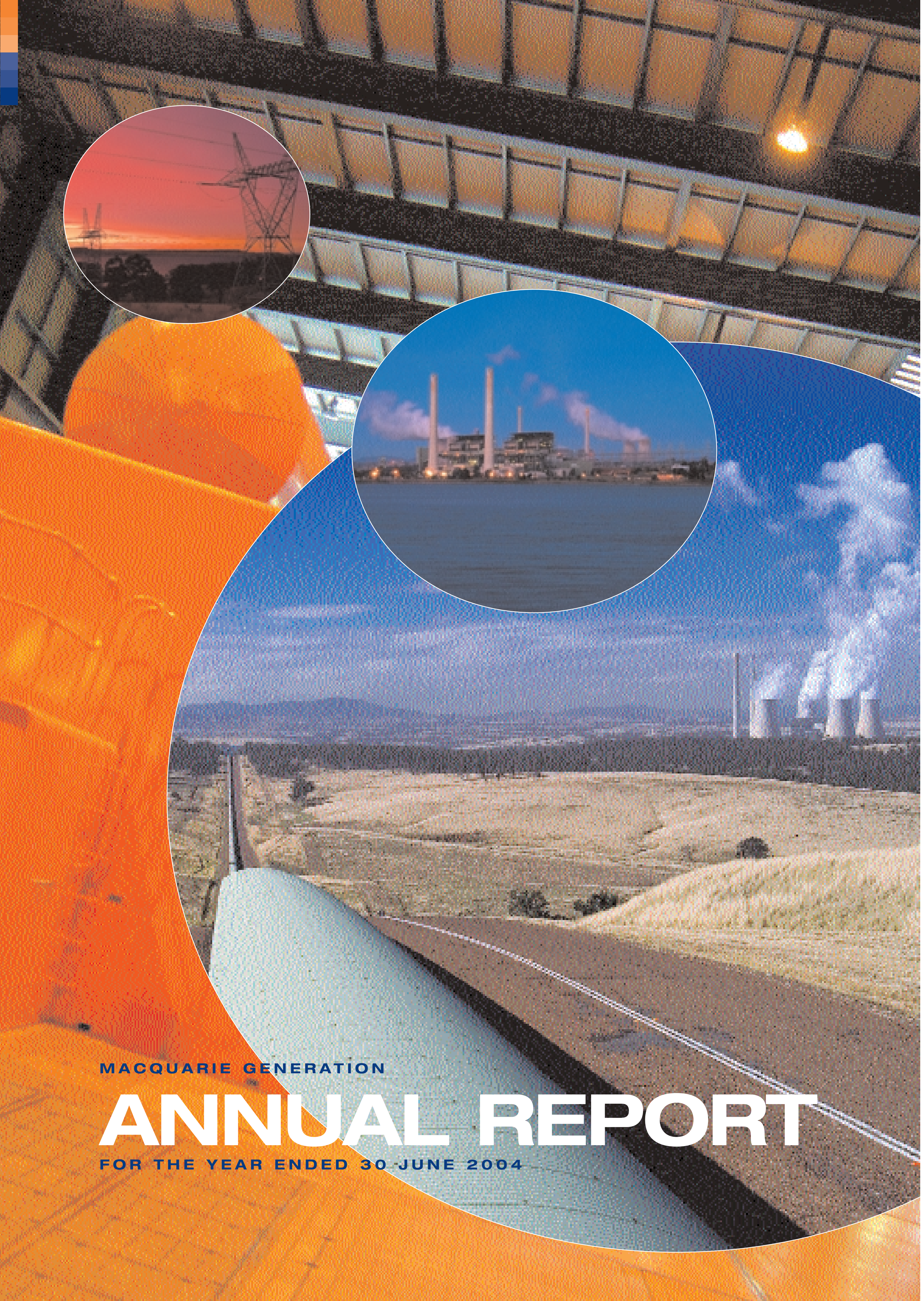


MACQUARIE GENERATION

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2004

CONTENTS

Cover Images: Macquarie Generation's Bayswater and Liddell Power Stations operate 24 hours a day, 365 days a year as baseload suppliers to the National Electricity Market.

LETTER TO SHAREHOLDERS

Hon Michael Egan MLC
Treasurer of New South Wales,
Minister for State Development,
Vice-President of the Executive Council

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

Parliament of New South Wales
Macquarie Street
Sydney New South Wales 2000

Dear Shareholders,

We have pleasure in submitting the Macquarie Generation Annual Report, including the Statement of Financial Performance, the Statement of Financial Position and the Statement of Cash Flows, as audited by the Auditor-General of New South Wales, and the Corporate Governance Statement, for the financial year ended 30 June 2004.

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.

HE Rees
Chairman

GV Every-Burns
Chief Executive and Managing Director

October 2004

ABOUT MACQUARIE GENERATION

Macquarie Generation's core business is the production, marketing and sales of electricity into the wholesale segment of the National Electricity Market.

The National Electricity Market comprises the mainland States of New South Wales, Victoria, Queensland, South Australia, and the Australian Capital Territory. Tasmania is scheduled to join the market in 2005.

A State Owned Corporation formed in 1996, Macquarie Generation owns and operates Bayswater and Liddell Power Stations—two of Australia's largest capacity thermal power stations.

In 2004, Macquarie Generation supplied 14.5% of the electricity consumed by the National Electricity Market.

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

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

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

At 30 June 2004, Macquarie Generation employed a total of 608 people, with 557 located at Bayswater and Liddell Power Stations and 51 at a corporate office in Newcastle.

This report covers the period from 1 July 2003 to 30 June 2004 inclusive and is presented to the Parliament of New South Wales.

Mission Statement

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

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

CHAIRMAN'S REVIEW

It is a pleasure to be able to report another good year of performance by the Corporation noting growth in sales revenue, profit and dividend. From sales of $813.6 million the Corporation derived profit of $158.6 million before tax, a growth of 57.5%.

As a result the Corporation will pay a dividend of $100 million–$44 million more than the previous year.

