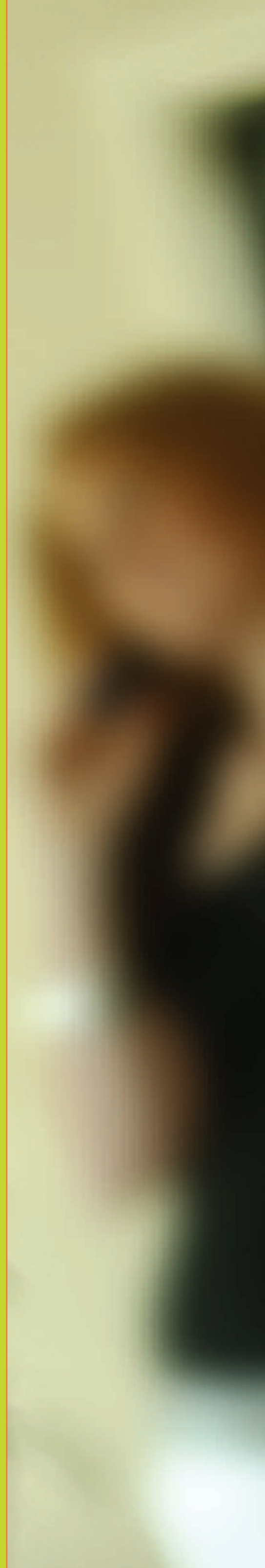
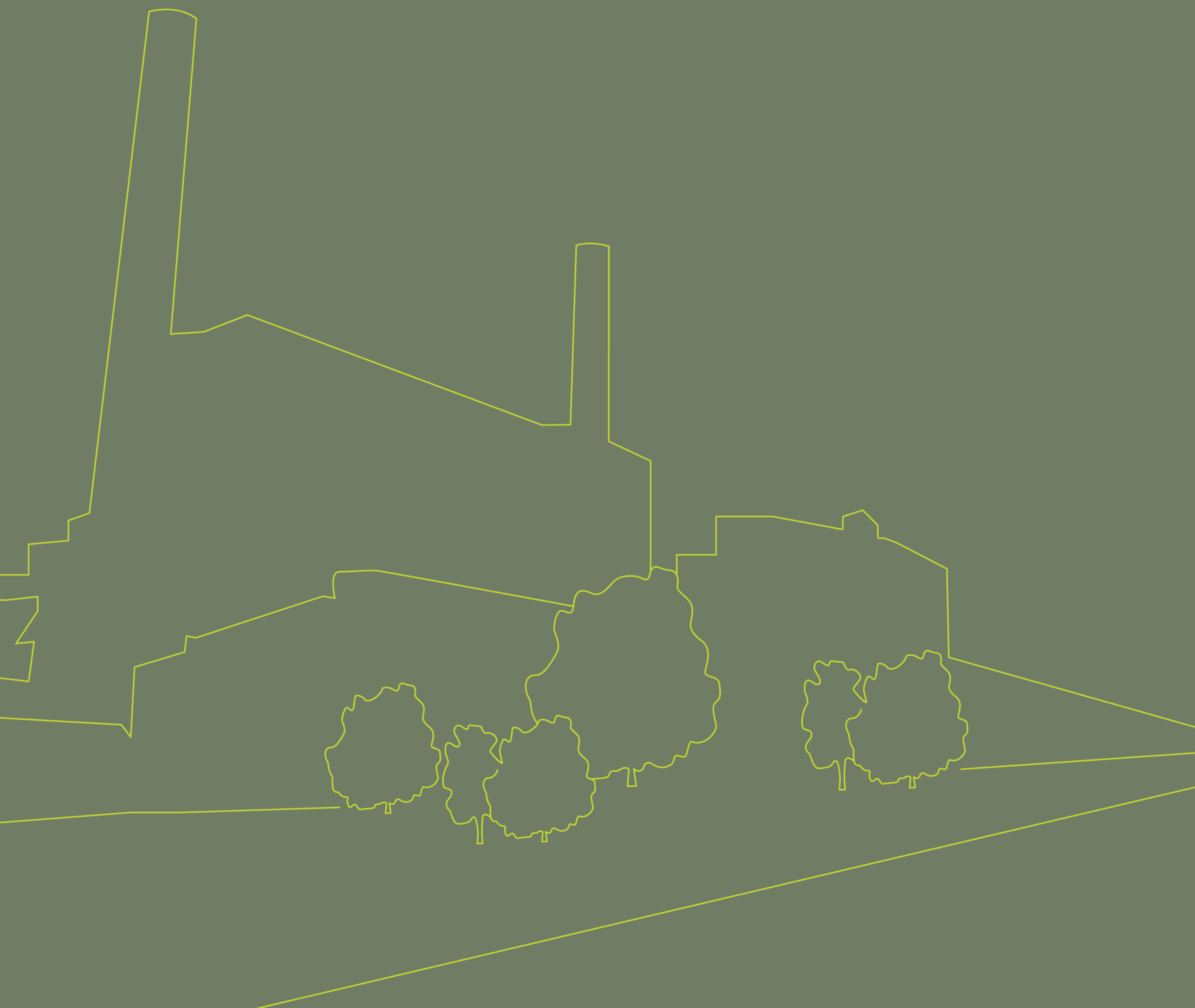
Supporting our way of life

07

Macquarie Generation Annual Report





01

contents

Letter To Shareholders

The Hon. Michael Costa, MLC
Treasurer,
Minister for Infrastructure,
Minister for the Hunter

The Hon. John Watkins, MP
Deputy Premier,
Minister for Transport,
Minister for Finance

Parliament of New South Wales
Macquarie Street
SYDNEY NSW 2000

Dear Shareholders

It is with pleasure we submit to the NSW Parliament the Macquarie Generation Annual Report, including the Income Statement, the Balance Sheet, the Cash Flow Statement and Corporate Governance Statement for the financial year ended 30 June 2007, as audited by the Auditor-General of New South Wales.

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

Evan Rees
Chairman

Grant Every-Burns
Chief Executive and Managing Director

October 2007

life at home

03

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 sales of electricity into the wholesale segment of the National Electricity Market.

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

In 2007, Macquarie Generation supplied 12.9% of the electricity consumed by the National Electricity Market.

The National Electricity Market comprises the mainland States of 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 adapted for the purposes of electricity generation—Macquarie Generation also owns and operates two 25 MW oil-fired gas turbines and a 0.85 MW mini-hydroelectric generator.

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

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

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

At 30 June 2007, Macquarie Generation employed a total of 610 people, with 552 located at Liddell and Bayswater Power Stations and 58 at a corporate office in Newcastle.

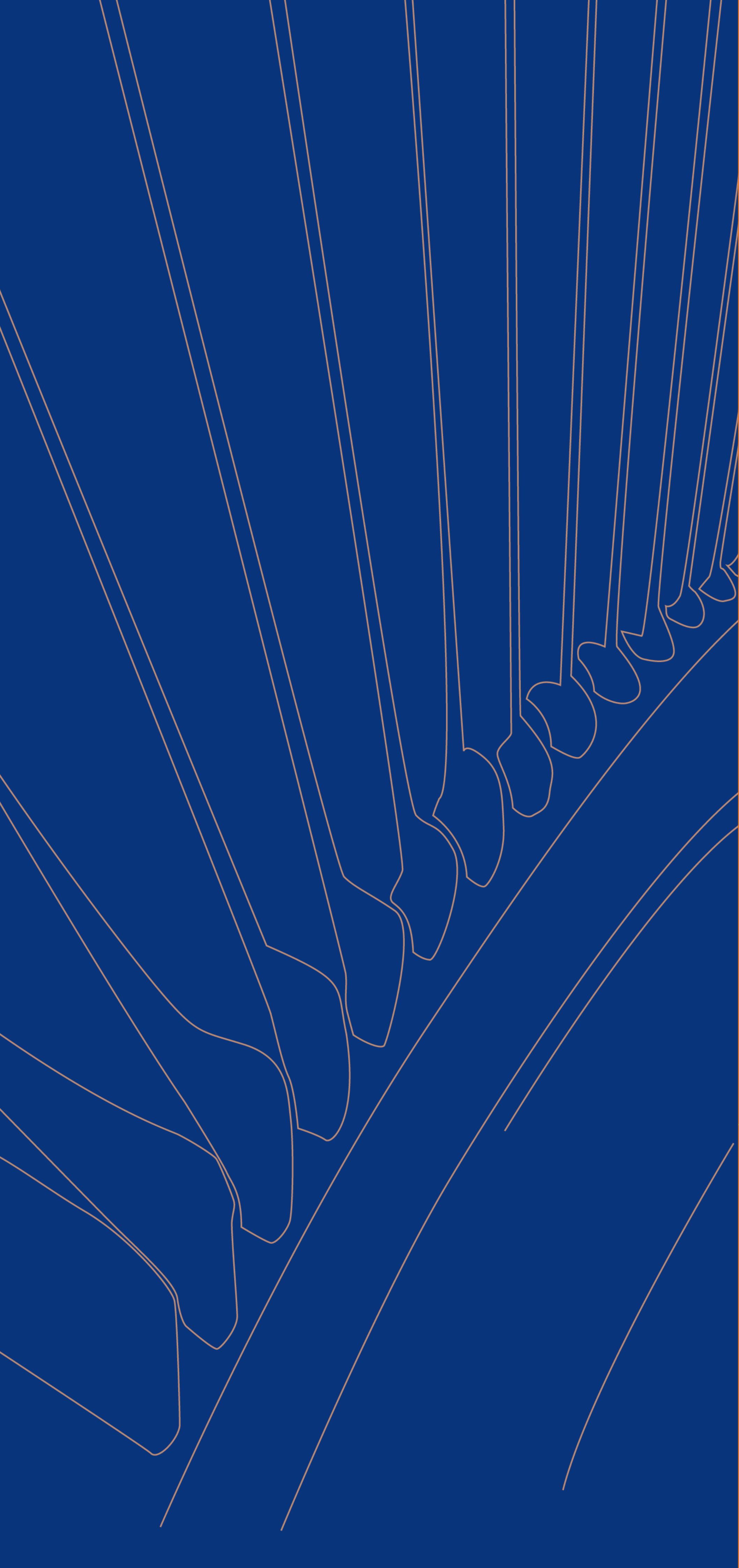
This report covers the period from 1 July 2006 to 30 June 2007 inclusive and is presented to the Parliament of New South Wales.

Board of Directors

- Evan Rees—Chairman
- Grant Every-Burns—Managing Director
- Anna Buduls
- John Cahill
- The Hon. Peter Collins
- Lucio Di Bartolomeo (appointed to the Board 14th August 2006)
- Deborah Page

Executive Management

- Grant Every-Burns—Chief Executive and Managing Director
- David Ipkendanz—Chief Financial Officer and Company Secretary
- Russell Skelton—Manager Marketing and Trading
- Stephen Ireland—Manager Fuel and Environment
- Col Peebles—Manager Human Resources
- Peter Sewell—Manager Liddell Power Station
- John Neely—Manager Bayswater Power Station



05

As the largest electricity generator in the National Electricity Market we are pleased to report that Macquarie Generation maintained consistently high reliability levels, with profitability exceeding expectations.

2007 has been another challenging year for the NSW electricity sector and the National Electricity Market.

Growth in demand for electricity with corresponding supply pressures, the impact of drought on water supply, severe flooding towards the end of the year, an increasingly volatile market, greenhouse debate and the Owen Inquiry into Electricity Supply in NSW have combined to make 2007 a significant year in our industry's history.

As the largest electricity generator in the National Electricity Market we are pleased to report that Macquarie Generation maintained consistently high reliability levels, with profitability exceeding expectations.

Financial Performance

Despite the many challenges the National Electricity Market faced in 2007 the Corporation successfully implemented a market strategy that ensured growth in profit, the achievement of operational targets and the reliable and adequate supply of electricity to the National Electricity Market.

As a result of both good management and a confluence of market circumstances, Macquarie Generation achieved another outstanding financial performance this year, with highlights including;

- Revenue—$1,074.1 million an increase of 21.6% and the first time the Corporation has achieved over $1 billion in revenue.
- Earnings Before Interest and Tax—$342.6 million an increase of 4%.
- Net Profit Before Tax—$283.7 million an increase of 6.3%.
- Net Profit After Tax—$198.9 million an increase of 7%.

The substantial increase in market prices in the second half of the year resulted in the significant impact of Australian Equivalents to International Financial Reporting Standards on the Corporation's final financial results and end of year Balance Sheet. So much so that due to the operation of AASB 139: *Financial Instruments: Recognition and Measurement,* the Corporation reported negative Equity of $57 million at 30 June 2007. This compares with positive Equity of $1 billion at June 2006. This result was brought about by the accounting effect of the rising forward curve in the price of electricity but does not reflect any underlying weakness or change in the health of the business.

The Board and management of Macquarie Generation have serious concerns about the applicability of AASB 139 to the National Electricity Market participants. In our view it is now very difficult for the uninformed reader to gain a clear view of the underlying value of the business or its performance. These new disclosure requirements for the Income Statement make it extremely difficult to determine the underlying profitability of the Corporation from the published accounts. By way of explanation, the Corporation's Net Profit before Tax from Operations and before the impact of new accounting standards and tax effect was $361 million at June 2007, versus the published result of $283.7 million. This critical financial information is not easily discovered from the published accounts.

Fuel Supply

Macquarie Generation has for some years been adopting a strategy of securing long term, low cost fuel contracts, and investing in rail infrastructure for the purpose of actively managing the logistics associated with ensuring low cost fuel supplies and maximising the efficiency of deliveries to the Corporation's Liddell and Bayswater Power Stations.

This strategy has helped protect the Corporation from the volatile export coal market prices of recent times and has supported the development of new domestic coal reserves. Our focus on economic fuel supply and transport has been a major contributor to the Corporation's performance and remains a feature of our operational success. This strategy has contributed significantly to maintaining reliable affordable electricity for the people of NSW.

During the year we were pleased to see significant progress on the Wilpinjong mine in the Upper Hunter and the first deliveries of coal. Much of the coal from this resource has been designated for supply to Liddell and Bayswater for domestic electricity production over the next two decades.

Another exciting development this year was the successful construction, testing and commissioning of the Antiene Coal Unloader. This $100 million capital investment has delivered Macquarie Generation infrastructure that strategically complements our long term coal contracts and enhances our future coal contracting options. The Antiene Coal Unloader has secured the future of low cost transport of fuel to Liddell and Bayswater, maintaining the Corporation's position as one of the lower cost generators in the National Electricity Market.

We join with other industry and business groups in welcoming NSW Government approval of the Anvil Hill mine project. While acknowledging that such developments today cannot get the agreement of all, they are nevertheless important in the efficient supply of coal to local power stations, and hence electricity for the community.

Economic fuel supply and transport will remain a priority for the Corporation into the future.

Water and Drought

A significant challenge for many power generators this year has been the severe drought that is affecting much of Eastern Australia, resulting in economic losses and hardship for many industries, business and communities.

As a large water user, we recognise the value and importance of the efficient use of this precious resource, and have embarked upon a range of strategies to improve water use efficiency and to secure water resources in a manner that minimises broader community impact.

So for example, despite its higher operating cost, production in the year just completed, was biased to Liddell instead of Bayswater due to Liddell's lower average water use.


life at play
07

Water and Drought (continued)

This strategy of husbanding water supplies will continue as required.

Work continues on the upgrade to our Water Treatment Plant at Bayswater Power Station at an overall capital cost of around $60 million. This project will maximise the value from our water allocation by significantly increasing capacity for treatment and extraction of impurities. As well as improving the quantity of water recycling, this upgrade will steadily improve the quality of water in Lake Liddell, which will be operationally important if the power stations are forced, by drought, to operate with low levels in the Lake.

During the year we were pleased to receive development approval to augment our Hunter River Pumping Station. This project has a cost of around $50 million and will allow a greater proportion of the Corporation's water allocation to come from flood events in the Hunter River, therefore reducing our impact on the river during lower flow times, and leaving more water for other users. Importantly this project will not require any variation to the total amount of water that Macquarie Generation is licensed to extract.

These strategies combined with the welcome but unpredictable recent rainfalls have extended the Corporation's ability to operate at current output levels until at least the end of calendar 2009. The Corporation will continue to maintain a focus on initiatives and projects that improve our water use, secure access to water resources and protect electricity supply in NSW.

Environment

Macquarie Generation has maintained its commitment to industry leading environmental operating performance and the exploration of innovative greenhouse gas abatement projects.

We were pleased to maintain certification to the ISO14001 international standard for our Environmental Management System this year, and remain committed to continual improvement of our environmental performance. We have continued to comply with the requirements of our environmental licences, noting one minor reportable event following the receipt of wet coal during the June floods.

In a year when the issue of climate change has reached new levels of community concern and debate, Macquarie Generation has continued to build Australia's largest solar thermal energy project at Liddell Power Station. This project represents the first time, to our knowledge, that this technology has been integrated with a traditional power station to improve its efficiency, and its success is being monitored from around the world. Larger scale testing of the project is expected to commence from late 2007.

We are particularly pleased with the outcomes from the High Pressure, Intermediate Pressure and Low Pressure turbine replacement program at Liddell. This program, at a cost in excess of $90 million, has to date saved over 1.25 million tonnes of CO_2 and when complete in 2008 will result in savings of approximately 700,000 tonnes of CO_2 every year. This annual saving is the equivalent of providing renewable energy for over 70,000 homes. Using NEMMCO's deemed reliability capacity factor, this translates to the equivalent of over 500 modern wind turbines.

