Macquarie Generation Annual Report

2008

contents

The Hon. Eric Roozendaal, BA LLB MLC
Treasurer of New South Wales

The Hon. Joseph Tripodi, BEc (Hons) MP
Minister for Finance
Minister for Infrastructure
Minister for Regulatory Reform
Minister for Ports and Waterways

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 Financial Report for the financial year ended 30 June 2008, 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 2008

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

In 2008, Macquarie Generation supplied 13.35% 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.

Bayswater and Liddell Power Stations are located in the Upper Hunter Valley of New South Wales between the towns of Singleton and Muswellbrook. The power stations' combined 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. Both power stations are permitted under licence to co-fire biomass with coal at a maximum blend rate of 5%. Liddell is also permitted to co-fire recycled oil to a maximum blend rate of 5%.

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

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

At 30 June 2008, Macquarie Generation employed a total of 617 people, with 296 located at Bayswater Power Station, 257 located at Liddell Power Station and 64 at a corporate office in Newcastle.

This report covers the period from 1 July 2007 to 30 June 2008 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
- 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
- Steve Ireland—Manager Fuel and Environment
- Col Peebles—Manager Human Resources
- Peter Sewell—Manager Liddell Power Station
- John Neely—Manager Bayswater Power Station

Board left to right
David Ipkendanz, Grant Every-Burns, Hon. Peter Collins, John Cahill, Evan Rees, Deborah Page, Lucio Bartolomeo, Anna Buduls.

Executive left to right
Russell Skelton, John Neely, Peter Sewell, Col Peebles, Steve Ireland, Grant Every-Burns, David Ipkendanz.

our commitment to

renewable energy

At Liddell Power Station we have constructed the world's first solar thermal project to be integrated with a coal fired power station.

The project is a clear demonstration of our commitment to supporting the solar energy industry in Australia, and the exploration of creative new energy solutions.

The $5.5 million Liddell Solar Thermal Project will produce renewable energy for over 500 homes and is the largest solar thermal development in Australia.

Record financial results, best ever safety performance, improved water efficiency and our commitment to environmental improvements are highlights from another very successful year for Australia's largest electricity generator.

The electricity industry and the National Electricity Market continue to face many challenges. Increased demand, recovery from drought, the introduction of a national emissions trading scheme and the debate about carbon have created a difficult and uncertain business environment.

Over the last 12 months Macquarie Generation has shared in these challenges; however the results of long term planning have enabled the Corporation to face the changing business environment to produce another outstanding business performance.

Record financial results, best ever safety performance, improved water efficiency and our commitment to environmental improvements are highlights from another very successful year for Australia's largest electricity generator.

Financial Performance

In our 12th year of operation, the Corporation has again achieved sales growth and record revenue. A high standard of plant performance at Liddell and Bayswater Power Stations in terms of availability, forced outages and fuel efficiency, combined with a balanced contract and spot market trading strategy to produce the following outstanding financial highlights;

- Revenue – increase of 6.4% to record sales of $1,143.4 million.
- Earnings Before Interest and Tax – $660.1 million an increase of 92.6%
- Net Profit Before Tax - $615.9 million an increase of 117.1%
- Net Profit After Tax - $431.5 million an increase of 117%

The large changes in Earnings and Net Profit from the previous year reflect the confusing effect of Australian Accounting Standards especially when applied to forward sold electricity contracts in a volatile market. Non-cash movements this year produced accounting gains totalling $249.2 million whereas last year such movements produced accounting losses of $95.9 million.

In the absence of these accounting adjustments the underlying operating result shows a pleasing improvement and an increased margin:

- Profit before Tax and before Unrealised Gains and Losses— $389.6 million up 7.9%

Above average earnings during the first quarter of the financial year were due to high electricity prices in the National Electricity Market as a result of some drought affected generation and a large number of generator outages. A consistently high sales performance was sustained throughout the remainder of the financial year, culminating in the Corporation's record revenue.

Dividends provided to the NSW Government have increased by 50% from $180 million to $270 million due to the improved earnings in the financial year as described above, and will be paid during the 2008/2009 year.

Our People, Our Safety

At Macquarie Generation we are committed to achieving a zero injury workplace. Over the last 2 years significant measures have been taken to improve the Corporations safety performance. Our focus on behavioural change with the implementation of the 'i-Safe' program and a concentration on individual health and wellbeing have been rewarded with the best safety performance in the Corporation's history.

We are delighted that our lost time injury frequency rate has reduced significantly from 11.6 accidents per million work hours in 2006, to this years result of 1.6 accidents per million hours worked; but we will still not forget that two of our employees were seriously affected by accidents which should not have happened.

This improved safety performance has enabled the Corporation to make several donations to the Westpac Rescue Helicopter Service through our safety incentive scheme.

We have also successfully implemented the first stage of drug and alcohol testing; another important step forward in reducing workplace risk.

We are also pleased to report the large take-up of our on site pre winter influenza vaccination which resulted in a significant reduction in casual absentee rates this year.

Macquarie Generation enjoys a highly skilled, committed and experienced workforce. Like many businesses we face challenges from the growing skills shortage and increased competition for new employees. Over recent years we have focused on the recruitment, training and support of young people. Apprentice numbers have steadily increased and next year we will be a significant employer of apprentices with over 50 young people in training.

We are also seeing success in attracting undergraduate engineers through the University of Newcastle UNISS scholarship scheme and our own Macquarie Generation Scholarship Scheme.

Our employees are to be congratulated for another successful year, and their contribution to the industry and the NSW economy.

Environmental Performance

Macquarie Generation is committed to maintaining high level environmental compliance and operating performance, and investing in practical initiatives for carbon reduction.

This year has seen exciting progress in construction of the Solar Thermal project at Liddell Power Station. This project is a world first integration of solar thermal technology with a traditional power station, and is a glimpse of future measures that are becoming available to improve environmental performance. With commissioning in the final stages, the project will be operational late in 2008 generating renewable energy.

We are also very pleased with the results of the turbine upgrade program at Liddell Power Station, which was completed in May this year. At a total cost of over $90 million this program of technology improvements have resulted in improved fuel efficiency that increase generation capacity and reduce carbon production. Annual savings of over 700,000 tonnes of CO_2 are expected now the program is complete. A further benefit of this project has been to increase the available output of Liddell at peak times, which will be most important in the years ahead.

Following an independent audit, our Environmental Management System has maintained certification to the international standard IOS 14001. This certification requires a commitment to and clear demonstration of continually improving environmental performance.

Like many Australian businesses and communities the electricity industry in recent years faced severe drought. Macquarie Generation has been proactive in finding solutions to water shortage that maximise returns to the Corporation while minimising impact on local rivers and other river water users.

The Corporation has invested over $100 million in upgrading Water Treatment facilities, automation and repairs to the Barnard River Scheme and commencing construction of the Hunter River Pumping Station Augmentation. These projects are improving Macquarie Generation's water use efficiency while securing water supplies critical for the State's electricity supply.

The Corporation has benefited from increased rainfall in the Hunter Region over the last 12 months, enabling the Corporation to recover water storages and improve water quality. We will maintain a focus on efficient water management and implementation of new practices learned and developed during the recent drought.

Fuel Supply

Macquarie Generation continues to benefit from an established strategy of securing long term domestic fuel supply contracts. This strategy aims to insulate the Corporation from the volatile export coal market and maintain our place as a low cost producer.

The Corporation is pleased with the completion last year of the Antiene Rail Coal Unloader, and with the recently developed Wilpinjong mine now in full operation, our newest fuel supplies are competitively priced and reliable.

The future of affordable electricity supply in NSW remains dependent on access to new domestic coal resources. The development of new coal resources remains a contentious issue for Governments and local communities, and a challenge that must be balanced with the economic prosperity our resource rich country provides.

The Corporation is pleased with the progress of plans for the use of waste mine methane as a supplementary fuel in Liddell Power Station. Preliminary applications have been made for approvals to construct pipelines to collect methane from Hunter Valley underground mines and transport the fuel to Liddell for co-firing with coal. These projects diversify the Corporation's fuel mix and have the potential to save the equivalent of millions of tonnes of CO_2.

Future Generation and Challenges

A challenge facing all participants in the National Electricity Market is finding the balance in developing new generation projects, choice and mix of fuel types and managing community expectations. These factors combined with the Federal Government commitment to introducing an emissions trading scheme during 2010 and increasing mandatory renewable energy targets has created a high degree of uncertainty in a market that requires significant future investment.

While supporting a broad and inclusive emissions trading scheme, we share concern that households and business will face increased costs for energy and other consumables. For this reason we believe a sensible carbon trajectory in keeping with the rest of the world is essential. Further, we advocate realistic transitional assistance for affected industries so that our economy and local communities are protected from unnecessary or sudden shocks to the cost of supply, reliability of supply and employment.

Despite market and industry uncertainty, we believe that Macquarie Generation is well placed to make a successful transition into a carbon-constrained future. With high quality generation assets, experience with a range of fuel types, growing investment in renewable energy and potential peaking and baseload projects ready for development, we are confident of a successful future.

We are pleased that the Tomago Gas Power Station received an amended approval to allow on site gas storage, increasing the project's viability by enabling a more effective use of gas from the existing pipeline system. The Corporation stands ready to build this valuable project when the market demands.

We further believe that we hold the best site for new baseload generation in the State. The Hunter Region is the energy powerhouse of NSW with access to affordable coal, associated infrastructure, supportive local communities and a skilled workforce. Again, the Corporation is ready to work with Government and industry partners to ensure NSW has a secure energy future.

Finally we wish to thank fellow Directors and Executive members for their work during the year, and contribution to the Corporation's governance and strategic direction.

We look forward to a challenging future with confidence that we can maintain our reputation as one of Australia's leading electricity generation companies.

E. Rees.

Evan Rees
Chairman

Grant Every-Burns
Chief Executive and
Managing Director

October 2008

our commitment to

reducing carbon

The generating units at Liddell Power Station were first placed in service in the early 1970s, with 1960s designed turbines. Recent design advances have resulted in modern turbines with higher operating efficiencies.

By replacing the turbines within Liddell Power Station we have increased generating capacity and reduced CO_2 production.

This investment of over $90 million will result in savings of over 700,000 tonnes of CO_2 each year.

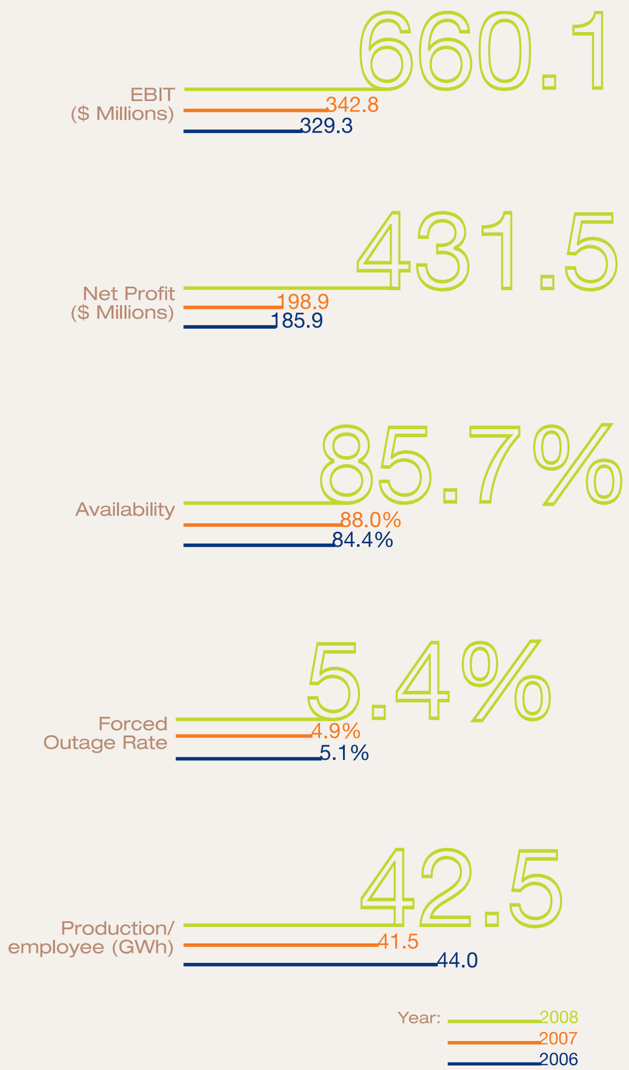
A summary of Macquarie Generation's Financial Performance from 1 July 2007 to 30 June 2008

	2008	2007	% Change
Income Statement ($ millions)			
Revenue excluding interest	**1,143.4**	1,074.1	6.4
Other income	**0.7**	-	100.0
Fair value gains (losses) on electricity derivative financial instruments	**249.2**	(95.9)	(359.9)
Fair value gains (losses) on other derivative financial instruments	**1.4**	0.2	807.8
Net (loss) gain on defined benefit superannuation actuarial valuation	**(24.3)**	18.5	(231.4)
Expenses excluding depreciation	**(598.6)**	(547.2)	9.4
Earnings before depreciation, interest and tax	**771.7**	449.6	71.6
Depreciation expense	**(111.7)**	(106.9)	4.5
Earnings before interest and tax (EBIT)	**660.1**	342.8	92.6
Net finance costs	**(44.1)**	(59.1)	(25.3)
Profit before income tax expense	**615.9**	283.7	117.1
Income tax expense	**(184.4)**	(84.8)	117.5
PROFIT FOR THE YEAR	**431.5**	198.9	117.0
Cash Flow Statement ($ millions)			
Net cash inflows from operating activities (excluding net finance costs)	**594.5**	262.5	126.5
Capital expenditure	**(66.6)**	(162.7)	(59.1)
Dividends paid	**(180.0)**	(130.0)	38.5
Balance Sheet ($ millions)			
Total Assets	**4,450.1**	3,876.3	14.8
Total Debt	**820.9**	889.9	(7.8)
Total Equity (Refer Note 1)	**1,799.8**	(57.4)	(3,234.9)
Dividend provided	**270.0**	180.0	50.0
Financial Statistics			
EBIT to Revenue (%)	**57.7**	31.9	80.9
Debt to Equity (%) (Refer Note 1)	**45.6**	-	100.0
Interest Cover (times)	**15.0**	5.8	157.9
Return (after tax) on Equity (%) (Refer Note 1)	**24.0**	-	100.0
Operating Statistics			
EBIT per average employee ($ 000's)	**1,075.9**	568.2	89.4
Equivalent forced outage (%)	**5.4**	4.9	(0.5)
Availability (%)	**85.7**	88.0	(2.3)
Production per average employee (GWh)	**42.5**	41.5	2.3

Note 1. Refer to Note 29 of the Financial Statements regarding Net (Deficiency) Assets and Equity position for the previous financial year as at 30 June 2007.