The long term future success of the business is critically dependent on suitable low cost coal supply. There can be no doubt that the strong returns achieved this year would have been diminished significantly had it not been possible to address the high coal prices inherited by the Corporation in 1996. The drive to continue to mitigate future fuel supply and price risk led during the year to the signing of a contract with Excel Mining for a large long term coal supply from Wilpinjong in central New South Wales. We are continuing to seek other long term, low cost, secure supplies from strong counterparties.

The electricity market continues to be challenging. It displays a level of price volatility that demands careful management and adherence to well constructed policies. The Board is pleased with the Corporation's achievements in this area and even though some plant problems were experienced at Liddell the general level of plant performance was good and the hedging strategies worked properly.

Electricity demand continues to grow modestly and unabated. This provided the opportunity to increase production by using seven of our eight available units during higher demand periods in winter and summer. In a few years we expect to see all eight units in service as the need for new baseload generation grows. In the meantime we accept the wisdom of improving the output and carbon efficiency of our generators through upgrades and thermal efficiency improvements as evidenced by our recent and future commitment to Liddell of $110 million.

In the longer term I don't believe New South Wales can rely on its needs being increasingly serviced by supplies from interstate over the interconnectors. Renewable technologies are important but unfortunately they will be of insufficient capacity to meet bulk requirements and will be two to three times more costly for the energy they produce. We estimate that new state-of-the-art coal fired units will be needed within about eight years.

The Board and its Board Audit and Assurance Committee spent considerable time during the year on risk management associated with the electricity market and with the preparation necessary to facilitate introduction of the new International Financial Reporting Standards. Although the new Standards have been designed to provide better financial information and reporting consistency, we note that a number of important implementation decisions have not yet been resolved by the accounting profession. The treatment of electricity derivatives is proving quite challenging for businesses such as ours, particularly in the absence of a clearly defined liquid and discoverable forward curve. It is likely that earnings will appear far more volatile in future reports even if there has been no change to the underlying business. Similarly, there are likely to be transitional impacts to the Balance Sheet as the new Standards are adopted.

The Corporation continues to search for excellence in safety outcomes to make our goal of accident-free workplaces a reality. We are currently reviewing and revisiting our safety systems with the help of external "bottom up" and "top down" assessment. We are determined that the modest improvements of the past year will translate to much greater gains in the year ahead.

It is a sign of the times that all forms of security are being reviewed as part of the overall risk assessment process. We have made progress in the past 12 months with the upgrade of our Information Technology and asset security systems. This work is progressive and ongoing.

Finally I would like to thank the Board members for their support and diligence, and the entire staff for a job well done at times under trying circumstances.

E. Rees

HE Rees
Chairman

CHIEF EXECUTIVE'S REPORT

The Corporation significantly improved its short term financial result and long term commercial position in 2004.

Again it is pleasing to report a strong profit result of $158.6 million before tax, representing an increase of 57.5% over the previous year's outcome. A dividend of $100 million has been declared.

This result was driven by our success in carefully controlling costs, including coal, while at the same time increasing production to a record level of 25,598 GWh sent out. We maintained our position as the largest electricity generator in the National Electricity Market with a market share of 14.5%.

In December 2003 we announced our commitment to a 19 year coal supply contract with Excel Mining that will see a steady stream of competitively priced coal reaching our power stations by rail from 2007 onwards from the Wilpinjong lease near Ulan in central New South Wales. This coal will supplement our future needs that are expected to exceed 300 million tonnes over that period. Coal supply is a key determinant of the long term viability and competitiveness of our power stations and we will continue to work closely with the coal industry to stimulate and encourage competitive offerings.

The electricity market continued to demonstrate real price volatility in response to movements in supply and demand. July to December 2003 were characterised by relatively lower than expected weather-driven demand and considerable oversupply. Prices were less than $20/MWh for three of the six months. If these levels were to be sustained there would be no incentive for new investment. The latter six months produced much greater price volatility driven by extreme heatwave conditions for 10 days in February 2004 and further events in March 2004. Weather influences and significant changes in plant availability helped raise the average yearly pool price to $32.37/MWh—a figure also below a level likely to stimulate new investment.

The Corporation remains strongly focused on safety. Our Lost Time Injury Frequency Rate (LTIFR) improved from 7.3 to 6.6 during the year but finished well above our zero target. Importantly, in the last six months the Corporation notes that there were no injuries requiring loss of the next working shifts, although one employee unfortunately required surgery for an earlier injury, and this was recorded as lost time. We are currently subjecting our safety system to external review to ensure continuous improvement and adherence to contemporary risk-based approaches. I take this opportunity to thank our Safety Committees members for their dedication and involvement.

The capital improvement of Liddell Power Station is continuing to make good progress. Significant projects such as the Distributed Control System (DCS) replacement and LP Turbines upgrade have met technical requirements on time, and within agreed budgets. The DCS project is now complete, improving the operation of Liddell and extending its life. Despite being subjected to two unrelated plant failures with long repair times, Liddell produced at an energy level commensurate with previous years and promises reliably higher output in the future. Bayswater performed to a high standard throughout the year.

The turbine improvements at Liddell have formed the basis of a drive for environmental improvement, with Liddell abating 160,000 tonnes of carbon dioxide during the year as a direct result of the LP turbine upgrade.

The Corporation has now committed to the replacement of the High Pressure turbines with the promise of additional large carbon dioxide reductions over the next four years of installation. We continue to work towards environmental accreditation of both power stations to ISO 14001 and while we had hoped to achieve that recognition in 2003-04, we have now set our target for this financial year.

We worked more closely with the peak unions again this year and while acknowledging that agreement has not been reached in every area, it is nevertheless important to record our appreciation of the time given by union officials to the process. We also note that an extension of salary sacrifice provisions has provided new benefit to all our employees.

The Corporation continues to promote the need for new baseload generation in future years to meet the ever growing electricity demand of the State and the nation. We are continuing to provide input to NEMMCO and the regulatory authorities to ensure realistic information exists in the public arena to support the essential development of gas, renewables and coal fired generation in the next decade and beyond. We are hopeful that the electricity market reforms being introduced will provide a greater level of certainty to facilitate necessary transmission and generation investment.

I would like to record my thanks to all the staff of Macquarie Generation who have played such an important part in this year's successes.

