury workplace, and in recent years have established a reputation as an industry leader in safety. We are pleased to have maintained AS4801 certification for our Safety Management System this year.

This step change in safety results has come about thanks to staff commitment to changed work practices. While the Corporation's trend has been improving safety results, there were unfortunately three lost time injuries this year. Liddell however achieved another record period without a lost time injury, 1,397 days, and Bayswater has maintained a strong record. Our congratulations and thanks to all employees for their hard work in safety, and their commitment to looking after themselves, and looking out for each other.

Towards the end of the financial year, and in response to the recent changes in the National Electricity Market the Corporation commenced a process of management restructuring at an Executive and Operations level. Aimed at bringing the engineering and station maintenance processes and functions together across Liddell and Bayswater, the restructure will better utilise knowledge and resources for the benefit of the whole Corporation.

Fuel Management

Macquarie Generation has long held the position as the lowest cost generator in NSW. This is primarily a result of successfully negotiated long term coal supply contracts which have isolated the Corporation from the fluctuating and volatile export coal market.

As a further part of the Corporation's fuel security strategy, additional stockpile resources have been accumulated and facilities constructed at both Liddell and Bayswater to accommodate increased coal storage on site.

Environmental Performance

The Corporation remains committed to ISO 14001 certification for our Environmental Management System. We are pleased to have achieved an excellent environmental performance record again this year in complete compliance with our operational licence conditions.

A Challenging Future

The Federal Government has announced details of Australia's carbon pricing mechanism to commence from 1 July 2012. While the final design of the carbon pricing mechanism is yet to be legislated, it is clear it will have an impact on profitability and hence the valuation of assets, and potentially the lives of Liddell and Bayswater Power Stations. As a State Owned Corporation, every NSW taxpayer has a direct stake in the success of Macquarie Generation. It is for this reason that we are concerned about the carbon pricing scheme.

As a result of the Scheme, Macquarie Generation will incur a substantial financial loss. However unlike many other businesses covered by the Scheme, we are not eligible for any compensation or assistance. The impact on us will therefore be immediate and damaging.

Since 1996, Macquarie Generation has paid over $2.5 billion to the NSW Government primarily through dividends and tax equivalents. This year we returned $130 million in dividends. From the start of the Scheme in 2012, the carbon price is expected to erode profits, significantly reducing future dividends as a result.

The Corporation accepts that it will face a much more difficult time competing in the National Electricity Market when the carbon scheme starts. However we find it difficult to understand why NSW should wear such a significant cost when many of our privately owned competitors will receive compensation.

As our country and economy enters
a period of transition, reform and restructure,
we remain committed to operating a business
that is profitable, reliable and efficient for the
NSW Government and the people of NSW.

In Conclusion

We would like to record our great appreciation and thanks to the employees of Macquarie Generation, for keeping Liddell and Bayswater operating, keeping our financial, commercial and administrative systems working, and providing the people of NSW with a reliable and secure electricity supply. Congratulations on another great year of service in our industry.

Our thanks also to the Executive team and Board, who over the last 12 months have shared their experience, knowledge and vision to the benefit of the organisation and industry.

We particularly want to thank Peter Sewell who retired recently as Manager of Liddell Power Station. Peter worked as Production Manager of Bayswater for many years, and then presided over Liddell achieving both record safety achievements and record levels of production. We wish Peter well for his retirement.

We wish to also acknowledge Grant Every-Burns. Grant was the Chief Executive and Managing Director of Macquarie Generation since its inception in 1996 until his retirement in February 2011. Grant led the organisation during the critical formation period, and worked with the Board to establish the highest levels of good governance and practice at Macquarie Generation. During Grant's tenure, the Corporation substantially improved its coal cost and provided the catalyst for the development of a number of major coal resources in the Hunter Valley and elsewhere. We thank Grant for his leadership and dedication and wish him well in his retirement.

We would also like to acknowledge the contribution of Deborah Page who served on the Board from March 2000 to August 2011. During all of that time, Deborah served on the Board Audit and Assurance Committee and from March 2006 was the Chairman of that Committee. Deborah provided guidance and governance in consideration of treasury and energy trading policy and, importantly, helped steer the Corporation through the harmonisation of Australian Accounting Standards and the adoption of fair value accounting.

As our country and economy enters a period of transition, reform and restructure, we remain committed to operating a business that is profitable, reliable and efficient for the NSW Government and the people of NSW.

A reliable and secure electricity supply is vital for a strong and resilient economy. Regardless of future challenges, constraints, regulatory environments and business conditions, Liddell and Bayswater Power Stations must have a strong future, and we will continue to work towards this goal.

Lucio Di Bartolomeo
Chairman

Russell Skelton
Chief Executive and Managing Director

October 2011

Kiera Howard

Human Resources Officer

Macquarie Generation has a committed professional workforce and comparatively low turnover

The Corporation is now the largest employer of apprentices in the Upper Hunter

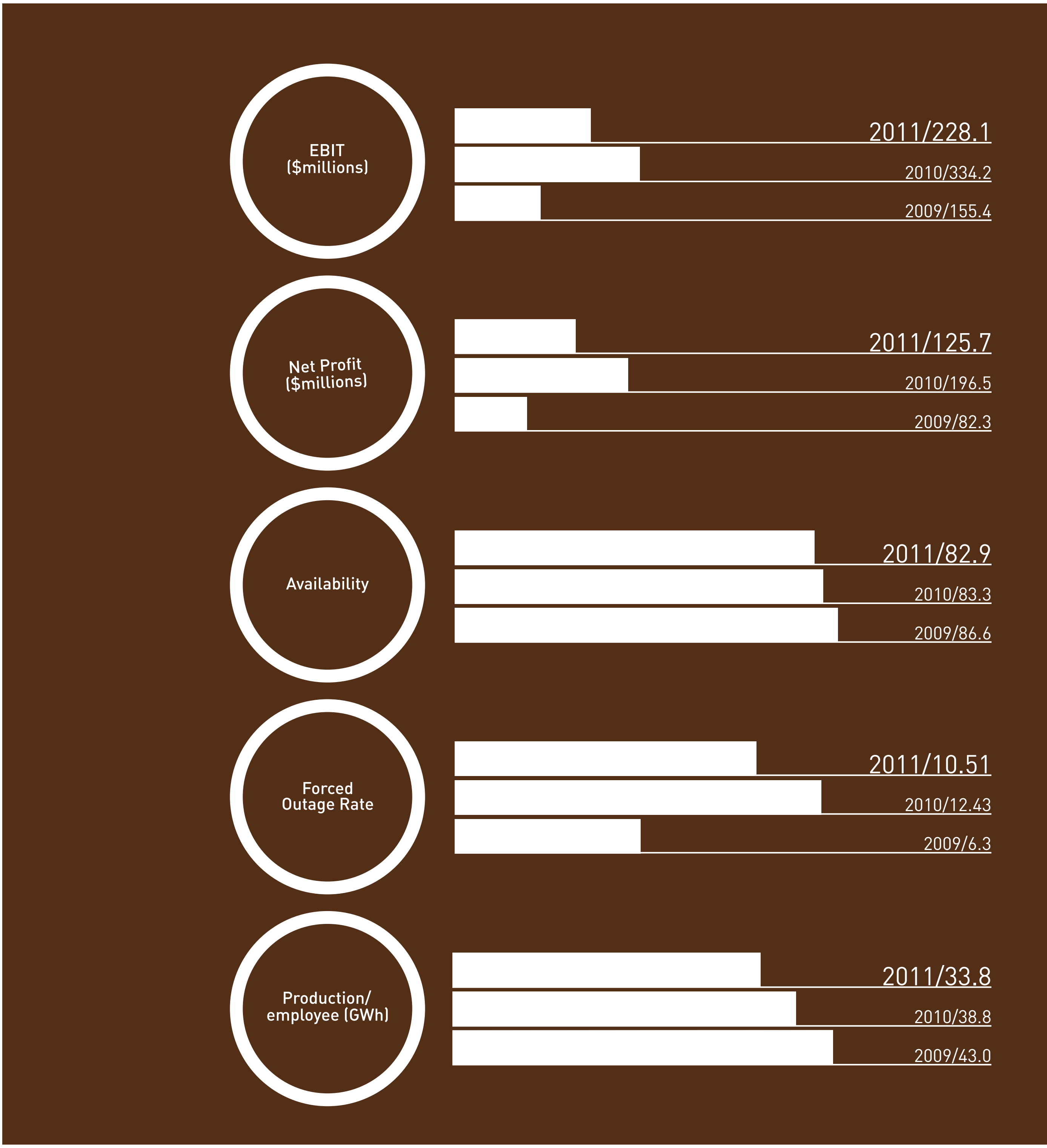
We are also a valued host employer for traineeships, and significant contributor to the skills base of the Hunter Region

A summary of Macquarie Generation's Consolidated Financial Performance from 1 July 2010 to 30 June 2011.

	Consolidated		
	2011	2010	% Change
Income Statement ($ millions)			
Revenue excluding interest	1,003.5	1,155.5	(13.2)
Other income	2.2	1.8	22.2
Fair value gains (losses) on electricity derivative financial instruments	0.3	12.6	(97.6)
Fair value gains (losses) on other derivative financial instruments	0.1	(1.6)	(106.3)
Expenses excluding depreciation	(609.0)	(667.4)	(8.8)
Earnings before depreciation, interest and tax and after fair value movements in derivative financial instruments	397.1	500.9	(20.7)
Depreciation expense	(169.0)	(166.7)	1.4
Earnings before interest and tax and after fair value movements in derivative financial instruments (EBIT)	228.1	334.2	(31.7)
Net finance costs	(50.0)	(54.3)	(7.9)
Profit before income tax expense	178.1	279.9	(36.4)
Income tax expense	(52.4)	(83.4)	(37.2)
PROFIT FOR THE YEAR	125.7	196.5	(36.0)
Cash Flow Statement ($ millions)			
Net cash inflows from operating activities (excluding net finance costs)	261.9	356.1	(26.5)
Capital expenditure	(25.8)	(44.6)	(42.2)
Dividends paid	(189.8)	(150.0)	26.5
Income tax paid	(118.8)	(115.4)	3.0
Balance Sheet ($ millions)			
Total Assets	4,033.7	4,112.4	(1.9)
Total Borrowings	823.4	821.6	0.2
Total Equity	1,863.6	1,880.3	(0.9)
Dividend provided	130.0	189.8	(31.5)
Financial Statistics			
EBIT to Revenue (%)	22.7	28.9	(21.4)
EBIT to Total Assets (%)	5.7	8.1	(30.4)
Debt to Equity (%)	44.2	43.7	1.1
Interest Cover (times)	4.6	6.2	(25.9)
Return (before tax) on Equity (%)	9.6	14.9	(35.8)
Return (after tax) on Equity (%)	6.7	10.5	(35.8)
Operating Statistics			
EBIT per average employee ($ 000's)	363.5	531.3	(31.6)
Equivalent forced outage (%)	10.5	12.4	(15.4)
Availability (%)	82.9	83.3	(0.5)
Production per average employee (GWh)	33.8	38.8	(12.9)

- The Financial Report includes the Financial Statements for Macquarie Generation and the Consolidated Entity consisting of Macquarie Generation and its wholly owned subsidiary Midwest Development Corporation Pty Limited.
- Revenue, excluding interest income, decreased by 13.2% to $1,003.5 million. Market conditions during 2010/2011 financial year were generally subdued due to significantly reduced demand, the availability of adequate generation supply and mild weather resulting in lower pool prices.
- Total Expenses excluding depreciation and fair value losses on Derivative Financial Instruments decreased by 8.8% due mainly to fuel cost savings as a result of lower production.
- Earnings Before Interest And Tax (EBIT), after allowing for fair value changes in financial instruments in the year ended June 2011, decreased from $334.2 million to $228.1 million.
- Net finance costs decreased by 7.9% from $54.3 million to $50.0 million due mainly to increased interest revenue earned on higher average cash balances.
- Debt levels remained steady.
- Net Profit Before Tax decreased by 36.4% to $178.1 million due mainly to the subdued market conditions as a result of significantly reduced demand, the availability of adequate generation supply and mild weather resulting in lower pool prices.
- Net Profit After Tax decreased by 36.0% to $125.7 million as a result.
- Capital expenditure decreased by 42.2% from $44.6 million to $25.8 million due mainly to the completion of a number of large projects during the previous financial year.
- Dividends provided are $130.0 million and will be paid during the 2011/2012 year.
- The Corporation paid income tax of $118.8 million to the Office of State Revenue during the financial year.
- The Corporation has income tax refundable of $3.2 million in relation to the 2010/2011 year as disclosed in Note 5(d) of the Financial Statements, which will be received during the 2011/2012 year.
- The Corporation maintained excellent safety performance with only three lost time injuries during the financial year.
- As disclosed in Note 34 of the Financial Statements the Federal Government announced details of Australia's carbon pricing mechanism to commence from 1 July 2012. The final design of the carbon pricing mechanism is yet to be legislated but may have a significant impact on the valuation of assets, profitability and estimated useful lives of the infrastructure assets of Macquarie Generation.

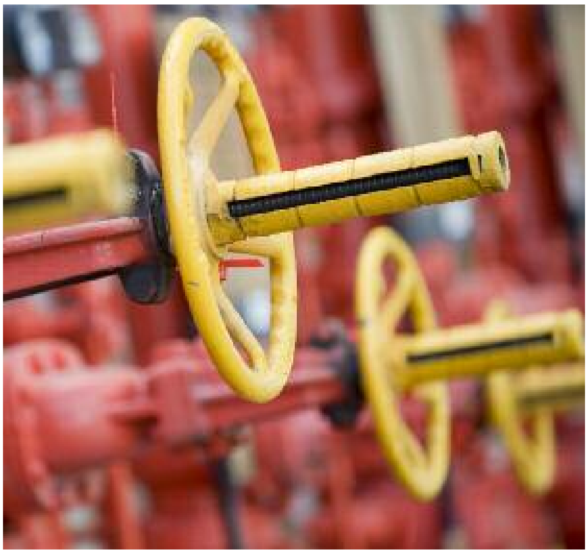
Performance Highlights



PROFIT OF $126 MILLION

2010-2011 REVENUE OVER $1 BILLION

TOTAL EXPENSES DOWN BY 9%

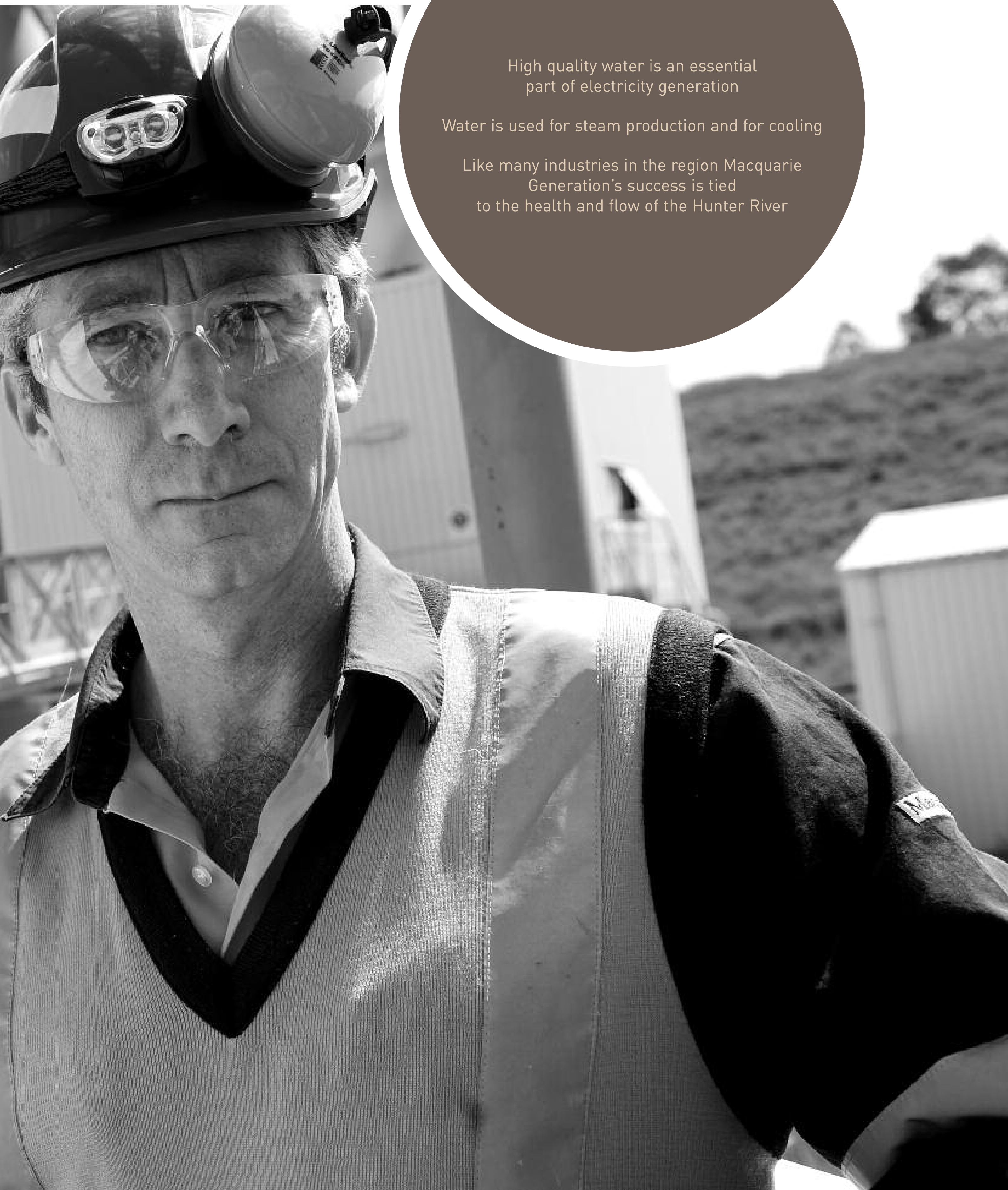


Kieran Scott
Team Leader Water

High quality water is an essential
part of electricity generation

Water is used for steam production and for cooling

Like many industries in the region Macquarie
Generation's success is tied
to the health and flow of the Hunter River



Protection of the environment is an essential part of our business. Our objective is to comply with all applicable legal requirements and other requirements to which we subscribe, in a commercially effective way, which is consistent with community expectations.

Environment Policy

Macquarie Generation produces electricity from the operation of Bayswater and Liddell coal fired power stations within the upper Hunter Valley of New South Wales.

Protection of the environment is an essential part of our business. Our objective is to comply with all applicable legal requirements and other requirements to which we subscribe, in a commercially effective way, which is consistent with community expectations.

It is recognised that good environmental performance is the responsibility of our employees and contractors working on our sites. This will be achieved by effective planning and management including establishment of objectives and targets, maintaining proper reporting systems and providing adequate training for all employees.

We are committed to:

- Continual improvement of our environmental performance
- Maintaining an Environmental Management System compliant with ISO 14001
- Utilising operating practices which seek to prevent pollution and minimise environmental impacts in a commercially effective way by:
  - (i) efficient use of energy and resources with a view to reducing consumption and minimising emissions or discharges to the environment;
  - (ii) waste management practices that include waste minimisation, recycling and approved waste handling and disposal; and
  - (iii) 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 our Environmental Management System and progress towards achieving environmental objectives and targets.

This policy will be communicated to all persons working for or on behalf of the Corporation and will be made available to interested parties on the Corporation's website. It will be reviewed at least every two years.

Macquarie Generation is:

- A partner in the Commonwealth Government's Greenhouse Gas Abatement Program
- A member of the Clean Air Society of Australia and New Zealand (CASANZ)
- A member of the Clean Energy Council
- A member of the Hunter Salinity Trading Scheme Operations Committee
- 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	1
Licence breaches notified	Nil
Coal consumed	
Bayswater	6,594,253 tonnes
Liddell	3,963,757 tonnes
Oils Used	
Liddell (boiler start-up)	7,468,098 litres
Bayswater (boiler start-up)	5,589,142 litres
Air Emissions (i)	
Sulfur dioxide	4.56 kg/MWh (Bayswater) 4.36 kg/MWh (Liddell)
Oxides of Nitrogen (expressed as NO_2)	2.46 kg/MWh (Bayswater) 2.45 kg/MWh (Liddell)
Particulate matter	0.03 kg/MWh (Bayswater) 0.17 kg/MWh (Liddell)
Carbon Dioxide (ii)	916 kg/MWh (Bayswater) 923 kg/MWh (Liddell)
Water Management	
Water Diverted	61,950 ML
Salt Extracted	23,945 tonnes
Hunter River Salinity Trading Scheme	
Salt discharged	18,879 tonnes
Land Management	
By-product sales	
Bayswater Fly ash	123,883 tonnes (iii)
Bottom ash	100,318 tonnes (iv)
Gypsum	133 tonnes
Cenospheres	8,262 m^3 (iv)
Hardwood plantation trials in association with State Forests (NSW) are continuing.	
2010–2011 Production	
Bayswater	
Energy Sent Out	13,661 GWh
Availability	92.66%
Forced Outage Rate	3.04
Station Trip Rate (per 1000 hrs)	0.09
Liddell	
Energy Sent Out	7,763 GWh
Availability	69.50%
Forced Outage Rate	20.62
Station Trip Rate (per 1000 hrs)	0.69

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

Macquarie Generation is committed to a zero harm and zero injury workplace

The Corporation has an industry recognised safety record

In recent years both Liddell and Bayswater Power Stations have achieved record lost time injury targets

Lucinda Stafa
Safety Co-ordinator

Safety Report

Macquarie Generation produces electricity through the safe, responsible and efficient operation of Bayswater and Liddell Power Stations. A safe working environment is fundamental to our business success and we are committed to achieving zero harm workplaces through effective planning, management and safe work practices.

Occupational Health and Safety Policy

Macquarie Generation produces electricity through the safe, responsible and efficient operation of Bayswater and Liddell Power Stations. A safe working environment is fundamental to our business success and we are committed to achieving zero harm workplaces through effective planning, management and safe work practices.

The health, safety and welfare of employees, contractors and visitors at all our workplaces take priority. Where individuals have genuine safety concerns, they have the right to stop the job to seek further risk assessment.

All individuals have safety responsibilities at our workplaces, including contractors and visitors. Identification, elimination, control and management of risks and hazards, together with appropriate reporting systems, contribute to our achievement of safe work environments.

We are committed to:

- Continual improvement of our safety performance
- Consolidating and maintaining an OHS Management System compliant with AS 4801
- Meeting obligations consistent with employee and community expectations
- Complying with relevant legal and other requirements
- Establishing and regularly reviewing safety objectives and targets
- Ensuring that persons working for or on behalf of the Corporation have the competencies to work safely
- Monitoring others working on or visiting our sites to ensure compliance with legal obligations and OHS instructions
- Encouraging employees and others to positively contribute to our safety management programs through consultation processes
- Supporting and strengthening employees' participation in i-Safe, our safety behaviour program
- Progressively eliminating smoking from our workplaces.

This policy will be communicated to all persons working for or on behalf of the Corporation and will be made available to interested parties on the Corporation's website. It will be reviewed at least every two years.

2010–2011 Statistics

Lost Time Injury Rate—Accidents per million hours worked

2011	2.4
2010	0.8
2009	0
2008	1.6
2007	5.2
2006	11.1

Longest lost time injury free period (during 2010–2011)

Bayswater	196 days
Liddell	365 days
Lambton	365 days

Occupational Health and Safety Committees

Bayswater Power Station

Employer Representatives

John Neely, Kevin Wykes, Shaun Green and Seth Pathiyil

Employee Representatives

Bill Summers (Chair), Craig Parker, Sean Butler, Scott McKinnon, Wayne Hermon, Paul McNamara, Scott Jennar, Greg Tearle, Peter Jeffries, Greg McDonald, Bruce Webber, Sonia Thompson, John Vaughan and Greg Sneddon.