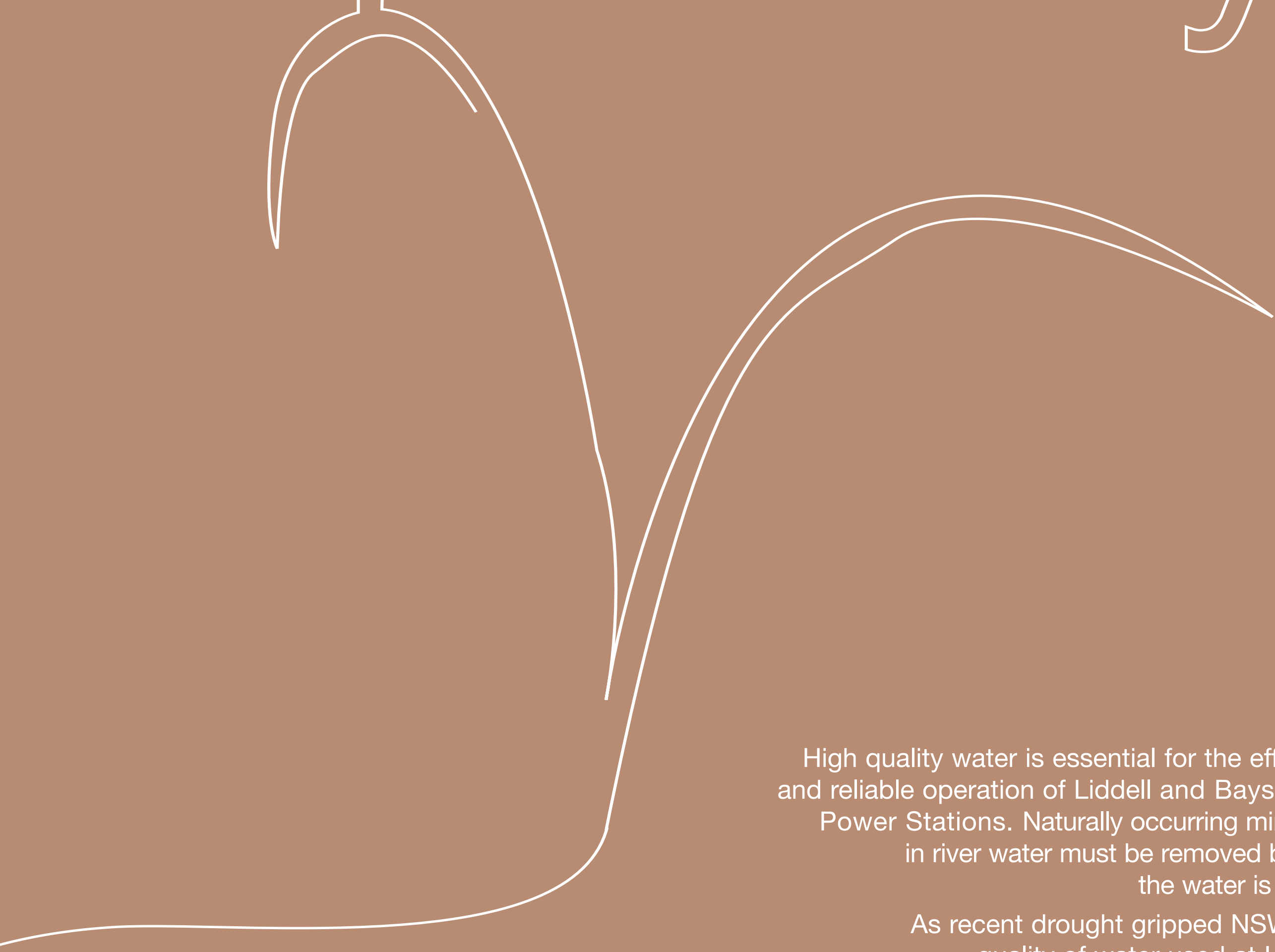
Macquarie Generation's Financial Highlights from 1 July 2007 to 30 June 2008

- Sales Revenue increased by 6.4% to $1,143.4 million due to an increase in sales volume.
  Sales revenue included above average earnings during the first quarter of the financial year due to the high electricity prices in the National Electricity Market during this period. The higher electricity prices were as a result of some drought affected generation and a large number of generator outages.
- Other Income included net unrealised gains of $249.2 million in relation to the valuation of Electricity Derivative Financial Instruments in compliance with AASB 139 *Financial Instruments: Recognition and Measurement*.
- Expenses per Note 4 to the Financial Statements included net unrealised losses of $24.3 million in relation to the actuarial valuation of the Corporation's Defined Benefit Superannuation Assets and Liabilities at 30 June 2008.
- Total Expenses per Note 4(b) to the Financial Statements, excluding superannuation actuarial losses, increased by 8.6% due mainly to an increase in production and associated maintenance expenditure in accordance with the Corporation's budgets. The remainder of the Expenses remained steady reflecting the Corporation's cost control measures.
- Production, revenue and accounting effects for 2007/2008 resulted in a 92.6% increase in Earnings Before Interest And Tax (EBIT) from $342.8 million to $660.1 million.
- Net finance costs decreased by 25.3% to $44.1 million due mainly to an increase in interest income earned on excess cash deposits.
- Debt levels decreased by $63.3 million to $820.9 million due to debt prepayments as part of the Corporation's debt prepayment strategy.
- Net Profit Before Tax increased by 117.1% to $615.9 million due mainly to the increase in fair value movements in Electricity Derivative Financial Instruments in compliance with AASB 139 and the increase in Sales Revenue.
- Net Profit After Tax increased by 117.0% to $431.5 million as a result.
- As disclosed in Note 29 of the Financial Statements the Corporation's Net Assets and Equity position increased from a deficit of $57.4 million at 30 June 2007 to a surplus of $1,799.8 million at 30 June 2008. 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 disclosed in Note 30 of the Financial Statements the Federal Government released a Green Paper on the Carbon Pollution Reduction Scheme (CPRS) in July 2008 committing the Commonwealth to implementing the CPRS by no later than 2010. The final form of the CPRS is yet to be finalised but may have a significant impact on the valuation of assets of Macquarie Generation.
- Capital Expenditure decreased by 59.1% from $162.7 million to $66.6 million due to completion during the year of a number of large capital works. These included the Antiene Rail Coal Unloader, Water Treatment Plant Upgrade at Bayswater Power Station and the final stages of the High Pressure and Intermediate Pressure Turbine Upgrade at Liddell Power Station. New projects were also commenced including the Hunter River Pumping Station Augmentation.
- Dividends provided increased by 50.0% from $180 million to $270 million due to the improved earnings in the financial year as described above, and will be paid during the 2008/2009 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 $80.6 million in relation to the 2007/2008 year as disclosed in Note 5(d) of the Financial Statements.



our commitment to

water efficiency



High quality water is essential for the efficient and reliable operation of Liddell and Bayswater Power Stations. Naturally occurring minerals in river water must be removed before the water is used.

As recent drought gripped NSW, the quality of water used at Liddell and Bayswater was affected.

Our $59 million water treatment plant upgrade at Bayswater Power Station increases our capacity for water conservation by improving efficiency of water use.

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

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

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

Macquarie Generation is committed to:

- Continual improvement of our environmental performance.
- Maintaining an Environmental Management System compliant with ISO 14001.
- Utilising operating practices which seek to prevent pollution and minimise environmental impacts in a commercially effective way by:
  (i) efficient use of energy and resources with a view to reducing consumption and minimising emissions or discharges to the environment;
  (ii) waste management practices that include waste minimisation, recycling and approved waste handling and disposal; and
  (iii) regular environmental assessment of the impact of existing operations
- Implementing environmental incident response procedures for emergencies or other events which pose a risk to health, safety or the environment.
- Facilitating communication within the organisation as well as consultation with governments, contractors, industry groups and the public on matters relating to the environment.
- Periodically reviewing our Environmental Management System and progress towards achieving environmental objectives and targets.

This policy will be communicated to all persons working for or on behalf of the Corporation and will be made available to interested parties. 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 Clean Air Society of Australia and New Zealand (CASANZ)
- A member the Clean Energy Council
- A member of the Hunter Salinity Trading Scheme Operations Committee
- A foundation member of the Together Today initiative
- Assessed and registered as complying with the requirements of the *Australian Standard AS/NZS ISO 14001:2004—Environmental Management Systems—Requirements with Guidance for Use*

Environmental Performance

Regulatory Compliance

NSW EPA Licences	4
Other NSW Government Licences	1
Licence breaches notified	Nil

Coal consumed

Bayswater	7,268,541 tonnes
Liddell	5,426,006 tonnes

Non-coal fuel consumption

Biomass

Liddell	6,716 tonnes
Coal replaced by biomass	7,053 tonnes
Coal replaced since August 1999	296,932 tonnes
Electricity produced from biomass since August 1999	579,398 MWh
Annual average production	64,378 MWh

Oils

Liddell (Supplementary Fuels Program)	13,725 tonnes
Liddell (boiler start-up)	16,961,972 litres
Bayswater (boiler start-up)	7,216,373 litres

Air Emissions (i)

Sulfur dioxide	5.39 kg/MWh (Bayswater)
	5.24 kg/MWh (Liddell)
Oxides of Nitrogen (expressed as NO2)	2.42 kg/MWh (Bayswater)
	2.39 kg/MWh (Liddell)
Particulate matter	0.04 kg/MWh (Bayswater)
	0.10 kg/MWh (Liddell)
Carbon Dioxide (ii)	912 kg/MWh (Bayswater)
	946 kg/MWh (Liddell)

Water Management

Water Diverted (Hunter River)	100,127 ML
Salt Extracted	9,419 tonnes

Hunter River Salinity Trading Scheme

Salt discharged	Nil
Salinity Credit Days traded-in	Nil
Salinity Credit Days traded-out	1,488
Regional mine waters treated	Nil

Land Management

By-product sales:

Fly ash	101,024 tonnes (iii)
Bottom ash	51,531 tonnes (iv)
Lime	182 tonnes
Gypsum	1,918 tonnes
Cenospheres	5,990 m3 (iv)

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

2008 Production

Bayswater

Energy Sent Out:	15,430 GWh
Availability:	91.15%
Forced Outage Rate:	3.15
Station Trip Rate (per 1000 hrs):	0.09

Liddell

Energy Sent Out:	10,851 GWh
Availability:	78.86%
Forced Outage Rate:	8.43
Station Trip Rate (per 1000 hrs):	0.77

(i) Annual average

(ii) Formulated from total fuel consumption minus biomass

(iii) Total classified and unclassified

(iv) Liddell and Bayswater total


NSW HEALTH
Mildred

our commitment to

workplace safety

A safe working environment is fundamental to our business success. The health, safety and welfare of employees, contractors and visitors is our highest priority.

This commitment has delivered our best safety performance since the Corporation commenced operation, we continue however to strive for a zero harm workplace.

This wonderful result has enabled us to make several donations to the Hunter's Westpac Rescue Helicopter Service through our safety incentive scheme.

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

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

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

We are committed to:

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

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

2008 Statistics

Accidents per million hours worked

2008	1.6
2007	5.2
2006	11.1
2005	6.3

Longest lost-time injury free period (during 2007–2008)

Bayswater:	200 days
Liddell:	302 days
Lambton:	365 days

Occupational Health and Safety Committees (at 30 June 2008)

Liddell

Employer Representatives

Peter Sewell, Mal Humble, Kevin Wykes and Teresa Richardson.

Employee Representatives

Graham Cadman, Brian Delforce, Melissa Metcalfe, Kevin McComiskey, Justin Power, Richard Wootton, Clinton Baker, Graeme McNeil, Ken Partridge and Randall Jones (Chairperson).

Bayswater

Employer Representatives

John Neely, John Dyson, Wayne Enks and Teresa Richardson.

Employee Representatives

Ian Swan, Craig Parker, Dinesh Yadav, Richard Warwick, Scott McKinnon, Wayne Hermon, Glen Kollner, Robert Cornish, Greg McDonald, Paul McNamara, Joe Royston, Scott Jennar, Greg Tearle, Diana Gerrs and Doug Laughlin (Chairperson).