During 2007 we were pleased to join the NSW Government's Clean Coal Technologies Working Group. The working group is conducting scoping studies in western NSW exploring viable sites for potential carbon geosequestration.

We are also investigating the potential of co-firing waste coal mine methane, an exciting project with the potential to save very large quantities of greenhouse gas.

Employee Commitment and Safety

Our employees are to be congratulated for their outstanding achievements this year, working in a challenging industry under demanding conditions. Our people make a significant contribution to the prosperity of our State economy and the quality of life we enjoy in New South Wales.

Safety at Macquarie Generation is an absolute priority, and while we are pleased with the significant improvement in safety performance this year, we can never be satisfied until we achieve zero injuries; a goal we believe is attainable. For the first time in our history we achieved two periods of 100 consecutive days lost time injury free. As a result we were able to donate $20,000 to the Westpac Rescue Helicopter Service through our safety incentive scheme.

During this year we initiated a range of health and wellbeing programs for all employees. The programs which focused on personal health, safety and mental and physical fitness have been well received by all employees and are proving a valuable contribution to our workplace environment. More then half the workforce took up the offer of pre-winter influenza vaccination, which was conducted 'in house' by our own qualified staff.

We are pleased to report further increases in apprentice and trainee numbers as part of our strategy to balance the ageing workforce. We have also continued our valuable sponsorship of undergraduate engineers through the University of Newcastle.

Again this year we have farewelled some long serving employees. We wish to express our gratitude for all their hard work and dedication to Macquarie Generation and our industry, and wish them a long and rewarding retirement.

Future Development

Demand for electricity within NSW and across the National Electricity Market continues to grow. The electricity industry in NSW faces the challenge of meeting this demand while simultaneously needing to respond to the community's expectations in relation to lower greenhouse gas emissions. NSW clearly needs significant investment in electricity generation infrastructure, as demonstrated by the recent findings of the Owen Inquiry into Electricity Supply in NSW. This Corporation is well placed to progress additional generating capacity for the State, balancing energy affordability and environmental responsibility.

We believe the Hunter Region's well developed economy, existing infrastructure, trained workforces and well established communities, give it advantages above others for future energy investment.

Market conditions are signalling a growing need for peaking capacity. To this end the Corporation continues to develop the Tomago gas-fired peaking power station project, and while challenged by the approval of a similar project on the same gas supply line, we remain committed to the project's realisation.

Perhaps the greatest challenge facing our industry however is when to build a new baseload power station, where this should be located and its fuel type. Macquarie Generation believes a new state of the art coal-fired power station will be required in NSW by 2013-14, and that it should be built in the Hunter on land owned by the Corporation.

To meet environmental requirements and community expectations we acknowledge that any new power station should be engineered to retrospectively adopt future carbon capture technology, have a reduced emission intensity and use significantly less water by incorporating air cooling.

The Corporation would aim for a new power station with a carbon footprint of 0.8 tonnes of CO_2 per MWh. Compared with a gas-fired power station at 0.6 tonnes of CO_2 per MWh and a significantly greater fuel cost, the Corporation believes a state of the art coal power station provides the most balanced solution to the State's emerging power needs. A state of the art low emission coal-fired power station would also allow for the retirement of older, higher emitting coal-fired stations.

As we move into the future, an emissions trading scheme is highly likely, with all State Governments and both sides of federal politics committed to its introduction. While detail at this stage is lacking we welcome a broad based scheme that covers all sectors and all carbon sources and brings with it improvement in investment certainty and market clarity.

Finally we wish to acknowledge the support and guidance provided this year by our Directors. The contribution of the Corporation's Audit and Assurance Committee is especially critical in ensuring that the Corporation continues to deliver good practice financial, operational and governance outcomes.

We look forward to an exciting year ahead in our industry, a future that will potentially see significant opportunity for individual and organisational development and growth.

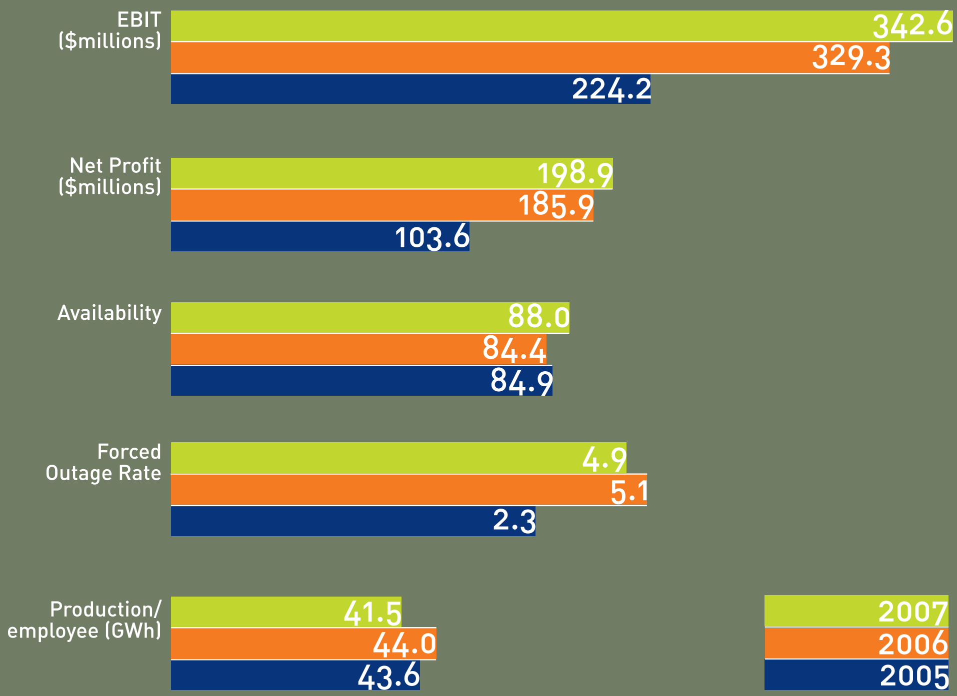
Evan Rees
Chairman

Grant Every-Burns
Chief Executive and
Managing Director

A summary of Macquarie Generation's Financial Performance from 1 July 2006 to 30 June 2007

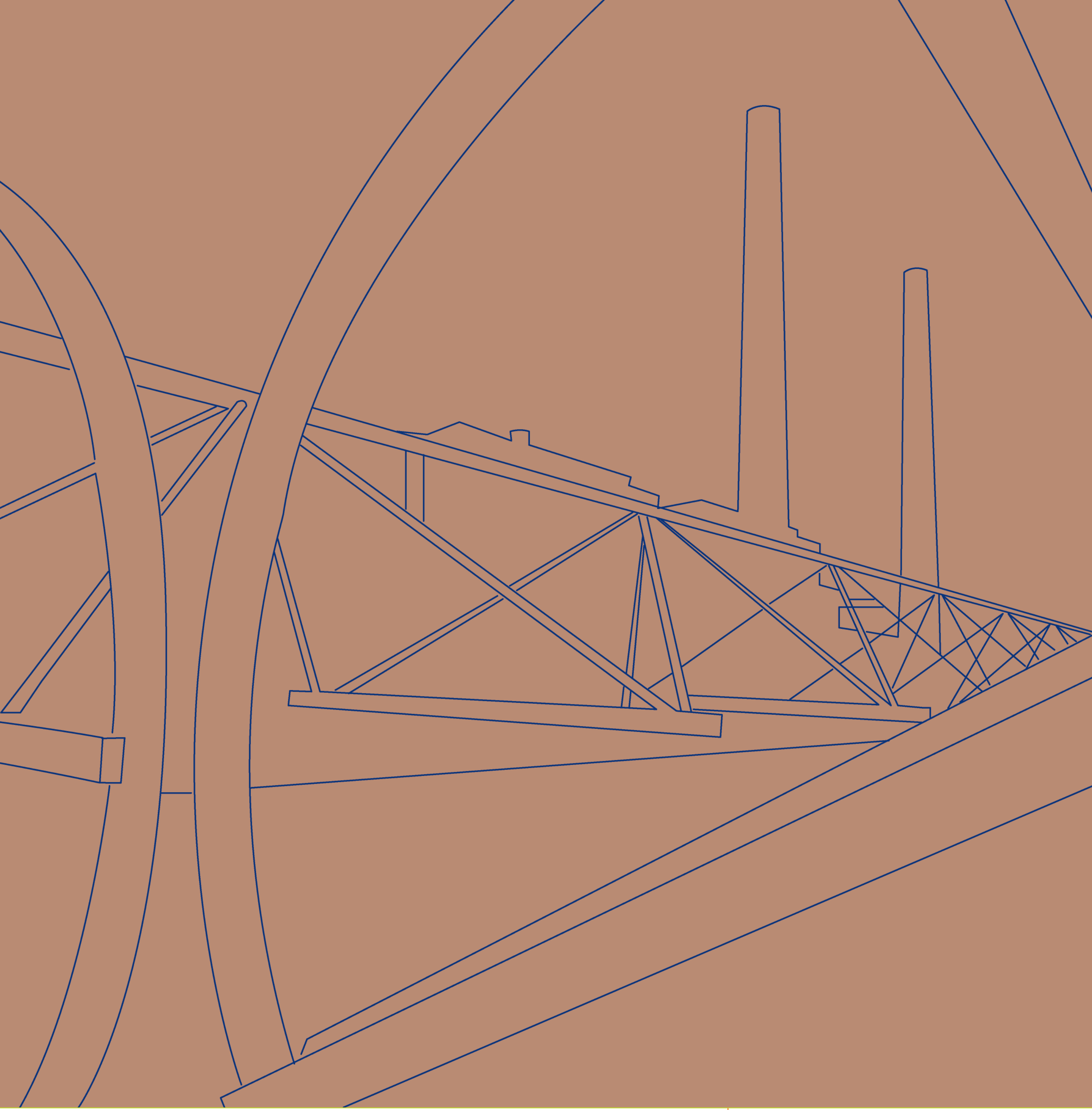
	2007	2006	% Change
Income Statement ($ millions)			
Revenue excluding interest	**1,074.1**	883.3	21.6
Net gain on defined benefit superannuation actuarial valuation	**18.5**	26.1	(29.3)
Fair value (losses) gains on derivative financial instruments	**(95.9)**	39.7	(341.5)
Expenses excluding depreciation	**(547.2)**	(514.9)	6.3
Earnings before depreciation, interest and tax	**449.5**	434.2	3.5
Depreciation expense	**(106.9)**	(104.9)	1.9
Earnings before interest and tax (EBIT)	**342.6**	329.3	4.0
Net finance costs	**(58.9)**	(62.2)	(5.3)
Profit before income tax expense	**283.7**	267.1	6.2
Income tax expense	**(84.8)**	(81.2)	4.4
PROFIT FOR THE YEAR	**198.9**	185.9	7.0
Cash Flow Statement ($ millions)			
Net cash flows from operating activities (excluding net finance costs)	**262.5**	351.2	(25.3)
Capital expenditure	**(162.7)**	(60.4)	169.5
Dividends paid	**(130.0)**	(105.0)	23.8
Balance Sheet ($ millions)			
Total Assets	**3,876.3**	2,972.1	30.4
Total Debt	**889.9**	886.0	0.4
Total Equity (Refer Note 1)	**(57.4)**	1,003.5	(105.7)
Dividend provided	**180.0**	130.0	38.5
Financial Statistics			
EBIT to Revenue (%)	**31.9**	37.3	(14.4)
Debt to Equity (%) (Refer Note 1)	**-**	88.3	(100.0)
Interest Cover (times)	**5.8**	5.3	9.9
Return (after tax) on Equity (%) (Refer Note 1)	**-**	18.5	(100.0)
Operating Statistics			
EBIT per average employee ($ 000's)	**568.2**	548.8	3.5
Equivalent forced outage (%)	**4.9**	5.1	(3.5)
Availability (%)	**88.0**	84.4	4.2
Production per average employee (GWh)	**41.5**	44.0	(5.8)

Note 1. Refer to Financial Highlights Commentary and Note 1(a)(v) of the Financial Statements regarding Net (Deficiency) Assets and Equity position at 30 June 2007.


EBIT ($millions)
342.6
329.3
224.2
Net Profit ($millions)
198.9
185.9
103.6
Availability
88.0
84.4
84.9
Forced Outage Rate
4.9
5.1
2.3
Production/ employee (GWh)
41.5
44.0
43.6
2007
2006
2005

Macquarie Generation's Financial Highlights from 1 July 2006 to 30 June 2007

- Revenue increased by 21.6% to $1,074.1 million as a result of a 22.3% increase in average sales prices.
- Sales Revenue included improved earnings during the last quarter of the financial year due to the significant increase in electricity prices in the National Electricity Market during this period. The increase in electricity prices was as a result of the considerable uncertainty caused by the drought conditions in Eastern Australia, record demand and a large number of generator outages.
  For the remainder of the year Sales Revenue was based on moderate demand and below average pool prices in the NEM.
- Other Income included net unrealised gains of $18.5 million in relation to the actuarial valuation of the Corporation's Defined Benefit Superannuation Assets and Liabilities at 30 June 2007.
- Expenses per Note 4 to the Financial Statements included net unrealised losses of $95.9 million in relation to the valuation of Electricity Derivative Financial Instruments in compliance with AASB 139: *Financial Instruments: Recognition and Measurement.*
- Total Expenses per Note 4(b) to the Financial Statements increased by 6.3% due mainly to the contribution required to the Electricity Tariff Equalisation Fund as a result of the increase in electricity prices. The remainder of the Expenses remained steady reflecting the Corporation's cost control measures.
- The production, revenue and accounting for 2006/2007 resulted in a 4.0% increase in Earnings Before Interest And Tax (EBIT) from $329.3 million to $342.6 million.
- Net finance costs decreased by 5.3% to $58.9 million due to a reduction in average interest rates on debt.
- Debt levels remained steady at $890 million.
- Net Profit Before Tax increased by 6.2% to $283.7 million due mainly to the increase in Sales Revenue offset by the fair value movements in Electricity Derivative Financial Instruments in compliance with AASB 139.
- Net Profit After Tax increased by 7.0% to $198.9 million as a result.
- As disclosed in Note 1(a)(v) of the Financial Statements the Corporation's Net Assets and Equity position decreased from a surplus of $1,003.5 million at 30 June 2006 to a deficiency of $57.4 million at 30 June 2007. The change in financial position was due directly to the fair value movements in the Corporation's Electricity Derivative Financial Instruments in accordance with AASB 139.
  As explained above, the electricity forward price curve increased significantly in the period April to June 2007. This resulted in significant fair value movements of the Electricity Derivative Financial Instruments Assets, Electricity Derivative Financial Instrument Liabilities and Equity—Hedge Accounting Reserve during the period as disclosed in the Financial Statements.
- As disclosed in Note 23 of the Financial Statements, in July and August 2007 the electricity forward price curve fell due mainly to improved plant performance throughout the National Electricity Market, lower demand for electricity and improved drought conditions in Eastern Australia. As a result the Corporation's Net Assets and Equity position increased significantly to at least a surplus of $600 million at the date of signing the Financial Report on 17 August 2007.
- Capital expenditure increased significantly due to a number of construction works in progress including the Antiene Coal Unloader, Water Treatment Plant at Bayswater Power Station and the upgrade of the High Pressure and Intermediate Pressure Turbines at Liddell Power Station.
- Dividends provided increased by 38.5% from $130 million to $180 million due to the improved earnings in the last quarter of the financial year as described above, and will be paid during the 2007/2008 year.
- The Corporation maintained a high standard of plant performance including availability, incidences of forced outages and efficiency.
- The Corporation has income tax payable of $106.2 million in relation to the 2006/2007 year as disclosed in Note 5(d) of the Financial Statements.



13

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

Environment Policy

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

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

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

Macquarie Generation is committed to:

- Developing and maintaining an appropriate Environmental Management System utilising operating practices which seek to prevent pollution and minimise environmental impacts in a commercially effective way by:
  - 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, and
- Periodically reviewing its Environmental Management System and progress towards achieving its environmental objectives and targets.

This policy is to be communicated to all persons working for or on behalf of Macquarie Generation and is available to interested parties. It will be reviewed at least annually.

Macquarie Generation is:

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

Environmental Performance

Regulatory Compliance

NSW EPA Licences	2
Other NSW Government Licences	1
Licence breaches notified	Nil

Coal consumed

Bayswater	7,029,587 tonnes
Liddell	5,436,503 tonnes

Non-coal fuel consumption

Biomass

Liddell	21,468 tonnes
Coal replaced by biomass	18,774 tonnes
Coal replaced since August 1999	289,879 tonnes
Electricity produced from biomass since August 1999	565,595 MWh
Annual average production	70,699 MWh

Oils

Liddell (Supplementary Fuels Program)	15,136 tonnes
Liddell (boiler start-up)	8,588 tonnes
Bayswater (boiler start-up)	4,405 tonnes

Air emissions (i)	
Sulfur dioxide	5.36 kg/MWh (Bayswater)
	4.56 kg/MWh (Liddell)
Oxides of Nitrogen (expressed as NO_2)	2.1 kg/MWh (Bayswater)
	2.39 kg/MWh (Liddell)
Particulate matter	0.033 kg/MWh (Bayswater)
	0.15 kg/MWh (Liddell)
Carbon Dioxide (ii)	931 kg/MWh (Bayswater)
	953 kg/MWh (Liddell)

Water management	
Water Diverted (Hunter River)	48,641 ML
Salt Extracted	9,419 tonnes

Hunter River Salinity Trading Scheme	
Salt discharged	Nil
Salinity Credits Days traded-in	Nil
Salinity Credits Days traded-out	Nil
Regional mine waters treated	Nil

Land management	
Fly ash (iii)	110,067 tonnes
Bottom ash (iv)	75,501 tonnes
Lime	1,232 tonnes
Gypsum	2,416 tonnes
Cenospheres (iv)	3,725 m^3

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

Production **Bayswater**	
Energy Sent Out:	14,310 GWh
Availability:	89.83%
Forced Outage Rate:	2.01
Station Trip Rate (per 1000 hrs):	0.21

Production **Liddell**	
Energy Sent Out:	10,825 GWh
Availability:	85.54%
Forced Outage Rate:	7.57
Station Trip Rate (per 1000 hrs):	0.68

(i) Annual average

(ii) Formulated from total fuel consumption minus biomass

(iii) Total classified and unclassified

(iv) Liddell and Bayswater total

The health and safety of our employees and those working with us takes priority at all times and must not be compromised. A safe working environment is fundamental to our business success and we are committed to achieving zero incidents and injuries.