GV Every-Burns
Chief Executive and Managing Director

2004 Macquarie Generation Board Members from left to right: Anna Buduls; Deborah Page; Robert Webster; Chairman Evan Rees; James Watt; Chief Executive and Managing Director Grant Every-Burns; and John Cahill.

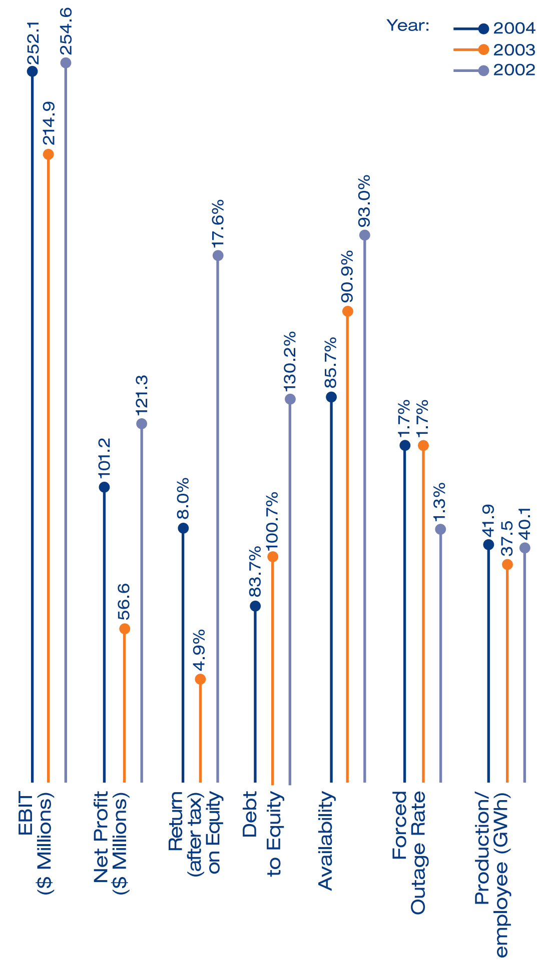
FINANCIAL PERFORMANCE

A SUMMARY OF MACQUARIE GENERATION'S FINANCIAL PERFORMANCE FROM 1 JULY 2003 TO 30 JUNE 2004

	2004	2003	% CHANGE
Statement of Financial Performance ($ millions)			
Revenue excluding interest income	809.7	757.1	7.0
Other expenses from ordinary activities excluding depreciation	460.5	446.4	3.2
Earnings before depreciation, interest and tax	349.2	310.7	12.4
Depreciation expense	97.1	95.8	1.3
Earnings before interest and tax (EBIT)	252.1	214.9	17.3
Net borrowing costs expense	93.6	114.2	-18.1
Net profit before income tax expense	158.6	100.7	57.5
Income tax expense	57.3	44.1	30.0
NET PROFIT	101.2	56.6	78.9
Statement of Cash Flows ($ millions)			
Cash flows from operating activities (excluding borrowing costs)	324.6	313.3	3.6
Capital expenditure	37.2	35.1	6.1
Dividends paid	56.0	125.0	-55.2
Statement of Financial Position ($ millions)			
Total Assets	2,904.5	2,827.9	2.7
Total Debt	1,061.3	1,170.1	-9.3
Equity	1,268.6	1,162.2	9.2
Dividend provided	100.0	56.0	78.6
Financial Statistics			
EBIT to Revenue (%)	31.1	28.4	9.7
Debt to Equity (%)	83.7	100.7	-16.9
Interest Cover (times)	2.7	1.9	43.2
Return (after tax) on Equity (%)	8.0	4.9	63.9
Operating Statistics			
EBIT per average employee ($ 000's)	413.3	352.3	17.3
Equivalent forced outage (%)	1.7	1.7	0.0
Availability (%)	85.7	90.9	-5.7
Production per employee (GWh)	41.9	37.5	11.7

FINANCIAL HIGHLIGHTS 2004

- Total Revenue increased by 6.8% to $813.6 million as a result of steady average sales prices and an 8.6% increase in sales volume. An increase in sales revenue was budgeted.
- The Corporation continued to maintain costs resulting in a 2.8% increase in Expenses as per Note 3 to the Financial Statements and included a 5% increase in fuel expenses directly related to an 11% increase in production.
- This resulted in a 17.3% increase in Earnings Before Interest And Tax (EBIT) from $214.9 million to $252.1 million.
- Net Borrowing Costs decreased by 18.1% or $20.6 million to $93.6 million due to a debt restructure in December 2002, which resulted in a reduction in borrowing costs of around $6 million per annum, combined with reduced debt levels in 2003/2004.
- Debt levels decreased by $108.8 million due to debt prepayments as part of the Corporation's on-going debt repayment strategy. As a result the Debt to Equity ratio decreased by 16.9% to 83.7%.
- Net Profit Before Tax increased by 57.5% to $158.6 million due mainly to the increase in sales revenue and decrease in borrowing costs expense.
- Equity increased by 9.2% or $106.4 million, consisting of an asset revaluation increment of $105.2 million resulting from a revaluation of physical non-current assets carried out at 30 June 2004.
- Net Profit After Tax increased by 78.9% to $101.2 million, which exceeded expectations by 35.1%.
- Return on Equity After Tax increased by 63.9% from 4.9% to 8.0% due mainly to the increase in Net Profit After Tax as explained above.
- Dividend provided increased by 78.6% to $100 million, exceeding expectations by 33.5% and will be paid during the 2004/2005 year.
- The Corporation maintained a high standard of plant performance including availability, incidences of forced outages and efficiency.



PRODUCTION AND ENVIRONMENT

Corporate Environment Policy

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

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

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

Macquarie Generation is committed to:

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

Macquarie Generation will review this Policy on a biennial basis.