Employees (at 30 June 2008)

Executive	7
Managers and contract employees	33
Engineering officers	83
Professional officers	37
Administration officers	83
Operators	122
Mobile coal plant operators	9
Tradespersons (electrical)	32
Tradespersons (mechanical)	68
Tradespersons (metal fabrication)	9
Power workers	93
Apprentices	41
Total	**617**

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

- Hunter Medical Research Institute
- Hunter Westpac Rescue Helicopter Service
- Together Today
- ClimateCam For Schools
- 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. Areas supported are in the areas of education, health, recreation, environment, community events and services.

Community Support Advisory Committee

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

Committee Members (at 30 June 2008)

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
- Hunter Valley Cricket Council
- Singleton and Muswellbrook Amateur Theatrical Societies
- Singleton Art Prize
- Scone Art Prize
- Black Coal Cup Golf Tournament
- Upper Hunter Community Services
- Aberdeen Highland Games
- Singleton and Muswellbrook Shows
- King of the Ranges Murrurundi
- Group 21 Rugby League—Development Camp
- Singleton Public Library—Summer Reading Program
- Upper Hunter School Presentation Days
- Upper Hunter and Muswellbrook Eisteddfod
- Young Endeavour Scheme—Upper Hunter Shire Council

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The Board of Directors present their report together with the Financial Report of the Corporation for the year ended 30 June 2008 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 (to 31 May 2008)
The Hon Peter Collins AM
Lucio Di Bartolomeo
Deborah Page AM

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 2008 for a one year term ending on 28 February 2009.

Mr Rees was appointed to the Board Remuneration and Human Resources Committee on 18 August 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 3 year term ending on 31 August 2008. A further contract was executed on 29 August 2008 for a three year term ending on 31 August 2011.

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 2008 for a two year period ending on 28 February 2010.

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.

Information on Directors (continued)

John Cahill Non-executive Director

Mr Cahill was appointed Director of Macquarie Generation on 3 May 1996 and is a member of the Board Remuneration and Human Resources Committee. Mr Cahill's term expired on 31 May 2008 but continues to attend meetings in an ex officio capacity pending final advice on reappointment by the Corporation's Shareholders.

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 a 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. 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, Australian Rail Track Corporation and Australian Super Pty Limited and Chairman of Parklands Foundation. Mr Di Bartolomeo is currently the NSW president and a National Vice President of the Australian Industry Group.

Mr Di Bartolomeo was a 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 Chairman 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 Funds Management 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; a non-executive Director of Colonial Mutual Superannuation Pty Limited and Commonwealth Custodial Services Limited from June 2006 to August 2007; and was a non-executive Director of Investa Properties Limited from April 2002 to September 2007.

Information on Directors (continued)

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, Namoi Cotton Co-operative and Utah Development Corporation. 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 2008 were:

	Board Meetings		Board Audit and Assurance Committee Meetings	
	Held	Attended	Held	Attended
Mr Evan Rees	12	12	-	-
Mr Grant Every-Burns (1)	12	12	-	5
Ms Anna Buduls	12	11	5	5
Mr John Cahill (4)	12	9	-	-
The Hon Peter Collins (5)	12	7	-	-
Mr Lucio Di Bartolomeo	12	12	5	5
Mrs Deborah Page	12	11	5	5

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

(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) Prior to his appointment to the Remuneration and Human Resources Committee on 18 August 2008, Mr Rees attended one meeting of the Committee by invitation.

(4) Mr Cahill attended the June 2008 Board meeting and the June 2008 Board Remuneration and Human Resources Committee meeting in an ex officio capacity pending final advice of reappointment by the Corporation's Shareholders.

(5) The Hon Peter Collins was granted leave of absence for the purpose of secondment to the Australian armed forces commitment to Iraq for a period of three months. During this time, three meetings of the Board were conducted without his presence.

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 2008 was $431.5 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 2007 was paid on 1 August 2007;
- a final dividend of $115 million in respect of the year ended 30 June 2007 was paid on 1 December 2007; and
- a dividend of $270 million in respect of the year ended 30 June 2008 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

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

Carbon Pollution Reduction Scheme

The Prime Minister released a Green Paper on the Carbon Pollution Reduction Scheme (CPRS) in July 2008 committing the Commonwealth to implementing the CPRS by no later than 2010.

The CPRS Green Paper canvasses options and preferred approaches on issues, such as which industry sectors will be covered and how emission caps will be set. It also includes ways to address the impacts on Australian households, emissions-intensive trade-exposed industries and other strongly affected sectors.

The final form of the CPRS is yet to be finalised but may have a significant impact on the valuation of assets of Macquarie Generation.

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

The NGER Act was passed by the Federal Government on 28 September 2007 and establishes a single national framework to report greenhouse gas emissions and energy production and consumption. The NGER Act requires a range of Australian companies to report including Macquarie Generation from the 2008/2009 financial year, with the first report to be submitted by 31 October 2009.

The resulting national reporting system is regulated by the Department of Climate Change and will provide the data needed to underpin Australia's Carbon Pollution Reduction Scheme.

Macquarie Generation is required to report under this legislation, as the Corporation emits more than 125,000 tonnes of greenhouse gas. Macquarie Generation has been reporting greenhouse gas emissions and energy data under a range of Commonwealth and State schemes for many years. These programs include the Greenhouse Challenge Program, the Generator Efficiency Standard, National Greenhouse Gas Inventory, Government Energy Management Policy and NSW Greenhouse Gas Abatement Scheme.

The Corporation is working towards meeting the reporting requirements of the NGER Act, which becomes effective from 1 July 2008.

Proposed privatisation of Electricity Businesses

In December 2007, the New South Wales Government announced that it would accept the key recommendations of the Owen Inquiry into Electricity Supply in New South Wales. The proposed reforms involve the lease of existing State owned generators to private operators.

In May 2008 the New South Wales Government introduced the *Electricity Industry Restructuring Bill* into State Parliament but has yet to debate the enabling legislation.

Likely Developments (continued)

Proposed privatisation of Electricity Businesses (continued)

The Government has yet to finally announce the process, timing and structure for any associated transaction.

Strategic Plans and Operations

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

Events Subsequent to Balance Date

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.

The Electricity Derivative Financial Instrument Assets included an amount of $193 million representing the value of an embedded derivative asset contained in a long term direct supply contract. Between 30 June 2008 and the date of signing the Financial Report on 29 August 2008, the fair value of the embedded derivative asset has reduced by $54 million, due to a decrease in the London Metals Exchange forward price curve of aluminium when marked to model in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

Between 30 June 2008 and the date of signing the Financial Report on 29 August 2008, the fair value of the Electricity Derivative Instruments Assets, excluding the Embedded Derivative, have increased by $11 million and the fair value of the Electricity Derivative Liabilities have decreased by $117 million when marked to model in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, due mainly to a decrease in the electricity forward price curve.

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

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.

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

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 threshold event in relation to stack opacity due to fabric filter bag failures. The failed bags were subsequently replaced. 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 2008 for the 12 months ending 27 July 2008.

Environmental Performance Report (continued)

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).

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 0.005 tonnes less coal burnt per MWh generated;
- use of 2,808,000 litres of recycled oil for boiler start-up at Liddell Power Station;
- re-use of 152,555 tonnes of ash in cement manufacture, landscaping and road works representing 4.5% of the total of 3,428,672 tonnes of ash produced during the financial year; and
- re-use of 2,100 tonnes of lime substitute and gypsum by-products by the agricultural industry representing 30% of the total of 6,949 tonnes produced during the financial year.

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 closed contracts with a division of Downer EDI Limited. The contracts total $4.3 million and were entered prior to Director Di Bartolomeo's appointment to the Board of Macquarie Generation. The closed contract has a defects liability warranty for $0.1 million which expires on 31 December 2008.

Indemnification of Directors and Officers

During the financial year Macquarie Generation paid a premium of $186,706 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

29 August 2008
Sydney

G V EVERY-BURNS
CHIEF EXECUTIVE AND MANAGING DIRECTOR

29 August 2008
Sydney

Start of Audited Financial Statements

	Notes	2008 $'000	2007 $'000
Revenue	3	**1,161,734**	1,082,037
Other income, excluding superannuation actuarial gains and losses and fair value movements in financial instruments	3	**668**	-
Finance costs	4(a)	**(62,557)**	(66,985)
Expenses, excluding superannuation actuarial gains and losses	4(b)	**(710,289)**	(654,068)
Profit before income tax expense, superannuation actuarial gains and losses and fair value movements in derivative financial instruments		**389,556**	360,984
Income tax on profit before superannuation actuarial gains and losses and fair value movements in derivative financial instruments	5	**(116,528)**	(107,986)
Profit after tax before superannuation actuarial gains and losses and fair value movements in derivative financial instruments		**273,027**	252,998
Net actuarial (losses)/gains on defined benefits superannuation funds	4,3	**(24,253)**	18,464
Net fair value gains/(losses) on derivative financial instruments	3,4	**250,595**	(95,724)
Income tax on superannuation actuarial gains and losses and fair value movements in derivative financial instruments	5	**(67,903)**	23,178
Profit for the year		**431,467**	198,916

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

	Notes	2008 $'000	2007 $'000
Current Assets			
Cash and cash equivalents	7	**318,619**	87,555
Trade and other receivables	8	**109,548**	505,284
Inventories	9	**112,729**	115,434
Derivative financial instruments	13	**203,542**	72,046
Other assets	14	**6,527**	4,591
TOTAL CURRENT ASSETS		**750,965**	784,910
Non-Current Assets			
Receivables	8	**12**	14
Property, plant and equipment	10	**3,587,348**	2,545,239
Deferred tax assets	11	**102,417**	537,100
Intangible assets	12	**9,332**	9,008
TOTAL NON-CURRENT ASSETS		**3,699,109**	3,091,361
TOTAL ASSETS		**4,450,074**	3,876,271
Current Liabilities			
Trade and other payables	15	**107,685**	265,237
Borrowings	16	**193,181**	344,433
Derivative financial instruments	13	**160,137**	1,119,031
Current tax liabilities	5	**80,564**	106,194
Provisions	18	**314,898**	216,619
TOTAL CURRENT LIABILITIES		**856,465**	2,051,514
Non-Current Liabilities			
Borrowings	16	**627,717**	545,486
Derivative financial instruments	13	**100,328**	606,535
Deferred tax liabilities	17	**1,013,675**	683,038
Provisions	18	**19,755**	14,737
Other liabilities	19	**32,289**	32,374
TOTAL NON-CURRENT LIABILITIES		**1,793,764**	1,882,170
TOTAL LIABILITIES		**2,650,229**	3,933,684
NET ASSETS (DEFICIENCY)		**1,799,845**	(57,413)
Equity			
Contributed equity		**281,078**	281,078
Reserves	20 (b)	**1,265,809**	(430,190)
Retained profits	20 (c)	**252,958**	91,699
TOTAL EQUITY		**1,799,845**	(57,413)

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

	Notes	2008 $'000	2007 $'000
Total equity at the beginning of the financial year		**(57,413)**	1,003,530
Changes in fair value of cash flow hedges net of tax	20(b)	**942,428**	(1,079,859)
Revaluation increment on property, plant and equipment net of tax	20(b)	**753,363**	-
Net gain (loss) recognised directly in equity		**1,695,791**	(1,079,859)
Profit for the year	20(c)	**431,467**	198,916
Total recognised income and expense for the year		**2,069,845**	122,587
Transactions with equity holders in their capacity as equity holders:			
Dividends provided for	18	**(270,000)**	(180,000)
		(270,000)	(180,000)
Total equity at the end of the financial year		**1,799,845**	(57,413)

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

	Notes	2008 $'000	2007 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		**1,707,471**	808,659
Payments to suppliers and employees (inclusive of goods and services tax)		**(941,457)**	(517,745)
Interest received		**18,369**	7,934
Interest paid		**(66,354)**	(73,119)
Income tax paid		**(171,508)**	(28,442)
NET CASH INFLOWS FROM OPERATING ACTIVITIES	21	**546,521**	197,287
Cash Flows from Investing Activities			
Payments for property, plant and equipment		**(66,322)**	(161,381)
Payments for intangible assets		**(323)**	(1,367)
Proceeds from sale of property, plant and equipment		**210**	312
NET CASH (OUTFLOWS) FROM INVESTING ACTIVITIES		**(66,435)**	(162,436)
Cash Flows from Financing Activities			
Repayments of New South Wales Treasury Corporation loans		**(61,276)**	(3,815)
Dividends paid to Shareholders		**(180,000)**	(130,000)
NET CASH (OUTFLOWS) FROM FINANCING ACTIVITIES		**(241,276)**	(133,815)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**238,810**	(98,964)
Cash at the beginning of the financial year		**79,809**	178,773
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7	**318,619**	79,809

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 Accounting 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 (AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2007.

At the date of authorisation of the Financial Report, the following relevant Australian Accounting Standards and Interpretations had been issued or amended but are not yet effective and have not been adopted for the full year reporting period ending 30 June 2008:

AASB amendment	Affected standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Corporation
AASB 123	AASB 123 *Borrowing Costs*	No change to accounting policy required.	1 January 2009	1 July 2009
AASB 101	AASB 101 *Presentation of Financial Statements* and AASB 2007–8 *Amendments to Australian Accounting Standards arising from AASB 101*	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 increments 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(t) 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 nature of the assumptions and related carrying amounts are disclosed in Note 10—Property, Plant and Equipment.

- Valuation of long dated electricity supply contracts
  Various assumptions are required when determining the fair value of long dated electricity supply contracts. The assumptions are disclosed in Note 1(p)(i).

(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.

Note 1—Summary of Significant Accounting Policies (continued)

(b) Income Tax (continued)

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.