Occupational Health and Safety Policy

Macquarie Generation supplies electricity from the operation of its Liddell and Bayswater coal-fired power stations within the upper Hunter Valley of New South Wales. A safe working environment is fundamental to our business success and we are committed to achieving zero incidents and injuries through effective planning, management and good work practises.

The health, safety and welfare of all employees, contractors and visitors takes priority at all times and must not be compromised. Individuals have the right to stop a job for further risk assessment if they have genuine safety concerns.

It is recognised that good safety performance is the responsibility of all individuals within the organisation. This includes the identification, elimination, control and management of all risks and hazards and the maintenance of appropriate reporting systems.

We are committed to:

- Meeting moral obligations consistent with employee and community expectations; Complying with applicable legal and other requirements placed upon the organisation;
- Implementing and maintaining an Occupational Health and Safety Management System compliant with AS 4801;
- Establishing and reviewing measurable objectives and targets to achieve continual improvements in safety performance;
- Providing adequate training for persons working for or on behalf of the organisation to ensure they have the competencies to work safely;
- Ensuring others working on or visiting our sites comply with applicable legal obligations and OHS instructions;
- Encouraging everyone to positively contribute to our safety management programme through effective consultation with employees and others;
- Ensuring compliance with our Injury Management Policy and Procedures.

This policy is to be communicated to all persons working for or on behalf of Macquarie Generation and is available to interested parties. It will be reviewed at least annually.

2007 Statistics

Accidents per million hours worked

2007	5.2
2006	11.1
2005	6.3

Longest lost-time injury free period (during 2006–2007)

Bayswater:	210 days
Liddell:	172 days
Lambton:	365 days

Occupational Health and Safety Committees (at 30 June 2007)

Liddell

Employer Representatives

Peter Sewell, Mal Humble, Kevin Wykes and Andrew Sargent.

Employee Representatives

Denis Birkett, David Blake, John Butchard, Jeff Coulter, Brian Delforce, Margaret Pemberton, James Reynolds, Mick Gorton, Peter McMahon, Gus O'Brien, Peter Bowden, Richard Carey, Aaron Pittman, John Sullivan, Keith Smith and Greg Sneddon (Chairperson).

Bayswater

Employer Representatives

John Neely, John Dyson, Wayne Enks and Andrew Sargent.

Employee Representatives

Peter Jeffree, Scott Jennar, Shaun Green, Gyln Joyce, Scott McKinnon, Glen Kollner, Bruce Webber, George Hague, Greg Cooper, Joe Royston, Grahame Smith and Doug Laughlin (Chairperson).

Employees (at 30 June 2007)

Executive & senior management	36
Engineering officers	82
Professional officers	39
Administration officers	78
Operators	122
Mobile coal plant operators	9
Tradespersons (electrical)	30
Tradespersons (mechanical)	69
Tradespersons (metal fabrication)	9
Power workers	91
Apprentices (electrical)	21
Apprentices (mechanical)	20
Casual OHN	4
Total	**610**

life at work

17

Macquarie Generation is proud of its role in the Hunter Region as a major economic contributor, large employer and active partner in community development. Each year support is provided for a wide range of organisations that are making a valuable contribution to building the Hunter community.

Corporate Sponsorship and Community Support

Each year Macquarie Generation is an active supporter of Hunter Region communities. The Corporation is proud of its role as a major economic contributor, large employer and partner in community development. Financial support is provided for a wide range of organisations that are making a valuable contribution to building the Hunter community.

Corporate Sponsorships

- Upper Hunter River Rehabilitation Initiative
- Hunter Medical Research Institute
- Hunter Westpac Rescue Helicopter Service
- Hunter Valley Research Foundation
- RedKite—Supporting Children Through Cancer
- Keep Australia Beautiful—NSW Schools Waste Watchers Program

Community Support

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

Community Support Advisory Committee

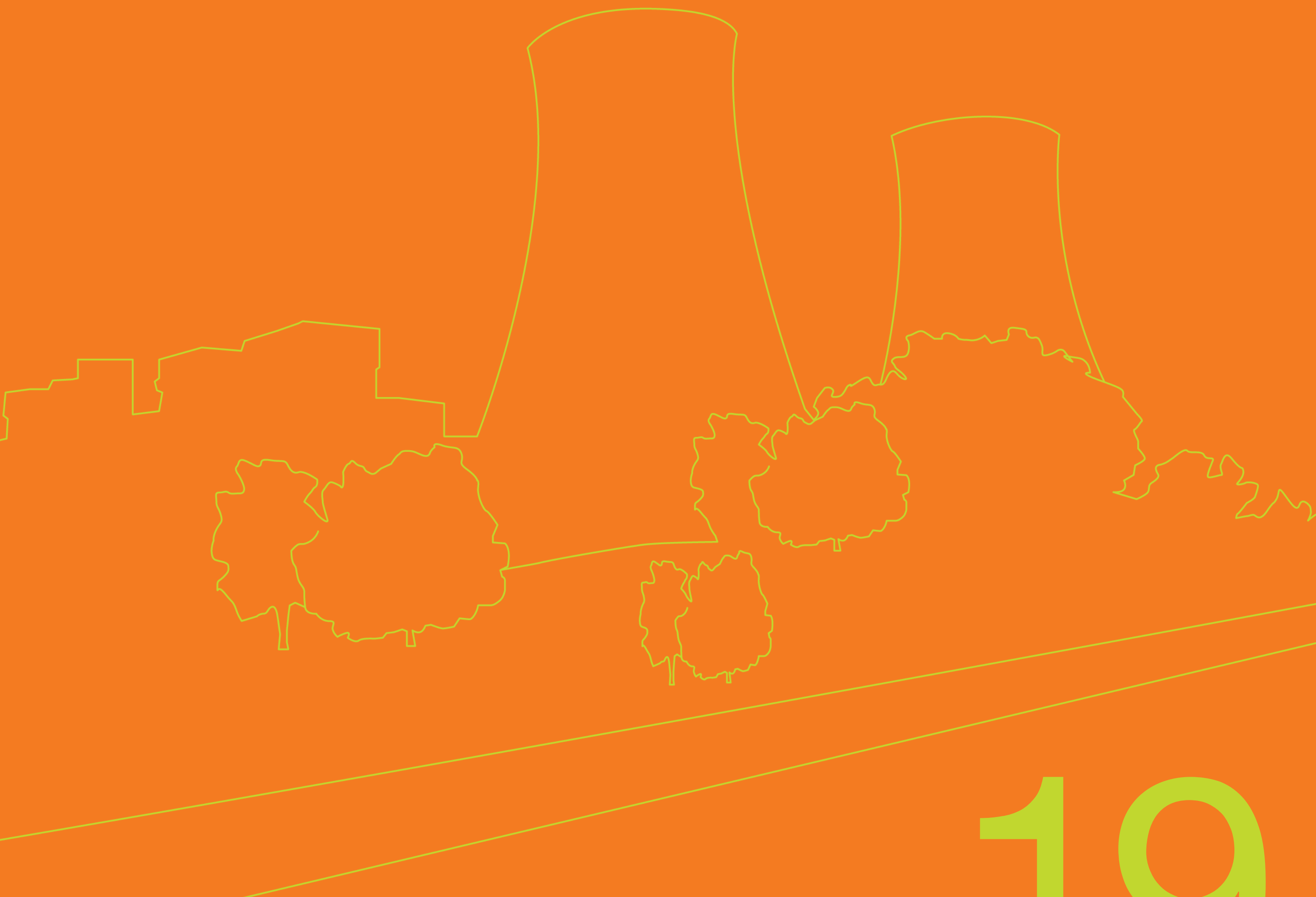
An advisory committee of Corporation employees manages the Community Support Program. Committee members are appointed in recognition of active commitment to their local communities and organisations.

Committee Members (at 30 June 2007)

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

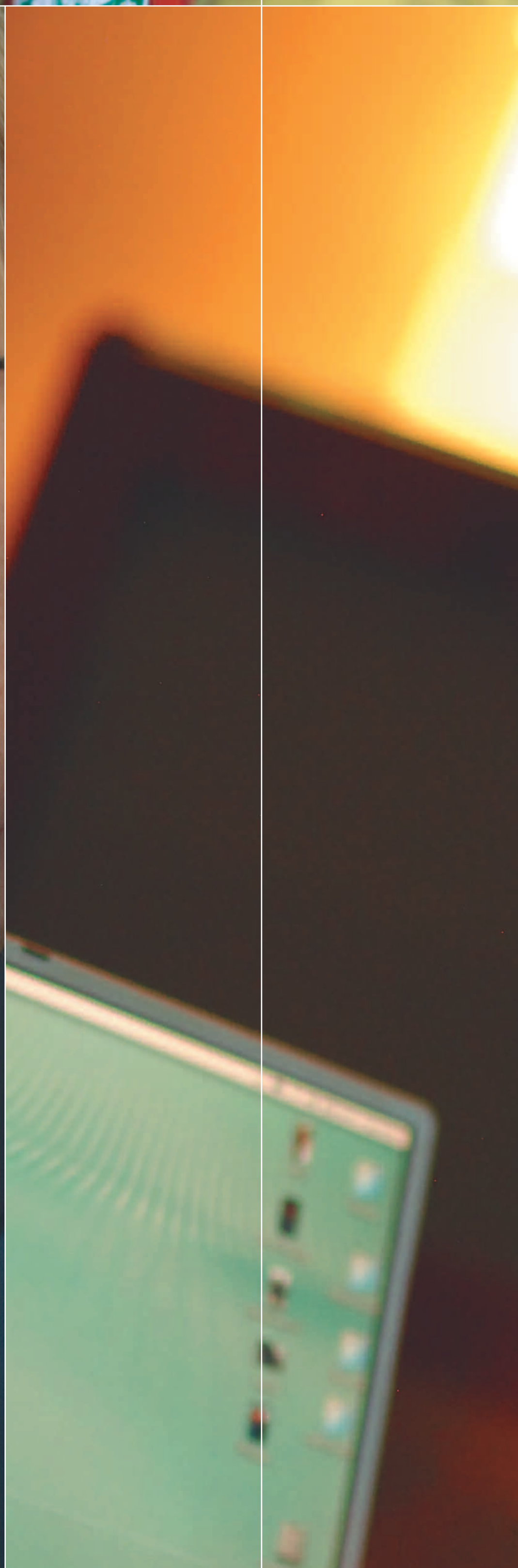
Projects supported by the Community Support Program included:

- Singleton Neighbourhood Centre family crisis accommodation
- Muswellbrook Touch Association
- Singleton Junior Touch Football
- Hunter Valley Cricket Council
- Singleton Amateur Theatrical Society
- Murrurundi District Arts Council
- Singleton Art Prize
- Black Coal Cup Golf Tournament
- Upper Hunter Community Services
- Aberdeen Highland Games
- Group 21 Rugby League Development Camp
- Singleton Public Library Summer Reading Program
- Upper Hunter School Presentation Days
- Conservation Volunteers Australia
- Upper Hunter and Muswellbrook Eisteddfod



19



Audited Financial Report for the Year Ended 30 June 2007

The Board of Directors present their report together with the Financial Report of the Corporation for the year ended 30 June 2007 and the Auditors' report thereon:

Directors

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

Evan Rees
Grant Every-Burns
Anna Buduls
John Cahill
The Hon Peter Collins AM
Lucio Di Bartolomeo
Deborah Page AM

Lucio Di Bartolomeo was appointed as a Director on 14 August 2006.

Information on Directors

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

Mr Rees was appointed Chairman of Macquarie Generation on 1 March 1996. Mr Rees was reappointed as Chairman on 1 March 2006 for a two year term ending on 28 February 2008.

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

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

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

Mr Every-Burns was appointed as Chief Executive and Managing Director on 1 March 1996. Mr Every-Burns was reappointed as Chief Executive and Managing Director on 1 September 2005 for a three year term ending on 31 August 2008.

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

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

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

Anna Buduls MComm BA—Non-executive Director

Ms Buduls was appointed Director of Macquarie Generation on 1 March 1996, and is the Chair of the Board Remuneration and Human Resources Committee and a member of the Board Audit and Assurance Committee and the Issues Management Committee. Ms Buduls was reappointed as a Director on 1 March 2006 for a two year period ending on 28 February 2008.

Ms Buduls has a financial background, including seven years at Macquarie Bank Limited. Ms Buduls is the Chair of Tramada Holdings Pty Ltd and Beyond Empathy Limited and is a non-executive Director of SAI Global Limited and HJB Group.

Ms Buduls was a non-executive Director of Mirvac Group Limited from February 1997 to July 2005.

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 1 June 2006 for a two year period ending on 31 May 2008.

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

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

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

The Hon Peter Collins AM RFD QC BA LLB—Non-executive Director

Mr Collins was appointed as a Director on 20 March 2006 for a two and a half year period ending on 19 September 2008 and is the Chairman of the Issues Management Committee.

Mr Collins is the Chair of the Cancer Institute of New South Wales, Chair of Australian Institute of Health and Welfare, a Director of the Workers Compensation Insurance Fund Investment Board, a Director of the Australian National Maritime Museum Foundation and a Director of HOSTPLUS Superannuation Fund.

Mr Collins is a former New South Wales Government Minister and held the post of Treasurer. Subsequently he was also the Leader of the Opposition of the New South Wales Government. Mr Collins served on the Public Accounts Committee of the Parliament.

As a Commander in the RAN Reserve Mr Collins has served as acting Fleet Legal Officer to the RAN and conducted various Administrative Inquiries from 2002 to date. He has also served as an Assistant Inspector General of the Australian Defence Force in 2005.

Mr Collins was non-executive Director of Moran Health Care Group from 2002 to 2003 and a Director of the Cancer Council of New South Wales from 2004 to 2006.

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

Mr Di Bartolomeo was appointed as a Director on 14 August 2006 for a three year period ending on 13 August 2009. Mr Di Bartolomeo was appointed as a member of the Board Audit and Assurance Committee on 22 September 2006.

Mr Di Bartolomeo was until recently the Managing Director of ADI Limited and the Country Director for all Thales business in Australia.

Prior to his appointment at ADI in September 2002, Mr Di Bartolomeo had a 26 year career in the transport industry. From 1986 to 2002 he held a number of senior management positions at the forefront of rail reform in Australia. 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, Reliance Rail Limited, S.S.S.R Holdings Pty Limited and Australian Rail Track Corporation and Chairman of Parklands Foundation.

Mr Di Bartolomeo was non-executive Director of the Australian Defence College Advisory Board from January 2004 to December 2005, President of the Australasian Railway Association from December 2000 to June 2002 and President of the Australian Industry Group Defence Council from November 2004 to May 2006.

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 2006 for a three year term ending on 28 February 2009. 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 a non-executive Director of Investa Properties Limited, The Colonial Mutual Life Assurance Society Limited, Commonwealth Insurance Limited and the New South Wales Internal Audit Bureau. She is also the non-executive Chairman of Ascalon Capital Managers Limited.

Mrs Page was a non-executive Director and Chair of the New South Wales Cancer Council from May 1997 to September 2005; and was a non-executive Director of Colonial Mutual Superannuation Pty Limited and Commonwealth Custodial Services Limited from June 2006 to August 2007.

David Ipkendanz FCPA Dip Ed BEc—Company Secretary

Mr Ipkendanz was appointed to the position of Chief Financial Officer and Company Secretary in 1996. Before joining Macquarie Generation he held similar positions with the Australian Submarine Corporation Pty Limited and Namoi Cotton Co-operative. Mr Ipkendanz has held a range of senior financial management positions continuously since 1982.

Directors' Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors during the financial year ended 30 June 2007 were:

	Board Meetings		Board Audit and Assurance Committee Meetings	
	Held	Attended	Held	Attended
Mr Evan Rees	10	10	-	-
Mr Grant Every-Burns (1)	10	10	-	5
Ms Anna Buduls	10	10	5	5
Mr John Cahill	10	7	-	-
The Hon Peter Collins (5)	10	8	-	1
Mr Lucio Di Bartolomeo (6)	10	9	5	4
Mrs Deborah Page	10	10	5	5

	Board Remuneration and Human Resources Committee Meetings		Issues Management Committee Meetings	
	Held	Attended	Held	Attended
Mr Evan Rees (4)	-	3	-	-
Mr Grant Every-Burns (2) (3)	-	3	-	2
Ms Anna Buduls (8)	3	3	2	1
Mr John Cahill	3	3	-	-
The Hon Peter Collins	-	-	2	2
Mr Lucio Di Bartolomeo	-	-	-	-
Mrs Deborah Page (7)	-	1	-	-

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

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

(3) Although not a member of the Board Issues Management Committee, Mr Every Burns attended all meetings of the Committee by invitation.