Environmental Performance

Regulatory Compliance

NSW EPA Licences:	5
Other NSW Government Licences:	3
Breaches notified:	Nil

Coal Consumed[i]

Bayswater	8,013,707 tonnes
Liddell	4,476,990 tonnes

Non-coal Fuel Consumption

Biomass

Liddell	60,388 tonnes
Coal replaced by biomass	30,315 tonnes
Coal replaced since August 1999	190,087 tonnes
Electricity produced from biomass since August 1999	369,884 MWh
Annual average production	73,976 MWh

Oils

Liddell (Supplementary Fuels Program)	19,257 tonnes
Liddell (boiler start-up)	3,804 tonnes
Bayswater (boiler start-up)	3,397 tonnes

Air Emissions[i]

Sulfur dioxide	5.65kg/MWh (Bayswater) 4.70kg/MWh (Liddell)
Oxides of nitrogen (expressed as NO2)	2.15 kg/MWh (Bayswater) 2.40kg/MWh (Liddell)
Particulate matter	0.02kg/MWh (Bayswater) 0.17kg/MWh (Liddell)
Carbon dioxide[ii]	911kg/MWh (Bayswater) 977kg/MWh (Liddell)

Water Management

Water diverted (Hunter River)	51,087 ML
Salt extracted	13,324 tonnes

Hunter River Salinity Trading Scheme

Salt discharged	Nil
Salinity Credits Days traded-in	Nil
Salinity Credits Days traded-out	Nil
Regional mine waters treated	Nil

Land Management

By-product sales:

Fly ash	95,274 tonnes[iii]
Bottom ash	745 tonnes[iv]
Lime	430 tonnes
Gypsum	1,043 tonnes
Cenospheres	248 m3
Eels (Plashett Reservoir)	803 kg

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

2004 Production

Bayswater

Energy Sent Out: 16,629 GWh

Availability: 89.05%

Forced Outage Rate: 1.39

Station Trip Rate (per 1,000 hrs): 0.26

Liddell

Energy Sent Out: 8,969 GWh

Availability: 81.19%

Forced Outage Rate: 2.11

Station Trip Rate (per 1,000 hrs): 0.90

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 Electricity Supply Association of Australia's Code of Environmental Practice;

A member of the Coastal Valleys Water User's Customer Service Committee;

A member of the Upper Hunter Forests Steering Committee;

A member of the Clean Air Society of Australia and New Zealand (CASANZ);

A member of the Australian Wind Energy Association (AUSWEA);

A member of the Hunter Salinity Trading Scheme Operations Committee; and

A foundation sponsor of the Upper Hunter River Rehabilitation Initiative.

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

SOCIAL RESPONSIBILITY

Occupational Health and Safety Policy

Macquarie Generation will strive to achieve a work environment where hazards are identified and eliminated. In this environment all injuries and incidents can be prevented.

Such an environment is fundamental to our business success and we are committed to working towards the achievement of zero injuries.

To this end, we will:

- Meet our moral and statutory obligations through effective consultation with employees;
- Deliver a systematic approach to Occupational Health and Safety Management so we can achieve continuous improvement;
- Provide competent people who can respond to the challenges of their workplace;
- Provide workplaces and work practices where risks to people or operations are made as low as reasonably practicable;
- Ensure all people who work in or visit our operations are aware of their responsibilities to themselves and others;
- Encourage everyone to Stop and Think before acting, to contribute ideas and report hazards without prejudice to improve their working environment; and
- Regularly audit our operations using both internal and external resources to assess our ongoing performance.

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

2004 Statistics

Accidents per Million Hours Worked

2004	6.6
2003	7.3
% change	-9.6

Longest Lost-time Injury Free Period (2004)

Bayswater:	215 days
Liddell:	182 days
Lambton:	365 days

Nature of Recordable Injuries

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

	%
Sprains & strains	37
Open wound	9
Foreign body	9
Superficial	8
Burns	8
Contusions	8
Muscle disorders	5
Respiratory condition	5
Fractures	3
Bruise & crush	3
Nerves/Spinal	2
Eye disorder	2
Hernia	2
Multiple injuries	2

Employees (at 30 June 2004)

Total: 608

Executive & senior management	28
Engineering officers	82
Professional officers	38
Administration officers	81
Operators	143
Mobile coal plant operators	7
Tradespersons (electrical)	27
Tradespersons (mechanical)	63
Tradespersons (metal fabrication)	9
Power workers	99
Trainees	2
Apprentices (electrical)	14
Apprentices (mechanical)	14
Occupational health nurses	1[1]

[1]Casual position. Permanent OH&S staff are classified Administration officers

Wages & Salaries

Total paid: $42 million

Corporate Sponsorships

Upper Hunter River Rehabilitation Initiative

Hunter Medical Research Institute

Hunter Rescue Helicopter Service

Hunter Valley Research Foundation

Malcolm Sargent Cancer Fund for Children (Carnation Concert)

Youth Off the Streets

Warbirds Over Scone Air Show 2003

Communities Program

In 2004, Macquarie Generation sought nominations from employees to form a Communities Advisory Panel to assist in fine-tuning the Corporation's Communities Program.

Panel members were appointed in recognition of their active and ongoing commitment to their local communities and organisations.

They are:

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

Major projects supported by the Macquarie Generation Communities Program in 2004 included:

- Singleton Neighbourhood Centre—provision of family crisis accommodation.
- Muswellbrook PCYC—extensions to outdoor youth recreation area.
- Apex Hunter Valley—'Fatal Vision' young driver education program.

Macquarie Generation also provided major funding for:

Muswellbrook Touch Association, Singleton *'Splendour Comes to You'* rock concert, Hunter Valley Cricket Council, Singleton and Muswellbrook Amateur Theatrical Societies, Muswellbrook Memorial Grove, Aberdeen Pre-School Association, Singleton Art Prize, Upper Hunter Veterans Golf Week, Gundy Gourmet Sunday, Glenbawn Dam Fishing Classic and Re-stocking Program, Muswellbrook Community Garden, Hunter Wildlife Aid, NSW Rural Fire Service, Muswellbrook Tree of Joy, Carols by Candlelight, Penguin Tennis and Croquet Club, Aberdeen Highland Games, Singleton Public Library Summer Reading Program.

Occupational Health and Safety Committees

Employee Representatives

Bayswater

Wayne Hermon (Chair), John Baker, Robert Clark, Greg Cooper, Alan Downton, William Greig, Peter Jeffree, Scott Jennar, Glyn Joyce, Paul Milliss, Eli Serhan, Ian Thomas, Lachlan Whalan, Nicholas Welbourne.