(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.

The discounted cash flow, or value in use, valuation of property, plant and equipment was conducted effective 30 June 2008 in accordance with AASB 136 *Impairment of Assets*. The discounted cash flow valuation of property, plant and equipment uses a number of management estimates to arrive at cash inflows and outflows which are subject to volatility in the competitive energy and coal markets. The management estimates do not take account of any future impact of the proposed Carbon Pollution Reduction Scheme as the cash flow projections were not able to be determined based on reasonable and supportable assumptions.

Note 1—Summary of Significant Accounting Policies (continued)

(g) Financial Assets

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

Effective Interest Method

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

Financial Assets at Fair Value through Profit or Loss

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

Loans and Receivables

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

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

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

Cash Flow Statement presentation

For Cash Flow Statement presentation purposes cash and cash equivalents comprise cash on hand and deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, and bank overdrafts.

The deposits at call include deposits held with the Commonwealth Bank of Australia, New South Wales Treasury Corporation including the Hour-Glass Cash Facility and other financial institutions.

Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

(h) 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.

(i) Property, Plant and Equipment

(i) Capitalisation and Initial Recognition

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

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

(ii) Valuation of Property, Plant and Equipment

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

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

Note 1—Summary of Significant Accounting Policies (continued)

(i) Property, Plant and Equipment (continued)

(ii) Valuation of Property, Plant and Equipment (continued)

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

Increases in the carrying amounts arising on the revaluation of property, plant and equipment are credited to the asset revaluation reserve in equity. To the extent that the increase reverses a decrease previously recognised in profit attributable to the same asset, the increase is first recognised in profit. Decreases that reverse previous increases of the same asset are first charged directly against the asset revaluation reserve in equity to the extent of the remaining reserve attributable to that asset. All other decreases are charged to the 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	2.5-5 years

(iii) Derecognition and disposal

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

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

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

(iv) Impairment

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

(v) Asset Revaluation Reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets.

(j) 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).

Note 1—Summary of Significant Accounting Policies (continued)

(k) 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.

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

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

NGACs are carried forward for the purposes of acquitting against future years' liabilities.

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

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

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

The Corporation also holds internally generated NGACs and RECs which are recognised in the Financial Report at fair value from 30 June 2008, refer Note 1(w).

NGAC and REC assets carried forward are tested annually for impairment, refer Note 1(f).

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

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.

(m) Financial Instruments issued by the Company

Debt and Equity Instruments

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

(n) Financial Liabilities

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

Financial Liabilities at fair value through profit and loss

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

Other Financial Liabilities

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

The security deposit is disclosed in Note 19 and is provided under the terms of a long term electricity supply contract. The deposit is non-interest bearing and is repayable upon any breach of contract by Macquarie Generation or upon completion of the contract in 2017.

Note 1—Summary of Significant Accounting Policies (continued)

(n) Financial Liabilities (continued)

Other Financial Liabilities (continued)

The amortisation expense on the security deposit is treated in finance costs in the Income Statement.

The deferred income in relation to the security deposit 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.

(o) 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. The movements in the hedge accounting reserve in equity are 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.

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.

(iii) Embedded derivative

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

The electricity derivative contracts—held for trading as disclosed in Note 24 includes the fair value of an embedded derivative in relation to a long term direct electricity supply contract.

(p) Fair Value of Financial Instruments

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

(i) Electricity and Interest Rate Derivatives

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

- Those with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. These currently include electricity and interest rate futures which are traded on futures exchanges.
- Other fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and where applicable option pricing models using market rates from current observable current market transactions adjusted for any differences. These currently include electricity derivative contracts including swaps, options and the embedded derivative and forward foreign exchange contracts.

Note 1—Summary of Significant Accounting Policies (continued)

(p) Fair Value of Financial Instruments (continued)

(i) Electricity and Interest Rate Derivatives (continued)

- The utilisation of management assumptions are limited to the cost plus margin methodology for the long term supply contract. The main assumptions in the cost plus margin model are that of a fixed ratio of cost inputs (labour and raw materials). These inputs are substantially represented in the sales contracts to which relevant indexation applies. Accordingly, to the extent the ratio of cost inputs remains significantly unchanged and the contracted indexation reflects changes in actual costs then the fair value since inception must also remain significantly unchanged. Management reviews cost ratios and indexation results on a recurring basis.

(ii) Other Financial Assets and Financial Liabilities

The fair value of loans and receivables and other financial liabilities is represented by their carrying value, except in regard to a non-interest bearing security deposit and borrowings which are recognised at amortised cost and the fair values are disclosed in Note 24.

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

(q) Hedge Accounting Reserve—Cash Flow Hedges

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

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

(s) 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.

Note 1—Summary of Significant Accounting Policies (continued)

(s) Employee Benefits (continued)

(iii) Superannuation (continued)

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.

(t) Provision for Insurance

Macquarie Generation has an insurance program which covers the Corporation for catastrophic public liability and property claims and motor vehicle damage.

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

The Provision for Insurance includes existing and future public liability dust diseases claims for employees of contractors and their relatives associated with Liddell Power Station.

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

The Directors' assessment of the Provision for Insurance relating to existing and future public liability claims for dust diseases is based on an Actuarial Valuation carried out at 30 June 2008 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 $9,292,000 being the best estimate as advised by the Actuary. The Actuary applied a discount rate of 6.66% being the 10 year Government Bond rate at 2 June 2008 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.

(u) Provision for Dividends

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

(v) Provision for Mine Rehabilitation

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

Note 1—Summary of Significant Accounting Policies (continued)

(w) Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous year except as detailed below.

Voluntary Change in Accounting policy for the recognition of Emission Rights—NGACs and RECs
For the period commencing from 30 June 2008 the internally generated NGAC and REC assets and NGAC liabilities are recognised in the Financial Report at fair value.

As disclosed in Note 1(l), neither the International Accounting Standards Board nor the Australian Accounting Standards Board have issued authoritative pronouncements on the Accounting for Emission Rights. As a result however, considerable divergence in accounting treatment has developed.

After performing a detailed comparison of the accounting treatment of Emission Rights of Electricity Generation and Retail Companies in the public and private sectors in Australia, the Corporation has concluded that the voluntary change in accounting policy represents a more relevant and consistent accounting treatment.

The change in accounting policy has not been applied retrospectively from the 30 June 2008 as it has been determined that it is impracticable to adjust the current period and comparative period information to achieve comparability with the 30 June 2008 amounts. This is due to the fact that the Corporation's data for internally generated NGACs and RECs was not collected within comparative timeframes in the prior periods.

The change in accounting policy resulted in the following impacts at 30 June 2008.

Reconciliation of Net Profit before change to Net Profit after change in accounting policy

	Notes	$'000
Year ended 30th June 2008		
Net Profit as reported before change		431,669
NGAC assets internally generated	14	2,466
REC assets internally generated	14	3,923
NGAC liabilities	18	(6,677)
Income tax expense	5	86
Net Profit after change in accounting policy		431,467

Reconciliation of Deferred Tax Assets and Liabilities before change to after change in accounting policy

	Notes	$'000
Year ended 30th June 2008		
Deferred Tax Assets before change to after change in accounting policy		100,414
Tax effect of NGAC liabilities	11	2,003
Restated Deferred Tax Assets	11	102,417
Deferred Tax Liabilities before change to after change in accounting policy		1,011,758
Tax effect of NGAC assets internally generated	17	740
Tax effect of REC assets internally generated	17	1,177
Restated Deferred Tax Liabilities	17	1,013,675

Note 1—Summary of Significant Accounting Policies (continued)

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

(y) Rounding of Amounts
Amounts shown in this Financial Report are rounded to the nearest thousand dollars and are expressed in Australian currency.

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

Note 2—Financial and Capital Risk Management

The Corporation's principal financial instruments, other than derivatives, comprise cash, receivables, payables, borrowings and other liabilities and are disclosed in Notes 7, 8, 15, 16, 19 and 24. 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)
- Credit risk
- Liquidity risk

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

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

The Board reviews compliance with these policies and exposure limits 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.

Details of forward foreign exchange contracts are included in Note 24(d).

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

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

Note 2—Financial and Capital Risk Management (continued)

(a) Market Risk (continued)

(ii) Interest rate risk (continued)

Borrowings—New South Wales Treasury Corporation loans (continued)

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.

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

Details of New South Wales Treasury Corporation loans are disclosed in Note 16 and details of interest rate derivative contracts are included at Note 24(e).

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

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

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

NSW Treasury Corporation (TCorp) as trustee for the above facility is required to act in the best interest of the unit holders and to administer the trust in accordance with the trust deed. As trustee, TCorp has appointed external managers to manage the performance and risks of the facility in accordance with a mandate agreed by the parties. From April 2007 TCorp commenced acting as manager for part of the Cash Facility. A significant portion of the administration of the facility is outsourced to an external custodian.

(iii) Electricity Price risk

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

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

Electricity derivative contracts are used to manage the price risk associated with the sale of electricity.

Details of electricity derivative contracts are included in Note 24(b) and 24(c).

(b) Credit Risk

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

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

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

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

The receivables of the Corporation include amounts receivable from Government owned agencies (51%), secured debtors (21%) and other debtors (28%). The other debtors are represented by futures clearing houses with acceptable credit ratings.

No collateral is held by the Corporation. The Corporation has not granted any financial guarantees.

(i) Electricity Derivative Contracts

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

In the absence of an acceptable public rating, the Corporation requires acceptable credit support.

Note 2—Financial and Capital Risk Management (continued)

(b) Credit Risk (continued)

(i) Electricity Derivative Contracts (continued)

The Corporation calculates the credit exposure to contract counterparties in accordance with Australian Prudential Regulation Authority Guidelines.

From 1 July 2008 the Corporation calculates the credit exposure to contract counterparties in accordance with a Loss Given Default methodology.

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

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

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

Credit exposures are represented by the fair value position of the contracts, as disclosed in Note 24.

(c) Liquidity Risk

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

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

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

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

The details of credit standby arrangements and the used and unused loan facilities of the Corporation are disclosed in Note 16.

(d) Capital risk management

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

The Corporation's capital structure is maintained under the New South Wales Treasury Dividend Policy and the Shareholders' Statement of Corporate Intent process and remains unchanged from 2007.

The capital structure of the Corporation consists of debt, which includes borrowings disclosed in Note 16, equity consisting of the contributed equity of the Shareholders and equity consisting of reserves and retained earnings as disclosed in Note 20.

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

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

	2008	2007
	$'000	$'000
Note 3—Revenue		
Sales revenue		
Sale of electricity	**1,136,116**	1,066,877
Sale of electricity production by-products	**1,741**	1,610
	1,137,857	1,068,487
Other revenue		
Other miscellaneous revenue	**5,505**	5,604
Interest	**18,372**	7,946
	23,877	13,550
Revenue	**1,161,734**	1,082,037
Other income		
Net gain on foreign currency derivatives at fair value through profit and loss (FVTPL)	**477**	-
Net gain on electricity derivative contracts at FVTPL	**249,206**	-
Net gain on interest rate derivative contracts at FVTPL	**912**	153
Fair value gains on derivative financial instruments at FVTPL	**250,595**	153
Net actuarial gains on defined benefits superannuation funds	**-**	18,464
Revaluation increment—non-infrastructure—buildings	**668**	-
Total other income	**251,263**	18,617
Note 4—Expenses		
(a) Profit before income tax expense includes the following specific expenses:		
Net loss on electricity derivative contracts at FVTPL	**-**	95,876
Net loss on foreign currency derivatives at FVTPL	**-**	1
Fair value losses in derivative financial instruments at FVTPL	**-**	95,877
Finance costs		
Interest and related finance charges on borrowings	**60,011**	65,382
Amortisation—security deposit	**1,252**	1,170
Insurance provision—unwinding of discount	**540**	433
Mine restoration provision—unwinding of discount	**754**	-
	62,557	66,985
Depreciation of		
Buildings	**120**	58
Plant and equipment	**111,543**	106,794
Total depreciation	**111,663**	106,852
Bad and doubtful debts		
Sundry debtors	**265**	13
Total bad and doubtful debts	**265**	13
Net loss on disposal of non-current assets		
Plant and equipment—Other	**143**	92
Plant and equipment—Power Stations	**3,397**	1,240
Total loss on disposal of non-current assets	**3,539**	1,332

	Note	2008 $'000	2007 $'000
Note 4—Expenses (continued)			
(a) Profit before income tax expense includes the following specific expenses: (continued)			
Employee benefits			
Annual leave and long service leave entitlements		**11,828**	10,837
Superannuation expense defined benefits superannuation funds, excluding actuarial losses		**155**	-
Superannuation contributions to accumulation funds		**2,660**	2,183
Salaries and wages		**55,230**	50,392
Total employee benefits expense		**69,873**	63,412
Actuarial loss on defined benefits superannuation funds		**24,253**	-
Operating lease rentals		**3,540**	3,410
Non-executive Directors' remuneration		**468**	452
Auditors' remuneration			
Audit of the financial statements		**220**	171
Consultants' fees		**3,627**	1,617
Write-downs in value of inventories		**597**	91
(b) Expenses from operations, excluding finance costs, included in the Income Statement by function:			
Electricity generation operational expenditure		**710,289**	654,068
Note 5—Income Tax			
(a) Income tax recognised in profit or loss			
Income tax expense comprises:			
Current tax expense		**146,302**	112,822
Deferred tax expense relating to the origination and reversal of temporary differences		**38,465**	(27,694)
(Over) under provided in prior years		**(336)**	(320)
Income tax expense		**184,431**	84,808
Disclosed in the Income Statement as:			
Income tax on profit before superannuation actuarial gains and losses and fair value movements in derivative financial instruments		**116,528**	107,986
Income tax on superannuation actuarial gains and losses and fair value movements in derivative financial instruments		**67,903**	(23,178)
Income tax expense		**184,431**	84,808
Deferred income tax expense included in income tax expense comprises:			
(Increase) decrease in deferred tax assets	11	**30,958**	(32,057)
Increase in deferred tax liabilities	17	**7,506**	4,363
		38,464	(27,694)

	2008	2007
	$'000	$'000
Note 5—Income Tax (continued)		
(b) Numerical reconciliation of income tax expense to prima facie tax payable:		
Profit before income tax expense	**615,898**	283,724
Tax at the Corporation's income tax rate of 30% (2007–30%)	**184,769**	85,117
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment expenses	**23**	21
Consultants' fees	**(16)**	6
Legal expenses	**22**	7
Sundry items	**(31)**	(23)
	(2)	11
(Over) provision in previous year	**(336)**	(320)
Income tax expense	**184,431**	84,808
(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	**(89)**	418
	(89)	418
Deferred tax:		
Revaluation of derivative financial instruments—cash flow hedges	**403,898**	(462,797)
Revaluation of property, plant and equipment	**322,959**	(418)
	726,857	(463,215)
(d) Current tax assets and liabilities		
Income tax attributable to Macquarie Generation	**80,564**	106,194
	80,564	106,194

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 $270,000,000 (2007–$180,000,000). This will be paid during the course of the 2008/2009 financial year and is represented by the balance of the provision at 30 June 2008 as disclosed in Note 18.