Directors' Meetings (continued)

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

(5) Although not a member of the Board Audit and Assurance Committee, The Honourable Peter Collins attended one meeting of the Committee by invitation.

(6) Mr Lucio Di Bartolomeo was appointed as a Director on 14 August 2006 and was appointed as a member of the Board Audit and Assurance Committee on 22 September 2006.

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

(8) Ms Anna Buduls was appointed to the Issues Management Committee subsequent to the first meeting of the Committee.

Principal Activities

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

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

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

Operating Results

The operating profit after tax of the Corporation for the financial year ended 30 June 2007 was $198.9 million.

Review of Operations

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

Dividends

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

- an interim dividend of $65 million in respect of the year ended 30 June 2006 was paid on 1 August 2006;
- a final dividend of $65 million in respect of the year ended 30 June 2006 was paid on 1 December 2006; and
- a dividend of $180 million in respect of the year ended 30 June 2007 has been provided for in the Financial Report.

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 28 to the Financial Report.

Likely Developments

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

The Prime Minister released Australia's Climate Change Policy in July 2007 committing the Commonwealth to implementing an emissions trading scheme by no later than 2012.

The Australian emissions trading scheme will be based on a cap and trade model and will cover all emissions from large facilities. The policy states that the permit allocation would include an up-front, once-and-for-all, free allocation of permits as compensation to existing businesses identified as likely to suffer a disproportionate loss of value due to the introduction of a carbon price.

The final form of the emissions trading scheme may have a significant impact on Macquarie Generation.

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

Net Asset Deficiency

The Corporation's Net Assets and Total Equity position at 30 June 2007 shows a deficiency of $57,413,000 compared with a surplus of $1,003,530,000 for the previous financial year.

The change in financial position is a consequence of movements in the fair value of the Corporation's Electricity Derivative Financial Instruments in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

The electricity forward price curve increased significantly in the period April to June 2007 due to the considerable uncertainty caused by drought conditions in Eastern Australia, a large number of generator outages and record demand. This resulted in significant fair value movements of the Electricity Derivative Financial Instruments Assets, Electricity Derivative Financial Instrument Liabilities and Equity—Hedge Accounting Reserve during the period as disclosed in the Financial Report.

The significant fair value movements in the Electricity Derivative Financial Instruments as disclosed in the Corporation's Balance Sheet do not impact on the ability of the Corporation to pay its debts when they become due and payable.

The liability will progressively reduce when future production occurs and forward sales are settled. The forward sales will be settled at prices that provide the Corporation with margins well above operating costs.

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 Corporation, to affect significantly the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation.

Valuation of Electricity Derivative Financial Instruments

At 30 June 2007 Electricity Derivative Financial Instrument Assets were valued at $70.1 million and the Electricity Derivative Financial Instrument Liabilities were valued at $1,723.2 million.

The Electricity Derivative Financial Instrument Assets included an amount of $39.5 million representing the value of an embedded derivative contained in a long term direct supply contract.

In July and August 2007 the electricity forward price curve has fallen significantly, mainly due to improved plant performance and lower demand for electricity in Eastern Australia.

Events Subsequent to Balance Date (continued)

Valuation of Electricity Derivative Financial Instruments (continued)

Between 30 June 2007 and the date of signing the Financial Report on 17 August 2007, the fair value of the Electricity Derivative Financial Instrument Assets have increased by $1.0 million and the fair value of the Electricity Derivative Financial Instrument Liabilities have decreased by $1,012.8 million when marked to model in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, due mainly to the decrease in the electricity forward price curve.

The increase in the Electricity Derivative Financial Instrument Assets between 30 June 2007 and the date of signing the Financial Report on 17 August 2007 of $1.0 million, as reported above, also includes a decrease in the fair value of the embedded derivative asset of $14.5 million due to a decrease in the London Metals Exchange forward price curve of aluminium.

At the date of signing the Financial Report, total Equity will be at least $600 million.

Reference is made to the Electricity Derivative Financial Instruments in Notes 13, 24(b) and 24(c).

Provision for Dividend—Adjusting Event

The Corporation has previously provided for a Target Dividend of $130 million in the Statement of Corporate Intent for 2006/2007. After 30 June 2007, the Shareholders advised of a requirement for an increased Dividend to $180 million in recognition of the improved earnings of the Corporation following high prices in the last quarter of the financial year.

The Shareholders request for the higher Dividend qualified as an Adjusting Event in accordance with AASB 110, *Events after the Balance Sheet Date* and accordingly the Provision for Dividend in relation to 2006/2007 was amended.

Australian Financial Services Licence—284379

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

As disclosed in Note 16 of the Financial Report, Macquarie Generation had approval from the Treasurer for the temporary increase in financial accommodations under the *Public Authorities (Financial Arrangements) Act 1987* from $1.65 billion to $2.5 billion for the period from 15 May 2007 to 15 August 2007.

The Corporation has applied for an extension of the temporary increase in financial accommodation limits to ensure ongoing compliance with Australian Financial Services Licence liquidity requirements. At the date of signing the Financial Report the Treasurer has granted the extension.

Environmental Performance Report

Protection of the Environment Operations Act 1997

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

Both Stations are required to 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.

Environmental Performance Report (continued)

Protection of the Environment Operations Act 1997 (continued)

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

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

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

Macquarie Generation complied fully with all relevant discharge limits, monitoring and reporting requirements during the reporting period.

No limits for atmospheric emissions or aqueous discharges were exceeded for Bayswater Power Station. The annual certificate of compliance has been completed for the Bayswater Licence.

Liddell Power Station had one reportable event in relation to sulphur dioxide but this did not constitute a breach of the licence. A report was submitted to the EPA in accordance with the licence. The annual certificate of compliance for the Liddell licence is due to be completed by 25 September 2007 for the 12 months ending 27 July 2007.

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. The reporting requirements under the Protection of the Environment Operations (Waste) Regulation 2005 have been complied with.

Renewable Energy (Electricity) Act 2000

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

Waste Reduction and Purchasing Policy (WRAPP)

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

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

Environmental Performance Report (continued)

Waste Reduction and Purchasing Policy (WRAPP) (continued)

Macquarie Generation has implemented the Policy, including preparing a Waste Reduction and Purchasing Plan and reporting to the Department of Environment and Climate Change. 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:

- efficiency improvements at the Power Stations resulting in less coal burnt per MWh generated;
- use of recycled oil for boiler start-up at Liddell Power Station;
- re-use of 185,567 tonnes of ash in cement manufacture, landscaping and road works representing 5.5% of the total of 3,386,879 tonnes of ash produced during the financial year;
- re-use of 3,648 tonnes of lime substitute and gypsum by-products by the agricultural industry representing 20.6% of the total of 17,705 tonnes produced during the financial year; and
- co-firing wood waste from licensed sawmills. The program trials began in August 1999 and ceased in September 2006. During this period over 507,928 tonnes of waste biomass has been utilised and 538 GWh of greenhouse neutral electricity has been produced.

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 Corporation with a Director, an entity of which a Director is a member or an entity in which a Director has a substantial financial interest.

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	Non-executive Director	Downer EDI Limited

The Corporation has two current and one former contract with a division of Downer EDI Limited. The contracts total $10.2 million. All contracts were entered prior to Director Di Bartolomeo's appointment to the Board of Macquarie Generation.

Indemnification of Directors and Officers

During the financial year Macquarie Generation paid a premium of $204,891 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 Report and Directors' Report have been rounded to the nearest thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of the Directors.

H E REES
CHAIRMAN

17 August 2007
Sydney

G V EVERY-BURNS
CHIEF EXECUTIVE AND MANAGING DIRECTOR

17 August 2007
Sydney

Income Statement

For the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Revenue	3	**1,082,037**	892,592
Finance costs	4	**(66,832)**	(71,505)
Expenses	4(b)	**(654,068)**	(619,830)
Profit before income tax expense, superannuation actuarial gains and fair value movements in derivative financial instruments		**361,137**	201,257
Income tax on profit before superannuation actuarial gains and fair value movements in derivative financial instruments	5	**(108,032)**	(61,495)
Profit after tax before superannuation actuarial gains and fair value movements in derivative financial instruments		**253,105**	139,762
Net gain on defined benefits superannuation actuarial valuation	3	**18,464**	26,104
Fair value (losses)/gains on derivative financial instruments	3,4	**(95,877)**	39,737
Income tax on superannuation actuarial gains and fair value movements in derivative financial instruments	5	**23,224**	(19,752)
Profit for the year		**198,916**	185,851

The above Income Statement should be read in conjunction with the accompanying notes.

Balance Sheet
As at 30 June 2007

	Notes	2007 $'000	2006 $'000
Current Assets			
Cash and cash equivalents	7	**87,555**	178,773
Trade and other receivables	8	**505,284**	88,236
Inventories	9	**115,434**	103,112
Derivative financial instruments	13	**72,046**	50,259
Other assets	14	**4,591**	2,615
TOTAL CURRENT ASSETS		**784,910**	**422,995**
Non-Current Assets			
Receivables	8	**14**	18
Property, plant and equipment	10	**2,545,239**	2,495,734
Deferred tax assets	11	**537,100**	43,370
Intangible assets	12	**9,008**	7,642
Derivative financial instruments	13	**-**	2,309
TOTAL NON-CURRENT ASSETS		**3,091,361**	2,549,073
TOTAL ASSETS		**3,876,271**	2,972,068
Current Liabilities			
Trade and other payables	15	**265,237**	101,125
Borrowings	16	**344,433**	258,343
Derivative financial instruments	13	**1,119,031**	35,986
Current tax liabilities	5	**106,194**	21,715
Provisions	18	**216,619**	164,361
Other liabilities	19	**1,337**	1,320
TOTAL CURRENT LIABILITIES		**2,052,851**	582,850
Non-Current Liabilities			
Borrowings	16	**545,486**	627,645
Derivative financial instruments	13	**606,535**	23,065
Deferred tax liabilities	17	**683,038**	680,217
Provisions	18	**14,737**	23,556
Other	19	**31,037**	31,205
TOTAL NON-CURRENT LIABILITIES		**1,880,833**	1,385,688
TOTAL LIABILITIES		**3,933,684**	1,968,538
NET (DEFICIENCY) ASSETS	1(a)(v)	**(57,413)**	1,003,530
Equity			
Contributed equity		**281,078**	281,078
Reserves	20(b)	**(430,190)**	650,644
Retained profits	20(c)	**91,699**	71,808
TOTAL EQUITY		**(57,413)**	1,003,530

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Total equity at the beginning of the financial year		**1,003,530**	984,104
Adjustment on adoption of AASB 132 and AASB 139 net of tax, to:			
Retained profits	20(c)	**-**	(7,564)
Reserves	20(b)	**-**	(17,824)
Restated total equity at the beginning of the financial year		**1,003,530**	958,716
Changes in fair value of cash flow hedges net of tax	20(b)	**(1,079,859)**	(11,037)
Net (loss) recognised directly in equity		**(1,079,859)**	(11,037)
Profit for the year	20(c)	**198,916**	185,851
Total recognised income and expense for the year		**122,587**	1,133,530
Transactions with equity holders in their capacity as equity holders:			
Dividends provided for	18	**(180,000)**	(130,000)
		(180,000)	(130,000)
Total equity at the end of the financial year		**(57,413)**	1,003,530

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

Cash Flow Statement
For the year ended 30 June 2007

	Notes	2007 $'000	2006 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		**808,659**	1,010,848
Payments to suppliers and employees (inclusive of goods and services tax)		**(517,745)**	(659,607)
Interest received		**7,934**	9,279
Interest paid		**(73,119)**	(77,542)
Income tax paid		**(28,442)**	-
NET CASH INFLOWS FROM OPERATING ACTIVITIES	21	**197,287**	282,978
Cash Flows from Investing Activities			
Payments for property, plant and equipment		**(161,381)**	(54,146)
Payments for intangible assets		**(1,367)**	(6,250)
Proceeds from sale of property, plant and equipment		**312**	346
NET CASH (OUTFLOWS) FROM INVESTING ACTIVITIES		**(162,436)**	(60,050)
Cash Flows from Financing Activities			
Repayments of New South Wales Treasury Corporation loans		**(3,815)**	(74,443)
Dividends paid to Shareholders		**(130,000)**	(105,000)
NET CASH (OUTFLOWS) FROM FINANCING ACTIVITIES		**(133,815)**	(179,443)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(98,964)**	43,485
Cash at the beginning of the financial year		**178,773**	135,288
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7	**79,809**	178,773

The above Cash Flow Statement 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 Financial Report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Preparation
This general purpose Financial Report has been prepared as required by the State Owned Corporations Act, 1989, 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 Urgent Issues Group Interpretations.

The Corporation is classified as a for-profit entity 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 Corporation has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2006.

At the date of authorisation of the Financial Report, the following 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 ending 30 June 2007:

Note 1—Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

(ii) Australian Accounting Standards (continued)

AASB amendment	Affected standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Corporation
2005–10	AASB 132: *Financial Instruments: Disclosure and Presentation,* AASB 101: *Presentation of Financial Statements,* AASB 114: *Segment Reporting,* AASB 117: *Leases,* AASB 133: *Earnings per Share,* AASB 139: *Financial Instruments: Recognition and Measurement,* AASB 1: *First time adoption of AIFRS,* AASB 4: *Insurance Contracts,* AASB 1023: *General Insurance Contracts and AASB* 1038: *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 101	AASB 101: *Presentation of Financial Statements*	No change to accounting policy required.	1 January 2007	1 July 2007
New standard	AASB 7: *Financial Instruments: Disclosures*	No change to accounting policy required.	1 January 2007	1 July 2007
AASB 123	AASB 123: *Borrowing Costs*	No change to accounting policy required.	1 January 2009	1 July 2009

* 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

This Financial Report has 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, 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 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 Report.

The definition of an asset in accordance with AASB 116 *Property, Plant and Equipment* for the purposes of offsetting revaluation increment and decrements in the asset revaluation reserve has been determined to be at the power station level. The rationale for this it 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* 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(v) and Note 18—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 25—Superannuation.

- Property, plant and equipment
  Various assumptions are required when determining fair value and recoverable amount in relation to property, plant and equipment. The related carrying amounts are disclosed in Note 10—Property, Plant and Equipment.

(v) Net Asset Deficiency

The Corporation's Net Assets and Total Equity position at 30 June 2007 shows a deficiency of $57,413,000 compared with a surplus of $1,003,530,000 for the previous financial year.

The change in financial position is a consequence of movements in the fair value of the Corporation's Electricity Derivative Financial Instruments in accordance with AASB 139 *Financial Instruments: Recognition and Measurement.*

The electricity forward price curve increased significantly in the period April to June 2007 due to the considerable uncertainty caused by drought conditions in Eastern Australia, a large number of generator outages and record demand. This resulted in significant fair value movements of the Electricity Derivative Financial Instruments Assets, Electricity Derivative Financial Instrument Liabilities and Equity – Hedge Accounting Reserve during the period as disclosed in the Financial Report.

The significant fair value movements in the Electricity Derivative Financial Instruments as disclosed in the Corporation's Balance Sheet do not impact on the ability of the Corporation to pay its debts when they become due and payable.

The liability will progressively reduce when future production occurs and forward sales are settled. The forward sales will be settled at prices that provide the Corporation with margins well above operating costs.

Note 1—Summary of Significant Accounting Policies (continued)

(b) 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 Report, 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 are also recognised directly in Equity.

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.

(c) 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 Corporation as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to the ATO is included as a current asset or current liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement 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 Australian Taxation Office are classified as operating cash flows.

(d) 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 Income Statement, except when deferred in Equity as qualifying cash flow hedges.

(e) Revenue Recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the 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.

Note 1—Summary of Significant Accounting Policies (continued)

(e) Revenue Recognition (continued)

(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.

(f) Impairment of Assets

The 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 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.

(g) Cash and Cash Equivalents

Cash and cash equivalents in the Balance Sheet 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. The deposits at call include deposits held with the Commonwealth Bank of Australia, New South Wales Treasury Corporation and other financial institutions.

For the purposes of the Cash Flow Statement cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts, which are used in the day to day cash management function.

(h) Receivables

Trade debtors are primarily attributable to electricity sales and are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Trade debtors are due for settlement no more than 30 days from the date of recognition for electricity debtors and unsecured sundry debtors.

Sundry debtors include loans advanced to employees to assist in the purchase of housing in the Hunter region. These are secured by mortgages over the subject properties. The sundry debtors are recognised at amortised cost using the effective interest method.

A provision for impairment of trade receivables is made when there is objective evidence that the Corporation will not be able to collect the debts. Bad debts are written off in the period in which they are identified.

(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.

Note 1—Summary of Significant Accounting Policies (continued)

(j) Property, Plant and Equipment (continued)

(ii) Valuation of Property, Plant and Equipment

Property, plant and equipment are valued at fair value in accordance with Australian Accounting Standard AASB 116 *Property, Plant and Equipment* and New South Wales Treasury Accounting Policy *Valuation of Physical Non-current Assets at Fair Value*, 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.

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 Income Statement.

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 Income Statement 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	2.5-14 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.

Note 1—Summary of Significant Accounting Policies (continued)

(j) Property, Plant and Equipment (continued)

(iv) Impairment

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

(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 Income Statement on a straight-line basis over the period of the lease (refer Note 22(b) Lease Commitments).