Liddell

Ken Partridge (Chair), Peter Bowden, Greg Bruce, Richard Carey, Lionel Gleeson, Peter Kirkman,Wayne McMillan, James Reynolds, Janene Ridhalgh, Cliff Ryan, Megan Williams.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Board of Directors present their report together with the financial statements of the Corporation for the year ended 30 June 2004 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:

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

Information on Directors

Evan Rees FIE Aust CPMetallurgy

Chairman and Non-executive Director

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

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

Grant Every-Burns BE(Hons) FAICD

Chief Executive and Managing Director

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

Mr Every-Burns is Chairman of the NEMMCO Participant Advisory Committee and Deputy Chairman of the National Generator Forum.

Mr Every-Burns has over 29 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.

Anna Buduls BA MComm

Non-executive Director

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

Ms Buduls has a financial background, including seven years at Macquarie Bank Limited. Ms Buduls is currently a Non-executive Director of several listed and public sector entities, including Mirvac Group Limited.

John Cahill

Non-executive Director

Mr Cahill was appointed Director of Macquarie Generation on 3 May 1996 and is a member of the Board Remuneration and Human Resources Committee. Mr Cahill was reappointed as a Director on 14 April 2004 for a year ending on 13 April 2005.

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

Mr Cahill has 27 years industrial experience in the electricity generation industry.

DIRECTORS' REPORT

Deborah Page BEc FCA MAICD

Non-executive Director

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

Mrs Page, a chartered accountant, has held senior executive positions with the Commonwealth Bank, Allen, Allen & Hemsley, IBM and the Lend Lease Group and is a former KPMG partner. Mrs Page is currently the Chair of the New South Wales Cancer Council and is a Director of Investa Properties Limited and the New South Wales Internal Audit Bureau.

James Watt FAICD BSc(For) BA MF

Non-executive Director

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

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

Robert Webster AFAIM

Non-executive Director

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

Mr Webster is a Senior Client Partner of Korn/Ferry International and a former New South Wales Government Minister. He is a Director of Allianz Australia Limited, Brickworks Ltd and the Mirvac Group Limited.

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 2004 were:

	BOARD MEETINGS		BOARD AUDIT AND ASSURANCE COMMITTEE MEETINGS		BOARD REMUNERATION AND HUMAN RESOURCES COMMITTEE MEETINGS	
	Held	Attended	Held	Attended	Held	Attended
Mr Evan Rees (3) (4)	12	12	-	1	-	3
Mr Grant Every-Burns (1) (2)	12	12	-	7	-	4
Ms Anna Buduls	12	12	7	7	4	4
Mr John Cahill	12	11	-	-	4	3
Mrs Deborah Page	12	12	7	7	-	-
Mr James Watt	12	12	7	7	4	4
The Hon. Robert Webster	12	11	-	-	4	4

(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 that Committee by invitation.
(3) Although not a member of the Board Audit and Assurance Committee, Mr Rees attended one meeting of that Committee by invitation.
(4) Although not a member of the Board Remuneration and Human Resources Committee, Mr Rees attended three meetings of that Committee by invitation.

Principal Activities

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

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

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

DIRECTORS' REPORT

Operating Results

The Operating Profit After Tax of the Corporation for the financial year ended 30 June 2004 was $101.2 million.

Review of Operations

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

Dividends

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

- an interim dividend of $25 million in respect of the year ended 30 June 2003 was paid on the 1 August 2003;
- a final dividend of $31 million in respect of the year ended 30 June 2003 was paid on the 1 December 2003; and
- a dividend of $100 million in respect of the year ended 30 June 2004 has been provided for in the Financial Statements.

State of Affairs

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

International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB will issue AASB equivalents to IFRS, and Urgent Issues Group abstracts corresponding to International Financial Reporting Interpretations adopted by the International Accounting Standards Board. These Australian pronouncements will be known as Australian International Financial Reporting Pronouncements (AIFRPs).

The Corporation will apply the AIFRPs from the reporting period beginning 1 July 2005. In accordance with AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* the Corporation has disclosed details on how the transition to AIFRPs is being managed and key differences in accounting policies expected to arise from adopting AIFRPs. The details and differences are disclosed in Note 1(z) to the Financial Statements.

Likely Developments

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

The Shareholders have announced that they are considering the sale of the Corporation's electricity trading capacity to the private sector. No firm details on this proposal are available at the time of this report.

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

Events Subsequent to Balance Date

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

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 monitor atmospheric emissions of particulate matter, sulphur dioxide, nitrogen oxides and total fluoride emissions which must not exceed limits or concentrations specified in the licences. The Bayswater licence also regulates the volume, concentration and type of pollutants in aqueous discharges to Lake Liddell and Tinkers Creek, as well as the discharge from Lake Liddell to the Hunter River under the Hunter River Salinity Trading Scheme. It also permits the discharge of ash to the Ravensworth Ash Disposal site.

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

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

Macquarie Generation also holds a licence for the operation of its gas turbines at Liddell. This requires the reporting of incidences which cause or are likely to cause environmental harm.

DIRECTORS' REPORT

Environmental Performance Report (continued)

Protection of the Environment Operations Act 1997 (continued)

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

Certificates of compliance have been completed for these licences.

Water Management Act 2000

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

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

The conversion of the licence to the requirements of the Water Management Act 2000 has not taken place as of 30 June 2004. The Department of Infrastructure, Planning and Natural Resources has now advised of the licence transfer process and a Conversion Working Group has been established to have a Water Licence Package, containing entitlements and licences, in place by December 2004 ahead of the next public review in 2005.

Waste Minimisation and Management Act 1995

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

Environmentally Hazardous Chemical Act 1985

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

Renewable Energy (Electricity) Act 2000

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

Waste Reduction and Purchasing Policy (WRAPP)

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

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

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

More significant waste reduction activities include:

- Re-use of 96,019 tonnes of ash in cement manufacture, landscaping and road works.
- Re-use of approximately 1,473 tonnes of lime and gypsum by-products by the agricultural industry.
- Co-firing wood waste from licensed sawmills. Since the program trials in August 1999, over 367,000 tonnes of waste biomass has been utilised, and 344 GWh of greenhouse neutral electricity has been produced.
- Efficiency improvements at the power stations resulting in less coal burnt.
- Use of recycled oil for boiler start-up at Bayswater and Liddell Power Stations.