Note 7—Cash and Cash Equivalents

	2008	2007
Cash on hand	**8**	9
Deposits in the New South Wales Treasury Corporation (TCorp) Hour-Glass Cash Facility	**306,950**	83,666
Deposits held with TCorp	**5,791**	3,880
Other deposits at call	**5,870**	-
	318,619	87,555

	2008	2007
	$'000	$'000

Note 7—Cash and Cash Equivalents (continued)

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:

	2008 $'000	2007 $'000
Balances as disclosed above	**318,619**	87,555
Bank overdraft (Note 16)	**-**	(7,746)
Balances per Cash Flow Statement	**318,619**	79,809

Note 8—Receivables

	2008 $'000	2007 $'000
Current		
Trade debtors	**87,012**	387,134
Less: Provision for impairment of receivables	**310**	705
	86,702	386,429
Sundry debtors	**22,517**	103,901
Sundry debtors—employee housing loans	**6**	10
Prepaid defined benefits superannuation funds	**-**	14,590
Other prepayments	**323**	354
	109,548	505,284
Non-Current		
Sundry debtors—employee housing loans	**12**	14
Movements:		
Provision for impairment of receivables		
Balance at the beginning of the year	**705**	778
Receivables recovered during the year	**(395)**	(73)
Balance at the end of the year	**310**	705

Note 9—Inventories

	2008 $'000	2007 $'000
Coal stocks (at cost)	**58,002**	61,601
Biomass (at cost)	**-**	16
Stores and materials (at cost)	**51,776**	51,590
Oil stocks (at cost)	**2,951**	2,227
	112,729	115,434

	2008	2007
	$'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 2008	**30 June 2008**	1 July 2007
Power Stations:		
Land		
At fair value	**23,000**	18,670
	23,000	18,670
Plant and equipment (refer Note below)		
At fair value	**4,486,197**	2,992,136
Accumulated depreciation	**(938,831)**	(486,676)
	3,547,366	2,505,460
Total power stations	**3,570,366**	2,524,130
Non-infrastructure:		
Land		
At fair value	**2,250**	1,400
	2,250	1,400
Buildings		
At fair value	**3,244**	2,215
Accumulated depreciation	**(899)**	(512)
	2,345	1,703
Plant and equipment		
At fair value	**27,416**	35,485
Accumulated depreciation	**(15,029)**	(17,479)
	12,387	18,006
Total non-infrastructure	**16,982**	21,109
Total depreciated value of property, plant and equipment	**3,587,348**	2,545,239

(b) Year ended 30 June 2007	**30 June 2007**	1 July 2006
Power Stations:		
Land	**18,670**	17,634
At fair value	**18,670**	17,634

	2008	2007
	$'000	$'000
Note 10—Property, Plant and Equipment (continued)		
(b) Year ended 30 June 2007 (continued)	**30 June 2007**	1 July 2006
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

Notes:
The above tables include work in progress for Power Stations plant and equipment of $123.9 million and non-infrastructure plant and equipment of $2.2 million (2007–$187.3 million total).

The gross replacement cost for Power Stations plant and equipment at 30 June 2008 was $8,822.0 million and accumulated depreciation was $5,437.3 million. This does not include amounts for work in progress, capital spares and some additions which are included in the fair value of Power Stations plant and equipment of $3,547.4 million as disclosed in the above table.

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

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

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

The most recent revaluation of the Corporation's infrastructure assets was carried out by members of the Australian Property Institute on behalf of Colliers International Consultancy and Valuation Pty Ltd at 10 June 2008 to determine depreciated replacement cost.

The discounted cash flow, or value in use, valuation of property, plant and equipment was conducted effective 30 June 2008 in accordance with AASB 136 *Impairment of Assets*. The discounted cash flow valuation of property, plant and equipment uses a number of management estimates to arrive at cash inflows and outflows which are subject to volatility in the competitive energy and coal markets. The management estimates do not take account of any future impact of the Federal Government's proposed Carbon Pollution Reduction Scheme as the cash flow projections were not able to be determined based on reasonable and supportable assumptions. This uncertainty may have a significant impact on the valuation of the assets of Macquarie Generation.

	2008	2007
	$'000	$'000

Note 10—Property, Plant and Equipment (continued)

(c) Valuation of Power Stations (continued)

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

The Directors' have determined at 30 June 2008 that the depreciated replacement costs as determined by the independent valuers equates to fair value.

As a result of the independent revaluation process and based on engineering assessments of useful lives, gas turbine assets have been transferred from the non-infrastructure to power station asset class from 1 May 2008 and the useful lives reassessed accordingly. This had the impact of reducing depreciation expense by $0.1 million in the 2007/2008 financial year. This will also have the impact of decreasing depreciation expense by $3.2 million per annum in future financial years.

(d) Valuation of Non-infrastructure Land and Buildings

The valuation of non-infrastructure land and buildings is based on the capitalisation of the estimated rental value of the property in the open market. The most recent revaluation was carried out by members of the Australian Property Institute on behalf of Colliers International Consultancy Valuation Pty Ltd as at 10 June 2008.

(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 2008. 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.

	2008 $'000	2007 $'000
Power Stations:		
Land		
Carrying amount at start of year	**18,670**	17,634
Additions	**913**	1,036
Revaluation increment	**3,417**	-
Carrying amount at end of year	**23,000**	18,670
Plant and equipment		
Carrying amount at start of year	**2,505,460**	2,456,651
Additions	**74,688**	152,458
Transfers (Refer Note 10(c))	**5,981**	-
Revaluation increment	**1,071,966**	-
Disposals	**(3,398)**	(1,272)
Depreciation expense	**(107,331)**	(102,377)
Carrying amount at end of year	**3,547,366**	2,505,460
Non-infrastructure:		
Land		
Carrying amount at start of year	**1,400**	1,400
Revaluation increment	**850**	-
Carrying amount at end of year	**2,250**	1,400
Buildings		
Carrying amount at start of year	**1,703**	1,768
Additions	**94**	52
Revaluation increment	**668**	-
Depreciation expense	**(120)**	(117)
Carrying amount at end of year	**2,345**	1,703

	2008	2007
	$'000	$'000
Note 10—Property, Plant and Equipment (continued)		
(f) Reconciliations (continued)		
Non-infrastructure: (continued)		
Plant and equipment		
Carrying amount at start of year	**18,006**	18,281
Additions	**4,924**	4,475
Transfers (Refer Note 10(c))	**(5,981)**	-
Disposals	**(350)**	(392)
Depreciation expense	**(4,212)**	(4,358)
Carrying amount at end of year	**12,387**	18,006
Total		
Carrying amount at start of year	**2,545,239**	2,495,734
Additions	**80,619**	158,021
Transfers (Refer Note 10(c))	**-**	-
Revaluation increment	**1,076,901**	-
Disposals	**(3,748)**	(1,664)
Depreciation expense	**(111,663)**	(106,852)
Carrying amount at end of year	**3,587,348**	2,545,239

(g) The carrying amounts that would have been recognised if property, plant and equipment were stated at cost are as follows:

	2008	2007
Power Stations:		
Land		
Cost	**5,230**	4,317
	5,230	4,317
Plant and equipment		
Cost	**2,620,071**	2,536,811
Accumulated depreciation	**(746,947)**	(765,727)
	1,873,124	1,771,084
Total Power Stations	**1,878,354**	1,775,401
Non-infrastructure:		
Land		
Cost	**696**	696
	696	696
Buildings		
Cost	**7,495**	7,401
Accumulated depreciation	**(3,548)**	(3,496)
	3,947	3,905
Plant and equipment		
Cost	**39,954**	46,707
Accumulated depreciation	**(27,737)**	(31,335)
	12,217	15,372
Total non-infrastructure	**16,860**	19,973
Total depreciated value of property, plant and equipment	**1,895,214**	1,795,374

		2008	2007
		$'000	$'000
Note 11—Deferred Tax Assets			
The balance comprises temporary differences attributable to:			
Amounts recognised in profit or loss			
Doubtful debts		**93**	211
Defined benefit superannuation funds		**1,603**	-
Other employee benefits provisions		**11,272**	10,509
Other provisions		**4,982**	2,930
Trade creditors		**133**	64
Low value plant pools		**88**	78
Derivative financial instruments—held for trading		**3,222**	38,657
Security deposit		**3,947**	4,348
Consultants' fees		**499**	-
		25,839	56,797
Amounts recognised directly in equity			
Derivative financial instruments—cash flow hedges		**76,578**	480,303
		76,578	480,303
Net deferred tax assets		**102,417**	537,100
Movements:			
Opening balance at 1 July		**537,100**	43,370
Credited (charged) to income	5	**(30,958)**	32,057
Credited (charged) to equity		**(403,725)**	461,673
Closing balance at 30 June		**102,417**	537,100

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 2008	**30 June 2008**	1 July 2007
Water entitlements	**9,465**	9,141
Deposits paid	**-**	-
Accumulated amortisation	**(133)**	(133)
	9,332	9,008

(b) 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

	2008	2007
	$'000	$'000

Note 12—Intangible Assets (continued)

(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.

	2008 $'000	2007 $'000
Water Entitlements		
Carrying amount at start of year	**9,008**	7,642
Deposits paid	**-**	-
Additions	**324**	1,366
Disposals	**-**	-
Impairment	**-**	-
Carrying amount at end of year	**9,332**	9,008

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.

Note 13—Derivative Financial Instruments

	2008 $'000	2007 $'000
Current assets		
Electricity derivative contracts—cash flow hedges	**575**	-
Electricity derivative contracts—held for trading	**200,820**	70,143
Forward foreign exchange contracts—held for trading	**1,051**	1,766
Interest rate futures contracts—held for trading	**1,096**	137
	203,542	72,046
Current liabilities		
Electricity derivative contracts—cash flow hedges	**136,606**	975,280
Electricity derivative contracts—held for trading	**22,212**	141,401
Forward foreign exchange contracts—held for trading	**1,135**	2,350
Interest rate futures contracts—held for trading	**184**	-
	160,137	1,119,031
Non-Current liabilities		
Electricity derivative contracts—cash flow hedges	**100,328**	606,535
	100,328	606,535

For further information refer to Note 24.

Note 14—Other Assets

	2008 $'000	2007 $'000
Current		
Current New South Wales Greenhouse Abatement Certificates (NGACs)		
Purchased	**138**	4591
Internally generated	**2,466**	-
Renewable Energy Certficates (RECs)		
Internally generated	**3,923**	-
Total emission rights	**6,527**	4,591

	2008	2007
	$'000	$'000
Note 15—Trade and other payables		
Current (Unsecured)		
Trade creditors	**97,856**	253,646
Accrued interest on borrowings	**9,829**	11,591
	107,685	265,237
Note 16—Borrowings		
Current (Unsecured)		
Bank overdraft	**-**	7,746
New South Wales Treasury Corporation loans	**193,181**	336,687
	193,181	344,433
Non-Current (Unsecured)		
New South Wales Treasury Corporation loans	**627,717**	545,486
Financing Arrangements:		
Facilities Available		
Bank overdraft	**2,000**	2,000
Intra-day credit facility	**20,000**	20,000
Bank guarantee facility	**4,000**	4,000
Credit card facility	**500**	500
New South Wales Treasury Corporation loans	**1,650,000**	2,500,000
New South Wales Treasury Corporation come and go facility	**390,000**	390,000
Total available	**2,066,500**	2,916,500
Facilities Utilised		
Bank overdraft	**-**	2,000
Intra-day credit facility	**-**	-
Bank guarantee facility	**3,511**	3,511
Credit card facility	**-**	-
New South Wales Treasury Corporation loans	**820,898**	882,173
New South Wales Treasury Corporation come and go facility	**-**	-
Total utilised	**824,409**	887,684

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

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

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

		2008	2007
		$'000	$'000
Note 17—Deferred Tax Liabilities			
The balance comprises temporary differences attributable to:			
Amounts recognised in profit and loss			
Inventories		**18,286**	19,153
Derivative financial instruments —held for trading		**61,069**	21,620
Depreciation on property, plant and equipment		**335,598**	364,125
Prepayments		**73**	87
Internally generated NGACs and RECs		**1,917**	-
Prepaid defined benefit superannuation funds		**75**	4,151
Security deposit		**5,060**	5,436
		422,078	414,572
Amounts recognised directly in equity			
Derivative financial instruments		**1,104**	932
Revaluation of property, plant and equipment		**590,493**	267,534
		591,597	268,466
Net deferred tax liabilities		**1,013,675**	683,038
Movements:			
Opening balance at 1 July		**683,038**	680,217
Charged (credited) to the income statement	5	**7,506**	4,363
Charged (credited) to equity		**323,131**	(1,542)
Closing balance at 30 June		**1,013,675**	683,038

Note 18—Provisions

	2008	2007
Current		
Insurance	**636**	1,009
Dividend	**270,000**	180,000
Employee benefits	**36,785**	34,560
Mine rehabilitation	**800**	1,050
NGAC obligations	**6,677**	-
	314,898	216,619
Non-Current		
Insurance	**9,292**	8,758
Employee benefits	**786**	469
Mine rehabilitation	**5,337**	5,510
Defined benefits superannuation funds	**4,340**	-
	19,755	14,737

The amount of the current component of the employee benefits provision which is expected to be settled in less than 12 months is $2,096,563 (2007–$2,095,856) for long service leave, $5,653,735 (2007–$5,393,454) for annual leave and $2,879,346 (2007–$2,498,245) 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 $22,565,900 (2007–$21,460,722) for long service leave and $3,589,975 (2007–$3,111,357) for annual leave.