(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.

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

The useful lives of the water access licences are assessed as indefinite. 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. 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.

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

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

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

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

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

NGACs carried forward are tested annually for impairment, refer Note 1(f).

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

At 30 June 2007 the Corporation held 451,029 internally generated NGACs which are not recognised in the Financial Report due to the absence of authoritative accounting pronouncements on their accounting treatment. These NGACs will be acquitted against the calendar year 2007 liabilities.

Note 1—Summary of Significant Accounting Policies (continued)

(n) Payables

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

These amounts include payments due to counterparties in respect of electricity derivative contracts.

The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Other Liabilities

The non-trading financial liabilities are recognised at amortised cost using the effective interest method.

A security deposit 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.

The security deposit is disclosed in Note 19 at amortised cost using the effective interest method. The amortisation expense is treated in finance costs in the Income Statement.

The deferred income in relation to the security deposit provided under the terms of the long term electricity supply contract is disclosed in Note 19 at amortised cost using the effective interest method. The deferred income is recognised as sales revenue in the Income Statement on a basis consistent with the underlying sales revenue on the long term electricity supply contract.

(p) Borrowings

Borrowings are initially recognised at cost being the fair value of the consideration received. Borrowings are subsequently recognised at amortised cost using the effective interest method.

The discount or premiums are treated as finance costs in the Income Statement.

Interest expense is included in finance costs and accrued as part of payables.

(q) 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 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 24. Movements in the hedge accounting reserve in equity is shown in Note 20.

(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 Income Statement.

Amounts accumulated in equity are recycled in the Income Statement 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.

Note 1—Summary of Significant Accounting Policies (continued)

(q) Derivative Financial Instruments (continued)

(i) Cash flow hedges (continued)

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

(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 Income Statement.

(r) Fair Value Estimation 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 Derivative Contracts

The fair value of electricity derivative contracts is calculated in accordance with Board approved policies and procedures.

Net fair value calculations are performed using industry accepted valuation methodologies and are based on a market quoted forward curve.

(ii) Interest Rate Futures, Interest Rate Swaps and Forward Foreign Exchange Contracts

Valuation techniques, such as estimated discounted cash flows, are used to determine fair value for these derivative financial instruments.

The fair value of interest rate futures is the variation margin at the reporting date.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows at the reporting date.

The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles at the reporting date.

(iii) Other Financial Assets and Financial Liabilities

The fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities is represented by their carrying value, except in regard to a non-interest bearing security deposit and deferred income which are recognised at amortised cost and the net fair values are disclosed in Note 24.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The fair value of other monetary financial assets and liabilities for disclosure purposes, including the security deposit and deferred income, 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.

(s) 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(r) above. Amounts are recognised in the profit and loss when the associated hedge transaction affects profit and loss.

(t) 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.

Note 1—Summary of Significant Accounting Policies (continued)

(u) 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.

(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 Income Statement 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 the profit or loss in the year in which they occur.

(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.

(v) 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.

Note 1—Summary of Significant Accounting Policies (continued)

(v) Provision for Insurance (continued)

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 2007 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 $8,758,000 being the best estimate as advised by the Actuary. The Actuary applied a discount rate of 6.17% being the 10 year Government Bond rate at 5 June 2007 at the time of preparation of the Actuary's report. The Actuary applied an inflation rate of 4.5% 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.

(w) Dividends

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

(x) Mine Rehabilitation

The Corporation owns land, which includes mine sites that have attached to them a statutory obligation to rehabilitate that land, under the terms of a license issued by the Department of Primary Industries. The future rehabilitation costs are expected to be incurred from the present until the 2021/2022 year and have been estimated by specialist internal technical staff. The balance of the provision represents the net present value of the estimated future cash flows required to complete the rehabilitation process, discounted by the Corporation's weighted average cost of capital.

(y) Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year.

(z) Segment Reporting

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

(aa) Rounding of Amounts

Amounts shown in this Financial Report are rounded to the nearest thousand dollars.

(bb) Comparative Figures

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

Note 2—Financial Risk Management Objectives

The Corporation's principal financial instruments, other than derivatives, comprise cash, receivables, interest bearing liabilities and other liabilities and are disclosed in Notes 7, 8, 15, 16 and 19. The Corporation's derivative financial instruments are disclosed in Notes 13 and 24.

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), and
- Credit 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 use of financial derivatives, as described below.

The Board reviews compliance with these policies and exposure limits at each meeting.

(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.

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

(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.

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 assistance of interest rate swaps, interest rate futures and options. All interest rate derivatives are managed through New South Wales Treasury Corporation in accordance with the Board approved policies.

The Corporation uses interest rate derivative financial instruments in accordance with Board approved policies to shorten or lengthen the modified duration of the tactical debt portfolio relative to the benchmark to take advantage of short term rate movements in the market.

Also the Corporation uses interest rate derivative financial instruments in accordance with Board approved policies to shorten or lengthen the modified duration of the strategic debt portfolio when interest rate trigger levels are reached. These tend to be positions held for the longer term. The interest rate trigger levels are set annually and reviewed periodically during the financial year.

The Corporation also enters interest rate swaps in which the Corporation agrees to exchange at specified intervals, the difference between fixed and variable interest amounts calculated by reference to agreed-upon notional principal amounts.

Note 2—Financial Risk Management Objectives (continued)

(a) Market Risk (continued)

(iii) 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.

(b) Credit Risk

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

The Corporation does not have any significant credit risk exposure to any single counterparty or a group of counterparties with similar characteristics. However, a significant amount of Receivables are owing from New South Wales Electricity State Owned Corporations (Electricity Retailers) as disclosed in Financial Instruments Note 24.

(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 Australian Prudential Regulation Authority Guidelines which is disclosed in Note 24.

(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 net fair value position of the contracts, as disclosed in Note 24.

	2007	2006
	$'000	$'000
Note 3—Revenue		
Sales revenue		
Sale of electricity	**1,066,877**	881,080
Sale of electricity production by-products	**1,610**	1,648
	1,068,487	882,728
Other revenue		
Other miscellaneous revenue	**5,604**	577
Interest	**7,946**	9,287
	13,550	9,864
Revenue	**1,082,037**	892,592
Other income		
Net gain on foreign currency derivatives not qualifying as hedges	**-**	1,395
Net gain on electricity derivative contracts not qualifying as hedges	**-**	38,342
Fair value gains on derivative financial instruments	**-**	39,737
Net gain on defined benefits superannuation actuarial valuation	**18,464**	26,104
Total other income	**18,464**	65,841
Note 4—Expenses		
Profit before income tax expense includes the following specific expenses:		
Net loss on electricity derivative contracts not qualifying as hedges	**95,876**	-
Net loss on foreign currency derivatives not qualifying as hedges	**1**	-
Fair value losses on derivative financial instruments	**95,877**	-
Finance costs		
Interest and related finance charges on borrowings	**65,229**	69,851
Amortisation—security deposit	**1,170**	1,093
Insurance provision—unwinding of discount	**433**	561
	66,832	71,505
Depreciation of		
Buildings	**58**	116
Plant and equipment	**106,794**	104,739
Total depreciation	**106,852**	104,855
Bad and doubtful debts		
Sundry debtors	**13**	-
Total bad and doubtful debts	**13**	-

	Note	2007	2006
		$'000	$'000
Note 4—Expenses (continued)			
Net loss on disposal of non-current assets			
Plant and equipment—Other		**92**	189
Plant and equipment—Power Stations		**1,240**	1,883
Total loss on disposal of non-current assets		**1,332**	2,072
Employee benefits			
Annual leave and long service leave entitlements		**10,837**	9,819
Superannuation contributions to defined benefit funds		**-**	-
Superannuation contributions to accumulation funds		**2,183**	1,502
Salaries and wages		**50,392**	48,847
Total employee benefits expense		**63,412**	60,168
Operating lease rentals		**3,410**	3,483
Non-executive Directors' remuneration		**452**	432
Auditors' remuneration			
Audit of the financial statements		**171**	166
Consultants' fees		**1,617**	1,526
Write-downs in value of inventories		**91**	1,422
(b) Expenses from operations, excluding finance costs, included in the Income Statement by function:			
Electricity generation operational expenditure		**654,068**	619,830
Note 5—Income Tax			
(a) Income tax recognised in profit or loss			
Income tax expense comprises:			
Current tax expense		**112,822**	20,275
Deferred tax expense relating to the origination and reversal of temporary differences		**(27,694)**	59,925
(Over) under provided in prior years		**(320)**	1,047
Income tax expense		**84,808**	81,247
Deferred income tax expense included in income tax expense comprises:			
(Increase) decrease in deferred tax assets	11	**(32,057)**	6,310
Increase in deferred tax liabilities	17	**4,363**	53,615
		(27,694)	59,925

	2007	2006
	$'000	$'000
Note 5—Income Tax (continued)		
(b) Numerical reconciliation of income tax expense to prima facie tax payable:		
Profit before income tax expense	**283,724**	267,098
Tax at the Corporation's income tax rate of 30% (2006–30%)	**85,117**	80,129
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment expenses	**21**	25
Consultants' fees	**6**	34
Legal expenses	**7**	16
Sundry items	**(23)**	(4)
	11	71
(Over) under provision in previous year	**(320)**	1,047
Income tax expense	**84,808**	81,247
(c) Income tax recognised directly in equity		
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 equity		
Current tax:		
Revaluation of property, plant and equipment	**(418)**	(394)
	(418)	(394)
Deferred tax:		
Adjustment to opening equity associated with changes in accounting policies for derivative financial instruments		
Derivative financial instruments	**-**	(11,844)
Security deposit	**-**	(2,115)
Deferred income	**-**	3,079
Revaluation of derivative financial instruments—cash flow hedges	**462,797**	4,730
Revaluation of property, plant and equipment	**418**	394
	463,215	(5,756)
(d) Current tax assets and liabilities		
Income tax attributable to Macquarie Generation	**106,194**	21,715
	106,194	21,715

	2007	2006
	$'000	$'000

Note 6—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 $180,000,000 (2006–$130,000,000). This will be paid during the course of the 2007/2008 year and is represented by the balance of the provision at 30 June 2007 as disclosed in Note 18.

Note 7—Cash and Cash Equivalents

	2007 $'000	2006 $'000
Cash on hand	**9**	10
Deposits at call	**87,546**	178,763
	87,555	178,773

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 Statement as follows:

	2007 $'000	2006 $'000
Balances as disclosed above	**87,555**	178,773
Bank overdraft (Note 16)	**(7,746)**	-
Balances per Cash Flow Statement	**79,809**	178,773

Note 8—Receivables

	2007 $'000	2006 $'000
Current		
Trade debtors	**387,134**	82,124
Less: Provision for impairment of receivables	**705**	778
	386,429	81,346
Sundry debtors	**103,911**	4,124
Prepaid defined benefits superannuation funds	**14,590**	-
Other prepayments	**354**	2,766
	505,284	88,236
Non-current		
Sundry debtors	**14**	18

Note 9—Inventories

	2007 $'000	2006 $'000
Coal stocks (at cost)	**61,601**	51,101
Biomass (at cost)	**16**	35
Stores and materials (at cost)	**51,590**	49,173
Oil stocks (at cost)	**2,227**	2,803
	115,434	103,112

	2007	2006
	$'000	$'000

Note 10—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.

(a) Year ended 30 June 2007	**30 June 2007**	1 July 2006
Power Stations		
Land		
At fair value	**18,670**	17,634
	18,670	17,634
Plant and Equipment		
At fair value	**2,992,136**	2,841,278
Accumulated depreciation	**(486,676)**	(384,627)
	2,505,460	2,456,651
Total Power Stations	**2,524,130**	2,474,285
Non-infrastructure:		
Land		
At fair value	**1,400**	1,400
	1,400	1,400
Buildings:		
At fair value	**2,215**	2,163
Accumulated depreciation	**(512)**	(395)
	1,703	1,768
Plant and equipment:		
At fair value	**35,485**	31,689
Accumulated depreciation	**(17,479)**	(13,408)
	18,006	18,281
Total non-infrastructure	**21,109**	21,449
Total depreciated value of property, plant and equipment	**2,545,239**	2,495,734

(b) Year ended 30 June 2006	**30 June 2006**	1 July 2005
Power Stations		
Land		
At fair value	**17,634**	17,634
	17,634	17,634

	2007	2006
	$'000	$'000
Note 10—Property, Plant and Equipment (continued)		
(b) Year ended 30 June 2006 (continued)	**30 June 2006**	1 July 2005
Plant and Equipment		
At fair value	**2,841,278**	2,789,455
Accumulated depreciation	**(384,627)**	(284,146)
	2,456,651	2,505,309
Total Power Stations	**2,474,285**	2,522,943
Non-infrastructure:		
Land		
At fair value	**1,400**	1,400
	1,400	1,400
Buildings:		
At fair value	**2,163**	2,163
Accumulated depreciation	**(395)**	(279)
	1,768	1,884
Plant and equipment:		
At fair value	**31,689**	26,798
Accumulated depreciation	**(13,408)**	(9,804)
	18,281	16,994
Total non-infrastructure	**21,449**	20,278
Total depreciated value of property, plant and equipment	**2,495,734**	2,543,221

The above tables include work in progress for Power Stations plant and equipment of $186.3 million and non-infrastructure plant and equipment of $1.0 million (2006–$52.8 million total).

(c) 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 Aon Valuation Services (formerly International Valuation Consultants) as at February 2004.

(d) 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.

The most recent revaluation of the Corporation's infrastructure assets was carried out by members of the Australian Property Institute on behalf of Aon Valuation Services as at February 2004. The Directors' determined at that time that the depreciated replacement costs as determined by the independent valuers equated to fair value.

	2007	2006
	$'000	$'000

Note 10—Property, Plant and Equipment (continued)

(d) Valuation of Power Stations (continued)

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.

The Directors have determined that at 30 June 2007 the carrying value of assets equates to fair value.

(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 2007. This is in accordance with New South Wales Treasury Accounting Policy *Valuation of Non-Current Assets at Fair Value (TPP 07-1).*

(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.

	2007 $'000	2006 $'000
Power Stations—Land		
Carrying amount at start of year	**17,634**	17,634
Additions	**1,036**	-
Carrying amount at end of year	**18,670**	17,634
Power Stations—Plant and Equipment		
Carrying amount at start of year	**2,456,651**	2,505,309
Additions	**152,458**	54,103
Disposals	**(1,272)**	(1,893)
Depreciation expense	**(102,377)**	(100,868)
Carrying amount at end of year	**2,505,460**	2,456,651
Non-infrastructure—Land		
Carrying amount at start of year	**1,400**	1,400
Carrying amount at end of year	**1,400**	1,400
Non-infrastructure—Buildings		
Carrying amount at start of year	**1,768**	1,884
Additions	**52**	-
Depreciation expense	**(117)**	(116)
Carrying amount at end of year	**1,703**	1,768
Non-infrastructure—Plant and Equipment		
Carrying amount at start of year	**18,281**	16,994
Additions	**4,475**	5,683
Disposals	**(392)**	(525)
Depreciation expense	**(4,358)**	(3,871)
Carrying amount at end of year	**18,006**	18,281

	2007	2006
	$'000	$'000
Note 10—Property, Plant and Equipment (continued)		
(f) Reconciliations (continued)		
Total		
Carrying amount at start of year	**2,495,734**	2,543,221
Additions	**158,021**	59,786
Disposals	**(1,664)**	(2,418)
Depreciation expense	**(106,852)**	(104,855)
Carrying amount at end of year	**2,545,239**	2,495,734
(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	**4,317**	3,281
	4,317	3,281
Plant and Equipment		
Cost	**2,536,811**	2,383,689
Accumulated depreciation	**(765,727)**	(740,760)
	1,771,084	1,642,929
Total Power Stations	**1,775,401**	1,646,210
Non-infrastructure:		
Land		
Cost	**696**	696
	696	696
Non-infrastructure:		
Buildings:		
Cost	**7,401**	7,349
Accumulated depreciation	**(3,496)**	(2,878)
	3,905	4,471
Plant and equipment:		
Cost	**46,707**	43,972
Accumulated depreciation	**(31,335)**	(26,879)
	15,372	17,093
Total non-infrastructure	**19,973**	22,260
Total depreciated value of property, plant and equipment	**1,795,374**	1,668,470

	Note	2007	2006
		$'000	$'000
Note 11—Deferred Tax Assets			
The balance comprises temporary differences attributable to:			
Amounts recognised in profit or loss			
Doubtful debts		**211**	233
Defined benefit superannuation funds		**(6,365)**	(3,129)
Other employee benefits		**10,539**	9,865
Provisions		**2,930**	2,740
Creditors		**64**	69
Low value plant pools		**78**	87
Derivative financial instruments—held for trading		**38,657**	3,796
Deferred income on security deposit		**(803)**	(407)
		45,311	13,254
Amounts recognised directly in equity			
Defined benefit superannuation funds		**6,365**	6,365
Other employee benefits		**(30)**	(30)
Derivative financial instruments—cash flow hedges		**480,303**	18,630
Other liabilities—deferred income on security deposit		**5,151**	5,151
		491,789	30,116
Net deferred tax assets		**537,100**	43,370
Movements:			
Opening balance at 1 July		**43,370**	25,899
Adjustment associated with changes in accounting policies for derivative financial instruments		**-**	14,115
Adjustment associated with changes in accounting policies for other liabilities		**-**	5,151
Credited (charged) to income	5	**32,057**	(6,310)
Credited (charged) to equity		**461,673**	4,515
Closing balance at 30 June		**537,100**	43,370

	2007	2006
	$'000	$'000

Note 12—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 2007	**30 June 2007**	1 July 2006
Water entitlements	**9,141**	7,679
Deposits paid	**-**	96
Accumulated amortisation	**(133)**	(133)
	9,008	7,642

(b) Year ended 30 June 2006	**30 June 2006**	1 July 2005
Water entitlements	**7,679**	959
Deposits paid	**96**	567
Accumulated amortisation	**(133)**	(133)
	7,642	1,393

(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.