Directors' Interests

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

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

Directors' Benefits

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

DIRECTORS' REPORT

Indemnification of Directors and Officers

During the financial year Macquarie Generation paid a premium of $254,100 including GST and stamp duty, to insure the Directors and certain officers of the Corporation. The policy covers losses and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the Directors and officers in their capacity as Directors and officers of the Corporation. At the date of this report no claims have been made against the policy.

Rounding of Amounts

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

Signed in accordance with a resolution of the Directors.

HE Rees	GV Every-Burns
Chairman	Chief Executive and Managing Director

13 August 2004

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004 $'000	2003 $'000
Revenue from Ordinary Activities	2	813,645	761,538
Borrowing costs expense	3(a)	(97,468)	(118,565)
Other expenses from ordinary activities	3(b)	(557,601)	(542,255)
Profit from ordinary activities before income tax expense		158,576	100,718
Income tax expense	4	(57,335)	(44,081)
NET PROFIT		101,241	56,637
Net increase in asset revaluation reserve	18(c)	105,241	870,898
Adjustment resulting from change in accounting policy on adoption of AASB 1028 *Employee Benefits*	18(d)	-	(406)
Total changes in equity other than those resulting from transactions with owners as owners		206,482	927,129

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2004

	Notes	2004 $'000	2003 $'000
Current Assets			
Cash assets	6	93,484	62,461
Receivables	7	88,077	95,018
Inventories	8	104,868	98,921
Property, plant and equipment	9	-	487
Other	12	3,075	317
TOTAL CURRENT ASSETS		289,504	257,204
Non-current Assets			
Receivables	7	77	149
Property, plant and equipment	9	2,600,000	2,561,540
Deferred tax assets	10	10,030	8,659
Intangible assets	11	841	339
Other	12	4,096	-
TOTAL NON-CURRENT ASSETS		2,615,044	2,570,687
TOTAL ASSETS		2,904,548	2,827,891
Current Liabilities			
Payables	13	94,085	116,672
Interest bearing liabilities	14	255,306	299,389
Provisions	16	117,438	74,742
TOTAL CURRENT LIABILITIES		466,829	490,803
Non-current Liabilities			
Interest bearing liabilities	14	805,958	870,700
Deferred tax liabilities	15	298,054	239,347
Provisions	16	29,071	28,887
Other	17	36,000	36,000
TOTAL NON-CURRENT LIABILITIES		1,169,083	1,174,934
TOTAL LIABILITIES		1,635,912	1,665,737
NET ASSETS		1,268,636	1,162,154
Equity			
Contributed equity	18(b)	281,078	281,078
Reserves	18(c)	975,245	870,898
Retained profits	18(d)	12,313	10,178
TOTAL EQUITY		1,268,636	1,162,154

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004 $'000	2003 $'000
Cash Flows from Operating Activities			
Cash received in the course of operations		902,448	897,284
Cash paid in the course of operations		(577,883)	(583,963)
Interest received		3,906	4,360
Borrowing costs		(96,743)	(103,037)
NET CASH INFLOWS FROM OPERATING ACTIVITIES	19	231,728	214,644
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(36,651)	(34,900)
Payments for intangible assets		(551)	(167)
Proceeds from sale of property, plant and equipment		1,322	247
NET CASH (OUTFLOWS) FROM INVESTING ACTIVITIES		(35,880)	(34,820)
Cash Flows from Financing Activities			
Proceeds from borrowings		-	400,000
Repayment of borrowings		(108,825)	(129,356)
Dividend paid		(56,000)	(125,000)
Distribution to shareholders	18(b)	-	(400,000)
NET CASH (OUTFLOWS) FROM FINANCING ACTIVITIES		(164,825)	(254,356)
NET INCREASE (DECREASE) IN CASH HELD		31,023	(74,532)
Cash at the beginning of the reporting period		62,461	136,993
CASH AT THE END OF THE REPORTING PERIOD	6	93,484	62,461

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Note 1—Summary of Significant Accounting Policies

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

(a) Basis of Accounting

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

(b) Income Tax

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

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

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

(c) Foreign Currency Translation

(i) Transactions

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

(ii) Specific Commitments

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Note 1—Summary of Significant Accounting Policies (continued)

(d) Revenue Recognition
Electricity sales are recognised when metered as delivered. Electricity sales revenue comprises National Electricity Market settlements at spot market price and also payments due to the Corporation by counterparties in respect of electricity hedging contracts.

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

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

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

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

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

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

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

(g) Recoverable Amount of Non-current Assets
The recoverable amount of a non-current asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal, discounted to present values using the Corporation's weighted average cost of capital which was 10.5% for the 2003/2004 year.

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Note 1—Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

The estimated useful lives of Power Station assets were reassessed as at 1 July 2002 and as a result increased from 40 years to 50 years based on current engineering and environmental assessments.

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

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

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

(i) Sale of Non-current Assets
Proceeds from the sale of property, plant and equipment are included in revenue. The depreciated value of such assets is included in expenditure.

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

(k) Intangible Assets—Water Entitlements
Costs incurred in the purchase of water entitlements are deferred and amortised on a straight line basis over the period of their expected benefits which is estimated to be 15 years.

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

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

Note 1—Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 1—Summary of Significant Accounting Policies (continued)

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

(r) Provision for Insurance
The provision is represented by the amounts of reported claims, which have not been settled at the reporting date.

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

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

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

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

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

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

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

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

(z) International Financial Reporting Standards
(i) Explanation of How the Transition is Being Managed
The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued AASB equivalents to IFRS, and Urgent Issues Group abstracts corresponding to International Financial Reporting Interpretations adopted by the International Accounting Standards Board. These Australian pronouncements will be known as Australian International Financial Reporting Pronouncements (AIFRPs).

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

Based on the Corporation's current analysis, the implementation of AIFRS will lead to material changes in account balances.