Ex Officio Representatives

Richard Warwick and Teresa Richardson.

Liddell Power Station

Employer Representatives

Peter Sewell, Col Duck and Chris Druery

Employee Representatives

Randall Jones (Chair), Peter Bowden, Clinton Baker, Graeme McNeil, Scott Dicker, David Blake, David Jerrett, Dallas Cunneen, Grant Winter, Luke Robinson and Karen Jennar.

Ex Officio Representatives

Richard Warwick, Lucinda Stafa and Skye Mansour.

Employees

At 30 June 2011 the Corporation had 628 employees, including 53 apprentices, and was also host employer for an additional 10 business administration trainees.

Community Report

Consultation with and support of the local community is an important part of our operations, and is evident through our sponsorship program, participation in the Macquarie Generation Community Consultative Committee and throughout major project developments.

Macquarie Generation is very proud of the role it plays as a major economic contributor, large employer and community partner.

Consultation with and support of the local community is an important part of our operations, and is evident through our sponsorship program, participation in the Macquarie Generation Community Consultative Committee and throughout major project developments.

Community Consultative Committee

Under the auspices of Muswellbrook Shire Council, a Community Consultative Committee meets quarterly either at Muswellbrook Council or our power stations.

The Committee discusses issues regarding environmental compliance with licences, conditions of development consent and other relevant approvals for Macquarie Generation activities, progress of current developments and more general matters concerning power station operation. The Committee also assesses community concerns and seek responses from the Corporation on relevant issues.

The Committee comprises representatives from Muswellbrook and Singleton councils and community representatives from both council areas. Under Muswellbrook Shire guidelines the Committee reports on its deliberations in formal Minutes presented to Muswellbrook, Singleton and Upper Hunter Shire Councils.

Corporate Sponsorship and Community Support

The upper Hunter has a strong community spirit and commitment to supporting people in need, helping those pursuing personal achievement and promoting growth of their communities.

Macquarie Generation makes significant contributions both financial and in kind to a wide range of organisations that are working to build the Upper Hunter community.

During 2010-2011 support was provided for the following organisations.

Corporate Sponsorships

- Westpac Rescue Helicopter Service
- Keep Australia Beautiful—NSW Schools Waste Watchers Program
- Hunter Valley Research Foundation
- ClimateCam For Schools
- Hunter Medical Research Institute
- Hunter Business Chamber and Hunter Business Awards
- Hunter Valley Cricket Council

Community Support

The Macquarie Generation Community Support Program aims to enhance quality of life in the Upper Hunter region. The program encourages the development of stronger communities through the provision of financial support and the good citizenship of our 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 and ongoing commitment to their local communities and organisations.

The 2010–2011 committee members were:

Ms Lisa Elliott
Mr Peter Barry
Mr David Talbot
Ms Robyn Adams
Mr Dave Dallah
Mr Darren Armitage
Ms Christine Feeney

Projects supported by the Community Support Program included:

- Singleton Neighbourhood Centre family crisis accommodation
- Muswellbrook Touch Association
- Black Coal Cup Golf Tournament Muswellbrook
- Singleton Art Prize
- Upper Hunter and Muswellbrook Eisteddfod
- Singleton and Muswellbrook Shows
- Group 21 Rugby League—Development Camp
- Singleton Public Library—Summer Reading Program
- Upper Hunter School Presentation Days
- Muswellbrook RSL Memorial Grove
- Singleton and Muswellbrook Amateur Theatrical Societies
- Young Endeavour Scheme—Upper Hunter Shire Council

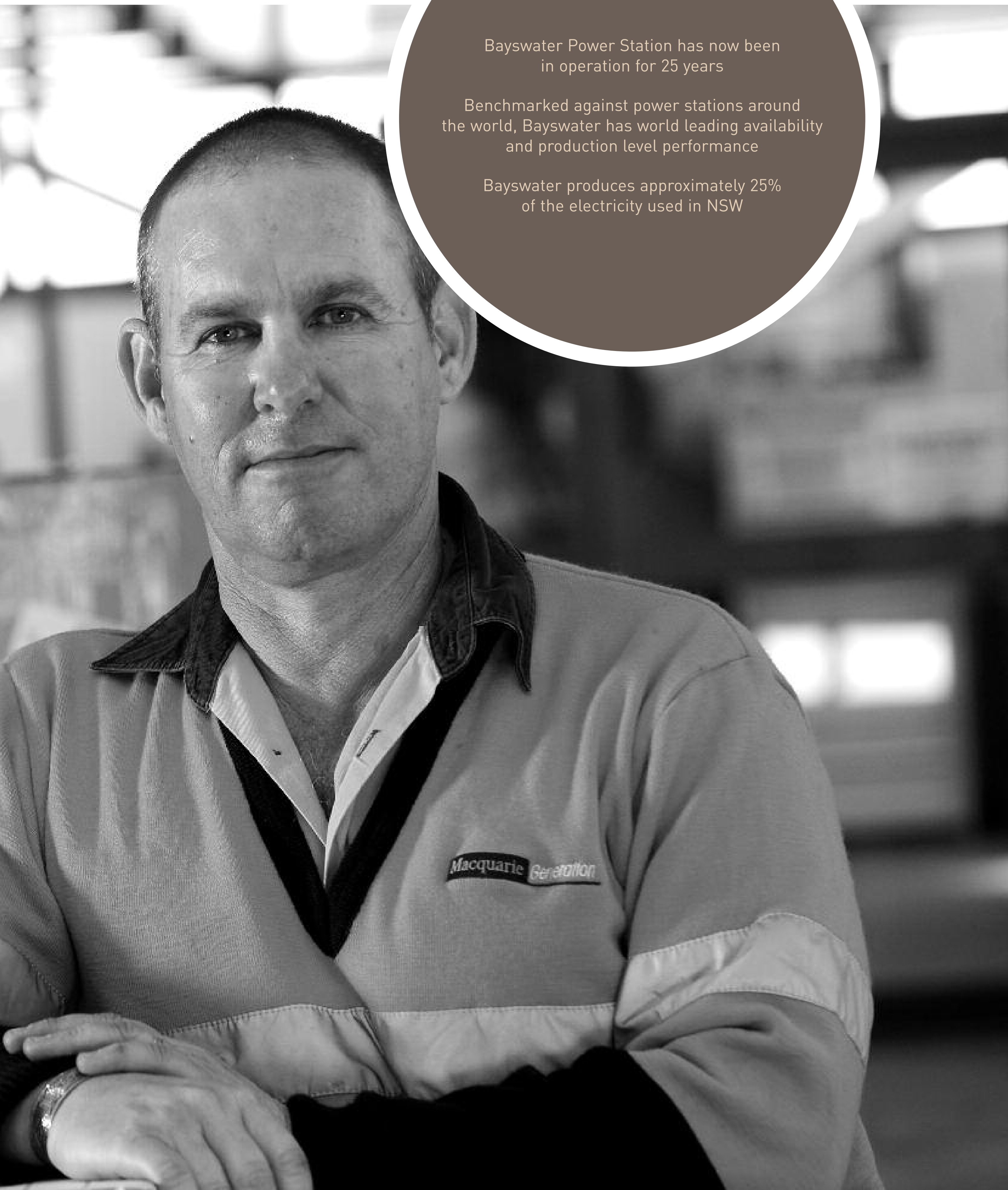
Dale Snow

Team Leader Warehouse Bayswater

Bayswater Power Station has now been in operation for 25 years

Benchmarked against power stations around the world, Bayswater has world leading availability and production level performance

Bayswater produces approximately 25% of the electricity used in NSW



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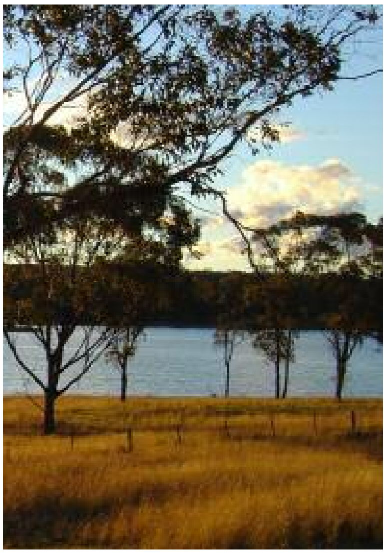

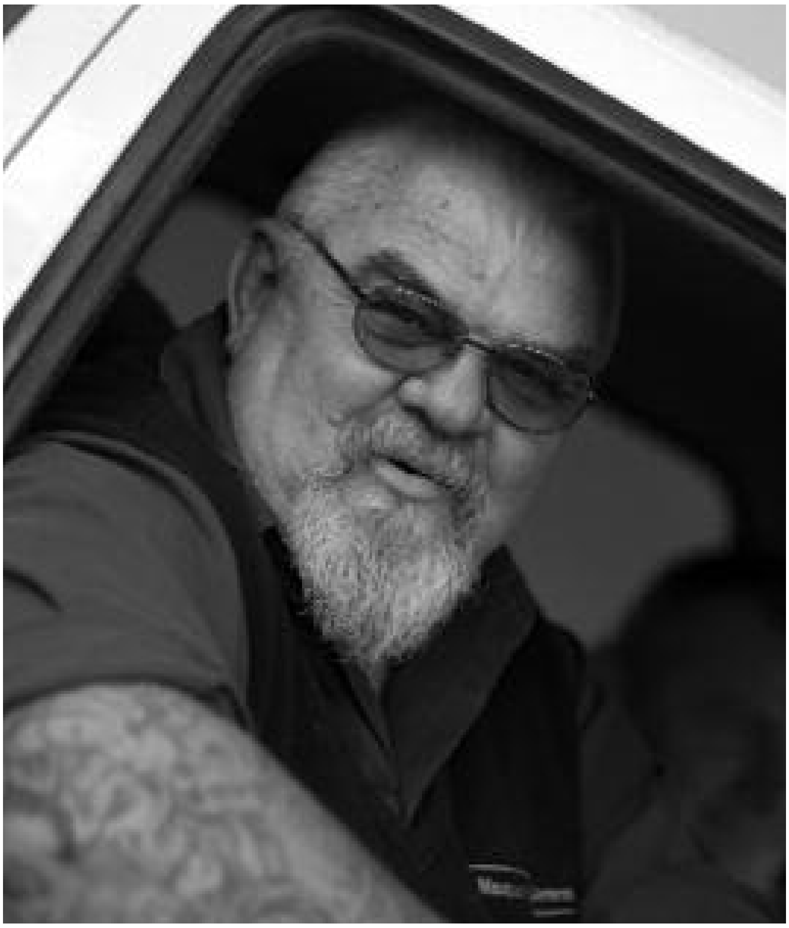

The Board of Directors present their report together with the Financial Statements of Macquarie Generation (the Corporation) and the Corporation and its controlled entity (the Consolidated Entity) for the year ended 30 June 2011 and the Auditor's report thereon.

Directors

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

Lucio Di Bartolomeo

Phil Arnall

John Cahill

James Evans

Ron Finlay

Deborah Page AM

Russell Skelton (from 20 May 2011)

Grant Every-Burns (until 28 February 2011)

Information on Directors

Lucio Di Bartolomeo BE (Civil) MESc—Chair and Non-executive Director

Mr Di Bartolomeo was appointed Chairman of Macquarie Generation on 14 August 2009 for a three year term ending on 13 August 2012. Mr Di Bartolomeo was appointed as a Director of Macquarie Generation on 14 August 2006. Mr Di Bartolomeo is a member of the Board Remuneration and Human Resources Committee.

Mr Di Bartolomeo's last Executive role was as Managing Director of ADI Limited and the Country Director for Thales in Australia.

Prior to his appointment at ADI in September 2002, Mr Di Bartolomeo had a 26 year career in the transport industry. His last position in the transport industry was Managing Director of FreightCorp, which he led to privatisation in 2002 following extensive reform and growth.

Mr Di Bartolomeo is currently a non-executive Director of Downer EDI Limited, Australian Rail Track Corporation and Australian Super Pty Limited. Mr Di Bartolomeo is currently the National President of the Australian Industry Group.

Mr Di Bartolomeo was a non-executive Director and Chair of Parklands Foundation and a non-executive Director of Reliance Rail Pty Ltd.

Mr Di Bartolomeo has no other former directorships in the last three years.

Russell Skelton BE—Chief Executive and Managing Director

Mr Skelton was appointed as Chief Executive on 1 March 2011 and Managing Director on 20 May 2011.

Mr Skelton is a non-executive Director of the National Generators Forum Limited.

Mr Skelton has over thirty years of extensive engineering and managerial experience in the electricity industry in New South Wales. His previous role was Manager/Marketing and Trading of Macquarie Generation.

Mr Skelton has no other former directorships in the last three years.

Phil J Arnall BCom (Accounting)—Non-executive Director

Mr Arnall was appointed as a Director of Macquarie Generation on 24 April 2009 for a three year period ending on 23 April 2012. Mr Arnall is a member of the Board Audit and Assurance Committee and is the Chairman of the Board Remuneration and Human Resources Committee.

Mr Arnall has an extensive engineering and management background, including eleven years at Australian National Industries Limited and twenty years at Tubemakers of Australia Limited. Mr Arnall is the Chairman of Ludowici Limited and is a non-executive Director of A J Lucas Group Limited and Bradken Limited.

Mr Arnall was a non-executive Director and Chair of Capral Limited from 1 April 2002 to 1 April 2010.

Mr Arnall has no other former directorships in the last three years.

Information on Directors (continued)

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 15 November 2009 for a two year period ending 14 November 2011.

Mr Cahill is the General Secretary of the Public Service Association of New South Wales; National President and NSW State Secretary of the Community and Public Sector Union; Trustee and Executive Member, Unions NSW. He is also a Director of the State Government Employees Credit Union and a Director of Newtown Jets Rugby League Football.

Mr Cahill has over thirty years industrial relations experience in the electricity generation industry.

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

James Evans BEc CPA F FIN FAICD—Non-executive Director

Mr Evans was appointed Director of Macquarie Generation on 1 July 2010 for a three year period ending 30 June 2013. Mr Evans is a member of the Board Audit and Assurance Committee.

Mr Evans has held senior management positions in Finance and Risk in Funds Management and Insurance with the Commonwealth Bank, Lend Lease Group, GEC Australia and Finance, Information Technology Systems and Corporate Planning with Grace Bros Department Stores.

Mr Evans is a non-executive Director of Equigroup group of companies, Suncorp Portfolio Services Limited, Hastings Fund Management Limited, Australian Infrastructure Fund Limited, BT Investment Management Limited, Solarwinds Software Australia Pty Ltd, Investa Funds Management Limited and Investa Wholesale Funds Management Limited.

Mr Evans was a non-executive Director of Westpac Funds Management Limited, Freshwater Funds Management Limited and major subsidiary companies in the Commonwealth Bank including, Commonwealth Insurance Limited and Commonwealth Funds Management Limited.

Mr Evans has no other former directorships in the last three years.

Ron Finlay LLB—Non-executive Director

Mr Finlay was appointed as a Director of Macquarie Generation on 1 July 2010 for a three year period ending on 30 June 2013. Mr Finlay is a member of the Board Remuneration and Human Resources Committee.

Mr Finlay is a lawyer and has had over 35 years experience in construction, development, energy and infrastructure projects for both public and private sector organisations.

Mr Finlay has served on the Darling Harbour Authority, Central Sydney Planning Committee and for five years as Chair of Transport Infrastructure Development Corporation. Mr Finlay is a non-executive director of the listed infrastructure asset-owning company, Duet Group and Chairman of a number of joint venture boards, advisory boards and dispute resolution boards for major projects. He is the Principal in his own firm of Finlay Consulting and R A Finlay, Lawyer.

Mr Finlay has no other former directorships in the last three years.

Deborah Page AM BEc FCA MAICD—Non-executive Director

Mrs Page was appointed Director of Macquarie Generation on 1 March 2000. Mrs Page is the Chairman of the Board Audit and Assurance Committee. Mrs Page was reappointed as a Director on 1 March 2009 for the period ending on 31 August 2011.

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 Chairman of Investa Listed Funds Management Limited which is the responsible entity of the listed AREIT Investa Office Fund, and is a non-executive Director of The Colonial Mutual Life Assurance Society Limited, Commonwealth Insurance Limited and Service Stream Limited.

Mrs Page was a non-executive Director of Investa Funds Management Limited from 2005 to July 2011; a member and Deputy Chair of the Board of Management of the Internal Audit Bureau of New South Wales from 2001 to 2009; Chairman of Ascalon Capital Managers Limited from 2006 to 2009; and a non-executive Director of St Andrews Insurance (Australia) Pty Limited and St Andrews Life Insurance Pty Limited from 2008 to 2010.

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

Information on Directors (continued)

David Ipkendanz Dip Ed BEc 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, Namoi Cotton Co-operative and Utah Development Corporation.

Mr Ipkendanz holds the position of Company Secretary for Cobbora Holding Company Pty Limited, Cobbora Coal Mine Pty Limited, Cobbora Management Company Pty Ltd, Cobbora Rail Company Pty Limited, CCP Holdings Pty Ltd, Midwest Development Corporation Pty Limited, Mid West Primary Pty Ltd and Rocky Point Holdings Pty Ltd (until 30 June 2011).

Mr Ipkendanz has held a range of senior financial management positions continuously since 1982.

Directors' Meetings

The number of Directors' meetings of the Corporation (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors during the financial year ended 30 June 2011 were:

	Board Meetings		Board Audit and Assurance Committee Meetings	
	Held	Attended	Held	Attended
Mr Lucio Di Bartolomeo (1)	20	20	-	-
Mr Grant Every-Burns (2) (3)	15	15	3	3
Mr Phil Arnall	20	20	4	4
Mr John Cahill	20	18	-	-
Mr James Evans	19	19	4	4
Mr Ron Finlay	19	18	-	-
Mrs Deborah Page	20	17	4	4
Mr Russell Skelton (4)	4	4	1	1

	Board Remuneration and Human Resources Committee Meetings	
	Held	Attended
Mr Grant Every-Burns (5)	2	2
Mr Phil Arnall	3	3
Mr John Cahill	3	2
Mr Lucio Di Bartolomeo	3	3
Mr James Evans	-	-
Mr Ron Finlay	3	2
Mrs Deborah Page	-	-
Mr Russell Skelton (6)	1	1

(1) The Board held 20 meetings during the year comprising 10 scheduled meetings including one corporate strategy session and 10 extraordinary meetings predominantly in relation to the New South Wales Energy Reform Project .

(2) Mr Grant Every-Burns retired as a Director of Macquarie Generation on 28 February 2011.

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

(4) Although not a member of the Board Audit and Assurance Committee, Mr Skelton attended all meetings of the Committee by invitation.

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

(6) Although not a member of the Board Remuneration and Human Resources Committee, Mr Skelton attended all meetings of the Committee by invitation.

Principal Activities

The principal activities of the Consolidated Entity 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.

Disposal of Wholly Owned Subsidiary

Macquarie Generation disposed of its controlled entity, Midwest Development Corporation Pty Limited on 25 February 2011, which was a wholly owned subsidiary and was formed on 13 August 2008, as set out in Note 6 of the attached Financial Statements.

Operating Results

The Net Profit after Tax of the Consolidated Entity for the financial year ended 30 June 2011 was $125.7 million.

Review of Operations

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

Dividends

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

- an interim dividend of $99.8 million in respect of the year ended 30 June 2010 was paid on 30 July 2010;
- a final dividend of $90 million in respect of the year ended 30 June 2010 was paid on 30 November 2010; and
- a dividend of $130 million in respect of the year ended 30 June 2011 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.

Remuneration Report

Information on the Remuneration of Directors and Executives is disclosed in Note 32 to the Financial Statements.

Likely Developments

Except for the following issues, 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.

Carbon Pricing Mechanism

The Prime Minister announced the details of Australia's carbon pricing mechanism on 10 July 2011.

The final design of the carbon pricing mechanism is yet to be legislated by the Federal Government but may have a significant impact on the valuation of assets of Macquarie Generation and the Consolidated Entity.

The carbon pricing mechanism may have a significant impact on the Corporation and Consolidated Entity's valuation of assets, profitability and estimated useful lives of the Corporation's infrastructure assets. Current modelling indicates, if a carbon pricing mechanism is introduced, the value could reduce by around $2 billion.

Strategic Plans and Operations

Further information as to the likely developments in the operations of the Consolidated Entity 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 the impact of a carbon pricing mechanism on the Consolidated Entity is not able to be adequately or reasonably estimated.

Events Subsequent to Balance Date

Except for the following issues, 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 Consolidated Entity, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity.

Electricity derivative financial instruments

Between 30 June 2011 and the date of signing the Financial Statements on 31 August 2011, the fair value of the Electricity Derivative Financial Instruments Assets have increased by $23 million and the fair value of the Electricity Derivative Financial Instruments Liabilities have decreased by $2 million when marked to model in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, due mainly to a decrease in the electricity forward price curve.

Reference is made to the Electricity Derivative Contracts in Notes 14 and 26 of the Financial Statements.

Litigation

Bayswater Power Station

Civil enforcement proceedings were commenced in the Land and Environment Court against Macquarie Generation in July 2009.

The proceedings sought a declaration that Macquarie Generation has been negligently disposing of waste by emitting carbon dioxide into the atmosphere in a manner that has harmed or is likely to harm the environment without lawful authority to do so, in contravention of section 115(1) of the Protection of the *Environment Operations Act 1997* (POEO Act). Further an injunction was sought requiring Macquarie Generation to immediately cease disposing of waste through the emission of carbon dioxide into the atmosphere.

The Court found Macquarie Generation had lawful authority to emit carbon dioxide into the atmosphere, as part of its operations, under its Environmental Protection Licence. The Judge however did not dismiss the Applicant's claim entirely and left open the claim that Macquarie Generation has an implied condition to operate in a manner that has reasonable regard and care for the interests of other persons and/or the environment.

The Applicant's amended claim regarding the implied condition was heard in the Land and Environment Court on 5 August 2010. Macquarie Generation opposed the Motion on the basis that the Applicants were attempting to re-open their claims in respect of section 115 of the POEO Act which was an abuse of process. Senior Counsel also argued that the Applicant's claim was deficient in that it lacked sufficient particulars of the facts and did not disclose any recognisable cause of action at statute or common law.

Judgement was reserved and subsequently handed down on 1 February 2011. In her judgement, Justice Pain recanted two of her initial findings on the basis of not fully understanding the Applicant's claim. In effect, this has re-opened the claim that even if Macquarie Generation has lawful authority to emit carbon dioxide, it is only authorised to do so in a manner that has reasonable regard and care for the interests of other persons and/or the environment. Her Honour justified this as a permissible reconsideration of her finding due to an erroneous understanding of the Applicant's case.

Macquarie Generation is appealling Justice Pain's latest judgement. The appeal hearing is set down for 13 September 2011.

Bayswater B Development Site

On 3 June 2010 the Environmental Defender's Office (EDO) filed a summons in the Land and Environment Court against the Minister for Planning as the First Respondent and Macquarie Generation as the Second Respondent. The Applicant seeks a declaration that the Concept Approval for the development of Bayswater B Power Station be declared invalid and of no effect; and an injunction restraining Macquarie Generation from taking any action in reliance on the Concept Plan Approval.