Water Entitlements		
Carrying amount at start of year	**7,642**	1,393
Deposits paid	**-**	96
Additions	**1,366**	6,153
Disposals	**-**	-
Impairment	**-**	-
Carrying amount at end of year	**9,008**	7,642

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

	2007	2006
	$'000	$'000
Note 13—Derivative Financial Instruments		
Current assets		
Electricity derivative contracts—cash flow hedges	**-**	539
Electricity derivative contracts—held for trading	**70,143**	48,961
Forward foreign exchange contracts—held for trading	**1,766**	759
Interest rate futures contracts—held for trading	**137**	-
	72,046	50,259
Non-current assets		
Electricity derivative contracts—cash flow hedges	**-**	2,309
	-	2,309
Current liabilities		
Electricity derivative contracts—cash flow hedges	**975,280**	18,435
Electricity derivative contracts—held for trading	**141,401**	16,189
Forward foreign exchange contracts—held for trading	**2,350**	1,346
Interest rate swap contracts—held for trading	**-**	16
	1,119,031	35,986
Non-current liabilities		
Electricity derivative contracts—cash flow hedges	**606,535**	23,065
	606,535	23,065

For further information refer to Note 24.

	2007	2006
Note 14—Other Assets		
Current		
New South Wales Greenhouse Abatement Certificates (NGACs)	**4,591**	2,615
	4,591	2,615
Note 15—Trade and other payables		
Current (Unsecured)		
Trade creditors	**253,646**	88,223
Accrued interest on borrowings	**11,591**	12,902
	265,237	101,125
Note 16—Borrowings		
Current (Unsecured)		
Bank overdraft	**7,746**	-
New South Wales Treasury Corporation loans	**336,687**	258,343
	344,433	258,343

	2007	2006
	$'000	$'000
Note 16—Borrowings (continued)		
Non-Current (Unsecured)		
New South Wales Treasury Corporation loans	**545,486**	627,645

New South Wales Treasury Corporation loans are comprised of fixed rate debt of $856,101,763 (2006–$855,987,896) bearing interest rates of between 5.2% and 6.8% and the remainder bearing floating interest rates of 6.5%. These rates are exclusive of the government guarantee fee and and New South Wales Treasury Corporation administration fees.

Maturity Analysis

The following table summarises the maturity pattern of Macquarie Generation's New South Wales Treasury Corporation loans:

	2007	2006
Up to one year	**336,687**	258,343
Over one and up to five years	**329,056**	324,117
Over five years	**216,430**	303,528
Total	**882,173**	885,988

Financing Arrangements:

Facilities Available

	2007	2006
Bank overdraft	**2,000**	2,000
Intra-day credit facility	**20,000**	20,000
Bank guarantee facility	**4,000**	4,000
Credit card facility	**500**	500
New South Wales Treasury Corporation loans	**2,500,000**	1,650,000
New South Wales Treasury Corporation come and go facility	**390,000**	390,000
Total available	**2,916,500**	2,066,500

Facilities Utilised

	2007	2006
Bank overdraft	**2,000**	-
Intra-day credit facility	**-**	-
Bank guarantee facility	**3,511**	3,511
Credit card facility	**-**	-
New South Wales Treasury Corporation loans	**882,173**	885,988
New South Wales Treasury Corporation come and go facility	**-**	-
Total utilised	**887,684**	889,499

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.

On 29 June 2007 Macquarie Generation exceeded the bank overdraft limit by $4.9 million which was settled in full on the next business day.

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

	Note	2007 $'000	2006 $'000

Note 16—Borrowings (continued)

Facilities Utilised (continued)

Macquarie Generation has approval from the Treasurer under PAFA for the temporary increase in financial accommodations from New South Wales Treasury Corporation loans for the period from 15 May 2007 to 15 August 2007. The Corporation has requested a further 3 month extension from the Treasurer for the temporary increase in financial accommodations.

Note 17—Deferred Tax Liabilities

The balance comprises temporary differences attributable to:

		2007 $'000	2006 $'000
Amounts recognised in profit and loss			
Inventories		**19,153**	16,182
Derivative financial instruments —held for trading		**21,620**	15,530
Depreciation on property, plant and equipment		**364,125**	372,449
Prepayments		**87**	11
Prepaid defined benefit superannuation funds		**4,151**	250
Security deposit		**(679)**	(328)
		408,457	404,094
Amounts recognised directly in equity			
Derivative financial instruments		**932**	2,056
Other liabilities—security deposit		**6,115**	6,115
Revaluation of property, plant and equipment		**267,534**	267,952
		274,581	276,123
Net deferred tax liabilities		**683,038**	680,217
Movements:			
Opening balance at 1 July		**680,217**	618,825
Adjustment associated with changes in accounting policies for derivative financial instruments		**-**	2,271
Adjustment associated with changes in accounting policies for other liabilities		**-**	6,115
Charges (credited) to the income statement *	5	**4,363**	53,615
Charges (credited) to equity		**(1,542)**	(609)
Closing balance at 30 June		**683,038**	680,217

*The 2005/2006 amount includes a decrease in tax losses of $5,247,162 which has been charged to income.

Note 18—Provisions

	2007 $'000	2006 $'000
Current		
Insurance	**1,009**	1,254
Dividend	**180,000**	130,000
Employee benefits	**34,560**	32,407
Mine rehabilitation	**1,050**	700
	216,619	164,361

	Notes	2007 $'000	2006 $'000
Note 18—Provisions (continued)			
Non-Current			
Insurance		**8,758**	7,880
Employee benefits		**469**	9,580
Mine rehabilitation		**5,510**	6,096
		14,737	23,556

The amount of the current component of the employee benefits provision which is expected to be settled in less than 12 months is $2,095,856 (2006–$2,185,514) for long service leave, $5,393,454 (2006–$5,309,287) for annual leave and $2,498,245 (2006–$1,884,145) 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 $21,460,722 (2006–$20,172,339) for long service leave and $3,111,357 (2006–$2,856,146) for annual leave.

Movements in Provisions

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

	Insurance $'000	Dividend $'000	Mine Rehabilitation $'000	Total $'000
Current				
Carrying amount at the start of the year	**1,254**	**130,000**	**700**	**131,954**
Additional provisions recognised	**611**	**180,000**	**350**	**180,961**
Payments/other sacrifices of economic benefits	**(246)**	**(130,000)**	**-**	**(130,246)**
Unused amounts reversed	**(610)**	**-**	**-**	**(610)**
Carrying amount at the end of the year	**1,009**	**180,000**	**1,050**	**182,059**
Non-Current				
Carrying amount at the start of the year	**7,880**	**-**	**6,096**	**13,976**
Additional provisions recognised	**1,294**	**-**	**-**	**1,294**
Payments/other sacrifices of economic benefits	**-**	**-**	**(586)**	**(586)**
Unused amounts reversed	**-**	**-**	**-**	**-**
Increase arising from unwinding of discount	**433**	**-**	**-**	**433**
(Decrease) arising from increase in discount rate	**(849)**	**-**	**-**	**(849)**
Carrying amount at the end of the year	**8,758**	**-**	**5,510**	**14,268**

	2007	2006
	$'000	$'000
Note 19—Other Liabilities		
Current		
Deferred income on security deposit	**1,337**	1,320
Non-Current		
Deferred income on security deposit	**13,157**	14,494
Security deposit	**17,880**	16,711
	31,037	31,205

Note 20—Equity

(a) Share Capital	**No. of Shares**	No. of Shares
Ordinary Shares, fully paid	**2**	2

In accordance with the State Owned Corporations Act, 1989, the two voting shareholders at 30 June 2007, the Honourable M.Costa MLC, Treasurer and the Honourable J.Watkins MLC, Minister for Finance held one share each issued at $1.00 per share.

(b) Reserves		
Asset revaluation reserve	**678,530**	679,505
Hedge accounting reserve—cash flow hedges	**(1,108,720)**	(28,861)
	(430,190)	650,644
Movements:		
(i) Asset Revaluation Reserve:		
Balance at the beginning of the financial year	**679,505**	680,424
Realisation of asset increments transferred to retained profits net of tax	**(975)**	(919)
Balance at the end of the financial year	**678,530**	679,505
(ii) Hedge accounting reserve—cash flow hedges:		
Balance at the beginning of the financial year	**(28,861)**	-
Adjustment on adoption of accounting policies specified by AASB 132 and AASB 139 net of tax	**-**	(17,824)
Restated balance at the beginning of the financial year	**(28,861)**	(17,824)
(Loss) recognised on electricity derivative contracts	**(1,698,795)**	(29,083)
Deferred tax arising on electricity derivative contracts	**509,639**	8,725
Transfer to profit or loss:		
Electricity derivative contracts—qualifying cash flow hedges	**155,631**	11,422
Electricity derivative contracts—non-qualifying cash flow hedges	**(236)**	1,756
Forward foreign exchange contracts	**5**	9
Deferred tax arising on transfers to profit	**(46,620)**	(3,956)
Transfer to initial carrying amount of hedged item:		
Forward foreign exchange contracts	**739**	129
Deferred tax arising on transfers to initial carrying amounts	**(222)**	(39)
Balance at the end of the financial year	**(1,108,720)**	(28,861)

	2007	2006
	$'000	$'000
Note 20—Equity (continued)		
(c) Retained Profits		
Balance at the beginning of the financial year	**71,808**	22,602
Adjustment on adoption of accounting policies specified by AASB 132 and AASB 139 net of tax	**-**	(7,564)
Restated balance at the beginning of the financial year	**71,808**	15,038
Transfer of realised asset revaluation increments from reserves net of tax	**975**	919
Net profit	**198,916**	185,851
Dividends provided for	**(180,000)**	(130,000)
Balance at the end of the financial year	**91,699**	71,808

Note 21—Cash Flow Information

	2007	2006
Reconciliation of net profit after tax to net cash flows from operations		
Net profit	**198,916**	185,851
Adjustments for:		
Depreciation	**106,852**	104,855
Amortisation on security deposit	**1,170**	1,093
Deferred income recognition on security deposit	**(1,320)**	(1,355)
(Decrease) in borrowings accruals	**(6,720)**	(6,597)
Net loss on sale of non-current assets	**1,332**	2,072
Fair value adjustment to derivative financial instruments	**(1,542,656)**	(15,767)
Changes in operating assets and liabilities		
(Increase) in trade and other receivables	**(417,044)**	(5,756)
(Increase) in inventories	**(12,322)**	(7,577)
(Increase) in derivative financial instrument assets	**(19,477)**	(41,859)
(Increase) decrease in other assets	**(1,976)**	1,421
Increase in derivative financial instrument liabilities	**1,666,514**	10,248
Increase (decrease) in trade and other creditors, employee benefits and other provisions	**167,651**	(24,898)
Increase in provision for taxes payable	**84,479**	21,715
(Decrease) increase in net deferred taxes payable	**(28,112)**	59,532
Net cashflows from operating activities	**197,287**	282,978

Note 22—Commitments

(a) Capital Commitments

Capital expenditure contracted at the reporting date but not recognised as liabilities, payable:

	2007	2006
Property, plant and equipment		
Within one year	**46,277**	142,568
Later than one year but not later than five years	**31,426**	21,895
	77,703	164,463

	2007	2006
	$'000	$'000
Note 22—Commitments (continued)		
(a) Capital Commitments (continued)		
Intangibles		
Within one year	-	955
	-	955
Other Assets		
Within one year	-	6,387
	-	6,387
(b) Lease Commitments		
Commitments in relation to leases contracted at the reporting date but not recognised as liabilities, payable:		
Within one year	**3,735**	3,506
Later than one year but not later than five years	**762**	4,325
	4,497	7,831
(c) Expenditure Commitments		
Commitments for future maintenance contracts not recognised as a liabilities, payable:		
Within one year	**4,990**	4,666
Later than one year but not later than five years	**1,328**	2,779
Later than five years	**1,375**	-
	7,693	7,445

The Corporation leases mobile plant under a non-cancellable operating lease which expires in May 2008 and has an option for renewal for a further 5 years at the end of the lease period.

The Corporation leases office space in Sydney under a non-cancellable operating lease expiring in January 2011. There is no option for renewal at the end of the lease period.

In accordance with New South Wales Treasury Circular NSWTC 05/10 *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 $8,172,131.

Note 23—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.

Valuation of Electricity Derivative Financial Instruments

At 30 June 2007 Electricity Derivative Financial Instruments Assets were valued at $70.1 million and the Electricity Derivative Financial Instruments Liabilities were valued at $1,723.2 million.

Note 23—Events Occurring After Balance Date (continued)

Valuation of Electricity Derivative Financial Instruments (continued)

The Electricity Derivative Financial Instrument Assets included an amount of $39.5 million representing the value of an embedded derivative contained in a long term direct supply contract.

In July and August 2007 the electricity forward price curve has fallen significantly, mainly due to improved plant performance and lower demand for electricity in Eastern Australia.

Between 30 June 2007 and the date of signing the Financial Report on 17 August 2007, the fair value of the Electricity Derivative Financial Instrument Assets have increased by $1.0 million and the fair value of the Electricity Derivative Financial Instruments Liabilities have decreased by $1,012.8 million when marked to model in accordance with AASB 139 Financial Instruments: Recognition and Measurement, due mainly to the decrease in the electricity forward price curve.

The increase in the Electricity Derivative Financial Instrument Assets between 30 June 2007 and the date of signing the Financial Report on 17 August 2007 of $1.0 million, as reported above, also includes a decrease in the fair value of the embedded derivative asset of $14.5 million due to a decrease in the London Metals Exchange forward price curve of aluminium.

At the date of signing the Financial Report, total Equity will be at least $600 million.

Reference is made to the Electricity Derivative Contracts in Notes 13, 24(b) and 24(c) of the Financial Report.

Provision for Dividend—Adjusting Event

The Corporation has previously provided for a Target Dividend of $130 million in the Statement of Corporate Intent for 2006/2007. After 30 June 2007, the Shareholders advised of a requirement for an increased Dividend to $180 million in recognition of the improved earnings of the Corporation following high prices in the last quarter of the financial year.

The Shareholders request for a higher Dividend qualified as an Adjusting Event in accordance with AASB 110 Events after Balance Sheet Date and accordingly the Provision for Dividend in relation to 2006/2007 was amended.

Australian Financial Services Licence—284379

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

As disclosed in Note 16 of the Financial Report, Macquarie Generation had approval from the Treasurer for the temporary increase in financial accommodations under the Public Authorities (Financial Arrangements) Act 1987from New South Wales Treasury Corporation loans from $1.65 billion to $2.5 billion for the period from 15 May 2007 to 15 August 2007.

The Corporation has applied for an extension of the temporary increase in financial accommodation limits to ensure ongoing compliance with Australian Financial Services Licence liquidity requirements. At the date of signing the Financial Report the Treasurer has granted the extension.

Note 24—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 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 7,8,13,15,16 and 19.

Note 24—Financial Instruments (continued)

(b) Electricity derivative contracts—cash flow hedges

The Corporation manages exposure to fluctuations in wholesale electricity market prices through the use of various types of electricity derivative contracts in accordance with the Board approved policy. The electricity derivative contracts entered into by the Corporation include a range of forward contracts with major electricity retailers and a long term direct electricity supply contract.

Overall the hedge objective is to reduce variability in cash flows caused by electricity wholesale prices and volume risk.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedge accounting reserve, to the extent that the hedge is effective, and re-classified into profit and loss when the hedged electricity revenue is recognised. The ineffective portion is recognised in profit and loss immediately.

The terms and face values of the Corporation's electricity derivative contracts—cash flow hedges at balance date are detailed in the following table:

	2007	2006
	$ 000's	$ 000's
	Face Values	
Less than 1 year	**608,524**	193,000
1 to 5 years	**748,965**	705,000
	1,357,489	898,000

(c) Electricity derivative contracts—held for trading

The electricity derivative contracts—held for trading include contracts entered into for the purposes of profiting from expected movements in electricity market prices and the ineffective portion of the electricity derivative contacts—cash flow hedges. Trading is carried out in accordance with the Board approved Policy.

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

In accordance with AASB 139 the electricity derivative contracts—held for trading do not qualify for hedge accounting and fair value gains and losses on remeasurement are recognised immediately in profit and loss.

The terms and face values of the Corporation's electricity derivative contracts—held for trading at balance date are detailed in the following table:

	2007	2006
	$ 000's	$ 000's
	Face Values	
Less than 1 year	**120,854**	60,915
1 to 5 years	**22,818**	27,353
	143,672	88,268

(d) Forward foreign exchange contracts—held for trading

In the normal course of business the Corporation enters foreign currency contracts for payments for the supply of parts and equipment. Macquarie Generation Board approved policy requires exposures exceeding A$250,000 to be fully hedged through the use of forward foreign exchange contracts. These contracts are hedging highly probable forecast purchases in the current and future years. The contracts are timed to mature when the payments are expected to be made to the suppliers.