	2008	2007
	$'000	$'000

Note 18—Provisions (continued)

Movements in Provisions

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

	NGAC	Insurance	Dividend	Mine Rehabilitation	Total
	$'000	$'000	$'000	$'000	$'000
Current					
Carrying amount at the start of the year	-	1,009	180,000	1,050	182,059
Additional provisions recognised	6,676	1,460	270,000	178	278,314
Payments/other sacrifices of economic benefits	-	(1,477)	(180,000)	(428)	(181,905)
Unused amounts reversed	-	(356)	-	-	(356)
Carrying amount at the end of the year	6,676	636	270,000	800	278,112
Non-Current					
Carrying amount at the start of the year		8,758	-	5,510	14,268
Additional provisions recognised		626	-	-	626
Payments/other sacrifices of economic benefits		-	-	(628)	(628)
Unused amounts reversed		-	-	-	-
Increase arising from unwinding of discount		540	-	754	1,294
(Decrease) arising from increase in discount rate		(632)	-	(299)	(931)
Carrying amount at the end of the year		9,292	-	5,337	14,629

Note 19—Other Liabilities

Non-Current		
Security deposit	**32,289**	32,374
	32,289	32,374

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 2008, 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	**1,432,101**	678,530
Hedge accounting reserve—cash flow hedges	**(166,292)**	(1,108,720)
	1,265,809	(430,190)
Movements:		
(i) Asset Revaluation Reserve:		
Balance at the beginning of the financial year	**678,530**	679,505
Revaluation increment on property, plant and equipment net of tax	**753,363**	-
Realisation of asset (increments)/decrements transferred to retained profits net of tax	**208**	(975)
Balance at the end of the financial year	**1,432,101**	678,530

	2008	2007
	$'000	$'000
Note 20—Equity (continued)		
(b) Reserves (continued)		
Movements: (continued)		
(ii) Hedge accounting reserve—cash flow hedges:		
Balance at the beginning of the financial year	**(1,108,720)**	(28,861)
Gain (loss) recognised on electricity derivative contracts	**1,335,344**	(1,698,795)
Deferred tax arising on electricity derivative contracts	**(400,603)**	509,639
Transfer to profit or loss:		
Sale of electricity	**10,286**	155,395
Electricity generation operational expenditure	**13**	5
Deferred tax arising on transfers to profit	**(3,090)**	(46,620)
Transfer to initial carrying amount of hedged item:		
Property, plant and equipment	**683**	739
Deferred tax arising on transfers to initial carrying amounts	**(205)**	(222)
Balance at the end of the financial year	**(166,292)**	(1,108,720)
(c) Retained Profits		
Balance at the beginning of the financial year	**91,699**	71,808
Transfer of realised asset revaluation increments/(decrements) from reserves net of tax	**(208)**	975
Net profit	**431,467**	198,916
Dividends provided for	**(270,000)**	(180,000)
Balance at the end of the financial year	**252,958**	91,699
Note 21—Cash Flow Information		
Reconciliation of net profit after tax to net cash flows from operations		
Net profit	**431,467**	198,916
Adjustments for:		
Depreciation	**111,663**	106,852
Revaluation increment—non-infrastructure buildings	**(668)**	-
Amortisation on security deposit	**1,252**	1,170
Deferred income recognition on security deposit	**(1,337)**	(1,320)
(Decrease) in borrowings accruals	**(6,003)**	(6,720)
Net loss on sale of non-current assets	**3,539**	1,332
Fair value adjustment to derivative financial instruments	**1,346,326**	(1,542,656)
Changes in operating assets and liabilities		
Decrease (increase) in trade and other receivables	**395,739**	(417,044)
Decrease (increase) in inventories	**2,705**	(12,322)
(Increase) in derivative financial instrument assets	**(131,496)**	(19,477)
(Increase) in other assets	**(1,936)**	(1,976)
(Decrease) increase in derivative financial instrument liabilities	**(1,465,102)**	1,666,514
(Decrease) increase in trade and other creditors, employee benefits and other provisions	**(152,552)**	167,651
(Decrease) increase in provision for taxes payable	**(25,630)**	84,479
Increase (decrease) in net deferred taxes payable	**38,554**	(28,112)
Net cashflows from operating activities	**546,521**	197,287

	2008	2007
	$'000	$'000
Note 22—Commitments		
(a) Capital Commitments		
Capital expenditure contracted at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment		
Within one year	**47,086**	46,277
Later than one year but not later than five years	**19,309**	31,426
	66,395	77,703
(b) Lease Commitments		
Commitments in relation to leases contracted at the reporting date but not recognised as liabilities, payable:		
Within one year	**2,631**	3,735
Later than one year but not later than five years	**11,470**	762
	14,101	4,497
(c) Expenditure Commitments		
Commitments for future maintenance contracts not recognised as a liabilities, payable:		
Within one year	**3,652**	4,990
Later than one year but not later than five years	**5,348**	1,328
Later than five years	**1,936**	1,375
	10,936	7,693

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

The Corporation leases office space in Sydney under a non-cancellable operating lease expiring in 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 $8,311,967.

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.

Current financial year

The Electricity Derivative Financial Instrument Assets included an amount of $193 million representing the value of an embedded derivative contained in a long term direct supply contract. Between 30 June 2008 and the date of signing the Financial Report on 29 August 2008, the fair value of the embedded derivative asset has reduced by $54 million, due to a decrease in the London Metals Exchange forward price curve of aluminium when marked to model in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

Between 30 June 2008 and the date of signing the Financial Report on 29 August 2008, the fair value of the Electricity Derivative Financial Instruments Assets, excluding the Embedded Derivative, have increased by $11 million and the fair value of the Electricity Derivative Liabilities have decreased by $117 million when marked to model in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, due mainly to a decrease in the electricity forward price curve.

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

		2008	2007
		$'000	$'000

Note 23—Events Occurring After Balance Date (continued)

Previous financial year

In relation to the 2006/2007 financial year, in July and August 2007 the electricity forward price curve had fallen significantly, mainly due to the improved plant performance and reduced drought effect on electricity prices.

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 had increased by $1.0 million and the fair value of the Electricity Derivative Financial Instrument Liabilities had 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 included 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 was at least $600 million.

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

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 1(g), 1(m), 1(n), 1(o), 1(p), 7, 8, 13, 15, 16 and 19.

Instruments reported by categories of Financial Assets and Financial Liabilities

		2008 $'000	2007 $'000
Loans and receivables			
Cash on hand	7	**8**	9
Deposits in the New South Wales Treasury Corporation (TCorp) Hour-Glass Cash Facility	7	**306,950**	83,666
Deposits held with TCorp	7	**5,791**	3,880
Other deposits at call	7	**5,870**	-
Trade debtors	8	**87,012**	387,134
Provision for impairment of receivables	8	**(310)**	(705)
Sundry debtors excluding employee housing loans	8	**22,517**	103,901
		427,838	577,885
Financial assets and financial liabilities at fair value through profit and loss			
Assets			
Electricity derivative contracts—held for trading	13	**200,820**	70,143
Forward foreign exchange contracts—held for trading	13	**1,051**	1,766
Interest rate futures contracts—held for trading	13	**1,096**	137
		202,967	72,046
Liabilities			
Electricity derivative contracts—held for trading	13	**22,212**	141,401
Forward foreign exchange contracts—held for trading	13	**1,135**	2,350
Interest rate swap contracts—held for trading	13	**184**	-
		23,531	143,751

		2008	2007
		$'000	$'000

Note 24—Financial Instruments (continued)

(a) Instruments used by the Corporation (continued)

Financial assets and financial liabilities at fair value through profit and loss (continued)
Other financial liabilities

Trade creditors	15	**97,856**	253,646
Accrued interest	15	**9,829**	11,591
Bank overdraft	7,16	**-**	7,746
New South Wales Treasury Corporation loans	16	**820,898**	882,173
Security deposit	19	**32,289**	32,374
		960,872	**1,187,530**

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

Electricity derivative contracts—cash flow hedges	13	**575**	-
		575	-

Liabilities

Electricity derivative contracts—cash flow hedges	13	**236,934**	1,581,815
		236,934	1,581,815

(b) Electricity derivative contracts—cash flow hedges
The terms and fair value of the Corporation's net assets (net liabilities) electricity derivative contracts—cash flow hedges at balance date are detailed in the following table:

Less than 1 year	**(136,031)**	(975,280)
1 to 5 years	**(100,328)**	(606,535)
	(236,359)	(1,581,815)

As at reporting date the aggregate amount of unrealised losses under forward electricity derivative contracts—cash flow hedges deferred in Equity in the Hedge Accounting Reserve after tax relating to the exposure on the anticipated future electricity sales transactions is $165,451,000 loss (June 2007 -$1,107,271,000 loss). It is anticipated that the electricity sales will take place as detailed in the following table at which stage the amount deferred in Equity will be released to Sales Revenue—Sale of Electricity:

Less than 1 year	**(95,221)**	(682,696)
1 to 5 years	**(70,229)**	(424,575)
	(165,451)	(1,107,271)

(c) Electricity derivative contracts—held for trading
The terms and fair value of the Corporation's net assets (net liabilities) electricity derivative contracts—held for trading at balance date are detailed in the following table:

Less than 1 year	**29,383**	(59,829)
1 to 5 years	**149,224**	(11,429)
	178,607	(71,258)

As at reporting date the aggregate amount of unrealised losses under forward electricity derivative contracts—held for trading deferred in Equity in the Hedge Accounting Reserve relating to the exposure on the anticipated future electricity sales transactions is $417,000 loss (June 2007–$538,000 loss). It is anticipated that the electricity sales will take place as detailed in the following table at which stage the amount deferred in Equity will be released to Sales Revenue—Sale of Electricity:

Less than 1 year	**(121)**	(121)
1 to 5 years	**(295)**	(417)
	(416)	(538)

	2008	2007
	$'000	$'000

Note 24—Financial Instruments (continued)

(d) Forward foreign exchange contracts—held for trading

At balance date the details of the outstanding contracts are:

	2008	2007	2008	2007
	Aust Dollars		**Average Exchange Rate**	
	$'000	$'000		
Buy Euros				
Maturity				
0–6 months	**343**	32	**0.609**	0.629
1–2 years	**-**	3,175	**0.609**	0.629
Buy British Pounds				
Maturity				
0–6 months	**203**	233	**0.4817**	0.4225

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

As at reporting date the aggregate amount of unrealised losses under forward foreign exchange contracts deferred in Equity in the Hedge Accounting Reserve after tax relating to the exposure on the anticipated future transactions is $424,330 loss (June 2007–$911,271 loss). It is anticipated that the purchases of infrastructure parts and equipment will take place as detailed in the following table at which stage the amount deferred in Equity will be included in the carrying amount of Property, Plant and Equipment:

Less than 1 year	**(424)**	(487)
1 to 5 years	**-**	(424)
	(424)	(911)

(e) Interest rate futures contracts—held for trading

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 2008	Total Nominal Value 2007
				$'000	$'000
90 Day Bill Futures *	-	**-**	**-**	**-**	23,000
90 Day Bill Futures *	Dec–08	**359**	**-**	**(359,000)**	(23,000)
3 Year Bond Futures *	Sep–08	**-**	**159**	**15,900**	8,100
10 Year Bond Futures *	Sep–08	**-**	**505**	**50,500**	31,400
		359	**664**	**(292,600)**	39,500

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

Note 24—Financial Instruments (continued)

(f) 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 2008	Fixed interest rate maturing in: 1 year or less 2008	Over 1 to 2 years 2008	Over 2 to 3 years 2008	Over 3 to 4 years 2008	Over 4 to 5 years 2008	Over 5 years 2008	Non-interest bearing 2008	Total 2008
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets									
Cash and cash equivalents	318,611	-	-	-	-	-	-	8	318,619
Trade and other receivables	-	-	-	-	-	-	-	109,237	109,237
Derivative financial instruments									
-Electricity derivative contracts	-	-	-	-	-	-	-	201,395	201,395
-Forward foreign Exchange	-	-	-	-	-	-	-	1,051	1,051
-Interest rate futures *	-	-	-	-	-	-	-	1,096	1,096
	318,611	-	-	-	-	-	-	312,787	631,398
Weighted average interest rate	8.0%	-	-	-	-	-	-		
Financial liabilities									
Trade creditors	-	-	-	-	-	-	-	97,856	97,856
Accrued interest	-	-	-	-	-	-	-	9,829	9,829
Bank overdraft	-	-	-	-	-	-	-	-	-
Borrowings	68,435	167,110	61,791	103,459	-	166,922	253,181	-	820,898
Security deposit	-	-	-	-	-	-	-	32,289	32,289
Derivative financial instruments									
-Electricity derivative contracts	-	-	-	-	-	-	-	259,146	259,146
-Forward foreign Exchange	-	-	-	-	-	-	-	1,135	1,135
-Interest rate futures *	66,400	-	-	(15,900)	-	-	(50,500)	-	-
-Interest rate futures **	(359,000)	359,000	-	-	-	-	-	184	184
	(224,165)	526,110	61,791	87,559	-	166,922	202,681	400,439	1,221,337
Weighted average interest rate	8.8%	8.1%	6.6%	5.6%	-	6.1%	5.9%		
Net financial assets (liabilities)	542,776	(526,110)	(61,791)	(87,559)	-	(166,922)	(202,681)	(87,652)	(589,939)

* Notional principal amounts—liability amounts indicate bought futures.