The matter was heard in the Land and Environment Court in September 2010. Judgement was reserved and Macquarie Generation is awaiting a decision to be handed down.

Given the time elapsed since the hearing, the Department of Planning wrote to the Chief Judge of the Land and Environment Court on 2 February 2011 to inquire under the Delays in Reserved Judgement Policy. No response has been received to date.

Environmental Performance Report

Protection of the Environment Operations Act 1997

Bayswater and Liddell Power Stations are licensed by the Office of Environment and Heritage (OEH) under the *Protection of the Environment Operations Act 1997*.

Both Stations are required to continuously monitor atmospheric emissions of particulate matter, sulphur dioxide and nitrogen oxide, and have reporting limits specified in the licences. The Bayswater licence includes the requirement to monitor ambient air conditions at seven sites in the vicinity of the Power Stations.

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 includes the operation of the Antiene Rail Unloader and 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 OEH of:

- information obtained from monitoring;
- information when thresholds for some licensed discharge limits are reached; and
- events or occurrences which caused actual or potential environmental harm not otherwise permitted by the licence.

The annual certificate of compliance for the Bayswater Power Station licence was submitted 29 March 2011 and included the reporting of one monitoring non compliance and one concentration limit non compliance event.

No limits for atmospheric emissions or aqueous discharges were exceeded for Liddell Power Station. The annual certificate of compliance for the Liddell licence was completed on 29 August 2011 for the 12 months ending 30 June 2011.

Water Management Act 2000

Macquarie Generation has been issued with Water Access Licences and an Approval under the *Water Management Act 2000*.

These licences provide the Corporation with a level of certainty and security to obtain sufficient water for the operation of Bayswater and Liddell Power Stations in the long term.

Macquarie Generation holds:

- A Water Management Licence under Part 9 of the *Water Act 1912* for water management works and water use for Hunter River unregulated water and for extraction from the Barnard River; and
- Access Licences and a Water Supply Works and Water Use Approval under the *Water Management Act 2000* for extraction in the Hunter Regulated River water source.

Protection of the Environment Operations (Waste) Regulation 2005

Liddell has a non-licensed asbestos landfill site. There is no requirement to report under the *Protection of the Environment Operations (Waste) Regulation 2005*.

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* (CTH) to source power from renewable sources. Macquarie Generation has entered into a commercial arrangement to meet this obligation.

The National Greenhouse and Energy Reporting Act 2007 (NGER Act)

The NGER Act establishes a single national framework to report greenhouse gas emissions and energy production and consumption. Macquarie Generation's second report pursuant to the *NGER Act* (CTH) was lodged on 22 October 2010.

The Corporation is in a position to continue to provide the required reports in a timely manner.

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 the OEH. 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:

- use of 631,000 litres of recycled oil for boiler start-up at Liddell Power Station (2010–3,008,000 litres);
- the sale for re-use of 224,201 tonnes of ash in cement manufacture, landscaping and road works representing 12.5% of the total of 1,788,612 tonnes of ash produced during the financial year (2010 –194,378 tonnes representing 9.2% of 2,115,214 tonnes total); and
- the sale for re-use of 133 tonnes of gypsum by-products by the agricultural industry representing 0.5% of the total of 25,444 tonnes produced during the financial year (2010–1,829 tonnes representing 9.7% of 18,900 tonnes total).

Directors' Interests

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 Consolidated Entity with 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 division of that organisation, which are all made in the normal course of business and on normal commercial terms.

Director	Position	Organisation
Lucio Di Bartolomeo	Chairman	Downer EDI Limited

The Corporation has three current contracts with a division of Downer EDI Limited totalling $3.9 million.

Indemnification of Directors and Officers

During the financial year Macquarie Generation paid a premium of $177,661 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.

L DI BARTOLOMEO
CHAIRMAN

31 August 2011
Sydney

CHIEF EXECUTIVE AND MANAGING DIRECTOR

31 August 2011
Sydney

Statements of Comprehensive Income for the Year Ended 30 June 2011
Start of Audited Financial Statements

		Consolidated		Parent	
		2011	2010	2011	2010
	Notes	$'000	$'000	$'000	$'000
Continuing operations					
Revenue	3	**1 ,018,369**	1,165,256	**1,018,369**	1,165,256
Other income, excluding gains on derivative financial instruments	3	**1,053**	1,761	**1,053**	1,761
Finance costs	4	**(64,838)**	(64,078)	**(64,838)**	(64,078)
Expenses		**(778,063)**	(833,216)	**(778,063)**	(833,216)
Profit before income tax expense and fair value movements in derivative financial instruments		**176,521**	269,723	**176,521**	269,723
Income tax on profit before fair value movements in derivative financial instruments	5	**(52,336)**	(80,489)	**(52,336)**	(80,489)
Profit after tax before fair value movements in derivative financial instruments		**124,185**	189,234	**124,185**	189,234
Net fair value gains on derivative financial instruments	3,4	**389**	10,990	**389**	10,990
Income tax on fair value movements in derivative financial instruments	5	**(117)**	(3,119)	**(117)**	(3,119)
Profit from continuing operations after tax		**124,457**	197,105	**124,457**	197,105
Discontinued operations					
Gain/(loss) from discontinued operations after tax	6	**1,243**	(623)	**-**	-
Net Profit for the year attributable to Owners of the Corporation		**125,700**	196,482	**124,457**	197,105
Other comprehensive income					
Changes in fair value of cash flow hedges net of tax	23(b)	**(10,935)**	3,471	**(10,935)**	3,471
Defined benefit superannuation actuarial gains/(losses) net of tax	23(c)	**(1,486)**	(12,395)	**(1,486)**	(12,395)
Other comprehensive (loss) for the year attributable to Owners of the Corporation, net of tax		**(12,421)**	(8,924)	**(12,421)**	(8,924)
Total comprehensive income for the year		**113,279**	187,558	**112,036**	188,181

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

Statements of Financial Position as at 30 June 2011

		Consolidated		Parent	
		2011	2010	**2011**	2010
		30 June	30 June	**30 June**	30 June
	Notes	**$'000**	$'000	**$'000**	$'000
Current Assets					
Cash and cash equivalents	8	**364,332**	318,594	**364,332**	317,814
Trade and other receivables	9	**89,761**	104,101	**89,761**	104,072
Inventories	10	**211,605**	164,427	**211,605**	164,427
Derivative financial instruments	14	**45,029**	49,021	**45,029**	49,021
Current tax assets	5	**3,237**	-	**3,237**	-
Other assets	15	**3,369**	5,521	**3,369**	5,521
TOTAL CURRENT ASSETS		**717,333**	641,664	**717,333**	640,855
Non-Current Assets					
Property, plant and equipment	11	**3,214,322**	3,358,923	**3,214,322**	3,358,923
Deferred tax assets	12	**63,964**	47,895	**63,964**	47,868
Intangible assets	13	**9,674**	13,600	**9,674**	9,674
Derivative financial instruments	14	**28,426**	17,561	**28,426**	17,561
Other assets	15	**-**	-	**-**	38,793
Investments accounted for using the equity method	16	**-**	32,740	**-**	-
TOTAL NON-CURRENT ASSETS		**3,316,386**	3,470,719	**3,316,386**	3,472,819
TOTAL ASSETS		**4,033,719**	4,112,383	**4,033,719**	4,113,674
Current Liabilities					
Trade and other payables	18	100,461	106,950	100,461	106,998
Borrowings	19	**124,217**	56,338	**124,217**	56,338
Derivative financial instruments	14	**23,849**	8,098	**23,849**	8,098
Current tax liabilities	5	**-**	33,581	**-**	33,581
Provisions	21	**174,196**	235,924	**174,196**	235,924
TOTAL CURRENT LIABILITIES		**422,723**	440,891	**422,723**	440,939
Non-Current Liabilities					
Borrowings	19	**699,139**	765,235	**699,139**	765,235
Derivative financial instruments	14	**36,129**	134	**36,129**	134
Deferred tax liabilities	20	**873,684**	892,201	**873,684**	892,201
Provisions	21	**96,127**	97,641	**96,127**	97,641
Other liabilities	22	**42,357**	36,000	**42,357**	36,000
TOTAL NON-CURRENT LIABILITIES		**1,747,436**	1,791,211	**1,747,436**	1,791,211
TOTAL LIABILITIES		**2,170,159**	2,232,102	**2,170,159**	2,232,150
NET ASSETS		**1,863,560**	1,880,281	**1,863,560**	1,881,524
Equity					
Contributed equity	23(a)	**281,078**	281,078	**281,078**	281,078
Reserves	23(b)	**1,455,093**	1,466,615	**1,455,093**	1,466,615
Retained profits	23(c)	**127,389**	132,588	**127,389**	133,831
TOTAL EQUITY		**1,863,560**	1,880,281	**1,863,560**	1,881,524

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

Statements of Changes in Equity for the Year Ended 30 June 2011

Consolidated

	Note	Contributed Equity $'000	Asset revaluation reserve $'000	Cash flow hedge reserve $'000	Retained profits $'000	Total Equity $'000
At 1 July 2010		**281,078**	**1,429,623**	**36,992**	**132,588**	**1,880,281**
Profit for the period		**-**	**-**	**-**	**125,700**	**125,700**
Other comprehensive income		**-**	**-**	**(10,935)**	**(1,486)**	**(12,421)**
Total comprehensive income for the period		**-**	**-**	**(10,935)**	**124,214**	**113,279**
Movement in Reserves	**23(b)**	**-**	**(587)**	**-**	**587**	**-**
Transactions with owners in their capacity as owners:						
Dividends provided for or paid		**-**	**-**	**-**	**(130,000)**	**(130,000)**
At 30 June 2011		**281,078**	**1,429,036**	**26,057**	**127,389**	**1,863,560**
At 1 July 2009		281,078	1,431,246	33,521	136,678	1,882,523
Profit for the period		-	-	-	196,482	196,482
Other comprehensive income		-	-	3,471	(12,395)	(8,924)
Total comprehensive income for the period		-	-	3,471	184,087	187,558
Movement in Reserves	23(b)	-	(1,623)	-	1,623	-
Transactions with owners in their capacity as owners:						
Dividends provided for or paid		-	-	-	(189,800)	(189,800)
At 30 June 2010		281,078	1,429,623	36,992	132,588	1,880,281

Parent

	Note	Contributed Equity $'000	Asset revaluation reserve $'000	Cash flow hedge reserve $'000	Retained profits $'000	Total Equity $'000
At 1 July 2010		**281,078**	**1,429,623**	**36,992**	**133,831**	**1,881,524**
Profit for the period		**-**	**-**	**-**	**124,457**	**124,457**
Other comprehensive income		**-**	**-**	**(10,935)**	**(1,486)**	**(12,421)**
Total comprehensive income for the period		**-**	**-**	**(10,935)**	**122,971**	**112,036**
Movement in Reserves	23(b)	**-**	**(587)**	**-**	**587**	**-**
Transactions with owners in their capacity as owners:						
Dividends provided for or paid		**-**	**-**	**-**	**(130,000)**	**(130,000)**
At 30 June 2011		**281,078**	**1,429,036**	**26,057**	**127,389**	**1,863,560**
At 1 July 2009		281,078	1,431,246	33,521	137,298	1,883,143
Profit for the period		-	-	-	197,105	197,105
Other comprehensive income		-	-	3,471	(12,395)	(8,924)
Total comprehensive income for the period		-	-	3,471	184,710	188,181
Movement in Reserves	23(b)	-	(1,623)	-	1,623	-
Transactions with owners in their capacity as owners:						
Dividends provided for or paid		-	-	-	(189,800)	(189,800)
At 30 June 2010		281,078	1,429,623	36,992	133,831	1,881,524

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Cash Flows from Operating Activities					
Receipts from customers (inclusive of goods and services tax)		**1,160,987**	1,294,410	**1,160,987**	1,294,410
Payments to suppliers and employees (inclusive of goods and services tax)		**(781,278)**	(824,404)	**(781,028)**	(823,493)
Interest received		**14,907**	9,775	**14,889**	9,756
Interest paid		**(58,302)**	(55,369)	**(58,302)**	(55,369)
Income tax paid		**(118,819)**	(115,358)	**(118,819)**	(115,358)
Receipt of government grants		**1,000**	1,500	**1,000**	1,500
NET CASH INFLOWS FROM OPERATING ACTIVITIES	24	**218,495**	310,554	**218,727**	311,446
Cash Flows from Investing Activities					
Proceeds on disposal of subsidiary/investment		**42,695**	-	**43,232**	-
Proceeds from sale of property, plant and equipment		**84**	504	**84**	504
Payments for property, plant and equipment		**(24,773)**	(40,610)	**(24,773)**	(40,610)
Payments for intangible assets		**(992)**	(3,958)	**-**	(32)
Payments for investments in subsidiaries		**-**	-	**(4,843)**	(17,183)
Reimbursements/(payments) of expenses paid on behalf of other unincorporated joint venture participants		**-**	925	**-**	-
Receipt of government grants for capital projects		**5,000**	-	**5,000**	-
Payments for investments in associates		**(3,862)**	(12,869)	**-**	-
NET CASH INFLOWS/(OUTFLOWS) FROM INVESTING ACTIVITIES		**18,152**	(56,008)	**18,700**	(57,321)
Cash Flows from Financing Activities					
(Repayments)/Proceeds of New South Wales Treasury Corporation loans		**(1,109)**	215	**(1,109)**	215
Dividends paid to Shareholders		**(189,800)**	(150,000)	**(189,800)**	(150,000)
NET CASH (OUTFLOWS) FROM FINANCING ACTIVITIES		**(190,909)**	(149,785)	**(190,909)**	(149,785)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**45,738**	104,761	**46,518**	104,340
Cash at the beginning of the financial year		**318,594**	213,833	**317,814**	213,474
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	8	**364,332**	318,594	**364,332**	317,814

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

Note 1—Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Financial Statements include separate financial statements for Macquarie Generation (the Corporation) as an individual entity and the Consolidated Entity consisting of Macquarie Generation and its wholly owned subsidiary.

(a) Basis of Preparation

These general purpose Financial Statements have been prepared as required by the State Owned Corporations Act, 1989; and in accordance with Part 3 of the Public Finance and Audit Act, 1983; Australian Accounting Standards; other authoritative pronouncements of the Australian Accounting Standards Board; and Accounting Interpretations.

The Consolidated Entity and Macquarie Generation are classified as for-profit entities for the purposes of the application of Australian Accounting Standards and after consideration of all factors contained in New South Wales Treasury Policy TPP 05-4 *Distinguishing For-Profit from Not-For-Profit Entities*.

(i) Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the Financial Statements comply with International Financial Reporting Standards (IFRS).

(ii) Australian Accounting Standards

In the current reporting period the Consolidated Entity and the Corporation have adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2010.

At the date of authorisation of the Financial Statements, the following relevant Australian Accounting Standards and Interpretations had been issued or amended but are not yet effective and have not been adopted for the full year reporting period ended 30 June 2011:

AASB amendment	Affected standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Corporation
AASB 9	AASB 9 *Financial Instruments* and AASB 2010-07 *Amendments to Australian Accounting Standards arising from AASB 9*	This policy is coming under consideration, however the full impact of the amendments has not yet been determined.	1 January 2013	1 July 2013
AASB 124	AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards*	This change will not have a material impact on the Consolidated. Entity's Financial Statements.	1 January 2011	1 July 2011
AASB 2009-14	AASB 2009-14 *Amendments to* Australian *Interpretation: Prepayments of a Minimum Funding Requirement*	No change to accounting policy required.	1 January 2011	1 July 2011
AASB 1053	AASB 1053 *Application Tiers of Australian Accounting Standards*	This policy is under consideration, however it will be subject to future mandates by New South Wales Treasury	1 July 2013	1 July 2013
AASB 2010–4	AASB 2010–4 *Further Amendments to Australian Accounting Standards arising from the annual improvements project*	This change will not have a material impact on the Consolidated. Entity's Financial Statements.	1 January 2011	1 July 2011

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

Note 1—Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

(iii) Historic cost convention

These Financial Statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets and liabilities, including derivative financial instruments, at fair value through profit or loss, revaluation of emission rights and property, plant and equipment, which as noted is at independent or Directors' valuation.

(iv) Significant accounting judgements, estimates and assumptions

Significant accounting judgements

In the process of applying the Consolidated Entity and Corporation's accounting policies, management has made various judgements, apart from those involving estimates, which have significant effect on the amounts recognised in the Financial Statements.

The definition of an asset in accordance with AASB 116 *Property, Plant and Equipment* for the purposes of offsetting revaluation increments and decrements in the asset revaluation reserve has been determined to be at the power station level. The rationale for this is that all components of the complex infrastructure asset being the power station plant must function and combine together to produce electricity.

This interpretation is in accordance with New South Wales Treasury's *Mandates of Options and Major Policy Decisions under Australian Accounting Standards (TC10/08)* which are mandatory for all New South Wales public sector agencies.

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are as follows:

- Provision for insurance
  Various actuarial assumptions are required when determining the Corporation's provision for insurance in relation to future dust diseases claims. The nature of the assumptions and related carrying amounts are disclosed in Note 1(u) and Note 21–Provision for Insurance.
- Defined benefit superannuation funds
  Various actuarial assumptions are required when determining the Corporation's employees' defined benefit superannuation funds. The nature of the assumptions and related carrying amounts are disclosed in Note 27–Superannuation.
- Property, plant and equipment
  Various assumptions are required when determining the Corporation's fair value and recoverable amount in relation to property, plant and equipment. The nature of the assumptions and related carrying amounts are disclosed in Note 11–Property, Plant and Equipment.
- Valuation of long dated electricity supply contracts
  Various assumptions are required when determining the Corporation's fair value of long dated electricity supply contracts. The assumptions are disclosed in Note 1(q)(i).

(b) Principles of Consolidation

(i) Subsidiaries

The Consolidated Financial Statements incorporate the assets and liabilities of the subsidiary of Macquarie Generation ('parent entity') up to 25 February 2011, and the results of the subsidiary for the period then ended. Macquarie Generation and its subsidiary together are referred to in these Financial Statements as the Consolidated Entity.

During the year, Macquarie Generation had one controlled entity, Midwest Development Corporation Pty Ltd, which was a wholly owned subsidiary from 13 August 2008. Details of the disposal of Midwest Development Corporation Pty Ltd are included in Note 6.

During the year, Macquarie Generation has held approval from the New South Wales Treasurer under the Public Authorities (Financial Arrangements) Act 1987 to have equity in and provide loans to Midwest Development Corporation Pty Ltd as further detailed in Note 30 Related Party Disclosures.

Subsidiaries are all those entities over which the Consolidated Entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Consolidated Entity controls another entity.

Note 1—Summary of Significant Accounting Policies (continued)

(b) Principles of Consolidation (continued)

(i) Subsidiaries (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. From the date Macquarie Generation disposes a wholly owned subsidiary, it:

- Derecognises the assets and liabilities (including proportionately consolidated jointly controlled assets) of the subsidiary;
- Recognises the fair value of the consideration received; and
- Recognises any surplus or deficit in profit or loss

Intercompany transactions, balances and unrealised gains on transactions between Consolidated Entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Financial Position respectively.

Investments in subsidiaries are accounted for at cost in the Financial Statements of Macquarie Generation.

(ii) Joint Venture Entities and Associates (equity accounted investees)

Joint venture entities

Joint venture entities are those operations over whose activities the Consolidated Entity held joint control. This control ceased on 25 February 2011. In the consolidated financial statements, investments in jointly controlled entities were accounted for using the equity method in accordance with New South Wales Treasury's *Mandates of Options and Major Policy Decisions under Australian Accounting Standards (TC10/08)* which are mandatory for all New South Wales public sector agencies, and were carried at cost by the Corporation or parent entity.

Investments in joint venture entities were carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's share of the jointly controlled entity's profit and loss is recognised in the Statement of Comprehensive Income from the date joint control commenced until the date joint control ceased. There were no movements in reserves to recognise directly in the consolidated reserves in Other Comprehensive Income. There were no cumulative movements to adjust against the carrying amount of the investment. Details relating to the Investments in Joint Venture Entities are set out in Note 16 and Note 30.

There were no distributions receivable from investments in joint venture entities to recognise in the parent entity's Statement of Comprehensive Income.

When the Consolidated Entity's share of losses in an investment in a joint venture entity equals or exceeds its interest in the joint venture entity, including any other unsecured long-term receivables, the Consolidated Entity did not recognise further losses, unless it had incurred obligations or made payments on behalf of the joint venture entity.

Associates

Associates are those entities over which the Consolidated Entity held significant influence but not control or joint control. This significant influence ceased on 25 February 2011. Investments in associates were accounted for in the parent entity's Financial Statements using the cost method and in the Consolidated Financial Statements using the equity method of accounting, after initially being recognised at cost.

The Consolidated Entity's share of its associate's post-acquisition profits or losses was recognised in the Statement of Comprehensive Income, and its share of post-acquisition movements in reserves was recognised in Other Comprehensive Income. No cumulative post-acquisition movements arose to adjust against the carrying amount of the investment.

There were no dividends receivable from associates to recognise in the parent entity's Statement of Comprehensive Income, or reduce the carrying amount of the investment in the Consolidated Financial Statements.

When the Consolidated Entity's share of losses in an associate equals or exceeded its interest in the associate, including any other unsecured long-term receivables, the Consolidated Entity did not recognise further losses, unless it had incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Consolidated Entity and its associates are eliminated to the extent of the Consolidated Entity's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity. Details relating to the Investments in Associates are set out in Note 16 and Note 30.

Note 1—Summary of Significant Accounting Policies (continued)

(b) Principles of Consolidation (continued)

(iii) Joint Venture Assets

Up to their disposal on 25 February 2011, interests in jointly controlled assets of unincorporated joint ventures are reported in the Consolidated Financial Statements by including the Consolidated Entity's proportionate share of assets employed in the joint venture, the share of liabilities incurred in relation to the joint venture in their respective classification categories, and the share of income earned from the joint venture. Details of joint venture assets are set out in Note 17 and Note 30.

(c) Income Tax

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

The income tax expense for the period is the tax payable on the current period's taxable income based on the company income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

Current and deferred tax balances attributable to amounts recognised directly in Equity or Other Comprehensive Income are also recognised directly in Equity or Other Comprehensive Income respectively.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

Tax consolidated legislation

Macquarie Generation and its wholly owned Australian controlled entity had implemented the tax consolidated legislation having formed a tax consolidated group from 13 August 2008 and was taxed as a single entity for the purposes of income tax. This group was deconsolidated on the date of disposal of the wholly owned subsidiary.

The head entity, Macquarie Generation, and its controlled entity in the tax consolidated group, accounted for their own current and deferred tax amounts. The tax amounts were measured based on a group allocation approach under which the current and deferred tax amounts for the tax consolidated group were allocated among each entity in the group.

In addition to its own current and deferred tax amounts, Macquarie Generation also recognised the current tax liabilities or assets and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the controlled entity in the tax consolidated group.

Macquarie Generation, in conjunction with the other member of the tax consolidated group, had entered into a tax funding arrangement which set out the funding obligations of members of the tax consolidated group in respect of tax amounts. This agreement ceased on disposal of the wholly owned subsidiary. The tax funding arrangements required payments to or from the head entity equal to the current liability (asset) assumed by the head entity and any tax loss deferred asset assumed by the head entity. This resulted in the head entity recognising assets and liabilities arising under tax funding arrangements as amounts receivable from or payable to the other entity in the Group.

Macquarie Generation has recognised deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Macquarie Generation, in conjunction with the other member of the tax consolidated group, had entered into a tax sharing agreement in order to limit the joint and several liability of each member of the tax consolidated group to their share of the head entity's tax liability should the head entity default on its tax payment obligations. This agreement ceased on disposal of the wholly owned subsidiary.