Note 24—Financial Instruments (continued)

(d) Forward foreign exchange contracts—held for trading (continued)

At balance date the details of the outstanding contracts are:

	2007	2006	2007	2006
	Aust Dollars		Average Exchange Rate	
	$'000	$'000		
Buy Euros				
Maturity				
0–6 months	**32**	115	**0.629**	0.583
1–2 years	**3,175**	2,568	**0.629**	0.583
2–3 years	-	6,677	**0.629**	0.583
Buy British Pounds				
Maturity				
0–6 months	**233**	422	**0.4225**	0.4042

The amounts disclosed above represent currency sold measured at the contracted rate.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Corporation adjusts the initial measurement of the component recognised in the balance sheet by the related amounts deferred in equity.

The portion of the gain or loss on the hedging instrument that is determined to be an ineffective hedge is recognised immediately in profit or loss.

(e) Interest rate swap contracts—held for trading

The Corporation's borrowings at 30 June 2007 include securities that bear an average variable interest rate of 6.4%. It is the policy to protect the borrowings from exposure to increasing interest rates. Accordingly New South Wales Treasury Corporation has entered into interest rate swap contracts on Macquarie Generation's behalf under which the Corporation is obliged to receive and pay interest at variable rates and fixed rates. The contracts are settled on a net basis each 90 days and the net amount receivable or payable at the reporting date is included in other debtors or other creditors. There were no liability swaps in place at 30 June 2007. At June 2006 there were liability swaps in place with fixed interest rates of 6.3%.

At 30 June 2007, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2007	2006
	$ 000's	$ 000's
Less than 1 year	**-**	11,600
	-	11,600

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedge accounting reserve, to the extent that the hedge is effective, and re-classified into profit and loss when the hedged borrowing costs are recognised. The ineffective portion is recognised in profit and loss immediately and included as part of the Corporation's finance costs for the year.

(f) Interest rate futures contracts—held for trading

The Corporation uses interest rate derivative instruments in accordance with Board approved policies to shorten or lengthen the modified duration of the tactical debt portfolio relative to the benchmark and will take advantage of short term rate movements in the market.

Also the Corporation uses interest rate derivative instruments in accordance with Board approved policies to shorten or lengthen the modified duration of the strategic debt portfolio when interest rate trigger levels are reached. These tend to be positions held for the longer term. The interest rate trigger levels are set annually and reviewed periodically between the financial year.

Note 24—Financial Instruments (continued)

(f) Interest rate futures contracts—held for trading (continued)

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

	Delivery Month	Number Contracts Sold	Number Contracts Bought	Total Nominal Value 2007	Total Nominal Value 2006
				$'000	$'000
90 Day Bill Futures *	Dec–07	-	23	(23,000)	-
90 Day Bill Futures *	Mar–08	23	-	23,000	-
3 Year Bond Futures *	Sep–07	-	81	(8,100)	-
10 Year Bond Futures *	Sep–07	-	314	(31,400)	-
		23	418	(39,500)	-

* negative amounts indicate bought futures

The gain or loss from remeasuring the interest rate futures at fair value is recognised in the Income Statement immediately and included as part of the Corporation's finance costs for the year.

(g) Interest Rate Risk Exposure

Interest rate risk is the risk that the financial instrument will fluctuate due to changes in market interest rates. The Corporation's exposure to interest rate risks and the weighted average interest rate for each class of financial assets and financial liabilities by maturity at balance date are listed below.

	Floating interest rate	Fixed interest rate maturing in:						Non-interest bearing	Total
		1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years		
	2007	2007	2007	2007	2007	2007	2007	2007	2007
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets									
Cash and cash equivalents	87,546	-	-	-	-	-	-	9	87,555
Trade and other receivables	25	-	-			-	-	490,329	490,354
Derivative financial instruments									
Electricity contracts	-	-	-	-	-	-	-	70,143	70,143
Foreign Exchange	-	-	-	-	-	-	-	1,766	1,766
Interest rate futures *	-	-	-	-	-	-	-	137	137
	87,571	-	-	-	-	-	-	562,384	649,955
Weighted average interest rate	6.4%	-	-	-	-	-	-		
Financial liabilities									
Trade creditors	-	-	-	-	-	-	-	253,646	253,646
Accrued interest	-	-	-	-	-	-	-	11,591	11,591
Bank overdraft	7,746	-	-	-	-	-	-	-	7,746
Other borrowings	26,071	336,687	-	31,797	104,393	166,794	216,431	-	882,173
Deferred income	-	-	-	-	-	-	-	14,494	14,494
Security deposit	-	-	-	-	-	-	-	17,880	17,880
Derivative financial instruments									
Electricity contracts	-	-	-	-	-	-	-	1,723,216	1,723,216
Foreign Exchange	-	-	-	-	-	-	-	2,350	2,350
Interest rate futures *	39,500	-	-	(8,100)	-	-	(31,400)	-	-
	73,317	336,687	-	23,697	104,393	166,794	185,031	2,023,177	2,913,096
Weighted average interest rate	6.5%	6.3%	-	6.2%	5.9%	6.1%	5.9%		
Net financial assets (liabilities)	14,254	(336,687)	-	(23,697)	(104,393)	(166,794)	(185,031)	(1,460,793)	(2,263,141)

* Notional principal amounts—liability amounts indicate bought futures

Note 24—Financial Instruments (continued)

(g) Interest Rate Risk Exposure (continued)

	Floating interest rate 2006	Fixed interest rate maturing in: 1 year or less 2006	Over 1 to 2 years 2006	Over 2 to 3 years 2006	Over 3 to 4 years 2006	Over 4 to 5 years 2006	Over 5 years 2006	Non-interest bearing 2006	Total 2006
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets									
Cash and cash equivalents	178,763	-	-	-	-	-	-	10	178,773
Trade and other receivables	36	-	-			-	-	85,434	85,470
Derivative financial instruments									
Electricity contracts	-	-	-	-	-	-	-	51,809	51,809
Foreign exchange	-	-	-	-	-	-	-	759	759
	178,799	-	-	-	-	-	-	138,012	316,811
Weighted average interest rate	5.7%	-	-	-	-	-	-		
Financial liabilities									
Trade creditors	-	-	-	-	-	-	-	88,223	88,223
Accrued Interest	-	-	-	-	-	-	-	12,902	12,902
Borrowings	30,000	228,343	218,834	-	-	105,283	303,528	-	885,988
Deferred income	-	-	-	-	-	-	-	15,814	15,814
Security deposit	-	-	-	-	-	-	-	16,711	16,711
Derivative financial instruments									-
Electricity contracts	-	-	-	-	-	-	-	57,689	57,689
Foreign exchange	-	-	-	-	-	-	-	1,346	1,346
Interest rate swaps **	(11,600)	11,600	-	-	-	-	-	16	16
	18,400	239,943	218,834	-	-	105,283	303,528	192,701	1,078,689
Weighted average interest rate	5.8%	5.9%	6.0%	-	-	5.9%	6.0%		
Net financial assets (liabilities)	160,399	(239,943)	(218,834)	-	-	(105,283)	(303,528)	(54,689)	(761,878)

** Notional principal amounts

(h) Credit Risk Exposure

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

Macquarie Generation's exposure to credit risk is represented by the carrying amounts of financial assets, net of any provision for impairment of receivables on the Balance Sheet.

The receivables of the Corporation include amounts receivable from Government owned agencies (72%), secured debtors (6%) and other debtors (22%). The other debtors are represented by futures clearing houses with acceptable credit ratings.

The Corporation is exposed to credit related losses in the event of non-performance by counterparties to electricity derivative contracts, forward foreign exchange contracts and interest rate derivative contracts, as follows.

i) Electricity derivative contracts:
The Corporation's credit risk calculated in accordance with Australian Prudential Regulation Authority guidelines at balance date was $28,450,000 (2006–$51,506,000).

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

Note 24—Financial Instruments (continued)

j) Net Fair Value of Financial Assets and Liabilities

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

	2007 Carrying Amount	2007 Net Fair Value	2006 Carrying Amount	2006 Net Fair Value
	$'000	**$'000**	$'000	$'000
Financial assets				
Sundry debtors—loans to employees	**25**	**22**	36	31
Total	**25**	**22**	36	31
Financial liabilities				
New South Wales Treasury Corporation loans and accrued interest	**893,764**	**875,338**	898,890	895,617
Deferred income	**14,494**	**-**	15,814	-
Security deposit	**17,880**	**17,493**	16,711	16,028
Total	**926,138**	**892,831**	931,415	911,645

Note 25—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 below.

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.

Accounting policy for recognising actuarial gains/losses

Actuarial gains and losses are recognised in profit or loss in the year they occur.

Note 25—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Reconciliation of the assets and liabilities recognised in the Balance Sheet

	SASS 2007 $'000	SANCS 2007 $'000	SSS 2007 $'000	Total 2007 $'000
Present value of partly funded defined benefit obligations at beginning of the year	**56,071**	**11,963**	**128,775**	**196,809**
Current service cost	**1,876**	**686**	**1,818**	**4,380**
Interest cost	**3,253**	**681**	**7,564**	**11,498**
Contributions by fund participants	**980**	**-**	**1,565**	**2,545**
Actuarial (gains)/losses	**1,524**	**(295)**	**(8,751)**	**(7,522)**
Benefits paid	**(1,536)**	**(780)**	**(1,539)**	**(3,855)**
Present value of partly funded defined benefit obligations at end of the year	**62,168**	**12,255**	**129,432**	**203,855**

	SASS 2006 $'000	SANCS 2006 $'000	SSS 2006 $'000	Total 2006 $'000
Present value of partly funded defined benefit obligations at beginning of the year	54,057	12,457	132,069	198,583
Current service cost	2,170	722	2,439	5,331
Interest cost	3,218	626	7,454	11,298
Contributions by fund participants	988	-	1,513	2,501
Actuarial (gains)/losses	(2,281)	(1,128)	(12,464)	(15,873)
Benefits paid	(2,081)	(714)	(2,236)	(5,031)
Present value of partly funded defined benefit obligations at end of the year	56,071	11,963	128,775	196,809

Note 25—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Reconciliation of the fair value of fund assets

	SASS 2007 $'000	SANCS 2007 $'000	SSS 2007 $'000	Total 2007 $'000
Fair value of Fund assets at beginning of the year	**53,598**	**11,214**	**122,793**	**187,605**
Expected return on fund assets	**4,071**	**850**	**9,382**	**14,303**
Actuarial gains/(losses)	**4,534**	**708**	**7,276**	**12,518**
Employer contributions	**2,040**	**771**	**2,519**	**5,330**
Contributions by Fund participants	**980**	**-**	**1,565**	**2,545**
Benefits paid	**(1,536)**	**(781)**	**(1,539)**	**(3,856)**
Fair value of Fund assets at end of the year	**63,687**	**12,762**	**141,996**	**218,445**

	SASS 2006 $'000	SANCS 2006 $'000	SSS 2006 $'000	Total 2006 $'000
Fair value of Fund assets at beginning of the year	44,975	9,574	103,085	157,634
Expected return on fund assets	3,412	724	7,854	11,990
Actuarial gains/(losses)	4,156	789	9,925	14,870
Employer contributions	2,148	841	2,653	5,642
Contributions by Fund participants	988	-	1,513	2,501
Benefits paid	(2,081)	(715)	(2,236)	(5,032)
Fair value of Fund assets at end of the year	53,598	11,213	122,794	187,605

Reconciliation of the assets and liabilities recognised in the Balance Sheet

	SASS 2007 $'000	SANCS 2007 $'000	SSS 2007 $'000	Total 2007 $'000
Present value of partly funded defined benefit obligations at end of year	**62,168**	**12,255**	**129,432**	**203,855**
Fair value of fund assets at end of year	**(63,687)**	**(12,762)**	**(141,996)**	**(218,445)**
Net Liability/(Asset) recognised in Balance Sheet at end of year (refer Note 8)	**(1,519)**	**(507)**	**(12,564)**	**(14,590)**

	SASS 2006 $'000	SANCS 2006 $'000	SSS 2006 $'000	Total 2006 $'000
Present value of partly funded defined benefit obligations at end of year	56,071	11,963	128,775	196,809
Fair value of fund assets at end of year	(53,598)	(11,213)	(122,794)	(187,605)
Net Liability/(Asset) recognised in Balance Sheet at end of year (refer Note 18)	2,473	750	5,981	9,204

Note 25—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Expense recognised in Income Statement

	SASS 2007 $'000	SANCS 2007 $'000	SSS 2007 $'000	Total 2007 $'000
Current service cost	**1,875**	**687**	**1,818**	**4,380**
Interest cost	**3,253**	**682**	**7,564**	**11,499**
Expected return on Fund assets (net of expenses)	**(4,071)**	**(850)**	**(9,382)**	**(14,303)**
Net actuarial (gains) recognised in year	**(3,010)**	**(1,004)**	**(16,026)**	**(20,040)**
(Income) recognised (refer Note 3)	**(1,953)**	**(485)**	**(16,026)**	**(18,464)**

	SASS 2006 $'000	SANCS 2006 $'000	SSS 2006 $'000	Total 2006 $'000
Current service cost	2,170	723	2,440	5,333
Interest cost	3,218	626	7,453	11,297
Expected return on Fund assets (net of expenses)	(3,412)	(724)	(7,854)	(11,990)
Net actuarial losses recognised in year	(6,437)	(1,918)	(22,389)	(30,744)
(Income) recognised (refer Note 3)	(4,461)	(1,293)	(20,350)	(26,104)

Fund Assets

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

	2007
Australian equities	**33.6%**
Overseas equities	**26.5%**
Australian fixed interest securities	**6.8%**
Overseas fixed interest securities	**6.4%**
Property	**10.1%**
Cash	**9.8%**
Other	**6.8%**

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

	2006
Australian equities	37.4%
Overseas equities	27.9%
Australian fixed interest securities	9.9%
Overseas fixed interest securities	6.8%
Property	8.6%
Cash	5.0%
Other	4.4%

Note 25—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

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 2007 $'000	SANCS 2007 $'000	SSS 2007 $'000	Total 2007 $'000
Actual return on plan assets	**7,858**	**1,558**	**17,948**	**27,364**

	SASS 2006 $'000	SANCS 2006 $'000	SSS 2006 $'000	Total 2006 $'000
Actual return on plan assets	6,945	1,514	16,303	24,762

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

	2007
Discount rate at 30 June	**6.4% pa**
Expected rate of return on assets backing current pension liabilities at 30 June	**7.60%**
Expected rate of return on assets backing other liabilities	**7.60%**
Expected salary increases (excluding promotional increases)	**4.0% pa to 2008; 3.5% pa thereafter**
Expected rate of CPI increase	**2.5% pa**

	2006
Discount rate at 30 June	5.9% pa
Expected rate of return on assets backing current pension liabilities at 30 June	7.6%
Expected rate of return on assets backing other liabilities	7.6%
Expected salary increases (excluding promotional increases)	4.0% pa to 2008; 3.5% pa thereafter
Expected rate of CPI increase	2.5% pa

Note 25—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Historical information

	SASS 2007 $'000	SANCS 2007 $'000	SSS 2007 $'000	Total 2007 $'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)**

	SASS 2006 $'000	SANCS 2006 $'000	SSS 2006 $'000	Total 2006 $'000
Present value of defined benefit obligation	56,071	11,963	128,775	196,809
Fair value of Fund assets	(53,598)	(11,214)	(122,793)	(187,605)
(Surplus)/Deficit in Fund	2,473	749	5,981	9,203
Experience adjustments – Fund assets	(4,156)	(789)	(9,925)	(14,870)

Expected contributions

	SASS 2007 $'000	SANCS 2007 $'000	SSS 2007 $'000	Total 2007 $'000
Expected employer contributions	**1,863**	**770**	**2,503**	**5,136**

	SASS 2006 $'000	SANCS 2006 $'000	SSS 2006 $'000	Total 2006 $'000
Expected employer contributions	1,878	760	2,421	5,059

Funding arrangements for employer contributions

The following is a summary of the financial position of the Fund at 30 June 2007 and 30 June 2006 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.

Note 25—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Funding arrangements for employer contributions (continued)

(a) Surplus/deficit

	SASS 2007	SANCS 2007	SSS 2007	Total 2007
	$'000	**$'000**	**$'000**	**$'000**
Accrued benefits	**61,407**	**12,132**	**116,441**	**189,980**
Net market value of Fund assets	**(63,687)**	**(12,762)**	**(141,996)**	**(218,445)**
Net (surplus)/deficit	**(2,280)**	**(630)**	**(25,555)**	**(28,465)**

	SASS 2006	SANCS 2006	SSS 2006	Total 2006
	$'000	**$'000**	**$'000**	**$'000**
Accrued benefits	53,499	11,279	107,300	172,078
Net market value of Fund assets	(53,598)	(11,214)	(122,793)	(187,605)
Net (surplus)/deficit	(99)	65	(15,493)	(15,527)

(b) Contribution recommendations

Recommended contribution rates for the Corporation for 2007 and 2006 are:

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 last actuarial review of the Fund were:

Weighted-Average Assumptions	
Expected rate of return on Fund assets backing current pension liabilities	7.7% pa
Expected rate of return on Fund assets backing other liabilities	7.0% pa
Expected salary increase rate	4.0% pa
Expected rate of CPI increase	2.5% pa

Note 25—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% (2006–9%).

Note 26—Related Party Disclosure

The transactions that were entered into with related parties for the financial year are disclosed in Note 27 and Note 28.

Note 27—Directors' Interests

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

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

Director	Position	Organisation—Subsidiary
Lucio Di Bartolomeo	Non-executive Director	Downer EDI Limited

The Corporation has two current and one former contract with a division of Downer EDI Limited. The contracts total $10.2 million. All contracts were entered prior to Director Di Bartolomeo's appointment to the Board of Macquarie Generation.