** Notional principal amounts—negative liability amounts indicate sold futures.

Note 24—Financial Instruments (continued)

(f) Interest Rate Risk Exposure (continued)

	Floating interest rate	Fixed interest rate maturing in: 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	Non-interest bearing	Total
	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	-	-	-	-	-	-	-	490,329	490,329
Derivative financial instruments									
-Electricity derivative contracts	-	-	-	-	-	-	-	70,143	70,143
-Forward foreign Exchange	-	-	-	-	-	-	-	1,766	1,766
-Interest rate futures *	-	-	-	-	-	-	-	137	137
	87,546	-	-	-	-	-	-	562,384	649,930
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
Borrowings	26,071	336,687	-	31,797	104,393	166,794	216,431	-	882,173
Security deposit	-	-	-	-	-	-	-	32,374	32,374
Derivative financial instruments									
-Electricity derivative contracts	-	-	-	-	-	-	-	1,723,216	1,723,216
-Forward 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)	14,229	(336,687)	-	(23,697)	(104,393)	(166,794)	(185,031)	(1,460,793)	(2,263,166)

* Notional principal amounts—liability amounts indicate bought futures.

(g) Credit Risk Exposure

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

Note 24—Financial Instruments (continued)

(h) Liquidity risk

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

	1 year or less 2008 $'000	Over 1 to 5 years 2008 $'000	Over 5 years 2008 $'000	Total 2008 $'000	Carrying Amount 2008 $'000
Financial liabilities					
Non-derivatives					
Trade creditors	**97,856**	**-**	**-**	**97,856**	**97,856**
New South Wales Treasury Corporation loans including accrued interest	**232,479**	**474,002**	**305,610**	**1,012,091**	**830,727**
Security deposit	**-**	**-**	**-**	**-**	**32,289**
Total non-derivatives	**330,335**	**474,002**	**305,610**	**1,109,947**	**960,872**
Derivatives					
Held for Trading					
-Electricity derivative contracts	**13,886**	**9,690**	**-**	**23,576**	**22,212**
-Forward foreign exchange contracts	**1,190**	**-**	**-**	**1,190**	**1,135**
-Interest rate futures	**184**	**-**	**-**	**184**	**184**
Cash Flow Hedges					
-Electricity derivative contracts	**142,849**	**119,269**	**-**	**262,118**	**236,934**
Total Derivatives	**158,109**	**128,959**	**-**	**287,068**	**260,465**

	1 year or less 2007 $'000	Over 1 to 5 years 2007 $'000	Over 5 years 2007 $'000	Total 2007 $'000	Carrying Amount 2007 $'000
Financial liabilities					
Non-derivatives					
Trade creditors	253,646	-	-	253,646	253,646
Bank overdraft	7,746	-	-	7,746	7,746
New South Wales Treasury Corporation loans including accrued interest	378,790	436,602	267,361	1,082,753	893,764
Security deposit	-	-	-	-	32,374
Total non-derivatives	640,182	436,602	267,361	1,344,145	1,187,530
Derivatives					
Held for Trading					
-Electricity derivative contracts	108,988	35,373	-	144,361	141,401
-Forward foreign exchange contracts	1,269	1,387	-	2,656	2,350
Cash Flow Hedges					
-Electricity derivative contracts	1,003,654	678,837	-	1,682,491	1,581,815
Total Derivatives	1,113,911	715,597	-	1,829,508	1,725,566

Note 24—Financial Instruments (continued)

i) 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.

	2008 Carrying Amount	2008 Net Fair Value	2007 Carrying Amount	2007 Net Fair Value
	$'000	**$'000**	$'000	$'000
Financial liabilities				
New South Wales Treasury Corporation loans and accrued interest				
-Fixed rate loans	**761,874**	**736,872**	867,651	849,230
-Floating rate loans	**68,853**	**68,839**	26,113	26,108
Security deposit	**32,289**	**19,471**	32,374	17,493
Total	**863,016**	**825,182**	926,138	892,831

(j) Summarised sensitivity analysis

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

The effect on profit and loss and equity due to a reasonably possible change in the relevant risk variable is outlined in the information below. The analysis is performed on the same basis for 2007 and assumes all other variables remain constant.

Interest rate risk

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

At 30 June 2008, if interest rates had changed by plus or minus 1% from the year end rates with all other variables held constant, post tax profit for the year would have been $1,649,000 lower or higher (June 2007–$1,809,000 lower or higher), mainly as a result of higher Finance Costs. Post tax Equity would change by the same amount.

At 30 June 2008, if interest rates had changed by plus or minus 1% from the year end rates with all other variables held constant, post tax profit for the year would have been $2,230,000 higher or lower (June 2007–$613,000 higher or lower), mainly as a result of higher or lower Interest Revenue. Post tax Equity would change by the same amount.

Foreign Exchange Risk

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

At 30 June 2008, if foreign exchange rates had changed by plus or minus 10% from the year end rates with all other variables held constant, post tax profit for the year would have been $35,000 lower or $42,000 higher (June 2007–$219,000 lower or $267,000 higher post tax), mainly as a result of higher or lower expenses from operations. Post tax Equity would change by the same amount.

Electricity Price Risk

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

At 30 June 2008, if forward electricity prices had changed by plus or minus 10% from the year end rates with all other variables held constant, post tax profit for the year would have been $6,683,000 lower or $6,574,000 higher (June 2007–$17,853,000 lower or $17,942,000 higher post tax), mainly as a result of an increase or decrease in the fair value losses on electricity derivative financial instruments not qualifying as cash flow hedges. Post tax Equity would change by the same amount.

Note 24—Financial Instruments (continued)

(j) Summarised sensitivity analysis (continued)

Electricity Price Risk (continued)

Also post tax Equity would have been $20,158,000 lower or $20,356,000 higher (June 2007–$198,022,000 lower or $198,753,000 higher post tax) mainly as a result of an increase or decrease in the fair value losses on electricity derivative contracts qualifying as cash flow hedges.

Aluminium Price Risk

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

At 30 June 2008, if forward aluminium prices had changed by plus or minus 8% from the year end rates with all other variables held constant, post tax profit for the year would have been $66,048,000 higher or $63,930,000 lower (June 2007–$25,712,000 higher or $18,511,000 lower post tax), mainly as a result of an increase or decrease in the fair value gains on electricity derivative contracts held for trading. Post tax Equity would change by the same amount.

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.

Reconciliation of the present value of the defined benefit obligation

	SASS 2008	SANCS 2008	SSS 2008	Total 2008
	$'000	**$'000**	**$'000**	**$'000**
Present value of partly funded defined benefit obligations at beginning of the year	**62,168**	**12,255**	**129,432**	**203,855**
Current service cost	**1,938**	**664**	**1,651**	**4,253**
Interest cost	**3,869**	**753**	**8,177**	**12,799**
Contributions by fund participants	**1,091**	**-**	**1,577**	**2,668**
Actuarial (gains)/losses	**(2,640)**	**59**	**(2,688)**	**(5,269)**
Benefits paid	**(3,489)**	**(946)**	**(6,151)**	**(10,586)**
Present value of partly funded defined benefit obligations at end of the year	**62,937**	**12,785**	**131,998**	**207,720**

Note 25—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Reconciliation of the present value of the defined benefit obligation (continued)

	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

Reconciliation of the fair value of fund assets

	SASS 2008 $'000	SANCS 2008 $'000	SSS 2008 $'000	Total 2008 $'000
Fair value of Fund assets at beginning of the year	**63,687**	**12,762**	**141,996**	**218,445**
Expected return on fund assets	**4,835**	**1,006**	**11,057**	**16,898**
Actuarial gains/(losses)	**(8,186)**	**(1,820)**	**(19,517)**	**(29,523)**
Employer contributions	**2,201**	**778**	**2,499**	**5,478**
Contributions by Fund participants	**1,091**	**-**	**1,577**	**2,668**
Benefits paid	**(3,489)**	**(946)**	**(6,151)**	**(10,586)**
Fair value of Fund assets at end of the year	**60,139**	**11,780**	**131,461**	**203,380**

	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

Reconciliation of the assets and liabilities recognised in the Balance Sheet

	SASS 2008 $'000	SANCS 2008 $'000	SSS 2008 $'000	Total 2008 $'000
Present value of partly funded defined benefit obligations at end of year	**62,937**	**12,785**	**131,998**	**207,720**
Fair value of fund assets at end of year	**(60,139)**	**(11,780)**	**(131,461)**	**(203,380)**
Net Liability/(Asset) recognised in Balance Sheet at end of year (refer Note 18)	**2,798**	**1,005**	**537**	**4,340**

Note 25—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Reconciliation of the assets and liabilities recognised in the Balance Sheet (continued)

	SASS 2007	SANCS 2007	SSS 2007	Total 2007
	$'000	$'000	$'000	$'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 (Asset)/Liability recognised in Balance Sheet at end of year (refer Note 8)	(1,519)	(507)	(12,564)	(14,590)

Expense recognised in Income Statement

	SASS 2008	SANCS 2008	SSS 2008	Total 2008
	$'000	**$'000**	**$'000**	**$'000**
Current service cost	**1,938**	**664**	**1,651**	**4,253**
Interest cost	**3,869**	**753**	**8,177**	**12,799**
Expected return on Fund assets (net of expenses)	**(4,835)**	**(1,006)**	**(11,057)**	**(16,898)**
Net actuarial (gains)/losses recognised in year	**5,546**	**1,878**	**16,829**	**24,253**
Expense recognised (refer Note 4)	**6,518**	**2,289**	**15,600**	**24,407**

	SASS 2007	SANCS 2007	SSS 2007	Total 2007
	$'000	$'000	$'000	$'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)/losses recognised in year	(3,010)	(1,004)	(16,026)	(20,040)
(Income) recognised (refer Note 3)	(1,953)	(485)	(16,026)	(18,464)

Fund Assets

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

	2008	2007
Australian equities	**31.6%**	33.6%
Overseas equities	**25.4%**	26.5%
Australian fixed interest securities	**7.4%**	6.8%
Overseas fixed interest securities	**7.5%**	6.4%
Property	**11.0%**	10.1%
Cash	**6.1%**	9.8%
Other	**11.0%**	6.8%

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 2008	SANCS 2008	SSS 2008	Total 2008
	$'000	**$'000**	**$'000**	**$'000**
Actual return on plan assets	**(4,093)**	**(813)**	**(9,204)**	**(14,110)**

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

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

	2008	2007
Discount rate at 30 June	**6.55%**	6.4% pa
Expected rate of return on assets backing current pension liabilities at 30 June	**8.30%**	7.60%
Expected rate of return on assets backing other liabilities	**7.30%**	7.60%
Expected salary increases (excluding promotional increases)	**3.5% pa**	4.0% pa to 2008; 3.5% pa thereafter
Expected rate of CPI increase	**2.5% pa**	2.5% pa

Note 25—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

Historical information

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

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

Expected contributions

	SASS 2008	SANCS 2008	SSS 2008	Total 2008
	$'000	**$'000**	**$'000**	**$'000**
Expected employer contributions	**2,072**	**776**	**2,523**	**5,371**

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

Funding arrangements for employer contributions

The following is a summary of the financial position of the Fund at 30 June 2008 and 30 June 2007 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 2008	SANCS 2008	SSS 2008	Total 2008
	$'000	**$'000**	**$'000**	**$'000**
Accrued benefits	**62,793**	**12,861**	**121,459**	**197,113**
Net market value of Fund assets	**(60,139)**	**(11,780)**	**(131,461)**	**(203,380)**
Net (surplus)/deficit	**2,654**	**1,081**	**(10,002)**	**(6,267)**

	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)

(b) Contribution Recommendations
Recommended contribution rates for the Corporation for 2008 and 2007 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% (2007–9%).

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 closed contracts with a division of Downer EDI Limited. The contracts total $4.3 million and were entered prior to Director Di Bartolomeo's appointment to the Board of Macquarie Generation. The closed contract has a defects liability warranty for $0.1 million which expires on 31 December 2008.

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
- 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.

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)

(i) Remuneration and Human Resources Committee (continued)
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 2008 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.