(d) Other Taxes—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 Consolidated Entity and 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.

Note 1—Summary of Significant Accounting Policies (continued)

(d) Other Taxes—Goods and Services Tax (GST) (continued)
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 and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Foreign Currency Translation
Transactions denominated in a foreign currency are converted to Australian dollars at the exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income, except when deferred in Equity as qualifying cash flow hedges.

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

(i) Electricity sales are recognised when metered as delivered. Electricity sales revenue comprises National Electricity Market settlements at spot market prices, net payments due to the Corporation by counterparties in respect of electricity derivative contracts and a direct supply contract.

Electricity production by-products sales are recognised when the significant risk and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(g) Impairment of Assets
The Consolidated Entity and Corporation assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Consolidated Entity and Corporation makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be determined to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount in which case the impairment loss is treated as a revaluation decrease.

The discounted cash flow, or value in use, valuation of property, plant and equipment was conducted effective 30 June 2011 in accordance with AASB 136 *Impairment of Assets*. The discounted cash flow valuation of property, plant and equipment uses a number of management estimates to arrive at cash inflows and outflows which are subject to volatility in the competitive energy and coal markets. The management estimates do not take account of any future impact of any carbon pricing mechanism as the cash flow projections were not able to be determined based on reasonable and supportable assumptions.

(h) Financial Assets
Financial assets are classified into the following specified categories as either 'fair value through profit or loss' (FVTPL), 'held to maturity investments', 'available for sale' financial assets or 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. At the reporting date the types of Financial Assets for the purpose of disclosure was limited to 'fair value through profit or loss', 'loans and receivables' and 'available for sale' financial assets.

Note 1—Summary of Significant Accounting Policies (continued)

(h) Financial Assets (continued)

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial Assets at Fair Value through Profit or Loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset is a derivative that is not part of a qualifying hedge relationship. Financial assets at fair value through profit or loss are stated at fair value with any resultant gain or loss recognised in profit or loss. Fair value is determined in the manner described in Note 1(q).

Loans and Receivables

Cash and cash equivalents and trade and sundry debtors from which there are fixed or determinable receipts and are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest rate method less impairment. Interest is recognised by applying the effective interest rate.

Available for sale financial assets

Available for sale financial assets, comprising principally advances to investees, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available for sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium and long term.

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset that the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Statement of Cash Flows presentation

For Statement of Cash Flows presentation purposes, cash and cash equivalents comprise 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, and bank overdrafts.

The deposits at call include deposits held with the Commonwealth Bank of Australia, New South Wales Treasury Corporation including the Hour-Glass Cash Facility and other financial institutions. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

(i) Inventories

Stores and materials, coal, biomass and oil stocks are valued 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 includes the costs incurred in bringing each product to its present location and condition.

(j) Property, Plant and Equipment

(i) Capitalisation and Initial Recognition

Property, plant and equipment are brought to account at cost or at fair value, less, where applicable, any accumulated depreciation and accumulated impairment losses.

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

(ii) Valuation of Property, Plant and Equipment

Property, plant and equipment are valued at fair value in accordance with Australian Accounting Standard AASB 116 *Property, Plant and Equipment* and New South Wales Treasury Accounting Policy *Valuation of Physical Non-Current Assets at Fair Value (TPP 07-1)*, which provides additional guidance on applying AASB 116 to public sector assets.

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.

Note 1—Summary of Significant Accounting Policies (continued)

(j) Property, Plant and Equipment (continued)

(ii) Valuation of Property, Plant and Equipment (continued)
Where the Corporation revalues depreciable assets by reference to an index to the depreciated replacement cost, the gross amount and accumulated depreciation are separately stated. Otherwise, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amounts arising on the revaluation of property, plant and equipment are credited to the asset revaluation reserve in equity. To the extent that the increase reverses a decrease previously recognised in profit attributable to the same asset, the increase is first recognised in profit. Decreases that reverse previous increases of the same asset are first charged directly against the asset revaluation reserve in equity to the extent of the remaining reserve attributable to that asset. All other decreases are charged to the Statement of Comprehensive Income.

Assets acquired or constructed since the last revaluation are valued at cost. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases for property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economics benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably.

Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

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 estimated 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	30–35 years
Other Plant and Equipment	2.5–5 years

(iii) Derecognition and disposal
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss in the year the asset is derecognised.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained profits.

(iv) Impairment
The carrying values of plant and equipment are reviewed for impairment at each reporting date, refer Note 1(g).

(v) Asset Revaluation Reserve
The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets.

(k) Leased Assets

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

Macquarie Generation leases a large proportion of its mobile plant under fully maintained operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the period of the lease (refer Note 25(b) Lease Commitments).

Note 1—Summary of Significant Accounting Policies (continued)

(l) Intangible Assets

Water Access Licences

The Corporation has purchased Water Access Licences, which allow access to certain categories of water under the *Water Sharing Plan for the Hunter Regulated River Water Source*.

Intangible assets—water access licences are carried at cost less any accumulated amortisation and any accumulated impairment losses as it has been determined there is no active market.

The useful lives of intangible assets are assessed to be either finite or indefinite.

The useful lives of the water access licences have been assessed as indefinite since August 2005. In accordance with the Water Management Act 2000, these licences are held separately from the land with an independent title, and are held in perpetuity.

Water Access Licences with indefinite useful lives are tested for impairment annually and are not amortised since August 2005. The useful lives of Water Access Licences with an indefinite life are reviewed each reporting period to determine whether indefinite life assessment continues to be supportable, which continues to be the case. If not, the change in the useful life assessment from indefinite to finite would be accounted for as a change in accounting estimate.

Exploration and Evaluation Expenditure

Exploration and evaluation expenditures in relation to development of a coal resource in New South Wales are capitalised separately for each area of interest and are carried at cost less accumulated impairment losses until derecognised due to the disposal of Midwest Development Corporation Pty Ltd.

Exploration and evaluation assets are only recognised when the rights to tenure of the area of interest are current, and either:

(i) the expenditures are expected to be recouped through successful development and production from the area of interest, or alternatively, by its sale; or

(ii) activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest is continuing.

Capitalised exploration costs are reviewed each reporting date as to whether an indication of impairment exists. If any such indication exists, the recoverable amount of the capitalised exploration costs is estimated to determine the extent of the impairment loss (if any). There were no such indications of impairment during the year up to the date of disposal of Midwest Development Corporation Pty Ltd.

(m) Emission Rights—New South Wales Greenhouse Abatement Certificates (NGACs) and Renewable Energy Certificates (RECs)

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 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.

The revaluation of NGACs is accounted for in the Statement of Comprehensive Income as an electricity generation operational expense.

The Corporation holds purchased NGACs which are recognised in the Financial Statements at cost.

The Corporation also holds internally generated NGACs and RECs which are recognised in the Financial Statements at fair value.

NGAC and REC assets carried forward are tested annually for impairment.

The Corporation's NGAC liability is recognised in the Financial Statements as a Current Provision at the estimated amount required to settle the obligation.

At the time of preparing these Financial Statements neither the International Accounting Standards Board nor the Australian Accounting Standards Board have issued authoritative pronouncements on the Accounting for Emission Rights.

Note 1—Summary of Significant Accounting Policies (continued)

(n) Financial Instruments issued by the Company

Debt and Equity Instruments

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

(o) Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial Liabilities at fair value through profit and loss

Financial liabilities are classified as financial liabilities at fair value through profit or loss where the financial liability is a derivative that does not form part of a qualifying hedge relationship. Financial liabilities at fair value through profit or loss are stated at fair value with any resultant gain or loss recognised in profit or loss. Fair value is determined in the manner described in Note 1(q).

Other Financial Liabilities

Other financial liabilities, including borrowings and security deposit, disclosed as deferred revenue, are initially measured at fair value, net of transaction costs. Other financial liabilities, excluding security deposit, are subsequently measured at amortised cost using the effective interest rate method.

The deferred revenue is disclosed in Note 22 and is provided under the terms of a long term electricity supply contract. The deposit is non-interest bearing and is repayable upon any breach of contract by Macquarie Generation or upon completion of the contract in 2017.

(p) Derivative Financial Instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Consolidated Entity and Corporation designated certain derivatives as hedges of highly probable forecast transactions, being cash flow hedges.

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 26. The movements in the hedge accounting reserve in equity are shown in Note 23.

(i) Cash flow hedges

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognised in equity in the hedge accounting reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income.

Amounts accumulated in equity are recycled in the Statement of Comprehensive Income in the periods when the hedged item will affect profit or loss, for example when the forecast electricity sale that is hedged takes place. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, for example property, plant and equipment, or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

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

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Income.

(iii) Embedded derivative

Embedded derivatives are separated from the host contract and are accounted for separately at fair value.

The electricity derivative contracts—held for trading as disclosed in Note 26 includes the fair value of an embedded derivative in relation to a long term direct electricity supply contract.

Note 1—Summary of Significant Accounting Policies (continued)

(q) Fair Value of Financial Instruments

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement, and for disclosure purposes.

(i) Electricity and Interest Rate Derivatives

The fair values of financial assets and financial liabilities including derivatives are determined as follows:

- Those with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. These currently include electricity and interest rate futures which are traded on futures exchanges.
- Other fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and where applicable option pricing models using market rates from current observable current market transactions adjusted for any differences. These currently include electricity derivative contracts including swaps, options and the embedded derivative and forward foreign exchange contracts.
- The utilisation of management assumptions are limited to the cost plus margin methodology for the long term supply contract. The main assumptions in the cost plus margin model are that of a fixed ratio of cost inputs (labour and raw materials). These inputs are substantially represented in the sales contracts to which relevant indexation applies. Accordingly, to the extent the ratio of cost inputs remains significantly unchanged and the contracted indexation reflects changes in actual costs then the fair value since inception must also remain significantly unchanged. Management reviews cost ratios and indexation results on a recurring basis.

(ii) Other Financial Assets and Financial Liabilities

The fair value of loans and receivables and other financial liabilities is represented by their carrying value, except in regard to borrowings which are recognised at amortised cost and the fair values are disclosed in Note 26.

The fair value of other monetary financial assets and liabilities for disclosure purposes are based on market prices where markets exist or estimated by discounting the future contractual cash flows by the current market interest rate that is available to the Corporation for similar derivative financial instruments.

(r) Hedge Accounting Reserve—Cash Flow Hedges

The hedge accounting reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in Note 1(p) above. Amounts are recognised in the profit and loss when the associated hedge transaction affects profit and loss.

(s) 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(j). Other routine operating maintenance, repairs and minor renewal costs are also charged as expenses as incurred.

(t) Employee Benefits

(i) Wages, Salaries and Annual Leave

Liabilities for wages, salaries and annual leave expected to be settled within one year of the reporting date, are recognised in the provision for employee benefits in respect of services provided by employees up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for annual leave which are expected to be settled more than one year after the reporting date are recognised in the provision for employee benefits in respect of services provided by employees up to the reporting date, are measured at the amounts expected to be paid when the liabilities are settled and are discounted using interest rates on Commonwealth Government Bonds with terms to maturity that match, as far as possible, the estimated future cash outflows.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long Service Leave

A liability for long service leave is recognised in the provision for employee benefits and is determined using the Projected Unit Credit actuarial valuation method 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.

Note 1—Summary of Significant Accounting Policies (continued)

(t) Employee Benefits (continued)

(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 defined benefit obligation at the reporting date and the fair 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 using the Projected Unit Credit actuarial valuation method.

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 market yields at the reporting date on Commonwealth Government Bonds with terms to maturity that match, as closely as possible, the estimated future cash flows. The amount included in the Statement of Comprehensive Income in respect of superannuation represents the contributions made by the Corporation to the superannuation schemes, adjusted by the actuarial movement in the superannuation asset or liability.

Future taxes that are funded by the schemes and are part of the provision of the existing benefit obligation, for example taxes on investment income and employer contributions, are taken into account in measuring the net liability or asset.

The actuarial gains or losses are recognised in retained earnings in the year in which they occur (refer Note 27).

(iv) Employee Benefit On-Costs

Employee benefit on-costs, including payroll tax, fringe benefits tax, superannuation 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.

(u) 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 existing and future public liability dust diseases claims for employees of contractors and their relatives associated with Liddell Power Station.

The existing and future dust diseases claims relate to exposure to asbestos from 1967 to 1974 during the construction and operation of Liddell Power Station. Thereafter Macquarie Generation's exposure to asbestos declined as a result of the removal of asbestos from Liddell Power Station and improving safety standards resulting in very low exposure after about 1982.

The Directors' assessment of the Provision for Insurance relating to existing and future public liability claims for dust diseases is based on an Actuarial Valuation carried out at 30 June 2011 by certified actuaries Cumpston Sarjeant Pty Ltd (the Actuary).

The actuarial valuation of the future claims for dust diseases contained 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 insurance claims of $10,660,000 being the best estimate as advised by the Actuary. The Actuary applied a discount rate of 5.27% being the 10 year Government Bond rate at 9 June 2011 at the time of preparation of the Actuary's report. The Actuary applied an inflation rate of 3.75% for the short term and 3.72% for the longer term to the best estimate.

The balance of the current 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.

(v) Provision for Dividends

Provision is made for dividends 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.

Note 1—Summary of Significant Accounting Policies (continued)

(w) Provision for 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 over the operating life of Bayswater Power Station and have been estimated by specialist internal technical staff based on current information and legal requirements. 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, at the reporting date.

(x) Government Grants

When grants are received that relate to an expense item, they are recognised as income in the periods necessary to match the grant to the costs that it is intended to compensate.

When the grant relates to an asset, the receipt is credited to deferred income and is released to the statement of comprehensive income over the expected useful life of the relevant asset.

(y) Rounding of Amounts

Amounts shown in these Financial Statements are rounded to the nearest thousand dollars and are expressed in Australian currency.

(z) Comparative Figures

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

(aa) Corporate Information

The Financial Statements of the Consolidated Entity and the Corporation for the period ended 30 June 2011 were authorised for issue in accordance with a resolution of the Directors of Macquarie Generation on 31 August 2011.

Note 2—Financial and Capital Risk Management

The Consolidated Entity and Corporation's principal financial instruments, other than derivatives, comprise cash, receivables, payables, borrowings and other liabilities and are disclosed in Notes 8, 9, 18, 19, 22 and 26. The Corporation's derivative financial instruments are disclosed in Notes 14 and 26.

The Corporation's activities including the sale of wholesale electricity and treasury management expose it to a variety of financial risks including as follows:

- Market risk (including currency risk, interest rate risk and price risk)
- Credit risk
- Liquidity risk.

The Corporation's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Corporation from unfavourable movements in wholesale electricity prices, foreign exchange rates and interest rates. The Corporation uses derivative financial instruments such as a variety of electricity hedging contracts, foreign exchange contracts and interest rate derivative contracts to hedge certain risk exposures.

The Corporation's risk management framework comprises Board approved policies that govern the objectives, policies and processes for managing and monitoring the risks associated with financial instruments, as described below.

The Board reviews compliance with these policies and exposure limits.

(a) Market Risk

(i) Foreign Exchange Risk

In the normal course of business the Corporation enters foreign currency contracts for future payments for the supply of infrastructure parts and equipment. These transactions expose the Corporation to foreign exchange risk.

The Board approved policies require that the foreign exchange risk on exposures greater than $250,000 are managed through the use of forward foreign exchange contracts. The exposures are for the estimated future payments applicable under approved contracts entered into by the Corporation for the firm commitment of the purchase.

The forward foreign exchange contracts must be in the same currency as the hedged item and are entered immediately after the contract is appropriately approved.

Note 2—Financial and Capital Risk Management (continued)

(a) Market Risk (continued)

(i) Foreign Exchange Risk (continued)

The forward foreign exchange contracts are timed to mature when the payments are expected to be made to the suppliers under the contract terms.

Details of forward foreign exchange contracts are included in Note 26(d).

(ii) Interest rate risk

The Corporation's exposure to market risk for changes in interest rates arises from its borrowings and investment of excess funds.

Borrowings—New South Wales Treasury Corporation loans

New South Wales Treasury Corporation (TCorp) manages interest rate risk exposures applicable to specific borrowings of the Consolidated Entity and Corporation in accordance with Board approved policies. TCorp receives a fee for this service which includes a performance component where TCorp is able to add value by achieving a reduction in the Consolidated Entity and Corporation's debt costs against an agreed benchmark.

The objectives of the Board approved policies are to contain the potential for financial loss from unfavourable movements in interest rates. The Corporation manages interest rate risk with the use of interest rate swaps, interest rate futures and options.

The Corporation uses interest rate derivative financial instruments in accordance with Board approved policies to establish short term (tactical) and longer term (strategic) positions within agreed tolerance limits to manage the portfolio duration and maturity profiles.

Details of New South Wales Treasury Corporation loans are disclosed in Note 19 and details of interest rate derivative contracts are included at Note 26(e).

Investment in excess funds—New South Wales Treasury Hour-Glass Cash Facility

The Corporation holds units in the Hour-Glass Cash Facility which invests in cash and money market instruments with maturities of up to 2 years.

The unit price of the facility is equal to the total fair value of the net assets held by the facility divided by the total number of units on issue for the facility. Unit prices are calculated and published daily.

NSW Treasury Corporation (TCorp) as trustee for the above facility is required to act in the best interests of the unit holders and to administer the trust in accordance with the trust deed. As trustee, TCorp has appointed external managers to manage the performance and risks of the facility in accordance with a mandate agreed by the parties. TCorp acts as manager for part of the Cash Facility. A significant portion of the administration of the facility is outsourced to an external custodian.

(iii) Electricity Price risk

Macquarie Generation operates in the National Electricity Market and sells the majority of its electricity output into the New South Wales Pool. Macquarie Generation receives the New South Wales floating pool price per half hour based on the energy (MWh) supplied per half hour.

The overall objective of the Corporation is to reduce the variability in cash flows associated with electricity sales within acceptable risk management guidelines and parameters as set out in the Board approved policies.

Electricity derivative contracts are used to manage the price risk associated with the sale of electricity. Details of electricity derivative contracts are included in Notes 26(b) and 26(c).

(b) Credit Risk

Credit risk refers to the risk that counterparties will default on their contractual obligations resulting in financial loss to the Corporation.

Macquarie Generation's maximum exposure to credit risk at balance date is represented by the carrying amount of the financial assets, net of any provision for impairment of receivables, including any asset derivative financial instruments, on the Statement of Financial Position.

The deposits held with TCorp are guaranteed by the State of New South Wales and are AAA-rated by Standard and Poors.

The Corporation does not have any significant credit risk exposure to any single counterparty or a group of counterparties with similar characteristics.

Note 2—Financial and Capital Risk Management (continued)

(b) Credit Risk (continued)

The receivables of the Consolidated Entity and Corporation include amounts receivable from secured debtors (24%) and other debtors (76%). The other debtors are represented by futures clearing houses with acceptable credit ratings and amounts receivable from related parties.

No collateral is held by the Consolidated Entity and Corporation. The Consolidated Entity and Corporation have not granted any financial guarantees.

(i) Electricity Derivative Contracts

The Corporation manages its credit risk exposure to Electricity Derivative 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 acceptable credit support.

The Corporation calculates the credit exposure to contract counterparties in accordance with a Loss Given Default methodology.

(ii) Forward foreign exchange contracts, interest rate derivative contracts

The Corporation is exposed to credit risks associated with interest rate derivative transactions and forward foreign exchange contracts entered into on it's behalf by New South Wales Treasury Corporation in accordance with Board approved policies.

Transactions are restricted to high credit quality counterparties who have a strong or better capacity as defined by ratings agencies, to meet cash flow obligations.

Credit exposures are represented by the fair value position of the contracts, as disclosed in Notes 26(d) and 26(e).

(c) Liquidity Risk

Liquidity risk is the risk that the Consolidated Entity and Corporation will be unable to meet its payment obligations when they fall due.

The Consolidated Entity and Corporation continuously manage liquidity risk through monitoring future short and longer term cash flow forecasts to ensure there is adequate holding of high quality liquid assets and committed credit facilities.

The Corporation manages its liquidity risk exposure to New South Wales Treasury Corporation loans by applying a Board approved policy which prescribes the prudential limits applicable to the maturity profile and liquidity limits of the total debt portfolio.

The Corporation arranges with New South Wales Treasury Corporation sufficient borrowings and financing facilities limits under the Public Authorities (Financial Arrangements) Act 1987.

The details of credit standby arrangements and the used and unused loan facilities of the Corporation are disclosed in Note 19.

(d) Capital risk management

The Consolidated Entity and Corporation manage its capital to ensure that it is able to continue as a going concern while maximising the return to the Shareholders.

The Corporation's capital structure is maintained under the New South Wales Treasury Dividend Policy and the Shareholders' Statement of Corporate Intent process and remains unchanged from 2010.

The capital structure of the Corporation consists of debt, which includes borrowings disclosed in Note 19, equity consisting of the contributed equity of the Shareholders and equity consisting of reserves and retained earnings as disclosed in Note 23.

Operating cash flows are used to maintain and upgrade the Corporation's assets as well as to make the routine outflows of tax, interest and dividend and to periodically prepay debt.

As the holder of an Australian Financial Services Licence (AFSL), the Corporation has regulatory requirements under the Corporations Law as regulated by the Australian Securities and Investments Commission (ASIC). In accordance with the Corporation's AFSL conditions, the Corporation's Net Tangible Assets must exceed $500 million in accordance with ASIC's regulatory definitions. The Corporation has not breached any of the AFSL conditions during the financial year or as at the date of signing the Financial Statements.