Note 28—Director and Executive Disclosures

Remuneration of Directors and Executives

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

The performance of the Corporation depends upon the quality of its Directors and Executives.

The Shareholders appoint the Directors of the Corporation for a specified term. The reappointment of 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

Note 28—Director and Executive Disclosures (continued)

Remuneration of Directors and Executives (continued)

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

- establish appropriate and specific stretching targets derived from the Business Plan relating to corporate profit improvement, cost reduction, business growth and personal development in relation to variable Executive remuneration.

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

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

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

(iii) Non-executive Director Remuneration
Objective
The Shareholders seek to set 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 2007 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;
- 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.

Note 28—Director and Executive Disclosures (continued)

Remuneration of Directors and Executives (continued)

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

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

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 on page 81 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.

(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 currently has a three year contract expiring on 1 September 2008.

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

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

Note 28—Director and Executive Disclosures (continued)

Remuneration of Directors and Executives (continued)

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

(viii) Specified Executives

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

Position	Name
Chief Executive and Managing Director	Grant Every-Burns
Chief Financial Officer and Company Secretary	David Ipkendanz
Manager Marketing and Trading	Russell Skelton
Manager Bayswater Power Station	John Neely
Manager Liddell Power Station	Peter Sewell
Manager Fuel and Environment	Stephen Ireland
Manager Human Resources	Colin Peebles

(b) Details of Remuneration

Table 1A: Non-executive Directors' Remuneration for the year ending 30 June 2007

	Short-term Benefits			Post Employment	
2007	**Travel allowance**	**Directors' base fees**	**Committee fees**	**Superannuation expense**	**Total**
	$	**$**	**$**	**$**	**$**
Evan Rees (Chairman)	**1,417**	**104,300**	**-**	**9,387**	**115,104**
Anna Buduls	**422**	**59,100**	**10,400**	**6,255**	**76,177**
John Cahill	**369**	**59,100**	**-**	**5,319**	**64,788**
The Hon. Peter Collins	**791**	**59,100**	**-**	**5,319**	**65,210**
Deborah Page	**871**	**59,100**	**7,280**	**5,974**	**73,225**
Lucio Di Bartolomeo (Note 1)	**1,160**	**52,110**	**-**	**4,690**	**57,960**
Total Directors' fees	**5,030**	**392,810**	**17,680**	**36,944**	**452,464**

Note 1: Lucio Di Bartolomeo was appointed as a Director on 14 August 2006.

Table 1B: Non-executive Directors' Remuneration for the year ending 30 June 2006

	Short-term Benefits			Post Employment	
2006	**Travel allowance**	**Directors' base fees**	**Committee fees**	**Superannuation expense**	**Total**
	$	$	$	$	$
Name					
Evan Rees (Chairman)	850	103,300	-	9,297	113,447
Anna Buduls	211	58,525	10,300	6,194	75,230
John Cahill	211	58,525	-	5,266	64,002
The Hon. Peter Collins (Note 1)	-	16,681	-	1,501	18,182
Deborah Page	211	58,525	5,692	5,780	70,208
James Watt (Note 2)	422	38,824	4,784	3,925	47,955
The Hon. Robert Webster (Note 3)	227	38,824	-	3,494	42,545
Total Directors' fees	2,132	373,204	20,776	35,457	431,569

Note 1: The Honourable Peter Collins was appointed as a Director on 20 March 2006.

Note 2: Jim Watt's term of appointment as a Director ended on 28 February 2006.

Note 3: The Honourable Robert Webster's term of appointment as a Director ended on 28 February 2006.

Note 28—Director and Executive Disclosures (continued)

Remuneration of Directors and Executives (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 2007

	Short-term Employee Benefits				Post Employment Benefits	Long-term Benefits	
2007	**Cash salary**	**Cash bonus**		**Non-monetary benefits**	**Superannuation expense**	**Long Service leave**	**Total**
	$	**$**	**%**	**$**	**$**	**$**	**$**
Name							
Grant Every-Burns	**309,062**	**156,950**	**73**	**11,697**	**103,000**	**43,715**	**624,424**
David Ipkendanz	**133,409**	**55,440**	**73**	**62,672**	**55,229**	**9,275**	**316,025**
Russell Skelton	**126,067**	**94,500**	**88**	**23,659**	**104,000**	**35,224**	**383,450**
John Neely	**174,198**	**86,250**	**86**	**16,930**	**58,200**	**22,445**	**358,023**
Peter Sewell	**162,588**	**58,050**	**90**	**20,669**	**31,153**	**21,330**	**293,790**
Stephen Ireland	**172,153**	**67,200**	**70**	**15,546**	**51,644**	**22,518**	**329,061**
Colin Peebles	**104,927**	**41,800**	**73**	**17,937**	**66,616**	**5,284**	**236,564**
Total Executive Remuneration	**1,182,404**	**560,190**		**169,109**	**469,842**	**159,790**	**2,541,335**

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 ending 30 June 2007.

The 2007 cash bonus was earned during the year ending 30 June 2007 and will be paid during the year ending 30 June 2008. 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, electricity and laptops.

Table 2B: Remuneration of the Chief Executive and Managing Director and Senior Executives who report directly to him for the year ending 30 June 2006

	Short-term Employee Benefits				Post Employment Benefits	Long-term Benefits	
2006	**Cash salary**	**Cash bonus**		**Non-monetary benefits**	**Superannuation expense**	**Long Service leave**	**Total**
	$	**$**	**%**	**$**	**$**	**$**	**$**
Name							
Grant Every-Burns	275,393	130,000	65	13,126	104,500	45,885	568,904
David Ipkendanz	137,086	56,400	78	55,332	48,163	11,802	308,783
Russell Skelton	125,213	65,000	74	24,947	99,240	33,918	348,318
John Neely	201,108	63,450	77	17,852	15,600	24,369	322,379
Peter Sewell	151,224	40,000	67	19,413	28,980	24,007	263,624
Stephen Ireland	165,748	67,100	76	16,439	24,637	16,926	290,850
Colin Peebles	93,624	32,850	62	19,802	63,616	4,567	214,459
Total Executive Remuneration	1,149,396	454,800		166,911	384,736	161,474	2,317,317

Note 28—Director and Executive Disclosures (continued)

Remuneration of Directors and Executives (continued)

(b) Details of Remuneration (continued)

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 ending 30 June 2006.

The 2006 cash bonus was earned during the year ending 30 June 2006 and will be paid during the year ending 30 June 2007. 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, electricity and laptops.

(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 ($137,800 for the year ending 30 June 2007) at the end of the reporting period was 14 (2006–14).

The number of Executive Officer positions equal to or exceeding SES Level 1 filled by women in the current year was nil (2006–nil).

Directors' Declaration

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

(a) the accompanying Financial Report comprises 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, 2005, and mandatory professional reporting requirements and give a true and fair view of the Corporation's financial position as at 30 June 2007 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 become due and payable;

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

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

H E REES
CHAIRMAN

17 August 2007
Sydney

G V EVERY-BURNS
CHIEF EXECUTIVE AND MANAGING DIRECTOR

17 August 2007
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 report of Macquarie Generation (the Corporation), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of Macquarie Generation as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

The Responsibility of Directors' for the Financial Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

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

Peter Achterstraat

Peter Achterstraat
Auditor-General

SYDNEY
17 August 2007

Charter and Legislation

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

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

Corporate Governance Framework

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

The Board assessed the Corporation's governance framework against the governance principles released by the ASX Corporate Governance Council in March 2003 and is currently considering the update released on 2nd August 2007. 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, at least annually 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 maximise 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,

The Board of Directors (continued)

Responsibilities (continued)

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

Board Members

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

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

Chairman and Chief Executive

The Chairman is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring Directors are properly briefed for meetings.

The Board delegates to the Chief Executive and Managing Director responsibility for implementing strategic direction and for managing the day to day operations of the Corporation. The Chief Executive and Managing Director consults with the Chairman, in the first place, on matters which are sensitive, extraordinary or of a strategic nature.

Commitment

The Board held 10 meetings and one corporate strategy session during the year.

The number of meetings of the Corporation's Board of Directors and of each Board Committee held during the year ended 30 June 2007, 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. No further appointments of this nature were accepted during the year ended 30 June 2007.

During the year ended 30 June 2007 the Chief Executive and Managing Director continued as a non-executive Director of the Energy Supply Association of Australia Ltd and as a Director of National Generators Forum Limited.

Conflict of Interest

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

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

The Board of Directors (continued)

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

Board Committees

The Board has established Committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current Committees of the Board are the Audit and Assurance Committee and the Remuneration, Human Resources Committee and Issues Management 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 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 website.

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

Board Remuneration and Human Resources Committee

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

Anna Buduls (Chair)
John Cahill

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 employees of the Macquarie Generation Employees (State) Award 2005. 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.

Further information on the Remuneration of Directors and Executives is set out in Note 28 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 (Chairman)
Anna Buduls
Lucio Di Bartolomeo

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 framework, recommend the appointment and remuneration of the Internal Auditor, monitor the performance of the Corporation's auditors and review and monitor related party transactions.

In 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.

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.

Issues Management Committee
The Issues Management Committee consists of the following non-executive Directors:

Hon Peter Collins (Chairman)
Anna Buduls

The main responsibilities of the Committee are to provide assistance to the Board of Directors and Management in ensuring that the Corporation consistently provides clear and considered information, to stakeholders, on the Corporation's key strategic issues as they exist from time to time.

The Issues Management Committee has delegated authority from the Board of Directors to:

- Ensure that Management has prepared a detailed Issues Management Plan to efficiently address the key risks of:
    1. water security,
    2. peaking generation development,
    3. baseload generation development, and
    4. renewable generation development.
- Obtain external professional issues management consulting services as required, and
- Require reports from Management and any external issues management consultants.

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.

Risk Assessment, Internal Control and Management Reporting (continued)

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 Ernst & Young was appointed as Internal Auditor for a three year period ending in December 2007.

The Board Audit and Assurance Committee receives status reports from the Internal Auditor at most meetings of the Committee to ensure that a strong internal control environment is being maintained and appropriate 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 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 monthly management reports received from each member of the Executive.

Executive Committees

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

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

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

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

- Budget Review
- Information Technology
- Drought Mitigation
- Generation Development

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.

Senior Management Team

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

Notes:

1. Reflects membership of Executive Committee
2. Executive Environment Committee
3. Executive Information Technology Governance Committee
4. Executive Trading Committee
5. Executive Occupational, Health and Safety Committee
6. Executive Budget Review Committee
7. Generation Development Committee
8. Drought Mitigation Steering Committee
9. Direct report to the Chief Executive

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 $37,101. 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 Declared Authority under Schedule 3 of the Public Sector Management Act 1988. Accordingly, Macquarie Generation senior managers are not members of the Government's Senior Executive Service (SES) and terms and conditions of their employment are set out in the Macquarie Generation Contract of Employment as disclosed in Note 28 of the Financial Report.

Controlled Entities

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

Statement of Corporate Intent

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

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

	2006/2007 Actual ($m)	2006/2007 SOCI Target ($m)
Earnings before Interest and Tax (EBIT)	342.6	249.4
Operating Profit before tax	283.7	190.8
Target Dividend	180.0	130.0
Return (EBIT) on (average) Assets (%)	10.0	8.6
Return (NPBT) on (average) Equity (%)	60.0	19.8

Statement of Corporate Intent (continued)
EBIT includes net unrealised losses of $95.9 million in relation to the valuation of electricity derivative financial instruments and unrealised gains of $18.5 million in relation to the actuarial valuation of the Corporation's Defined Benefit Superannuation Assets and Liabilities. As required by Australian Accounting Standards these amounts are based on market valuations applicable at 30 June 2007. The amounts were not included in the 2006/2007 SOCI Target as they could not be estimated reliably.

Sales Revenue included improved earnings during the last quarter of the financial year due to the significant increase in electricity prices in the National Electricity Market during this period. The increase in electricity prices was as a result of the considerable uncertainty caused by the drought conditions in Eastern Australia, record demand and a large number of generator outages.

For the remainder of the year Sales Revenue was based on moderate demand and below average pool prices in the NEM.

Landholdings
Macquarie Generation's landholdings include the following:

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

Bayswater and Liddell Power Stations
The Power Stations are located between Singleton and Muswellbrook, New South Wales, and are surrounded by 9,000 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 zone 5A 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 2007, Macquarie Generation's workforce comprised 611 employees (excluding casuals) including apprentices in the following categories by percentage of the total staff numbers:

Trends in the Representation of EEO Groups

EEO group:	**Government target**	**2007**	**2006**	**2005**	**2004**
			% of Total Staff		
Women	50%	12%	12%	12%	12%
People identifying as Aboriginal or Torres Strait Islander	2%	1.3%	1.4%	1.2%	1.2%
People whose first language as a child was not English	20%	4%	4%	3%	3%
People with a disability	12%	9%	9%	9%	10%
People with a disability requiring adjustment in the workplace	7%	3.2%	3.1%	3.1%	3.2%

Equal Employment Opportunity (EEO) (continued)
Trends in the Distribution of EEO Groups (Note 1)

EEO group:	Benchmark or target	2007	2006 Distribution Index	2005	2004
Women	100	91	92	87	88
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	114	110	N/a	N/a
People with a disability	100	99	100	99	98
People with a disability requiring adjustment in the workplace	100	N/a	N/a	N/a	N/a

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

Achievements during 2006/2007 and key strategies proposed for 2007/2008
Activities to further promote equity and diversity within the workforce and broader community during the 2006/2007 financial year included:

- Supporting and identifying opportunities to implement flexible work options to meet employees' family responsibilities
- Support to various community-based groups actively involved in training and/or employment services to specific EEO groups
- Identifying workplace programs that support and promote the principles of equity and diversity
- Monitoring and reporting on employees' workplace experiences to compare progress against the Equity and Diversity Plan
- Promoting and encouraging participation of EEO groups in trainee programs
- Development of an Ageing Workforce Profile and management strategies
- Identifying and implementing phased work-retirement options
- Continuous refinements in EEO Data Collection

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

Freedom of Information
No requests under the New South Wales Freedom of Information Act, 1989 were received, acted upon or completed during the reporting period.

Funds Granted to Non-government Community Organisations
Macquarie Generation donations and sponsorships during the reporting year to Hunter region community organisations totalled $251,936.

Overseas Visits

Name	Title	Country	Purpose
D. Ipkendanz	Chief Financial Officer and Company Secretary	United Kingdom/Singapore	Presentations and meetings with insurance underwriters.
S.Ireland	Manager Fuel and Environment	Germany	Inspections of gas co-firing technology of power stations.
W.Shepherd	Generation Development Manager	Germany	Inspections of gas co-firing technology of power stations.

Promotion

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

- Annual Report 2006;
- Awareness advertising, Rural Press Ltd (Upper Hunter TV Guide);
- Media releases, radio and TV interviews;
- Internet website updates: www.macgen.com.au;
- Community Billboard, Radio 2NM,
- Casual newspaper and magazine advertising,
- Quarterly Community Consultative Committee Meetings; and
- Community and Environment Newsletters.

Consultants' Fees

Consultants equal to or more than $30,000

Consultant	$ Cost	Nature
Management		
Gavin Anderson & Company (Australia) Ltd	180,338	Strategic communications
Fuel and Environment		
Earth Resources Australia Pty Limited	39,000	Geosequestration study
Connell Wagner Pty Ltd	39,300	Water supply development
Hunwick Consultants Pty Ltd	168,840	General environmental consulting
Inteplan Pty Limited	85,000	Australian Rail Track Corporation infrastructure review
Marston & Marston Inc	204,483	Mine Assessment
Marston International Pty Ltd	58,116	New generation development
Marston International Pty Ltd	200,381	Mine assessment
Marston International Pty Ltd	35,668	Alternative fuels
Marketing and Trading		
Frontier Economics Pty Ltd	61,245	Electricity market advice
HRL Technology Pty Ltd	204,744	Performance test regime development
Engineering		
Alstom Power Limited	96,292	Drought mitigation
Information Technology		
KPMG	52,058	Information technology outsourcing study
Total consultancies equal to or more than $30,000	**1,425,465**	

Consultants' Fees (continued)

Consultancies less than $30,000

During the financial year 14 other consultancies were engaged in the following areas:

Area	$ Cost
Finance, accounting and tax	11,565
Engineering	4,939
Fuel & Environment	91,186
Marketing and Trading	48,333
Management	12,847
Training	22,500
Total consultancies less than $30,000	**191,370**
Total consultancies per Note 4(a) to the Financial Statements	**1,616,835**

This Annual Report has been printed on EcoStar, an environmentally responsible paper which has been independently certified. It is manufactured from 100% recycled paper waste in a Process Chlorine Free environment. The entire production chain incorporates a system allowing for traceability of raw materials used and also monitors water treatment, energy use and waste recycling to ensure continuous improvement.

Contact Details

Macquarie Generation Corporate Office
34 Griffiths Road
LAMBTON NSW 2299
AUSTRALIA

Postal Address
PO Box 3416
HAMILTON DC NSW 2303
AUSTRALIA

Telephone
61 2 4968 7499

Facsimile
61 2 4968 7433

Business Hours
8am–5pm Monday to Friday

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

Postal Address
Private Mail Bag 2
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 2007 REFERS TO THE FISCAL YEAR 1 JULY 2006 TO 30 JUNE 2007.

Macquarie Generation