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

Remuneration consists of the following key elements:

- Fixed Remuneration; and
- Variable Remuneration based on performance.

The fixed remuneration and structure of variable remuneration are established for the Chief Executive and Managing Director and Senior Executives by the Remuneration and Human Resources Committee and recommended to the Board of Directors for approval. Table 2 below details the variable and fixed remuneration.

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)

(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 and Managing Director was reappointed on 1 September 2005 for a 3 year term ending on 31 August 2008. A further contract was executed on 29 August 2008 for a three year term ending on 31 August 2011.

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

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

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

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

Note 28—Director and Executive Disclosures (continued)

Remuneration of Directors and Executives (continued)

(b) Details of Remuneration

Table 1A: Non-executive Directors' Remuneration for the year ending 30 June 2008

	Short-term Benefits			Post Employment	
2008	Travel allowance	Directors' base fees	Committee fees	Superannuation expense	Total
	$	$	$	$	$
Name					
Evan Rees (Chairman)	**793**	**104,300**	**-**	**9,387**	**114,480**
Anna Buduls	**369**	**59,100**	**10,400**	**6,255**	**76,124**
John Cahill	**369**	**59,100**	**-**	**5,319**	**64,788**
The Hon. Peter Collins	**369**	**59,100**	**-**	**5,319**	**64,788**
Deborah Page	**369**	**59,100**	**7,280**	**5,974**	**72,723**
Lucio Di Bartolomeo	**737**	**59,100**	**9,230**	**6,150**	**75,217**
Total Directors' fees	**3,006**	**399,800**	**26,910**	**38,404**	**468,120**

Table 1B: 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
	$	$	$	$	$
Name					
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 2A: Remuneration of the Chief Executive and Managing Director and Senior Executives who report directly to him for the year ending 30 June 2008

	Short-term Employee Benefits				Post Employment Benefits	Long-term Benefits	
2008	Cash salary	Cash bonus		Non-monetary benefits	Superannuation expense	Long Service leave	Total
	$	$	%	$	$	$	$
Name							
Grant Every-Burns	**343,669**	**172,500**	**85**	**11,883**	**91,000**	**38,186**	**657,238**
David Ipkendanz	**146,283**	**69,960**	**88**	**53,187**	**64,501**	**10,052**	**343,983**
Russell Skelton	**160,510**	**112,690**	**99**	**22,221**	**99,992**	**26,495**	**421,908**
John Neely	**229,362**	**74,810**	**81**	**18,678**	**13,740**	**21,493**	**358,083**
Peter Sewell	**133,711**	**64,040**	**84**	**20,921**	**79,724**	**27,128**	**325,524**
Steve Ireland	**172,508**	**72,070**	**82**	**15,971**	**62,830**	**18,516**	**341,895**
Col Peebles	**86,260**	**46,470**	**76**	**17,795**	**99,635**	**6,075**	**256,235**
Total Executive Remuneration	**1,272,303**	**612,540**		**160,656**	**511,422**	**147,945**	**2,704,866**

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 2008 (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 2008.

The 2008 cash bonus was earned during the year ending 30 June 2008 and will be paid during the year ending 30 June 2009. 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 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	316,024
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	358,022
Peter Sewell	162,588	58,050	90	20,669	31,153	21,330	293,791
Steve Ireland	172,153	67,200	70	15,546	51,644	22,518	329,060
Col 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.

(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 ($141,250 for the year ending 30 June 2008) at the end of the reporting period was 16 (2007–14).

The number of Executive Officer positions equal to or exceeding SES Level 1 filled by women in the current year was nil (2007–nil).

Note 29—Net Asset Deficiency

Previous Financial Year

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 $1,799,845,000 for the current financial year.

The change in financial position was 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 30—Carbon Pollution Reduction Scheme

The Prime Minister released a Green Paper on the Carbon Pollution Reduction Scheme (CPRS) in July 2008 committing the Commonwealth to implementing the CPRS by no later than 2010.

The CPRS Green Paper canvasses options and preferred approaches on issues, such as which industry sectors will be covered and how emission caps will be set. It also includes ways to address the impacts on Australian households, emissions-intensive trade-exposed industries and other strongly affected sectors.

The final form of the CPRS is yet to be finalised but may have a significant impact on the valuation of assets of Macquarie Generation.

Note 31—Proposed Privatisation of Electricity Businesses

In December 2007, the New South Wales Government announced that it would accept the key recommendations of the Owen Inquiry into Electricity Supply in New South Wales. The proposed reforms involve the lease of existing State owned generators to private operators.

In May 2008 the New South Wales Government introduced the *Electricity Industry Restructuring Bill* into State Parliament but has yet to debate the enabling legislation.

The Government has yet to finally announce the detail of the process, timing and structure for any associated transaction.

End of Audited Financial Statements

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 2008 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

29 August 2008
Sydney

G V EVERY-BURNS
CHIEF EXECUTIVE AND MANAGING DIRECTOR

29 August 2008
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 2008, 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 2008, 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.
- also complies with International Financial Reporting Standards as disclosed in Note 1(a)(i).

Significant Uncertainty Regarding the effect of Carbon Pollution Reduction Scheme

Without qualification to the opinion expressed above, I draw attention to Note 10(c) and 30 to the financial statements. The Federal Government has proposed a Carbon Pollution Reduction Scheme (Scheme), but has not settled how it will operate. Until this occurs, the effect of the Scheme on the Corporation's assets cannot be determined and therefore has not been taken into account when applying the requirements of Accounting Standard AASB 136 'Impairment of Assets'.

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.

In Note 1(a)(i), the directors also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements' that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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
Auditor-General

SYDNEY
29 August 2008

Charter and Legislation

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

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

Corporate Governance Framework

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

The Board has assessed the Corporation's governance framework against the governance principles released by the ASX Corporate Governance Council in March 2003 and the update released in August 2007, which is effective from 1 January 2008. 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 web site.

Board Composition

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

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

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

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

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

Responsibilities

The responsibilities of the Board include:

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

The Board of Directors (continued)

Responsibilities (continued)

- Appointment, performance assessment and, if necessary, removal of the Managing Director, allowing for consultation with the Shareholders.
- Ratifying the appointment, removal and performance assessment of the members of the senior management team.
- Reviewing and approving the remuneration and performance incentive arrangements for the Managing Director and the senior management team.
- 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 12 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 2008, 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 2008.

During the year ended 30 June 2008 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 position and operational results of the Corporation and are in accordance with applicable Accounting Standards,
- that the above statement is founded on a sound system of internal control and risk management which implements the policies adopted by the Board and that the Corporation's risk management and internal control is operating efficiently 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 and an Issues Management Committee has operated.

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

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

Board Remuneration and Human Resources Committee

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

Anna Buduls (Chair)
John Cahill (to 31 May 2008)

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 2008. 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 and Business Continuity Planning frameworks, recommend the appointment and remuneration of the Internal Auditor, monitor the performance of the Corporation's auditors and review and monitor related party transactions.

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

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,
- Obtain external professional issues management consulting services as required, and
- Require reports from Management and any external issues management consultants.

The Issues Management Committee was not required to meet during the 2007/2008 year.

External Auditors
The Audit Office of New South Wales is appointed by New South Wales Parliament as the Corporation's external auditors. The Audit Office of New South Wales complies with all professional independence requirements.

Fees paid to the external auditors are provided at Note 4 to the Financial Statements.

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

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

Risk Assessment, Internal Control and Management Reporting (continued)

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. Due to the proposed privatisation of the New South Wales Government's Electricity Businesses the Board decided not to carry out a selective tender process for the provision of internal audit services at the expiration of the Ernst & Young Contract. The Board has extended the Ernst & Young internal audit contract on two occasions during the financial year including extensions to 30 June 2008 and 31 December 2008.

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

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

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

The Board takes particular interest in the safety of all employees and contractors and has supported a range of initiatives all designed to improve the safety performance of the Corporation. In the small number of instances when a lost time injury occurs, relevant senior management and the team leader of the injured employee or contractor meet with the Board to explain the incident, learning's and safety improvements that have been implemented following analysis of the incident.

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

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
- National Greenhouse and Energy Reporting Act Compliance

Code of Conduct

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

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

Continuous Disclosure and Shareholder Communication

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

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

Anti Money Laundering and Counter-Terrorism Financing Compliance

During the 2007/2008 financial year the Corporation has complied with its obligations under the *Anti Money Laundering and Counter-Terrorism Financing Act 2006*.

Australian Financial Services Licence—284379

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

Senior Management Team

Title	Name and Qualification	Executive Committee Representation
Chief Executive and Managing Director	Mr Grant Every-Burns BE(Hons) FAICD	1,2,4,5,6,7,8,9
Chief Financial Officer and Company Secretary (10)	Mr David Ipkendanz BEc DipEd FCPA	1,3,4,6,7,9
Manager Bayswater (10)	Mr John Neely BSc(Eng)	1,2,3,5,6,8,9
Manager Liddell (10)	Mr Peter Sewell BSc(Eng) MEM	1,2,3,5,6,8,9
Manager Human Resources (10)	Mr Col Peebles Cert Teach FAHRI AFAIM	1,3,5
Manager Marketing and Trading (10)	Mr Russell Skelton BE	1,3,4,7,8
Manager Fuel and Environment (10)	Mr Steve Ireland BE BLegS	1,2,7,8,9

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. National Greenhouse and Energy Reporting Act Compliance Steering Committee
10. 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 $25,725. The annual report is available on the Corporation's web site at www.macgen.com.au.

Chief and Senior Executive Officers

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

	2007/2008 Actual ($m)	2007/2008 SOCI Target ($m)
Earnings before Interest and Tax (EBIT)	660.1	253.3
Operating Profit before tax	615.9	193.3
Target Dividend	270.0	130.0
Return (EBIT) on (average) Assets (%)	8.2	8.5
Return (NPBT) on (average) Equity (%)	70.7	18.9

Statement of Corporate Intent (continued)

EBIT includes net unrealised gains of $249.2 million in relation to the valuation of electricity derivative financial instruments and unrealised losses of $24.3 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 2008. The amounts were not included in the 2007/2008 SOCI Target as they could not be reliably estimated.

Sales Revenue increased by 6.4% to $1,143.4 million and exceeded the SOCI Target.

Sales revenue included above average earnings during the first quarter of the financial year due to the high electricity prices in the National Electricity Market during this period. The higher electricity prices were as a result of some drought affected generation and a large number of generator outages.

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 2008, Macquarie Generation's workforce comprised 617 employees (excluding casuals), which includes 41 apprentices, in the following categories by percentage of the total staff numbers:

Trends in the Representation of EEO Groups

EEO group:	Government target	2008	2007	2006	2005
			% of Total Staff		
Women	50%	13%	12%	12%	12%
People identifying as Aboriginal or Torres Strait Islander	2%	1.3%	1.3%	1.4%	1.2%
People whose first language as a child was not English	20%	4%	4%	4%	3%
People with a disability	12%	9%	9%	9%	9%
People with a disability requiring adjustment in the workplace	7%	3.0%	3.2%	3.1%	3.1%

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

EEO group:	Benchmark or target	2008	2007	2006	2005
			Distribution Index		
Women	100	92	91	92	87
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	118	114	110	N/a
People with a disability	100	100	99	100	99
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 2007/2008 and key strategies proposed for 2008/2009
Activities to further promote equity and diversity within the workforce and broader community during the 2007/2008 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
Three requests under the New South Wales Freedom of Information Act, 1989 were received, two were completed during the reporting period and one information request was denied as allowed by the Act.

Funds Granted to Non-government Community Organisations
Macquarie Generation donations and sponsorships during the reporting year to Hunter region community organisations totalled $247,454.

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	China	Inspections for Power Station extension study.
P. Sewell	Manager Liddell Power Station	China	Inspections for Power Station extension study.
J.Neely	Manager Bayswater Power Station	Germany/ Sweden	Attendance at International Generation Benchmarking Consortium Conference and inspection of flygt pump works.
K. Wykes	Asset Manager Liddell Power Station	Germany	Attendance at International Generation Benchmarking Consortium Conference.
R. Skelton	Manager Marketing and Trading	United Kingdom/ Europe	Attendance at National Generators Forum and Electricity Supply Association of Australia working group meetings and study tour.
P. Shields	Regulations Officer	United Kingdom/ Europe	Attendance at National Generators Forum and Electricity Supply Association of Australia working group meetings and study tour.

Promotion

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

- Annual Report 2007;
- Awareness advertising, Rural Press Ltd (Upper Hunter TV Guide);
- Media releases, radio and TV interviews;
- Internet web site updates: www.macgen.com.au;
- Community Billboard, Radio 2NM,
- Casual newspaper and magazine advertising,
- Quarterly Community Consultative Committee Meetings; and
- Community and Environment Newsletters.

Consultants' Fees

As disclosed in Note 4(a) of the Financial Statements, Macquarie Generation's expenditure on Consultants' Fees totalled $3,627,412. The main purposes of the engagements were the provision of management, finance, accounting, taxation, fuel and environment, marketing and trading, engineering and information technology advice.

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 or traceability of raw materials used and also monitors water treatment, energy use and waste recycling to ensure continuous improvement.

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AUSTRALIA

Liddell Telephone
61 2 6542 1611

Bayswater Telephone
61 2 6542 0711

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Security and Operations
24 hours 7 days

Web site address
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FOR THE PURPOSES OF THIS REPORT, THE YEAR 2008 REFERS TO THE FISCAL YEAR 1 JULY 2007 TO 30 JUNE 2008.

Macquarie Generation