		Consolidated		Parent	
		2011	**2010**	**2011**	**2010**
	Notes	**$'000**	$'000	**$'000**	$'000
Note 3—Revenue					
Sales revenue					
Sale of electricity		**1,000,145**	1,134,849	**1,000,145**	1,134,849
Sale of electricity production by-products		**2,142**	1,635	**2,142**	1,635
		1,002,287	1,136,484	**1,002,287**	1,136,484
Other revenue					
Other miscellaneous revenue		**1,210**	19,026	**1,210**	19,026
Interest		**14,872**	9,765	**14,872**	9,746
		16,082	28,791	**16,082**	28,772
Revenue		**1,018,369**	1,165,275	**1,018,369**	1,165,256
Other income					
Net gain on foreign currency derivatives at fair value through profit or loss (FVTPL)		**198**	-	**198**	-
Net gain on electricity derivative contracts at FVTPL		**259**	12,603	**259**	12,603
Fair value gains on derivative financial instruments at FVTPL		**457**	12,603	**457**	12,603
Cash flow hedge ineffectiveness		**-**	-	**-**	-
Revaluation increment—non-infrastructure—buildings		**53**	261	**53**	261
Government grants		**1,000**	1,500	**1,000**	1,500
Other income, excluding gains on derivative financial instruments		**1,053**	1,761	**1,053**	1,761
Total other income		**1,510**	14,364	**1,510**	14,364
Note 4—Expenses					
Profit before income tax expense includes the following specific expenses:					
Net loss on foreign currency derivatives at fair value through profit or loss (FVTPL)		**-**	1,451	**-**	1,451
Net loss on interest rate derivative contracts at FVTPL		**68**	162	**68**	162
Fair value losses on derivative financial instruments at FVTPL		**68**	1,613	**68**	1,613
Finance costs					
Interest and related finance charges on borrowings		**63,690**	62,903	**63,690**	62,902
Insurance provision—unwinding of discount		**575**	526	**575**	526
Mine restoration provision—unwinding of discount		**573**	650	**573**	650
		64,838	64,079	**64,838**	64,078
Depreciation of					
Buildings		**227**	171	**227**	171
Plant and equipment		**168,777**	166,507	**168,777**	166,507
Total depreciation		**169,004**	166,678	**169,004**	166,678
Bad and doubtful debts					
Sundry debtors		**-**	5	**-**	5
Total bad and doubtful debts		**-**	5	**-**	5
Net loss on disposal of non-current assets					
Plant and equipment—Other		**24**	28	**24**	28
Plant and equipment—Power Stations		**1,278**	2,971	**1,278**	2,971
Land		**-**	(125)	**-**	(125)
Total loss on disposal of non-current assets		**1,302**	2,874	**1,302**	2,874

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 4—Expenses (continued)					
Profit before income tax expense includes the following specific expenses: (continued)					
Employee benefits					
Annual leave and long service leave entitlements		**8,564**	10,599	**8,564**	10,599
Superannuation expense defined benefits superannuation funds, excluding actuarial losses		**2,091**	2,886	**2,091**	2,886
Superannuation contributions to accumulation funds		**3,002**	2,819	**3,002**	2,819
Salaries and wages		**64,340**	63,704	**64,340**	63,704
Total employee benefits expense		**77,997**	80,008	**77,997**	80,008
Operating lease rentals		**3,486**	3,303	**3,486**	3,303
Non-executive Directors' remuneration		**475**	379	**475**	379
Auditors' remuneration					
Audit of the financial statements		**230**	228	**230**	224
Consultants' fees		**4,112**	4,050	**4,112**	3,892
Write-downs (write-ups) in value of inventories		**11**	(286)	**11**	(286)
Note 5—Income Tax					
(a) Income tax recognised in profit or loss for continuing operations					
Income tax expense comprises:					
Current tax expense		**81,559**	123,447	**81,563**	123,618
Current tax under/(over) provided in prior years		**251**	(442)	**251**	(442)
Deferred tax (benefit) relating to the origination and reversal of temporary differences		**(29,357)**	(39,594)	**(29,361)**	(39,568)
Income tax expense		**52,453**	83,411	**52,453**	83,608
Disclosed in the Income Statement as:					
Income tax on profit before fair value movements in derivative financial instruments		**52,336**	80,292	**52,336**	80,489
Income tax on fair value movements in derivative financial instruments		**117**	3,119	**117**	3,119
Income tax expense		**52,453**	83,411	**52,453**	83,608
Deferred income tax (benefit) expense included in income tax expense comprises:					
(Increase) decrease in deferred tax assets	12	**(15,714)**	1,530	**(15,718)**	1,556
(Decrease) in deferred tax liabilities	20	**(13,643)**	(41,124)	**(13,643)**	(41,124)
		(29,357)	(39,594)	**(29,361)**	(39,568)

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 5—Income Tax (continued)					
(b) Numerical reconciliation of income tax expense to prima facie tax payable:					
Profit before income tax from continuing operations		**176,910**	280,713	**176,910**	280,713
Profit/(loss) before income tax from discontinued operations		**1,182**	(820)	**-**	-
Profit before income tax expense		**178,092**	279,893	**176,910**	280,713
Income tax at the Corporation's income tax rate of 30% (2010–30%)		**53,428**	83,968	**53,073**	84,214
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:					
Gain on disposal of subsidiary		**(459)**	-	**-**	-
Entertainment expenses		**8**	21	**8**	21
Legal expenses		**1**	(1)	**1**	(1)
Project pool costs for which no deferred tax asset was previously recognised		**(823)**	-	**(823)**	-
Sundry items		**(14)**	(135)	**(57)**	(184)
		(1,287)	(115)	**(871)**	(164)
Under/(Over) provision in previous year		**251**	(442)	**251**	(442)
Income tax expense (benefit)		**52,392**	83,411	**52,453**	83,608
Income tax expense (benefit) is attributable to:					
Continuing operations		**52,453**	83,608	**52,453**	83,608
Discontinued operations		**(61)**	(197)	**-**	-
		52,392	83,411	**52,453**	83,608
(c) Income tax recognised directly in other comprehensive income for continuing operations					
Aggregate current and deferred tax arising in the current reporting period and not recognised in net profit or loss but debited or (credited) directly to other comprehensive income					
Current tax:					
Revaluation of property, plant and equipment		**251**	695	**251**	695
		251	695	**251**	695
Deferred tax:					
Revaluation of derivative financial instruments—cash flow hedges		**(4,686)**	1,487	**(4,686)**	1,487
Revaluation of property, plant and equipment		**(251)**	(695)	**(251)**	(695)
Actuarial valuation of defined benefits superannuation		**(314)**	(5,312)	**(314)**	(5,312)
		(5,251)	(4,520)	**(5,251)**	(4,520)
(d) Current tax assets and liabilities					
Income tax (receivable)/payable by Macquarie Generation		**(3,237)**	33,581	**(3,237)**	33,581
		(3,237)	33,581	**(3,237)**	33,581

Note 6—Discontinued Operations

(a) Details of disposed operations

On 25 February 2011, under a Direction from the Special Minister of State and Portfolio Minister and in compliance with Section 20N(1) of the State Owned Corporations Act 1989, Macquarie Generation disposed of its investment in Midwest Development Corporation Pty Ltd, whose principal activity is the participation in a joint venture to develop a coal resource in New South Wales.

	Notes	2011 $'000	2010 $'000

Note 6—Discontinued Operations (continued)

(b) Financial performance of operations disposed

The results of the discontinued operations for the year until disposal are presented below:

	2011 $'000	2010 $'000
Revenue	19	19
Expenses	(368)	(839)
Gross loss	(349)	(820)
Gain on disposal	1,531	-
Profit before income tax from discontinued operations	1,182	(820)
Income tax benefit	61	197
Gain/(loss) for the year from discontinued operations	1,243	(623)

(c) Assets and liabilities and cash flow information of disposed entity

The major classes of assets and liabilities of Midwest Development Corporation Pty Ltd are as follows:

	2011 $'000
Assets	
Cash and cash equivalents	537
Trade and other receivables	483
Investments accounted for using the equity method	36,456
Deferred tax assets	23
Intangible assets	4,807
	42,306
Liabilities	
Trade and other payables	201
	201
Net assets attributable to discontinued operations	42,105

The net cash flows of Midwest Development Corporation Pty Ltd are as follows:

	2011 $'000
Operating activities	(232)
Investing activities	(4,854)
Finance activities	4,843
Net cash outflow	(243)

Consideration received or receivable:

	2011 $'000
Cash	43,232
Liabilities transferred	404
Total disposal consideration	43,636
Less net assets disposed of	(42,105)
Gain on disposal before income tax	1,531
Income tax benefit	61
Gain on disposal after income tax	1,592

Net cash inflow on disposal:

	2011 $'000
Cash and cash equivalents consideration	43,232
Less cash and cash equivalents balance disposed of	(537)
Reflected in the consolidated statement of cash flows	42,695

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000

Note 7—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 $130,000,000 (2010–$189,800,000). This will be paid during the course of the 2011/2012 financial year and is represented by the balance of provision at 30 June 2011 as disclosed in Note 21.

Note 8—Cash and Cash Equivalents

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Cash on hand		**7**	9	**7**	9
Deposits in the New South Wales Treasury Corporation (TCorp) Hour-Glass Cash Facility		**358,784**	314,583	**358,784**	314,583
Deposits held with TCorp		**1,646**	172	**1,646**	172
Other deposits at call		**3,895**	3,830	**3,895**	3,050
		364,332	318,594	**364,332**	317,814

Reconciliation of cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the Cash Flow Statements as follows:

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Balances as disclosed above		**364,332**	318,594	**364,332**	317,814
Balances per Cash Flow Statement		**364,332**	318,594	**364,332**	317,814

Note 9—Receivables

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Current					
Trade debtors		**72,121**	80,474	**72,121**	80,474
Less: Provision for impairment of receivables		**-**	60	**-**	60
		72,121	80,414	**72,121**	80,414
Sundry debtors		**17,035**	22,976	**17,035**	22,947
Other prepayments		**605**	711	**605**	711
		89,761	104,101	**89,761**	104,072
Movements:					
Provision for impairment of receivables					
Balance at the beginning of the year		**60**	61	**60**	61
Receivables recovered during the year		**(60)**	(1)	**(60)**	(1)
Balance at the end of the year		**-**	60	**-**	60

Note 10—Inventories

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Coal stocks (at cost)		**137,643**	100,999	**137,643**	100,999
Stores and materials (at cost)		**71,510**	61,374	**71,510**	61,374
Oil stocks (at cost)		**2,452**	2,054	**2,452**	2,054
		211,605	164,427	**211,605**	164,427

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 11—Property, Plant and Equipment					

The carrying amounts of each class of non-current property, plant and equipment at the beginning and end of the current and previous financial years are set out below. The potential impact of Australia's carbon pricing mechanism on these values is discussed at Note 34.

(a) Year ended 30 June 2011	**30 June 2011**	1 July 2010	**30 June 2011**	1 July 2010
Power Stations:				
Land				
At fair value	**23,118**	23,023	**23,118**	23,023
	23,118	23,023	**23,118**	23,023
Plant and equipment (refer Note below)				
At fair value	**4,593,363**	4,570,978	**4,593,363**	4,570,978
Accumulated depreciation	**(1,422,498)**	(1,258,081)	**(1,422,498)**	(1,258,081)
	3,170,865	3,312,897	**3,170,865**	3,312,897
Total power stations	**3,193,983**	3,335,920	**3,193,983**	3,335,920
Non-infrastructure:				
Land				
At fair value	**3,768**	3,768	**3,768**	3,768
	3,768	3,768	**3,768**	3,768
Buildings				
At fair value	**4,730**	3,943	**4,730**	3,943
Accumulated depreciation	**(1,602)**	(1,344)	**(1,602)**	(1,344)
	3,128	2,599	**3,128**	2,599
Plant and equipment				
At fair value	**31,327**	37,183	**31,327**	37,183
Accumulated depreciation	**(17,884)**	(20,547)	**(17,884)**	(20,547)
	13,443	16,636	**13,443**	16,636
Total non-infrastructure	**20,339**	23,003	**20,339**	23,003
Total depreciated value of property, plant and equipment	**3,214,322**	3,358,923	**3,214,322**	3,358,923
(b) Year ended 30 June 2010	**30 June 2010**	1 July 2009	**30 June 2010**	1 July 2009
Power Stations:				
Land				
At fair value	**23,023**	23,028	**23,023**	23,028
	23,023	23,028	**23,023**	23,028
Plant and equipment (refer Note below)				
At fair value	**4,570,978**	4,549,375	**4,570,978**	4,549,375
Accumulated depreciation	**(1,258,081)**	(1,096,361)	**(1,258,081)**	(1,096,361)
	3,312,897	3,453,014	**3,312,897**	3,453,014
Total power stations	**3,335,920**	3,476,042	**3,335,920**	3,476,042

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 11—Property, Plant and Equipment (continued)					
(b) Year ended 30 June 2010 (continued)		**30 June 2010**	1 July 2009	**30 June 2010**	1 July 2009
Non-infrastructure:					
Land					
At fair value		**3,768**	2,000	**3,768**	2,000
		3,768	2,000	**3,768**	2,000
Buildings					
At fair value		**3,943**	3,325	**3,943**	3,325
Accumulated depreciation		**(1,344)**	(1,001)	**(1,344)**	(1,001)
		2,599	2,324	**2,599**	2,324
Plant and equipment					
At fair value		**37,183**	31,584	**37,183**	31,584
Accumulated depreciation		**(20,547)**	(17,729)	**(20,547)**	(17,729)
		16,636	13,855	**16,636**	13,855
Total non-infrastructure		**23,003**	18,179	**23,003**	18,179
Total depreciated value of property, plant and equipment		**3,358,923**	3,494,221	**3,358,923**	3,494,221

Notes:

The above tables include work in progress carried at cost for Power Stations plant and equipment of $25.4 million and non-infrastructure plant and equipment of $2.4 million (June 2010–$18.0 million total).

The gross replacement cost for Power Stations plant and equipment at 30 June 2011 was $9,583.5 million (2010–$9,047.9 million) and accumulated depreciation was $6,415.4 million (2010–$5,831.8 million). This does not include amounts for work in progress, capital spares and some additions which are included in the fair value of Power Stations plant and equipment of $3.2 million (2010–$3.3 million) and disclosed in the above table.

Note 11—Property, Plant and Equipment (continued)

(c) Valuation of Power Stations
The Directors' valuations of infrastructure land and specialised plant and equipment associated with the power stations are based on fair value.

In accordance with AASB 116 *Property, Plant and Equipment* the Directors are required to assess on an annual basis whether the carrying value of assets equates to fair value.

Fair value is determined using the lower of the depreciated replacement cost and value in use.

A full physical valuation of the Corporation's infrastructure assets was carried out by members of the Australian Property Institute on behalf of Colliers International Consultancy and Valuation Pty Ltd at 22 April 2008.

This was updated by a 'desktop' valuation of the Corporation's infrastructure assets carried out by members of the Australian Property Institute on behalf of Colliers International Consultancy and Valuation Pty Ltd at June 2011 to determine depreciated replacement cost.

The discounted cash flow, or value in use, valuation of property, plant and equipment was conducted effective 30 June 2011 in accordance with AASB 136 *Impairment of Assets*. The discounted cash flow valuation of property, plant and equipment uses a number of management estimates to arrive at cash inflows and outflows which are subject to volatility in the competitive energy and coal markets. The management estimates do not take account of any future impact of any carbon pricing mechanism as the cash flow projections were not able to be determined based on reasonable and supportable assumptions. This uncertainty may have a significant detrimental impact on the valuation of the assets and the profitablility of Macquarie Generation.

Macquarie Generation uses its weighted average cost of capital to discount future revenue and expenditure estimates to present value.

The Directors' have determined at 30 June 2011 that the depreciated replacement costs as determined by the independent valuers equates to fair value.

(d) Valuation 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 most recent revaluation was carried out by members of the Australian Property Institute on behalf of Colliers International Consultancy Valuation Pty Ltd at 30 June 2011.

(e) Valuation of Non-infrastructure Plant and Equipment
The valuation of non-infrastructure plant and equipment is based on fair value equating to the written down value of the assets as at 30 June 2011. This is in accordance with New South Wales Treasury Accounting Policy *Valuation of Non-Current Assets at Fair Value (TPP 07-1)*.

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000

Note 11—Property, Plant and Equipment (continued)

(f) Reconciliations

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

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Power Stations:				
Land				
Carrying amount at start of year	**23,023**	23,028	**23,023**	23,028
Additions	**95**	2	**95**	2
Disposals	**-**	(7)	**-**	(7)
Carrying amount at end of year	**23,118**	23,023	**23,118**	23,023
Plant and equipment				
Carrying amount at start of year	**3,312,897**	3,453,014	**3,312,897**	3,453,014
Additions	**24,109**	25,628	**24,109**	25,628
Disposals	**(1,279)**	(2,972)	**(1,279)**	(2,972)
Depreciation expense	**(164,862)**	(162,773)	**(164,862)**	(162,773)
Carrying amount at end of year	**3,170,865**	3,312,897	**3,170,865**	3,312,897
Non-infrastructure:				
Land				
Carrying amount at start of year	**3,768**	2,000	**3,768**	2,000
Additions	**-**	1,768	**-**	1,768
Carrying amount at end of year	**3,768**	3,768	**3,768**	3,768
Buildings				
Carrying amount at start of year	**2,599**	2,324	**2,599**	2,324
Additions	**707**	185	**707**	185
Revaluation increment	**53**	261	**53**	261
Disposals	**(4)**	-	**(4)**	-
Depreciation expense	**(227)**	(171)	**(227)**	(171)
Carrying amount at end of year	**3,128**	2,599	**3,128**	2,599
Plant and equipment				
Carrying amount at start of year	**16,636**	13,855	**16,636**	13,855
Additions	**826**	6,914	**826**	6,914
Disposals	**(105)**	(400)	**(105)**	(400)
Depreciation expense	**(3,914)**	(3,733)	**(3,914)**	(3,733)
Carrying amount at end of year	**13,443**	16,636	**13,443**	16,636
Total				
Carrying amount at start of year	**3,358,923**	3,494,221	**3,358,923**	3,494,221
Additions	**25,737**	34,497	**25,737**	34,497
Revaluation increment	**53**	261	**53**	261
Disposals	**(1,388)**	(3,379)	**(1,388)**	(3,379)
Depreciation expense	**(169,003)**	(166,677)	**(169,003)**	(166,677)
Carrying amount at end of year	**3,214,322**	3,358,923	**3,214,322**	3,358,923

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 11—Property, Plant and Equipment (continued)					
(g) The carrying amounts that would have been recognised if property, plant and equipment were stated at cost are as follows:					
Power Stations:					
Land					
Cost		**5,354**	5,259	**5,354**	5,259
		5,354	5,259	**5,354**	5,259
Plant and equipment					
Cost		**2,730,629**	2,707,635	**2,730,629**	2,707,635
Accumulated depreciation		**(981,025)**	(900,031)	**(981,025)**	(900,031)
		1,749,604	1,807,604	**1,749,604**	1,807,604
Total Power Stations		**1,754,958**	1,812,863	**1,754,958**	1,812,863
Non-infrastructure:					
Land					
Cost		**2,464**	2,464	**2,464**	2,464
		2,464	2,464	**2,464**	2,464
Buildings					
Cost		**8,724**	8,020	**8,724**	8,020
Accumulated depreciation		**(4,497)**	(4,158)	**(4,497)**	(4,158)
		4,227	3,862	**4,227**	3,862
Plant and equipment					
Cost		**33,549**	49,651	**33,549**	49,651
Accumulated depreciation		**(20,107)**	(33,018)	**(20,107)**	(33,018)
		13,442	16,633	**13,442**	16,633
Total non-infrastructure		**20,133**	22,959	**20,133**	22,959
Total depreciated value of property, plant and equipment		**1,775,091**	1,835,822	**1,775,091**	1,835,822
Note 12—Deferred Tax Assets					
The balance comprises temporary differences attributable to:					
Amounts recognised in profit or loss					
Doubtful debts		**-**	18	**-**	18
Defined benefit superannuation funds		**(3,913)**	(2,966)	**(3,913)**	(2,966)
Other employee benefits provisions		**12,309**	12,387	**12,309**	12,387
Other provisions		**4,267**	4,759	**4,267**	4,759
Trade creditors		**175**	219	**175**	215
Low value plant pools		**113**	100	**113**	100
Derivative financial instruments—held for trading		**13,106**	(2,331)	**13,106**	(2,331)
Intangible Assets		**-**	23	**-**	-
Grants		**1,500**	-	**1,500**	-
Consultants' fees		**1,260**	917	**1,260**	917
		28,817	13,126	**28,817**	13,099

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 12—Deferred Tax Assets (continued)					
Amounts recognised directly in equity					
Derivative financial instruments—cash flow hedges		**7,198**	7,135	**7,198**	7,135
Defined benefit superannuation funds		**27,949**	27,634	**27,949**	27,634
		35,147	34,769	**35,147**	34,769
Net deferred tax assets		**63,964**	47,895	**63,964**	47,868
Movements:					
Opening balance at 1 July		**47,895**	47,337	**47,868**	47,336
Credited (charged) to income	5	**15,714**	(1,530)	**15,718**	(1,556)
Credited (charged) to equity		**378**	2,088	**378**	2,088
Amounts included in disposed subsidiary		**(23)**	-	**-**	-
Closing balance at 30 June		**63,964**	47,895	**63,964**	47,868

Note 13—Intangible Assets

The carrying amounts of each class of non-current intangible assets at the beginning and end of the current and previous financial year are set out below.

(a) Year ended 30 June 2011	**30 June 2011**	1 July 2010	**30 June 2011**	1 July 2010
Water entitlements	**9,807**	9,807	**9,807**	9,807
Accumulated amortisation	**(133)**	(133)	**(133)**	(133)
Exploration and Evaluation Assets	**-**	3,926	**-**	-
	9,674	13,600	**9,674**	9,674

(b) Year ended 30 June 2010	**30 June 2010**	1 July 2009	**30 June 2010**	1 July 2009
Water entitlements	**9,807**	9,774	**9,807**	9,774
Accumulated amortisation	**(133)**	(133)	**(133)**	(133)
Exploration and Evaluation Assets	**3,926**	-	**-**	-
	13,600	9,641	**9,674**	9,641

(c) Reconciliations

The reconciliations of the carrying amount of each class of non-current intangible assets at the beginning and end of the current and previous financial years are set out below.

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Water Entitlements				
Carrying amount at start of year	**9,674**	9,641	**9,674**	9,641
Additions	**-**	33	**-**	33
Carrying amount at end of year	**9,674**	9,674	**9,674**	9,674
Exploration and Evaluation Assets				
Carrying amount at start of year	**3,926**	-	**-**	-
Additions	**881**	3,926	**-**	-
Amounts included in disposed subsidiary	**(4,807)**	-	**-**	-
Carrying amount at end of year	**-**	3,926	**-**	-

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 14—Derivative Financial Instruments					
Current assets					
Electricity derivative contracts—cash flow hedges		**39,343**	43,930	**39,343**	43,930
Electricity derivative contracts—held for trading		**5,681**	4,998	**5,681**	4,998
Forward foreign exchange contracts—held for trading		**-**	88	**-**	88
Interest rate futures contracts—held for trading		**5**	5	**5**	5
		45,029	49,021	**45,029**	49,021
Current liabilities					
Electricity derivative contracts—cash flow hedges		**1,051**	3,733	**1,051**	3,733
Electricity derivative contracts—held for trading		**22,713**	3,360	**22,713**	3,360
Forward foreign exchange contracts—held for trading		**12**	838	**12**	838
Interest rate futures contracts—held for trading		**73**	167	**73**	167
		23,849	8,098	**23,849**	8,098
Non-Current assets					
Electricity derivative contracts—cash flow hedges		**5,821**	12,915	**5,821**	12,915
Electricity derivative contracts—held for trading		**22,605**	4,646	**22,605**	4,646
		28,426	17,561	**28,426**	17,561
Non-Current liabilities					
Electricity derivative contracts—cash flow hedges		**6,813**	18	**6,813**	18
Electricity derivative contracts—held for trading		**29,316**	116	**29,316**	116
		36,129	134	**36,129**	134

For further information refer to Note 26.

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 15—Other Assets					
Current					
New South Wales Greenhouse Abatement Certificates (NGACs)					
Purchased NGACs		**2,279**	758	**2,279**	758
Internally generated NGACs		**242**	1,249	**242**	1,249
Renewable Energy Certficates (RECs)					
Internally generated RECs		**848**	3,514	**848**	3,514
Total emission rights		**3,369**	5,521	**3,369**	5,521
Non-Current					
Shares in controlled entities	29	**-**	-	**-**	38,793
		-	-	**-**	38,793

Note 16—Investments Accounted for Using the Equity Method

(a) Details of investments in joint venture entities and associates accounted for using the equity method are as follows:

i) Joint Venture Entity—Cobbora Coal Unit Trust

Midwest Development Corporation Pty Ltd has a 38.34% interest in the Cobbora Coal Unit Trust.The Trustee of the Cobbora Coal Unit Trust is CCP Holdings Pty Limited which was incorporated in Australia on 5 September 2008. The principal activity of the unit trust is to identify and acquire land suitable for developing a coal resource in New South Wales.

ii) Associate—Cobbora Management Company Pty Ltd

Midwest Development Corporation Pty Ltd has a 38.34% interest and shareholding in the Cobbora Management Company Pty Ltd which was incorporated in Australia on 11 February 2009. The principal activity of the Cobbora Management Company Pty Ltd is the development of a coal resource in New South Wales.