The Corporation is managing the transition to the new standards by allocating internal resources and engaging consultants to analyse the pending Standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

Note 1—Summary of Significant Accounting Policies (continued)

(z) International Financial Reporting Standards (continued)

The Corporation has taken the following steps to manage the transition to the new standards:

- Macquarie Generation's Board Audit and Assurance Committee is overseeing the transition. The Chief Financial Officer and Company Secretary are responsible for the project and reports at least quarterly to the Committee on progress against the project plan.
- The following phases that need to be undertaken have been identified:
  1. Detailed assessment of scope and impacts of AIFRS on Macquarie Generation
  2. Design and Implementation of AIFRS for Macquarie Generation
  3. Reporting for Macquarie Generation under AIFRS

Phase 1, Detailed Assessment of Scope and Impacts of AIFRS, commenced with the establishment of a project team in April 2003 to manage the transition to AIFRS. The project team consisted of both internal resources and external consultants. The project team prepared a detailed timetable, issues list and critical path in order to effectively manage the transition to AIFRS.

The tasks performed by the project team have included obtaining external specialist accounting advice, training of staff, analysis of the AIFRS including all those which will result in accounting policies changes for the Corporation, analysis of accounting impacts, preparation of policy documentation and system and internal control changes necessary to gather all required financial information. Members of the project team have also participated in Industry and Shareholder Discussion Group meetings.

Phase 2, Design and Implementation of AIFRS, will commence during the 2004/2005 financial year as comparatives are required for the first AIFRS reporting year ending 30 June 2006. The impacts on the Income Statement and Balance Sheet from transition to AIFRS on 1 July 2004 to 30 June 2005 will be reported to the Board on a monthly basis. This will make the Board aware of the amount of the differences in account balances as required under AIFRS and will assist with the preparation of the AIFRS compliant Income Statement and Balance Sheet required for comparative purposes at 30 June 2005.

As explained above Phase 3, Reporting under AIFRS, will commence from the preparation of the Financial Statements for the year ending 30 June 2006.

New South Wales Treasury has established an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change to AIFRS. The Chief Financial Officer and Company Secretary represents Macquarie Generation on the IAS Agency Reference Panel.

(ii) Key Differences in Accounting Policies

The Corporation has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because AIFRS requirements are different from existing AASB requirements. Other differences could arise from alternatives for accounting practice available in AIFRS. To ensure consistency at the whole of government level, New South Wales Treasury has advised the Corporation of options it is likely to mandate, and will confirm these during 2004/2005. This disclosure reflects these likely mandates.

The Corporation's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the Income Statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005/2006.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS.

AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIFRS from 1 July 2004, with limited elective exemptions.

Similarly, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of Retained Earnings.

This differs from current Australian requirements, because such changes must be recognised in the current period through the Income Statement, unless a new standard mandates otherwise.

AASB 110 *Events after the Balance Sheet Date* states that only dividends 'declared' or appropriately 'authorised' before the reporting date can be recognised. This is more restrictive than the current approach which is based on 'valid expectations'. However, this change is not expected to impact on dividend recognition as the signing of the Statement of Corporate Intent

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

Note 1—Summary of Significant Accounting Policies (continued)

(z) International Financial Reporting Standards (continued)

before the reporting date to which it relates, 'authorises' the dividend and any change in the amount of the dividend after the reporting date constitutes an 'adjusting event after the reporting date'.

However, the amount of the dividend may be affected by other AIFRS, such as AASB 139 *Financial Instrument Recognition and Measurement* and AASB 119 Employee Benefits (refer below) as these standards may impact on Retained Earnings (on first adoption) and the amount and volatility of profit.

AASB 112 *Income Taxes* requires a Balance Sheet approach where the Corporation must identify differences between the accounting and tax value of assets and liabilities. The previous approach was to account for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income.

In addition, the income tax expense and deferred tax assets and liabilities will be affected by other AIFRS to the extent that they impact on the Income Statement and Balance Sheet, such as AASB 139 *Financial Instruments Recognition and Measurement* and AASB 119 *Employee Benefits*.

AASB 116 *Property, Plant and Equipment* requires the cost and fair value of property, plant and equipment to be increased to include restoration costs, where restoration provisions are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. At this stage this will not impact on the Corporation as restoration provisions are not required to be recognised as there is no legal and constructive obligation to restore the Power Stations at the end of their useful lives.

Major inspection costs must be capitalised and this will require the fair value and depreciation of the related asset to be re-allocated.

For-profit entities must account for asset revaluation increments and decrements on an individual asset basis, rather than on a class basis. This change will decrease retained earnings by a material amount as a result of the restatement of the Asset Revaluation Reserve on transition to AIFRS.

AASB 119 *Employee Benefits* requires the defined benefit obligation to be discounted using the government bond rate as at each reporting date rather than the long-term expected rate of return on plan assets. Where the unfunded superannuation liability is not assumed by the Crown, as in the case of Macquarie Generation, this will increase the amount and the future volatility of the unfunded superannuation liability and the volatility of the employee benefit expense. This change will decrease Retained Earnings on transition to AIFRS.

AASB 123 *Borrowing Costs* provides the option to expense or capitalise borrowing costs. The Corporation understands that New South Wales Treasury is likely to mandate expensing of borrowing costs to harmonise with GFS. Previously, borrowing costs related to qualifying assets were capitalised. This has not applied to the Corporation as it has not been required to borrow funds to acquire assets as cash flows have been positive and adequate.

AASB 136 *Impairment of Assets* requires the Corporation to assess at each reporting date whether there is any indication that an asset (or cash generating unit) is impaired and if such indication exists, the Corporation must estimate the recoverable amount. However, the effect of this Standard should be minimal because all the substantive principles in AASB 136 are already incorporated in New South Wales Treasury Accounting Policy *Valuation of Physical Non-current Assets at Fair Value*.

AASB 138 *Intangibles* requires that all research costs must be expensed and restricts capitalisation of development costs. Further, intangibles assets can only be revalued where there is an active market, which is unlikely to occur. As a result, it is likely that any intangible assets are recognised at cost.