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 16—Investments Accounted for Using the Equity Method (continued)					
(b) Movements in carrying amounts					
i) Joint Venture Entity—Cobbora Coal Unit Trust					
Carrying amount at beginning of financial year		32,739	-	-	-
Units in trust acquired during the financial year		3,862	32,978	-	-
Share of losses after income tax		(146)	(239)	-	-
Derecognition on disposal of Midwest Development Corporation Pty Ltd		(36,455)	-	-	-
Carrying amount at the end of the financial year		-	32,739	-	-
ii) Associate—Cobbora Management Company Pty Ltd					
Carrying amount at beginning of financial year		1	1	-	-
Share of losses after income tax		-	-	-	-
Derecognition on disposal of Midwest Development Corporation Pty Ltd		(1)	-	-	-
Carrying amount at the end of the financial year		-	1	-	-

(c) Summarised Financial Information of Joint Venture Entities and Associates

i) Joint Venture Entity—Cobbora Coal Unit Trust

The Consolidated Entity's share of aggregated assets and liabilities of the joint venture entity derecognised on disposal of Midwest Development Corporation Pty Ltd, and held at 30 June 2010, are as follows:

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Current assets	97	745	-	-
Non-current assets	36,238	31,923	-	-
Total assets	36,335	32,668	-	-
Current liabilities	1	51	-	-
Non-current liabilities	-	-	-	-
Total liabilities	1	51	-	-
Net assets	36,334	32,617	-	-

The Consolidated Entity's share of the revenue, expenses and results of the joint venture entity are as follows:

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Revenues	36	212	-	-
Expenses	182	398	-	-
Profit (loss) before income tax	(146)	(186)	-	-

ii) Associate—Cobbora Management Company Pty Ltd

The Consolidated Entity's share of aggregated assets and liabilities of the associate derecognised on disposal of Midwest Development Corporation Pty Ltd, and held at 30 June 2010 are as follows:

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Current assets	1	1	-	-
Total assets	1	1	-	-
Total liabilities	-	-	-	-
Net assets	1	1	-	-

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000

Note 16—Investments Accounted for Using the Equity Method (continued)

(c) Summarised Financial Information of Joint Venture Entities and Associates (continued)

ii) Associate—Cobbora Management Company Pty Ltd (continued)

The Consolidated Entity's share of the revenue, expenses and results of the associate are as follows:

		Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Revenues		-	-	-	-
Expenses		-	-	-	-
Profit before income tax		-	-	-	-
Share of Associate's Capital Commitments		-	-	-	-

Note 17—Jointly Controlled Assets

Macquarie Generation disposed of its subsidiary, Midwest Development Corporation Pty Ltd, on 25 February 2011. Midwest Development Corporation Pty Ltd was the Consolidated Entity's participant in a joint venture.

The Consolidated Entity held a 38.34% interest in the Cobbora Unincorporated Joint Venture which was established on 23 March 2009 for the purpose of jointly developing a coal resource in New South Wales.

The Group's interests in the assets employed in the joint venture derecognised on the disposal of Midwest Development Corporation Pty Ltd, and those included in the Consolidated Statement of Financial Position at 30 June 2010, in accordance with the Accounting Policy described in Note 1, are shown under the following classifications.

		Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Current assets		61	455	-	-
Non-current assets		4,807	3,926	-	-
Total assets		4,868	4,381	-	-
Current liabilities		6,512	5,811	-	-
Non-current liabilities		-	-	-	-
Total liabilities		6,512	5,811	-	-
Net assets		(1,644)	(1,430)	-	-
Revenues		7	15	-	-
Expenses		222	596	-	-
Profit (loss) before income tax		(215)	(581)	-	-
Share of Joint Venture's Expenditure Commitments		-	186	-	-
Share of Joint Venture's Capital Commitments		-	1,389	-	-

Note 18—Trade and Other Payables

		Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Current (Unsecured)					
Trade creditors		86,979	94,787	86,979	94,835
Accrued interest on borrowings		13,482	12,163	13,482	12,163
		100,461	106,950	100,461	106,998

Note 19—Borrowings

		Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Current (Unsecured)					
New South Wales Treasury Corporation loans		124,217	56,338	124,217	56,338
		124,217	56,338	124,217	56,338
Non-Current (Unsecured)					
New South Wales Treasury Corporation loans		699,139	765,235	699,139	765,235
		699,139	765,235	699,139	765,235

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 19—Borrowings (continued)					
Financing Arrangements:					
Facilities Available					
Bank overdraft		**2,000**	2,000	**2,000**	2,000
Intra-day credit facility		**20,000**	20,000	**20,000**	20,000
Bank guarantee facility		**4,000**	4,000	**4,000**	4,000
Credit card facility		**500**	500	**500**	500
New South Wales Treasury Corporation loans		**1,650,000**	1,650,000	**1,650,000**	1,650,000
New South Wales Treasury Corporation come and go facility		**390,000**	390,000	**390,000**	390,000
Total available		**2,066,500**	2,066,500	**2,066,500**	2,066,500
Facilities Utilised					
Bank overdraft		**-**	-	**-**	-
Intra-day credit facility		**-**	-	**-**	-
Bank guarantee facility		**3,274**	3,511	**3,274**	3,511
Credit card facility		**-**	-	**-**	-
New South Wales Treasury Corporation loans		**823,356**	821,573	**823,356**	821,573
New South Wales Treasury Corporation come and go facility		**-**	-	**-**	-
Total utilised		**826,630**	825,084	**826,630**	825,084

Macquarie Generation has approval from the Treasurer under the Public Authorities (Financial Arrangements) Act 1987 (PAFA), 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 New South Wales Treasury Corporation.

Note 20—Deferred Tax Liabilities

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
The balance comprises temporary differences attributable to:					
Amounts recognised in profit and loss					
Inventories		**42,028**	30,917	**42,028**	30,917
Derivative financial instruments—held for trading		**20,801**	1,205	**20,801**	1,205
Depreciation on property, plant and equipment		**207,153**	250,357	**207,153**	250,357
Prepayments		**36**	80	**36**	80
Internally generated NGACs and RECs		**327**	1,429	**327**	1,429
		270,345	283,988	**270,345**	283,988
Amounts recognised directly in equity					
Derivative financial instruments		**14,159**	18,782	**14,159**	18,782
Revaluation of property, plant and equipment		**589,180**	589,431	**589,180**	589,431
		603,339	608,213	**603,339**	608,213
Net deferred tax liabilities		**873,684**	892,201	**873,684**	892,201
Movements:					
Opening balance at 1 July		**892,201**	935,757	**892,201**	935,757
Charged (credited) to the income statement	5	**(13,643)**	(41,124)	**(13,643)**	(41,124)
Charged (credited) to equity		**(4,874)**	(2,432)	**(4,874)**	(2,432)
Closing balance at 30 June		**873,684**	892,201	**873,684**	892,201

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 21—Provisions					
Current					
Insurance		**1,075**	1,025	**1,075**	1,025
Dividend		**130,000**	189,800	**130,000**	189,800
Employee benefits		**40,033**	40,091	**40,033**	40,091
Mine rehabilitation		**600**	800	**600**	80
NGAC obligations		**2,488**	4,208	**2,488**	4,208
		174,196	235,924	**174,196**	235,924
Non-Current					
Insurance		**10,660**	10,630	**10,660**	10,630
Employee benefits		**997**	1,202	**997**	1,202
Mine rehabilitation		**4,351**	4,336	**4,351**	4,336
Defined benefits superannuation funds		**80,119**	81,473	**80,119**	81,473
		96,127	97,641	**96,127**	97,641

The amount of the current component of the employee benefits provision which is expected to be settled in less than 12 months is $2,388,780 (2010–$2,420,788) for long service leave, $6,336,652 (2010 - $5,972,440) for annual leave and $2,136,390 (2010–$2,600,000) for other employee benefits.

The amount of the current component of the employee benefits provision which is expected to be settled after more than 12 months is $24,153,220 (2010–$24,476,853) for long service leave and $5,018,358 (2010–$4,620,735) for annual leave.

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

	NGAC $'000	Insurance $'000	Dividend $'000	Mine Rehabilitation $'000	Total $'000
Current					
Carrying amount at the start of the year	4,208	1,025	189,800	800	195,833
Additional provisions recognised	(12,132)	3,607	130,000	(15)	121,460
Payments/other sacrifices of economic benefits	10,412	(3,557)	(189,800)	(185)	(183,130)
Carrying amount at the end of the year	2,488	1,075	130,000	600	134,163

	Insurance $'000	Dividend $'000	Mine Rehabilitation $'000	Total $'000
Non-Current				
Carrying amount at the start of the year	10,630	-	4,336	14,966
Payments/other sacrifices of economic benefits	(769)	-	(558)	(1,327)
Increase arising from unwinding of discount	575	-	573	1,148
Increase arising from decrease in discount rate	224	-	-	224
Carrying amount at the end of the year	10,660	-	4,351	15,011

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 22—Other Liabilities					
Non-Current					
Deferred revenue		**37,357**	36,000	**37,357**	36,000
Government grants		**5,000**	-	**5,000**	-
		42,357	36,000	**42,357**	36,000
Note 23—Equity					
(a) Share Capital		**No. of Shares**	No. of Shares	**No. of Shares**	No. of Shares
Ordinary Shares, fully paid		**2**	2	**2**	2
		$'000	$'000	**$'000**	$'000
Contributed Equity		**281,078**	281,078	**281,078**	281,078

In accordance with the State Owned Corporations Act, 1989, the two voting shareholders at 30 June 2011, the Honourable M. Baird, MP, Treasurer and the Honourable G. Pearce, MLC, Minister for Finance and Services held one share each at $1.00 per share in the Corporation.

	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
(b) Reserves				
Asset revaluation reserve	**1,429,036**	1,429,623	**1,429,036**	1,429,623
Hedge accounting reserve—cash flow hedges	**26,057**	36,992	**26,057**	36,992
	1,455,093	1,466,615	**1,455,093**	1,466,615
Movements:				
(i) Asset Revaluation Reserve:				
Balance at the beginning of the financial year	**1,429,623**	1,431,246	**1,429,623**	1,431,246
Realisation of asset (increments)/decrements transferred to retained profits net of tax	**(587)**	(1,623)	**(587)**	(1,623)
Balance at the end of the financial year	**1,429,036**	1,429,623	**1,429,036**	1,429,623
(ii) Hedge accounting reserve—cash flow hedges:				
Balance at the beginning of the financial year	**36,992**	33,521	**36,992**	33,521
Gain (loss) recognised on electricity derivative contracts	**105,887**	(10,166)	**105,887**	(10,166)
Deferred tax arising on electricity derivative contracts	**(31,766)**	3,050	**(31,766)**	3,050
Transfer to profit or loss:				
Sale of electricity	**(121,508)**	15,124	**(121,508)**	15,124
Deferred tax arising on transfers to profit	**36,452**	(4,537)	**36,452**	(4,537)
Balance at the end of the financial year	**26,057**	36,992	**26,057**	36,992
(c) Retained Profits				
Balance at the beginning of the financial year	**132,588**	136,678	**133,831**	137,298
Transfer of realised asset revaluation increments/(decrements) from reserves net of tax	**587**	1,623	**587**	1,623
Net profit	**125,700**	196,482	**124,457**	197,105
Defined benefits superannuation actuarial gains/(losses) net of tax	**(1,486)**	(12,395)	**(1,486)**	(12,395)
Dividends provided for (transactions with owners as owners)	**(130,000)**	(189,800)	**(130,000)**	(189,800)
Balance at the end of the financial year	**127,389**	132,588	**127,389**	133,831

Note 24—Cash Flow Information

	Notes	Consolidated 2011 $'000 Year ended 30 June	Consolidated 2010 $'000 Year ended 30 June	Parent 2011 $'000 Year ended 30 June	Parent 2010 $'000 Year ended 30 June
Reconciliation of net profit after tax to net cash flows from operations					
Net profit		**125,700**	196,482	**124,457**	197,105
Adjustments for:					
Depreciation		**169,004**	166,678	**169,004**	166,678
Revaluation decrement (increment)—non infrastructure buildings		**(53)**	(261)	**(53)**	(261)
Amortisation on security deposit		**-**	15,528	**-**	15,528
Deferred income recognition on security deposit		**-**	(11,810)	**-**	(11,810)
Increase (decrease) in borrowings accruals		**5,473**	7,695	**5,473**	7,695
Increase (decrease) in intangibles accruals		**112**	-	**-**	-
Net loss on sale of non-current assets		**1,302**	2,874	**1,302**	2,874
Net (profit)/loss on disposal of subsidiary		**(1,385)**	-	**-**	-
Fair value adjustment to derivative financial instruments		**(10,935)**	4,958	**(10,935)**	4,958
Changes in operating assets and liabilities					
Decrease (increase) in trade and other receivables		**14,953**	(8,722)	**15,002**	(8,802)
(Increase) in inventories		**(47,178)**	(20,123)	**(47,178)**	(20,123)
(Increase) decrease in derivative financial instrument assets		**(6,873)**	15,389	**(6,873)**	15,389
Decrease in other assets		**2,152**	2,424	**2,152**	2,449
Increase (decrease) in derivative financial instrument liabilities		**51,746**	(23,687)	**51,746**	(23,687)
(Decrease) in trade and other creditors, employee benefits and other provisions		**(14,476)**	(5,122)	**(14,319)**	(4,798)
(Decrease) in provision for taxes payable		**(36,749)**	8,515	**(36,753)**	8,515
(Decrease) in net deferred taxes payable		**(34,298)**	(40,264)	**(34,298)**	(40,264)
Net cashflows from operating activities		**218,495**	310,554	**218,727**	311,446

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Note 25—Commitments					
(a) Capital Commitments					
Capital expenditure contracted at the reporting date but not recognised as liabilities, payable:					
Property, plant and equipment					
Within one year		**12,573**	6,516	**12,573**	5,310
Later than one year but not later than five years		**4,888**	550	**4,888**	550
		17,461	7,066	**17,461**	5,860
Other assets					
Within one year		**-**	-	**-**	-
		-	-	**-**	-
(b) Lease Commitments					
Commitments in relation to leases contracted at the reporting date but not recognised as liabilities, payable:					
Within one year		**3,843**	3,566	**3,843**	3,566
Later than one year but not later than five years		**4,933**	7,335	**4,933**	7,335
		8,776	10,901	**8,776**	10,901
(c) Expenditure Commitments					
Commitments for future maintenance contracts not recognised as liabilities, payable:					
Within one year		**6,121**	13,890	**6,121**	13,707
Later than one year but not later than five years		**6,495**	12,839	**6,495**	12,839
Later than five years		**634**	1,012	**634**	1,012
		13,250	27,741	**13,250**	27,558

The Corporation leases mobile plant under a non-cancellable operating lease which expires in May 2013. There is no option for renewal at the end of the lease period.

The Corporation leases office space in Sydney under a non-cancellable operating lease expiring in June 2016. There is no option for renewal at the end of the lease period.

In accordance with New South Wales Treasury Circular NSWTC 10/15 Accounting for Goods and Services Tax (GST) the above amounts are inclusive of GST which will be recoverable from the Australian Taxation Office after payment of the future commitments. The total amount of GST included in the above commitments balance is $3,590,000 (2010 - $4,172,000) for the consolidated entity and $3,590,000 (2010 - $4,029,000) for the parent entity.

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000

Note 26—Financial Instruments

(a) Instruments used by the Corporation

The Corporation uses derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in wholesale electricity prices, foreign exchange and interest rates and to trade and to profit from movements in the wholesale electricity market prices and interest rates in accordance with Board approved risk management policies as described in Note 2.

The Corporation's Financial Instruments have been disclosed in Notes 1(h), 1(n), 1(o), 1(p), 1(q), 8, 9, 14,18,19 and 22.

Instruments reported by categories of Financial Assets and Financial Liabilities

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Loans and receivables					
Cash on hand	8	**7**	9	**7**	9
Deposits in the New South Wales Treasury Corporation (TCorp) Hour-Glass Cash Facility	8	**358,784**	314,583	**358,784**	314,583
Deposits held with TCorp	8	**1,646**	172	**1,646**	172
Other deposits at call	8	**3,895**	3,830	**3,895**	3,050
Trade debtors	9	**72,121**	80,474	**72,121**	80,474
Provision for impairment of receivables	9	**-**	(60)	**-**	(60)
Sundry debtors excluding employee housing loans	9	**17,035**	22,976	**17,035**	22,947
		453,488	421,984	**453,488**	421,175
Available for sale financial assets					
Sundry debtors—advances to related parties	9	**-**	-	**-**	-
		-	-	**-**	-
Financial assets and financial liabilities at fair value through profit or loss					
Assets					
Electricity derivative contracts—held for trading	14	**28,286**	9,644	**28,286**	9,644
Forward foreign exchange contracts—held for trading	14	**-**	88	**-**	88
Interest rate futures contracts—held for trading	14	**5**	5	**5**	5
		28,291	9,737	**28,291**	9,737
Liabilities					
Electricity derivative contracts—held for trading	14	**52,029**	3,476	**52,029**	3,476
Forward foreign exchange contracts—held for trading	14	**12**	838	**12**	838
Interest rate futures contracts—held for trading	14	**73**	167	**73**	167
		52,114	4,481	**52,114**	4,481
Other financial liabilities					
Trade creditors	18	**86,979**	94,787	**86,979**	94,835
Accrued interest	18	**13,482**	12,163	**13,482**	12,163
New South Wales Treasury Corporation loans	19	**823,356**	821,573	**823,356**	821,573
Deferred revenue	22	**37,357**	36,000	**37,357**	36,000
		961,174	964,523	**961,174**	964,571

(b) Electricity derivative contracts—cash flow hedges

Derivatives that are designated and effective as cash flow hedging carried at fair value

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000
Assets					
Electricity derivative contracts—cash flow hedges	14	**45,164**	56,845	**45,164**	56,845
		45,164	56,845	**45,164**	56,845
Liabilities					
Electricity derivative contracts—cash flow hedges	14	**7,864**	3,751	**7,864**	3,751
		7,864	3,751	**7,864**	3,751

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Parent 2011 $'000	Parent 2010 $'000

(b) Electricity derivative contracts—cash flow hedges (continued)

The nature of risks hedged and hedging instruments used is discussed in Note 2(a)(iii). Amounts reclassified from Equity to profit and loss and recognised in Other Comprehensive Income for the year are disclosed in Note 23(b).

As at reporting date the aggregate amount of unrealised gains under forward electricity derivative contracts—cash flow hedges deferred in Equity in the Hedge Accounting Reserve after tax relating to the exposure on the anticipated future electricity sales transactions is $26,110,000 gain (June 2010: $37,166,000 gain). It is anticipated that the electricity sales will take place as detailed in the following table at which stage the amount deferred in Equity will be released to Sales Revenue—Sale of Electricity:

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Less than 1 year	**26,805**	28,139	**26,805**	28,139
1 to 5 years	**(695)**	9,027	**(695)**	9,027
	26,110	37,166	**26,110**	37,166

(c) Electricity derivative contracts—held for trading deferred in Equity

As at reporting date, unrealised losses outstanding in Equity in the Hedge Accounting Reserve for instruments not classified as cash flow hedges is $53,000 loss (June 2010 - $174,000 loss). This loss relates to an adjustment recorded on transition to AIFRS for the exposure to anticipated future electricity sales transactions originally hedged under forward electricity derivative contracts that were no longer treated as effective. It is anticipated that the electricity sales will take place as detailed in the following table at which stage the amount deferred in Equity will be released to Sales Revenue - Sale of Electricity:

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Less than 1 year	**(53)**	(121)	**(53)**	(121)
1 to 5 years	**-**	(53)	**-**	(53)
	(53)	(174)	**(53)**	(174)

(d) Forward foreign exchange contracts—held for trading

At balance date the details of the outstanding contracts for the Corporation are:

	2011	2010	2011	2010
	Aust Dollars		Average Exchange Rate	
	$'000	$'000		
Buy Euros				
Maturity				
0–12 months	-	3,988	-	0.696
Buy British Pounds				
Maturity				
0–12 months	**582**	-	**0.67**	-
Buy Japanese Yen				
Maturity				
0–12 months	-	2,884	-	75.08

The amounts disclosed above represent the Australian dollar equivalent of the contracted foreign currency amount.

Note 26—Financial Instruments (continued)

(e) Interest rate futures contracts—held for trading

The interest rate futures position for the Corporation at the end of the year are as follows:

	Delivery Month	Number Contracts Sold	Number Contracts Bought	Total Nominal Value 2011 $'000	Total Nominal Value 2010 $'000
30 Day Interbank Cash Rate *	Aug–11	-	14	42,000	-
30 Day Interbank Cash Rate *	Oct–11	14	-	(42,000)	-
3 Year Bond Futures *	Sep–11	45	-	(4,500)	(11,000)
10 Year Bond Futures *	Sep–11	157	-	(15,700)	(5,000)
90 Day Bill Futures *	Dec–11	145	-	(145,000)	25,000
		361	14	(165,200)	9,000

* Negative amounts indicate sold futures and positive amounts indicate bought futures.

(f) Interest Rate Risk Exposure

Interest rate risk is the risk that the financial instrument will fluctuate due to changes in market interest risks.

Policies have been adopted with the objective of ensuring that the Consolidated Entity and Corporation are not exposed to interest rate movements which could adversely affect their ability to meet their financial obligations as they fall due.

(g) Credit Risk Exposure

The Corporation's risk management objectives and policies in relation to credit risk are described in Note 2.

This includes maximum exposure to credit risk and credit quality of financial assets discussed in Note 2(b) and 2(b)(i) respectively.

(h) Liquidity risk

The table below analyses the Corporation's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows of each class of financial liabilities, therefore the amounts disclosed below will not reconcile to the Statement of Financial Position.

	1 year or less 2011 $'000	Over 1 to 5 years 2011 $'000	Over 5 years 2011 $'000	Total 2011 $'000	Carrying Amount 2011 $'000
Financial liabilities					
Non-derivatives					
Trade creditors	86,979	-	-	86,979	86,979
New South Wales Treasury Corporation loans including accrued interest	171,748	422,159	490,726	1,084,633	836,838
Deferred revenue	37,357	-	-	37,357	37,357
Total non-derivatives	296,084	422,159	490,726	1,208,969	961,174
Derivatives					
Held for Trading					
-Electricity derivative contracts	23,192	35,288	-	58,480	52,029
-Forward foreign exchange contracts	13	-	-	13	12
-Interest rate futures	73	-	-	73	73
Cash Flow Hedges					
-Electricity derivative contracts	37	6,175	-	6,212	7,864
Total Derivatives	23,315	41,463	-	64,778	59,978

Note 26—Financial Instruments (continued)

(h) Liquidity risk (continued)

	1 year or less 2010 $'000	Over 1 to 5 years 2010 $'000	Over 5 years 2010 $'000	Total 2010 $'000	Carrying Amount 2010 $'000
Financial liabilities					
Non-derivatives					
Trade creditors	94,787	-	-	94,787	94,787
New South Wales Treasury Corporation loans including accrued interest	119,887	488,360	470,294	1,078,541	833,736
Deferred revenue	-	-	-	-	36,000
Total non-derivatives	214,674	488,360	470,294	1,173,328	964,523
Derivatives					
Held for Trading					
-Electricity derivative contracts	3,346	124	-	3,470	3,476
-Forward foreign exchange contracts	855	-	-	855	838
-Interest rate futures	167	-	-	167	167
Cash Flow Hedges					
-Electricity derivative contracts	1,926	18	-	1,944	3,751
Total Derivatives	6,294	142	-	6,436	8,232

Policies and objectives concerning liquidity risk are described in Note 2(c).

(i) Summarised sensitivity analysis

The following information summarises the sensitivity of the Consolidated Entity and Corporation's financial assets and financial liabilities to interest rate risk, foreign exchange risk and price risk.

The effect on profit and loss and equity due to a reasonably possible change in the relevant risk variable is outlined in the information below. The analysis is performed on the same basis as for 2010 and assumes all other variables remain constant, with the exception of Foreign Exchange Risk as detailed below.

Interest rate risk
The sensitivity information applicable to New South Treasury Corporation loans and deposits at call are derived from historically based volatility informaton collected over a ten year period by New South Wales Treasury Corporation, quoted at two standard deviations, that is a 95% probability.

At 30 June 2011, if interest rates had changed by plus or minus 1% from the year end rates with all other variables held constant, post tax profit for the year would have been $139,000 lower or higher (June 2010–$424,000 lower or higher), mainly as a result of higher Finance Costs. Post tax Equity would change by the same amount.

At 30 June 2011, if interest rates had changed by plus or minus 1% from the year end rates with all other variables held constant, post tax profit for the year would have been $2,550,000 higher or lower (June 2010–$2,230,000 higher or lower), mainly as a result of higher or lower Interest Revenue. Post tax Equity would change by the same amount.

Foreign Exchange Risk
The sensitivity information applicable to Forward Foreign Exchange Contracts is derived from historically based volatility information collected over a ten year period by New South Wales Treasury Corporation, quoted at two standard deviations.

At 30 June 2011, if foreign exchange rates had changed by plus or minus 10% from the year end rates with all other variables held constant, post tax profit for the year would have been $37,000 lower or $45,000 higher (June 2010–$437,000 lower or $535,000 higher post tax), mainly as a result of higher or lower expenses from operations. Post tax Equity would change by the same amount.

Electricity Price Risk
The sensitivity information applicable to Electricity Derivative Contracts is derived from an analysis of the volatility of the electricity forward price curve over a ten year period.

At 30 June 2011, if forward electricity prices had changed by plus or minus 10% from the year end rates with all other variables held constant, post tax profit for the year would have been $2,070,000 lower or $2,070,000 higher (June 2010 - $1,154,000 lower or $1,147,000 higher post tax), as a result of an increase or decrease in the fair value losses on electricity derivative financial instruments not qualifying as cash flow hedges. Post tax Equity would change by the same amount.

Also post tax Equity would have been $37,100,000 lower or $37,100,000 higher (June 2010–$55,361,000 lower or $55,361,000 higher post tax) as a result of an increase or decrease in the fair value losses on electricity derivative contracts qualifying as cash flow hedges.

Aluminium Price Risk
The sensitivity information applicable to Electricity Derivative Contracts is derived from an analysis of the volatility of aluminium prices over a ten year period.

If forward aluminium prices had increased by 8% from the 30 June 2011 rates with all other variables held constant, post tax profit for the year would have been $26,000,000 higher (June 2010 would remain the same post tax). If forward aluminium prices had decreased by 8% from the 30 June 2011 rates with all other variables held constant, post tax profit for the year would have been $325,000 lower (June 2010 would remain the same post tax).

Note 26—Financial Instruments (continued)

(j) Fair value

The Corporation uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1—the fair value is calculated using quoted prices in active markets

Level 2—the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3—the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

In addition, the fair value of financial instruments are, in certain circumstances, measured using valuation techniques based on a cost plus margin model that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data (Level 3). The fair value of Level 3 long term electricity derivative financial instruments was nil at the beginning of the reporting period as there was no reliable model to measure its valuation and management concluded that cost inputs and contracted indexation remained significantly unchanged since inception of the contracts. As at reporting date the fair values of level 3 long term electricity derivatives were measured by a new valuation tool based on the same cost plus margin model. There was a new Level 3 contract entered in the current financial year.

The sensitivity of those fair values to reasonably possible alternative assumptions are an increase or decrease to profit and equity of $50 million. The unobservable input is the cost of electricty production.

	Consolidated Year ended 30 June 2011			
	Quoted market price (Level 1)	Valuation technique—market observable inputs (Level 2)	Valuation technique—non market observable inputs (Level 3)	Total
	$'000	$'000	$'000	$'000
Year ended 30 June 2011				
Financial assets				
Derivative Instruments				
Electricity derivative contracts	-	54,493	18,957	73,450
Foreign exchange contracts	-	-	-	-
Interest rate futures	5	-	-	5
Available-for-sale investments				
Listed investments	-	-	-	-
Unlisted investments	-	-	-	-
	5	54,493	18,957	73,455
Financial liabilities				
Derivative Instruments				
Electricity derivative contracts	-	24,655	35,238	59,893
Foreign exchange contracts	12	-	-	12
Interest rate futures	73	-	-	73
	85	24,655	35,238	59,978
Year ended 30 June 2010				
Financial assets				
Derivative Instruments				
Electricity derivative contracts	-	66,489	-	66,489
Foreign exchange contracts	88	-	-	88
Interest rate futures	5	-	-	5
Available-for-sale investments				
Listed investments	-	-	-	-
Unlisted investments	-	-	-	-
	93	66,489	-	66,582
Financial liabilities				
Derivative Instruments				
Electricity derivative contracts	-	7,227	-	7,227
Foreign exchange contracts	838	-	-	838
Interest rate futures	167	-	-	167
	1,005	7,227	-	8,232

Note 27—Superannuation

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

(a) Defined Benefit Superannuation Funds

General description of the type of plan

Macquarie Generation contributes to three New South Wales public sector 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 as referred to above.

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

These schemes, as defined benefit schemes, have at least a component of the final benefit derived from a multiple of member salary and years of membership.

All the schemes are closed to new members.

Reconciliation of the present value of the defined benefit obligation

	SASS 2011 $'000	SANCS 2011 $'000	SSS 2011 $'000	Total 2011 $'000
Present value of partly funded defined benefit obligations at beginning of the year	76,524	15,506	190,904	282,934
Current service cost	2,302	702	1,850	4,854
Interest cost	3,857	774	9,753	14,384
Contributions by fund participants	1,176	-	1,426	2,602
Actuarial (gains)/losses	2,345	67	(1,653)	759
Benefits paid	(4,410)	(1,029)	(5,837)	(11,276)
Present value of partly funded defined benefit obligations at end of the year	81,794	16,020	196,443	294,257

Reconciliation of the present value of the defined benefit obligation

	SASS 2010 $'000	SANCS 2010 $'000	SSS 2010 $'000	Total 2010 $'000
Present value of partly funded defined benefit obligations at beginning of the year	67,055	14,288	168,477	249,820
Current service cost	2,197	687	1,932	4,816
Interest cost	3,668	772	9,315	13,755
Contributions by fund participants	1,177	-	1,617	2,794
Actuarial (gains)/losses	5,097	939	12,862	18,898
Benefits paid	(2,670)	(1,180)	(3,299)	(7,149)
Present value of partly funded defined benefit obligations at end of the year	76,524	15,506	190,904	282,934

Note 27—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Reconciliation of the fair value of fund assets

	SASS	SANCS	SSS	Total
	2011	2011	2011	2011
	$'000	$'000	$'000	$'000
Fair value of Fund assets at beginning of the year	61,080	10,931	129,450	201,461
Expected return on fund assets	5,184	926	11,037	17,147
Actuarial gains/(losses)	(212)	(51)	(778)	(1,041)
Employer contributions	2,422	741	2,082	5,245
Contributions by Fund participants	1,176	-	1,426	2,602
Benefits paid	(4,410)	(1,029)	(5,837)	(11,276)
Fair value of Fund assets at end of the year	65,240	11,518	137,380	214,138

	SASS	SANCS	SSS	Total
	2010	2010	2010	2010
	$'000	$'000	$'000	$'000
Fair value of Fund assets at beginning of the year	54,669	10,421	118,323	183,413
Expected return on fund assets	4,671	889	10,127	15,687
Actuarial gains/(losses)	846	37	306	1,189
Employer contributions	2,387	764	2,377	5,528
Contributions by Fund participants	1,177	-	1,616	2,793
Benefits paid	(2,670)	(1,180)	(3,299)	(7,149)
Fair value of Fund assets at end of the year	61,080	10,931	129,450	201,461

Reconciliation of the assets and liabilities recognised in the Statement of Financial Position

	SASS	SANCS	SSS	Total
	2011	2011	2011	2011
	$'000	$'000	$'000	$'000
Present value of partly funded defined benefit obligations at end of year	81,794	16,020	196,443	294,257
Fair value of fund assets at end of year	(65,240)	(11,518)	(137,380)	(214,138)
Net Liability/(Asset) recognised in Statement of Financial Position at end of the year (refer Note 21)	16,554	4,502	59,063	80,119

	SASS	SANCS	SSS	Total
	2010	2010	2010	2010
	$'000	$'000	$'000	$'000
Present value of partly funded defined benefit obligations at end of year	76,524	15,506	190,904	282,934
Fair value of fund assets at end of year	(61,080)	(10,931)	(129,450)	(201,461)
Net Liability/(Asset) recognised in Statement of Financial Position at end of the year (refer Note 21)	15,444	4,575	61,454	81,473

Note 27—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Expense recognised in Income Statement

	SASS	SANCS	SSS	Total
	2011	2011	2011	2011
	$'000	$'000	$'000	$'000
Current service cost	2,303	701	1,850	4,854
Interest cost	3,857	774	9,753	14,384
Expected return on Fund assets (net of expenses)	(5,184)	(926)	(11,037)	(17,147)
Expense recognised	976	549	566	2,091

	SASS	SANCS	SSS	Total
	2010	2010	2010	2010
	$'000	$'000	$'000	$'000
Current service cost	2,196	687	1,933	4,816
Interest cost	3,668	773	9,315	13,756
Expected return on Fund assets (net of expenses)	(4,671)	(889)	(10,127)	(15,687)
Expense recognised	1,193	571	1,121	2,885

Amounts recognised in Other Comprehensive Income

	SASS	SANCS	SSS	Total
	2011	2011	2011	2011
	$'000	$'000	$'000	$'000
Net actuarial (gains) losses recognised in year	2,557	118	(875)	1,800

	SASS	SANCS	SSS	Total
	2010	2010	2010	2010
	$'000	$'000	$'000	$'000
Net actuarial (gains) losses recognised in year	4,250	902	12,556	17,708

Cumulative amount recognised in Other Comprehensive Income

	SASS	SANCS	SSS	Total
	2011	2011	2011	2011
	$'000	$'000	$'000	$'000
Net actuarial (gains) losses recognised	19,362	4,629	75,478	99,469

	SASS	SANCS	SSS	Total
	2010	2010	2010	2010
	$'000	$'000	$'000	$'000
Net actuarial (gains) losses recognised	16,805	4,511	76,353	97,669

Note 27—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Fund Assets

The percentage invested in each asset class at the Statement of Financial Position date:

	2011	2010
Australian equities	**33.4%**	31.0%
Overseas equities	**29.5%**	26.8%
Australian fixed interest securities	**5.7%**	6.1%
Overseas fixed interest securities	**3.1%**	4.3%
Property	**9.9%**	9.5%
Cash	**5.1%**	9.6%
Other	**13.3%**	12.7%

Fair value of Fund assets

All Fund assets are invested by STC at arm's length through independent fund managers.

Expected rate of return on assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

	SASS	SANCS	SSS	Total
	2011	**2011**	**2011**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Actual return on fund assets	**5,169**	**875**	**10,930**	**16,974**

	SASS	SANCS	SSS	Total
	2010	2010	2010	2010
	$'000	$'000	$'000	$'000
Actual return on fund assets	5,155	926	10,880	16,961

Valuation method and principal actuarial assumptions at the reporting date

a) Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) Economic Assumptions

	2011	2010
Discount rate at 30 June	**5.28%**	5.17%
Expected rate of return on assets backing current pension liabilities at 30 June	**8.60%**	8.60%
Expected rate of return on assets backing other liabilities	**8.60%**	8.60%
Expected salary increases (excluding promotional increases)	**3.5% pa**	3.5% pa
Expected rate of CPI increase	**2.5% pa**	2.5% pa

c) Demographic Assumptions

The demographic assumptions at 30 June 2011 are those that were used in the 2009 triennial actuarial valuation. The triennial review report is available from the New South Wales Treasury website.

Note 27—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Historical information

	SASS	SANCS	SSS	Total
	2011	**2011**	**2011**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Present value of defined benefit obligation	**81,794**	**16,020**	**196,443**	**294,257**
Fair value of Fund assets	**(65,240)**	**(11,518)**	**(137,380)**	**(214,138)**
(Surplus)/Deficit in Fund	**16,554**	**4,502**	**59,063**	**80,119**
Experience adjustments–Fund liabilities	**2,345**	**67**	**(1,653)**	**759**
Experience adjustments–Fund assets	**212**	**51**	**778**	**1,041**

	SASS	SANCS	SSS	Total
	2010	**2010**	**2010**	**2010**
	$'000	$'000	$'000	$'000
Present value of defined benefit obligation	76,524	15,506	190,904	282,934
Fair value of Fund assets	(61,080)	(10,931)	(129,450)	(201,461)
(Surplus)/Deficit in Fund	15,444	4,575	61,454	81,473
Experience adjustments–Fund liabilities	5,097	939	12,862	18,898
Experience adjustments–Fund assets	(846)	(37)	(306)	(1,189)

	SASS	SANCS	SSS	Total
	2009	**2009**	**2009**	**2009**
	$'000	$'000	$'000	$'000
Present value of defined benefit obligation	67,056	14,288	168,477	249,821
Fair value of Fund assets	(54,669)	(10,422)	(118,324)	(183,415)
(Surplus)/Deficit in Fund	12,387	3,866	50,153	66,406
Experience adjustments–Fund liabilities	704	1,040	30,970	32,714
Experience adjustments–Fund assets	10,025	2,081	21,754	33,860

	SASS	SANCS	SSS	Total
	2008	**2008**	**2008**	**2008**
	$'000	$'000	$'000	$'000
Present value of defined benefit obligation	62,937	12,785	131,998	207,720
Fair value of Fund assets	(60,139)	(11,780)	(131,461)	(203,380)
(Surplus)/Deficit in Fund	2,798	1,005	537	4,340
Experience adjustments—Fund liabilities	(2,640)	59	(2,688)	(5,269)
Experience adjustments—Fund assets	8,186	1,819	19,518	29,523

	SASS	SANCS	SSS	Total
	2007	**2007**	**2007**	**2007**
	$'000	$'000	$'000	$'000
Present value of defined benefit obligation	62,168	12,255	129,432	203,855
Fair value of Fund assets	(63,687)	(12,762)	(141,996)	(218,445)
(Surplus)/Deficit in Fund	(1,519)	(507)	(12,564)	(14,590)
Experience adjustments—Fund liabilities	1,524	(295)	(8,750)	(7,521)
Experience adjustments—Fund assets	(4,534)	(708)	(7,276)	(12,518)

Note 27—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Expected contributions

	SASS	SANCS	SSS	Total
	2011	2011	2011	2011
	$'000	$'000	$'000	$'000
Expected employer contributions	2,234	755	2,282	5,271

	SASS	SANCS	SSS	Total
	2010	2010	2010	2010
	$'000	$'000	$'000	$'000
Expected employer contributions	2,236	779	2,586	5,601

Funding arrangements for employer contributions

The following is a summary of the financial position of the Fund at 30 June 2011 and 30 June 2010 calculated in accordance with AAS 25—*Financial Reporting by Superannuation Plans.*

This disclosure is required by AASB 119 *Employee Benefits* and is based on the liabilities being discounted by the expected return on the plan assets which is higher than the long-term government bond rate.

The AAS 25 information is relevant as it can be used to assess the level of future contributions and reflects the plan's investment strategy as well as the employer's long term funding plan.

(a) Surplus/deficit

	SASS	SANCS	SSS	Total
	2011	2011	2011	2011
	$'000	$'000	$'000	$'000
Accrued benefits	73,375	14,511	136,606	224,492
Net market value of Fund assets	(65,240)	(11,518)	(137,380)	(214,138)
Net (surplus)/deficit	8,135	2,993	(774)	10,354

	SASS	SANCS	SSS	Total
	2010	2010	2010	2010
	$'000	$'000	$'000	$'000
Accrued benefits	68,250	13,828	129,246	211,324
Net market value of Fund assets	(61,080)	(10,931)	(129,450)	(201,461)
Net (surplus)/deficit	7,170	2,897	(204)	9,863

(b) Recommended contribution rates for the Corporation for 2011 and 2010:

SASS multiple of member contributions	SANCS % member salary	SSS multiple of member contributions
1.9	2.5	1.6

(c) Funding method

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

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

(d) Economic Assumptions

The economic assumptions adopted for the 2011 actuarial review of the Fund were:

Weighted-Average Assumptions

Expected rate of return on Fund assets backing current pension liabilities	8.3% pa
Expected rate of return on Fund assets backing other liabilities	7.3% pa
Expected salary increase rate	4.0% pa
Expected rate of CPI increase	2.5% pa

Note 27—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)
Nature of asset/liability
If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of fund assets and the defined benefit obligation.

(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% (2010–9%).

Note 28—Events Occurring after Balance Date

Except for the following issues, 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.

Current financial year
Electricity derivative financial instruments
Between 30 June 2011 and the date of signing the Financial Statements on 31 August 2011, the fair value of the Electricity Derivative Financial Instruments Assets have increased by $23 million and the fair value of the Electricity Derivative Financial Instruments Liabilities have decreased by $2 million when marked to model in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, due mainly to a decrease in the electricity forward price curve.

Reference is made to the Electricity Derivative Contracts in Notes 14, 26(b) and 26(c) of the Financial Statements.

Note 29—Controlled Entities

Name of Entity	**Interest Held**		**Country of Incorporation**
	2011	**2010**	
Midwest Development Corporation Pty Ltd (disposed 25 February 2011)	NIL	100%	Australia

Note 30—Related Party Disclosure

Parent Entity
The parent entity within the Consolidated Entity is Macquarie Generation.

Controlled Entity
Macquarie Generation had one controlled entity during the year, Midwest Development Corporation Pty Ltd, which was a wholly owned subsidiary and was formed on 13 August 2008, as set out in Note 1. Midwest Development Corporation Pty Ltd was disposed on 25 February 2011.

During the year, Macquarie Generation has held approval from the New South Wales Treasurer under the Public Authorities (Financial Arrangements) Act 1987 (PAFA) to have equity in and provide loans to Midwest Development Corporation Pty Ltd of up to $65 million for expenditure associated with the Cobbora Project.

The Cobbora Project is an Unincorporated Joint Venture between special purpose subsidiaries of the New South Wales State Owned Electricity Generators to source and develop a coal resource in New South Wales.

Midwest Development Corporation Pty Ltd initially issued one $1 ordinary share on 13 August 2008.

During the year the Corporation entered into transactions with Midwest Development Corporation Pty Ltd primarily involving the conversion of outstanding loans to $4.84 million additional share capital issued by Midwest Development Corporation Pty Ltd. On 25 February 2011, the Corporation sold all equity held in Midwest Development Corporation Pty Ltd, as disclosed in Note 6. There are nil loans due to the Corporation by Midwest Development Corporation Pty Ltd (2010: nil). The additional capital was used to finance the subsidiary's investments in and loans to the associated entities in relation to the Cobbora Project, as detailed below.

The tax losses assumed from the wholly owned tax consolidated entity are $0.65 million (2010: $0.17 million).

Note 30—Related Party Disclosure (continued)

Other Related Parties
The Consolidated Entity's interests held in associated entities are set out in Note 16 and interests in jointly controlled assets are set out in Note 17.

During the year, Macquarie Generation has held approval from the New South Wales Treasurer under the Public Authorities (Financial Arrangements) Act 1987 (PAFA) to participate in the Cobbora Unincorporated Joint Venture. The participation in the Cobbora Unincorporated Joint Venture is in accordance with a Co-Operation Agreement between the Treasurer and associated parties in relation to the Cobbora Coal Resource.

The associated entities to the Cobbora Unincorporated Joint Venture include Cobbora Management Company Pty Ltd, CCP Holdings Pty Ltd as trustee for Cobbora Coal Unit Trust and the special purpose subsidiaries previously owned by Macquarie Generation, Delta Electricity and Eraring Energy.

During the year, Midwest Development Corporation Pty Ltd has held approval under PAFA to have equity in, subscribe for units and provide loans to CCP Holdings Pty Ltd acting as trustee for the Cobbora Coal Unit Trust. The purpose of the funding is to finance Midwest Development Corporation Pty Ltd's share of land acquisitions and coal resource development activities for the Cobbora Project.

During the year, Midwest Development Corporation Pty Ltd has held approval under PAFA to have equity in and participate in the Cobbora Management Company Pty Ltd.

The transactions between the associated entities during the year until their disposal on 25 February 2011 primarily include the conversion of $3.86 million loans due to Midwest Development Corporation Pty Ltd by Cobbora Coal Unit Trust into additional units held in the trust, and funding from Midwest Development Corporation Pty Ltd to the Cobbora Unincorporated Joint Venture for $0.86 million (2010: $3.96 million), in accordance with PAFA approvals. The purchases are conducted by the associated entities with third parties under normal arm's length commercial terms and conditions.

The transactions that were entered into with director related parties for the Consolidated Entity for the financial year are disclosed in Notes 31 and 32.

Note 31—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 the Consolidated Entity 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 division of that organisation, which are all made in the normal course of business and on normal commercial terms.

Director	Position	Organisation
Lucio Di Bartolomeo	Chairman	Downer EDI Limited

The Corporation has three current contracts with a division of Downer EDI Limited totalling $3.9 million.

Note 32—Director and Executive Disclosures

(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 a 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.

Note 32—Director and Executive Disclosures (continued)

(a) Principles used to determine the nature and amount of remuneration (continued)

(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 remuneration at a level which provides the Shareholders with the ability to attract Directors of high calibre, whilst incurring an acceptable cost.

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.

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 Chairs of the Board of Directors and the Board 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 2011 is detailed in Table 1A 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;

Note 32—Director and Executive Disclosures (continued)

(a) Principles used to determine the nature and amount of remuneration (continued)

(iv) Managing Director and Senior Executive Remuneration (continued)

Objective (continued)
- 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.

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 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 based on specific and measurable stretching targets derived from the Business Plan relating to corporate profit improvement, cost containment, safety, water conservation, reduction in carbon intensity, 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 last quarter of each financial year dependent upon audited figures from the Corporation's accounts.

Note 32—Director and Executive Disclosures (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 and Managing Director was reappointed on 29 August 2008 for a 3 year term ending on 31 August 2011. The Chief Executive and Managing Director retired on 28 February 2011, and a new Chief Executive Officer was appointed from this date. The Chief Executive Officer was subsequently appointed Managing Director on 20 May 2011.

The Chief Executive Officer's salary review is conducted with respect to August each year.

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	Russell Skelton
Chief Financial Officer and Company Secretary	David Ipkendanz
General Manager Marketing	Tim Allen
General Manager Operations	John Neely
Manager Liddell Power Station	Peter Sewell
General Manager Fuel	Ray Durie
General Manager Human Resources	Terryl Frazer
General Manager Corporate Affairs	Leisl Baumgartner

(b) Details of Remuneration

Table 1A: Non-executive Directors' Remuneration for the year ending 30 June 2011

	Short-term Benefits			Post Employment	
2011	Travel allowance	Directors' base fees	Committee fees	Superannuation expense	Total
Name	**$**	**$**	**$**	**$**	**$**
Lucio Di Bartolomeo (Chairman)	211	106,900	-	9,621	116,732
Phil Arnall	3,378	60,600	11,362	6,477	81,817
John Cahill	-	60,600	-	5,454	66,054
Deborah Page	211	60,600	7,460	6,125	74,396
James Evans (Note 1)	211	60,600	2,750	5,702	69,263
Ron Finlay (Note 2)	211	60,600	-	5,454	66,265
Total Directors' fees	**4,222**	**409,900**	**21,572**	**38,833**	**474,527**

Note 1.Mr Evans was appointed as a Director of Macquarie Generation on 1 July 2010.
Note 2. Mr Finlay was appointed as a Director of Macquarie Generation on 1 July 2010.

Table 1B: Non-executive Directors' Remuneration for the year ended 30 June 2010

	Short-term Benefits			Post Employment	
2010	Travel allowance	Directors' base fees	Committee fees	Superannuation expense	Total
Name	**$**	**$**	**$**	**$**	**$**
Lucio Di Bartolomeo (Chairman)	608	101,166	888	9,185	111,847
Anna Buduls	-	40,420	7,086	4,276	51,782
Phil Arnall	2,271	61,520	3,554	5,857	73,202
John Cahill	369	60,600	500	5,499	66,968
Deborah Page	580	60,600	7,460	6,125	74,765
Total Directors' fees	**3,828**	**324,306**	**19,488**	**30,942**	**378,564**

Note 32—Director and Executive Disclosures (continued)

(b) Details of Remuneration (continued)

Table 2A: Remuneration of the Chief Executive and Managing Director and Senior Executives who report directly to him for the year ending 30 June 2011

		Short-term Employee Benefits			Post Employment Benefits	Long-term Benefits	
				Non-monetary	Superannuation	Long Service	
2011	Cash salary	Cash bonus		benefits	expense	leave	Total
Name	$	$	%	$	$	$	$
Grant Every-Burns (Note 1)	280,725	94,100	56	8,646	50,000	36,619	470,090
David Ipkendanz	236,131	57,238	48	25,857	50,000	13,462	382,688
Russell Skelton (Note 2)	290,904	67,967	45	21,898	50,000	157,558	588,327
John Neely	250,538	48,048	42	19,468	50,000	73,722	441,776
Peter Sewell	243,439	53,536	55	20,550	22,800	3,692	344,017
Stephen Ireland (Note 3)	216,868	28,140	29	14,786	74,644	20,262	354,700
Ray Durie (Note 4)	128,735	28,638	-	14,498	35,094	1,371	208,336
Tim Allen (Note 5)	173,922	22,124	-	12,932	16,584	921	226,483
Terryl Frazer	140,249	23,200	33	10,850	94,770	27,867	296,936
Leisl Baumgartner (Note 6)	25,512	-	-	-	2,296	1,047	28,855
Total Executive Remuneration	1,987,023	422,991		149,485	446,188	336,521	3,342,208

Note 1. Mr Every-Burns retired as Chief Executive and Managing Director on 28 February 2011.

Note 2. Mr Skelton was appointed Chief Executive Officer on 28 February 2011

Note 3. Mr Ireland was seconded to an unrelated company as part of the Cobbora coal restructure on 1 March 2011.

Note 4. Mr Durie was appointed General Manager Fuel on 11 March 2011.

Note 5. Mr Allen was appointed General Manager Marketing on 11 March 2011.

Note 6. Ms Baumgartner was appointed General Manager Corporate Affairs on 9 May 2011.

The cash salary excludes any amounts paid whilst the employee was on long service leave.

The long service leave is the amount expensed and provided during the year ended 30 June 2011.

The 2011 cash bonus was earned during the year ended 30 June 2011 and will be paid during the year ending 30 June 2012 with the exception of Mr Every-Burns who was paid on retirement. The cash bonus percentage represents the percentage of the total 'at risk' remuneration paid. Percentages are excluded for executives without an 'at risk' remuneration component during the year ended 30 June 2011.

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

The Managing Director and following Executive Officers of the Corporation held the following positions with Midwest Development Corporation Pty Ltd from 1 July 2010 until at least 25 February 2011, being the date of disposal of Midwest Development Corporation Pty Ltd by the Corporation:

Mr Grant Every-Burns—Chairman;
Mr David Ipkendanz—Secretary and Public Officer; and
Mr Stephen Ireland—Director.

No additional remuneration is paid or provided to the key management personnel for being a Director of Midwest Development Corporation Pty Ltd.

Note 31—Director and Executive Disclosures (continued)

(b) Details of Remuneration (continued)

Table 2B: Remuneration of the Chief Executive and Managing Director and Senior Executives who report directly to him for the year ending 30 June 2010

		Short-term Employee Benefits			Post Employment Benefits	Long-term Benefits	
2010	**Cash salary**	**Cash bonus**		**Non-monetary benefits**	**Superannuation expense**	**Long Service leave**	**Total**
Name	**$**	**$**	**%**	**$**	**$**	**$**	**$**
Grant Every-Burns	363,220	188,840	78	12,534	50,000	30,627	645,221
David Ipkendanz	184,685	95,207	84	49,184	49,993	9,354	388,423
Russell Skelton	232,512	88,300	73	21,098	49,998	21,438	413,346
John Neely	211,824	65,540	66	19,475	49,998	18,119	364,956
Peter Sewell	200,254	62,475	68	18,718	25,290	15,374	322,111
Stephen Ireland	185,303	73,062	77	14,151	70,355	16,206	359,077
Colin Peebles	60,143	-	-	4,779	9,800	1,300	76,022
Terryl Frazer	120,636	48,300	77	9,714	64,109	5,786	248,545
Total Executive Remuneration	**1,558,577**	**621,724**		**149,653**	**369,543**	**118,204**	**2,817,701**

The cash salary excludes any amounts paid whilst the employee was on long service leave.

The long service leave is the amount expensed and provided during the year ended 30 June 2010.

The 2010 cash bonus was earned during the year ended 30 June 2010 and was paid during the year ending 30 June 2011.
The cash bonus percentage represents the percentage of the total 'at risk' remuneration paid.

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

(c) Additional Shareholder Disclosures

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 ($155,100 for the year ended 30 June 2011) at the end of the reporting period was 22 (2010—17).

The number of Executive Officer positions equal to or exceeding SES Level 1 filled by women in the current year was 2 (2010—3).

Note 33—Land and Environment Civil Proceedings

Bayswater Power Station Litigation

Civil enforcement proceedings were commenced in the Land and Environment Court against Macquarie Generation in July 2009.

The proceedings sought a declaration that Macquarie Generation has been negligently disposing of waste by emitting carbon dioxide into the atmosphere in a manner that has harmed or is likely to harm the environment without lawful authority to do so, in contravention of section 115(1) of the Protection of the Environment Operations Act 1997 (POEO Act). Further an injunction was sought requiring Macquarie Generation to immediately cease disposing of waste through the emission of carbon dioxide into the atmosphere.

The Court found Macquarie Generation had lawful authority to emit carbon dioxide into the atmosphere, as part of its operations, under its Environmental Protection Licence. The Judge however did not dismiss the Applicant's claim entirely and left open the claim that Macquarie Generation has an implied condition to operate in a manner that has reasonable regard and care for the interests of other persons and/or the environment.

Note 33—Land and Environment Civil Proceedings (continued)

Bayswater Power Station Litigation (continued)

The Applicant's amended claim regarding the implied condition was heard in the Land and Environment Court on 5 August 2010. Macquarie Generation opposed the Motion on the basis that the Applicants were attempting to re-open their claims in respect of section 115 of the POEO Act which was an abuse of process. Senior Counsel also argued that the Applicant's claim was deficient in that it lacked sufficient particulars of the facts and did not disclose any recognisable cause of action at statute or common law.

Judgement was reserved and subsequently handed down on 1 February 2011. In her judgement, Justice Pain recanted two of her initial findings on the basis of not fully understanding the Applicant's claim. In effect, this has re-opened the claim that even if Macquarie Generation has lawful authority to emit carbon dioxide, it is only authorised to do so in a manner that has reasonable regard and care for the interests of other persons and/or the environment. Her Honour justified this as a permissible reconsideration of her finding due to an erroneous understanding of the Applicant's case.

Macquarie Generation is appealing Justice Pain's latest judgement. The appeal hearing is set down for 13 September 2011.

Bayswater B Development Site

On 3 June 2010 the Environmental Defender's Office (EDO) filed a summons in the Land and Environment Court against the Minister for Planning as the First Respondent and Macquarie Generation as the Second Respondent. The Applicant seeks a declaration that the Concept Approval for the development of Bayswater B Power Station be declared invalid and of no effect; and an injunction restraining Macquarie Generation from taking any action in reliance on the Concept Plan Approval.

The matter was heard in the Land and Environment Court in September 2010. Judgement was reserved and Macquarie Generation is awaiting a decision to be handed down.

Given the time elapsed since the hearing, the Department of Planning wrote to the Chief Judge of the Land and Environment Court on 2 February 2011 to inquire under the Delays in Reserved Judgement Policy. No response has been received to date.

Note 34—Carbon Pricing Mechanism

The Prime Minister announced the details of Australia's carbon pricing mechanism on 10 July 2011.

The final design of the carbon pricing mechanism is yet to be legislated by the Federal Government but may have a significant impact on the Corporation and Consolidated Entity's valuation of assets, profitability and estimated useful lives of the Corporation's infrastructure assets. Current modelling indicates, if a carbon pricing mechanism is introduced, the value could reduce by $2 billion.

Note 35—Contingencies

Macquarie Generation did not have any contingent liabilities at 30 June 2011.

Macquarie Generation has an outstanding insurance claim in respect of repairs to a generator unit at Liddell. The amount of recovery under this claim is not reasonably estimable at 30 June 2011.

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 Consolidated Financial Statements 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, 2010, and mandatory professional reporting requirements and give a true and fair view of the Consolidated Entity and Corporation's financial position as at 30 June 2011 and its financial 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 fall 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 Statements to be misleading or inaccurate.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

L DI BARTOLOMEO
CHAIRMAN

31 August 2011
Sydney

RW SKELTON
CHIEF EXECUTIVE AND MANAGING DIRECTOR

31 August 2011
Sydney

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Macquarie Generation

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Macquarie Generation (the Corporation), which comprise the statements of financial position as at 30 June 2011, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information of the Corporation and the consolidated entity. The consolidated entity comprises the Corporation and the entity it controlled at the year's end or from time to time during the financial year.

Auditor's Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation and the consolidated entity as at 30 June 2011, and of their financial performance for the year then ended in accordance with Australian Accounting Standards
- Are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010
- comply with the International Financial Reporting Standards as disclosed in Note 1(a)(i).

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

Emphasis of Matter

I draw attention to Notes 1(g) and 34 to the financial statements which describes the uncertainty about the potential impact on the Corporation's asset values of the Australian Government's proposed Clean Energy Future Scheme announced on 10 July 2011. My opinion is not qualified in respect of this matter.

The Director's Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards; the *State Owned Corporations Act 1989* and the PF&A Act, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In Note 1(a)(i), the directors also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements', that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does not provide assurance:

- about the future viability of the Corporation or consolidated entity
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- 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 of New South Wales are not compromised in their role by the possibility of losing clients or income.

Peter Achterstraat
Auditor General

31 August 2011
SYDNEY

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, in accordance with NSW Energy Reform Project Protocol for the Interaction of Government and State Owned Corporation businesses, 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 the update effective from 1 January 2011. Best practice guidelines provided by the Audit Office of New South Wales have also been considered. The Board continues to review the governance framework and practices to ensure they meet the interests and requirements of the Shareholders.

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 periodically.

The Directors are responsible to the Shareholders for the performance of the Corporation. Their focus is to enhance Shareholder value, having regard to the interests of other key stakeholders and to ensure that 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 website.

Board Composition

The Board currently 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.

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

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 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.

The Board of Directors (continued)

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 management team through the Board Remuneration and Human Resources Committee.
- 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 instance, on matters which are sensitive, extraordinary or of a strategic nature.

Commitment

The Board held 20 meetings during the year comprising 10 scheduled meetings including one corporate strategy session and 10 extraordinary meetings predominantly in relation to the New South Wales Energy Reform Project .

The number of meetings of the Corporation's Board of Directors and of each Board Committee held during the year ended 30 June 2011, and the number of meetings attended by each Director is disclosed in 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.

During the year ended 30 June 2011 the former Chief Executive Officer and Managing Director continued as a Non-executive Director of National Generators Forum Limited until his retirement. The Chief Executive Officer and Managing Director was appointed as a Non-executive Director of National Generators Forum Limited during the year ended 30 June 2011.

Conflict of Interest

The Corporation has held three continuing contracts during the financial year with entities in which a Director declared a conflict of interest as disclosed in the Directors' Report.

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 the 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 position 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 effectively in all material respects; and
- there have been no significant environmental incidents during the year.

The Board of Directors (continued)

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 an Issues Management Committee has 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:

Phil Arnall (Chair)
John Cahill
Lucio Di Bartolomeo
Ron Finlay (from 30 July 2010)

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. The Committee also advises the Board on the Corporation's incentive scheme applicable to Award based employees. The Committee members receive regular input from an external remuneration expert on recent developments in 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.

The remuneration of non-executive Directors is determined by the Shareholders. Further information on the Remuneration of Directors and Executives is set out in Note 32 to the Financial Statements.

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

Board Audit and Assurance Committee

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

Deborah Page (Chair)
Phil Arnall
James Evans (from 30 July 2010)

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 including significant accounting policies, 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 and Business Continuity Planning frameworks, 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 fulfilling its responsibilities, the Board 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 and operational results and are in accordance with relevant accounting standards.

Board Audit and Assurance Committee (continued)
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 4 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, regulatory 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.

Following a selective tender process carried out during the 2008/2009 year to take effect from 1 July 2009, Ernst & Young was reappointed as Internal Auditor for a three year period ending 30 June 2012.

The Board Audit and Assurance Committee receives status reports from the Internal Auditor in accordance with the Internal Audit Plan as part of a framework to ensure that a strong internal control environment is being maintained and appropriate and timely 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.

The Board takes particular interest in the safety of all employees and contractors and has supported a range of initiatives all designed to improve the safety performance of the Corporation.

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 is 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 management reports received from each member of the Executive.

Executive Committees
The management of business risk is supported by Management Committees covering the following areas:

- Executive
- Energy Trading
- Environment
- Occupational Health and Safety.

Risk Assessment, Internal Control and Management Reporting (continued)

Executive Committees (continued)

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 during the year:

- Budget Review
- Information Technology
- Generation Development
- National Greenhouse and Energy Reporting Act Compliance.

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 reviewed and updated at least annually 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 co-ordinating 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.

Anti Money Laundering and Counter-Terrorism Financing Compliance

During the 2010/2011 financial year the Corporation has complied with its obligations under the *Anti Money Laundering and Counter-Terrorism Financing Act 2006*.

Fraud and Corruption Framework

Macquarie Generation has a Fraud and Corruption Framework in line with ICAC Guidelines. This includes a Statement of Business Ethics.

Government Information (Public Access) Act 2009

Macquarie Generation has a framework in compliance with the relevant provisions of this Act.

Australian Financial Services Licence—284379

The Corporation complies with all requirements of its Australian Financial Services Licence.

Senior Management Team

Title	Name and Qualification	Executive Committee Representation
Chief Executive and Managing Director (9)	Mr Grant Every-Burns BE(Hons) FAICD	1,2,4,5,6,7
Chief Executive and Managing Director (10)	Mr Russell Skelton B(Eng)	1,2,3,4,5,6,7
Chief Financial Officer and Company Secretary (8)	Mr David Ipkendanz BEc DipEd FCPA	1,3,4,6,7
General Manager Operations (8)	Mr John Neely BSc(Eng)	1,2,3,5,6,7
Manager Liddell (8)	Mr Peter Sewell BSc(Eng) MEM	1,2,3,5,6,7
General Manager Human Resources (8)	Ms Terryl Frazer DipSocWelf BA Grad CertBus MHRM(Dist)	1,3,5
General Manager Marketing (8)	Mr Tim Allen BEng(Hons) MBA	1,4
General Manager Fuel (8)	Mr Ray Durie BAcc	1,7
General Manager Corporate Affairs (8)	Ms Leisl Baumgartner BA BEc MIntS	2

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. National Greenhouse and Energy Reporting Act Compliance Steering Committee
8. Direct report to the Chief Executive
9. Mr Every-Burns retired from Macquarie Generation on 28 February 2011
10. Mr Skelton was appointed Chief Executive Officer on 1 March 2011

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 $23,355 The annual report is available on the Corporation's website at www.macgen.com.au.

Chief and Senior Executive Officers

Macquarie Generation has not been included as a Division of the Government Service under Schedule 1 of the Public Sector Employment and Management Act 2002. 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 32 of the Financial Report.

Controlled Entities

Macquarie Generation held one controlled entity of the kind referred to in Section 39 (1A) of the Public Finance and Audit Act, 1983, being Midwest Development Corporation Pty Ltd.

On 25 February 2011, under a direction from New South Wales Treasury resulting from the New South Wales Government restructure of the Cobbora coal development venture, Macquarie Generation disposed of its investment in Midwest Development Corporation Pty Ltd.

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.

Performance Target	2010/2011 Actual ($m)	2010/2011 SCI Target ($m)
Earnings before Interest Tax and depreciation (EBITD)[1]	397.1	409.4
Operating Profit before Tax[2]	178.1	179.1
Target Dividend	130.0	130.0
Return (EBIT) on Assets (%)	5.7	6.0
Return (NPBT) on Equity (%)	9.6	9.5

[1] Target Earnings before interest and tax excludes the impact of accounting adjustments for the impact of Australian Equivalent of International Financial Reporting Standards

[2] Target Operating profit excludes the impact of accounting adjustments for the impact of Australian Equivalent of International Financial Reporting Standards

Statement of Corporate Intent (continued)

EBIT and Operating Profit before Tax include net unrealised gains of $0.4 million in relation to the valuation of derivative financial instruments. As required by Australian Accounting Standards these amounts are based on market valuations applicable at 30 June 2011. The amounts were not included in the 2010/2011 SOCI Target as they could not be reliably estimated.

Total Expenses excluding depreciation, finance costs, tax expense, and fair value losses on Derivative Financial Instruments decreased by 8.8% due mainly to a decrease in production and fuel cost savings.

Landholdings

Macquarie Generation's landholdings include the following:

- Bayswater and Liddell Power Stations
- Barnard River Pumping Station
- Corporate Office, Newcastle

Bayswater and Liddell Power Stations

The Power Stations are located between Singleton and Muswellbrook, New South Wales, and are surrounded by 10,000 hectares of land, of which approximately 4,500 hectares is covered by water or ash deposits.

This area falls within the Singleton and Muswellbrook Local Government Areas.

The majority of the land is zoned Special Purpose for the generation of electricity.

Barnard River Pumping Station

This is an area of approximately 32 hectares located within the Scone Local Government Area on which the majority of the infrastructure associated with the Barnard River Pumping Station is constructed.

Corporate Office Newcastle

The Newcastle Corporate Office is located at 34 Griffiths Road, Lambton, within the Newcastle Local Government Area.

Australian Financial Services Licence

Macquarie Generation is the holder of Australian Financial Services Licence Number 284379.

Equal Employment Opportunity (EEO)

As at 30 June 2011, Macquarie Generation's workforce comprised 628 employees. While the majority of employees work on a full time basis, there are a small number on a part time arrangement. No employee was engaged during the reporting period on a casual work arrangement.

Trends in the Representation of EEO Groups

EEO group	Government target	2011	2010	2009	2008
		% of Total Staff (Note 1)			
Women	50%	14	14	14	13
People identifying as Aboriginal or Torres Strait Islander	2.6%	1.5	1.3	1.2	1.3
People whose first language as a child was not English	19%	5	4	4	4
People with a disability	N/A	9	9	9	9
People with a disability requiring adjustment in the workplace	1.1% (2011) 1.3% (2012) 1.5% (2013)	2.9	3.0	2.8	3.0

Equal Employment Opportunity (EEO) (continued)
Trends in the Distribution of EEO Groups (Note 2)

EEO group:	Benchmark	2011	2010	2009	2008
		Distribution Index (note 1)			
Women	100	93	94	92	92
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	123	119	114	118
People with a disability	100	108	107	100	100
People with a disability requiring adjustment in the workplace	100	N/a	N/a	N/a	N/a

Notes:
1. Excludes any casual staff.
2. 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 from Workforce Profile reporting.
3. The distribution index is not calculated where EEO group or non-EEO group numbers are less than 20.

Achievements during 2010-2011 and strategies proposed for 2011-2012

- Promotion to and encouraging participation of EEO groups in work experience, trainee and scholarship programs through direct involvement in various forums, including cultural days, school and university career day initiatives.
- Actively involved in the broader community networks to identify new opportunities to broaden reach to promote employment opportunities to EEO groups.
- Monitoring the Aboriginal Employment Strategy to assess effectiveness of strategies and actions.

Multicultural Policy
Macquarie Generation promotes and upholds the principles of multiculturalism by providing opportunities for individuals to contribute to and participate in the workplace. Corporate priorities, according to relevant business planning and operations, relate to cultural and linguistic diversity. As the Corporation's primary function is the generation of electricity, supplied directly to bulk users and the National Electricity Market, there is no direct service delivered to the broader community. Therefore, the main focus of the multicultural planning framework relates to activities within the organisation, taking into account the diversity and requirements of the community in which the business operates, and includes supplier and other stakeholder relationships with the Corporation.

Government Information (Public Access)
Two requests were received under the New South Wales Government Information (Public Access) Act 2009 (GIPA) during the reporting period. Both requests were for information other than personal information. One application from a media organisation was partly refused and one application from a member of the public was refused in full, both for commercial-in-confidence reasons. Following a request from the access applicant, one application is currently under review.

Internal reviews and decisions were made and advised to the applicants within the statutory timeframe.

Section 7(3) of the GIPA Act requires an agency to annually review its program for the release of government information under the Act. A management review has been performed and no additional information, other than the information currently released will be made publicly available.

Funds Granted to Non-government Community Organisations
Macquarie Generation donations and sponsorships during the reporting year to Hunter region community organisations totalled $254,363.

Statutory Information

Overseas Visits

Name	Title	Country	Purpose
D. Ipkendanz	Chief Financial Officer and Company Secretary	Singapore	Presentations and meetings with insurance underwriters.
D. Ipkendanz	Chief Financial Officer and Company Secretary	United Kingdom Singapore	Presentations and meetings with insurance underwriters.

Promotion

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

- Annual Report 2010;
- Regular advertising in Upper Hunter newspapers and special publications;
- Media statements, newspaper, radio and TV interviews;
- Website updates: www.macgen.com.au ←http://www.macgen.com.au→;
- Casual regional newspaper and magazine advertising; and
- Quarterly Community Consultative Committee Meetings.

Consultants' Fees

As disclosed in Note 4(a) of the Consolidated Financial Statements, Macquarie Generation's expenditure on Consultants' Fees totalled $4,112,000. The main purposes of the engagements were the provision of management, finance, accounting, taxation, fuel and environment, marketing and trading, engineering and information technology advice.

Contact Details

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Australia

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Australia

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Muswellbrook NSW 2333
Australia

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Muswellbrook NSW 2333
Australia

Liddell Telephone 61 2 6542 1611

Bayswater Telephone 61 2 6542 0711

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 2011 REFERS TO THE FISCAL YEAR 1 JULY 2010 TO 30 JUNE 2011.


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PUMP DIVISION

Macquarie *Generation*