AASB 139 *Financial Instruments Recognition and Measurement* results in the recognition of financial instruments that were previously off Balance Sheet, including derivatives. The standard adopts a mixed measurement model and requires financial instruments held for trading and available for sale to be measured at fair value and valuation changes to be recognised in profit or loss or equity, respectively. Previously they were recognised at cost. This may increase the volatility of the operating result and Balance Sheet.

The Standard also includes stricter rules for the adoption of hedge accounting, and where these are not satisfied, movements in fair value will impact the Income Statement.

The Corporation has prepared for the consideration of the Board, a detailed Derivative Accounting Policy and Procedures Document to comply with the strict documentation requirements for hedge accounting.

To achieve full harmonisation with GFS, Macquarie Generation would need to designate all financial instruments at fair value through the Income Statement. However, at this stage it is unclear whether this option will be available under the standard and, if available, whether Treasury will mandate this option for all agencies.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000
Note 2—Revenue		
Revenue from Operating Activities		
Sales revenue	804,604	755,741
Miscellaneous sources	3,696	1,175
	808,300	756,916
Revenue from Outside the Operating Activities		
Net foreign exchange gains	2	15
Interest revenue	3,906	4,360
Sale of property, plant and equipment	1,322	247
Revaluation increment—other buildings	115	-
	5,345	4,622
REVENUE FROM ORDINARY ACTIVITIES	813,645	761,538
Note 3—Operating Profit		
(a) Net Gains and Expenses		
Profit from ordinary activities before income tax expense includes the following specific net gains and expenses:		
Net Gains		
Net gain on disposal of		
Land	483	-
Expenses		
Borrowing costs		
Interest and related finance charges	97,468	118,565
Depreciation of		
Buildings	15,632	15,637
Plant and equipment	81,434	80,121
Total Depreciation	97,066	95,758
Amortisation—water entitlements	49	16
Bad and doubtful debts		
Sundry debtors	-	1
Total Bad and Doubtful Debts	-	1
Net loss on disposal of non-current assets		
Buildings—Other	198	-
Plant and equipment—Other	172	85
Plant and equipment—Power Stations	1,755	-
Total Loss on Disposal of Non-current Assets	2,125	85

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000
Note 3—Operating Profit (continued)		
(a) Net Gains and Expenses (continued)		
Expenses (continued)		
Other provisions		
Employee entitlements	9,325	9,382
Redundancy	-	215
Total Other Provisions	9,325	9,597
Superannuation contributions to defined benefit funds	(309)	13,061
Superannuation contributions to accumulation funds	1,353	1,176
Total Superannuation Expense	1,044	14,237
Operating lease rentals	3,049	1,989
Directors' remuneration	443	432
Auditors' remuneration		
Audit of the Financial Statements	139	132
Consultants' fees	1,786	2,065
(b) Expenses from ordinary activities, excluding borrowing costs expense, included in the Statement of Financial Performance by function:		
Electricity generation operational expenditure	557,601	542,255

Note 4—Income Tax

(a) Income tax on operating profit differs from the prima facie tax on that profit as follows:

	2004	2003
Prima facie income tax on the operating profit at 30% (2003–30%)	47,573	30,215
Tax effect of permanent differences:		
Asset revaluation increment	(35)	-
Superannuation contributions to defined benefit funds	(1,587)	2,553
Depreciation on revaluation of non-current assets	11,535	11,555
Entertainment expenses	14	13
Consultants' fees	15	5
Legal expenses	12	18
Sundry items	(56)	(18)
	9,898	14,126
Income tax adjusted for permanent differences	57,471	44,341
(Over) provision in previous year	(136)	(260)
INCOME TAX EXPENSE	57,335	44,081
Aggregate income tax expense comprises:		
Tax profit (losses) recognised	13,178	(3,915)
Deferred income tax provision	45,528	48,749
Future income tax benefits	(1,371)	(753)
	57,335	44,081

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000

Note 5—Dividend

In accordance with the share dividends scheme determined by the voting shareholders, and as required by the Energy Services Corporation Act, 1995, the Board has provided for a dividend payment of $100,000,000 (2003–$56,000,000). This will be paid during the course of the 2004/2005 year and is represented by the balance of the provision at 30 June 2004 as disclosed in Note 16.

Note 6—Cash Assets

	2004	2003
Cash at bank and on hand	3	3
Deposits at call	93,481	62,458
	93,484	62,461

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

Deposits at Call

The deposits are bearing floating interest rates which at balance date averaged 5.5% (2003–4.8%).

Note 7—Receivables

	2004	2003
Current		
Trade debtors	85,407	94,717
Less: Provision for doubtful debts	849	849
	84,558	93,868
Sundry debtors—secured*	65	89
Sundry debtors—unsecured	3,454	1,061
	88,077	95,018
Non-current		
Sundry debtors—secured*	77	149

*Secured by mortgages over the subject properties.

Note 8—Inventories

	2004	2003
Coal stocks (at cost)	55,315	52,142
Stores and materials (at cost)	47,607	45,225
Oil stocks (at cost)	1,946	1,554
	104,868	98,921

Note 9—Property, Plant and Equipment

	2004	2003
Current		
Land		
Non-infrastructure:		
At independent valuation 2002:	-	100
	-	100
Buildings		
Other buildings:		
At independent valuation 2002	-	400
Less: Accumulated depreciation	-	13
	-	387
TOTAL DEPRECIATED VALUE OF CURRENT LAND AND BUILDINGS	-	487

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000
Note 9—Property, Plant and Equipment (continued)		
Non-current		
Land		
Infrastructure:		
At Directors' valuation 2004	17,634	-
At Directors' valuation 2003	-	10,700
	17,634	10,700
Non-infrastructure:		
At independent valuation 2004	1,400	-
At independent valuation 2002	-	800
	1,400	800
TOTAL NON-CURRENT LAND	19,034	11,500
Buildings		
Power Stations:		
At Directors' valuation 2004	320,778	-
At Directors' valuation 2003	-	460,800
Less: Accumulated depreciation	31,087	15,543
	289,691	445,257
Other buildings:		
At independent valuation 2004	2,163	-
At independent valuation 2002	-	2,000
Less: Accumulated depreciation	163	81
	2,000	1,919
TOTAL NON-CURRENT BUILDINGS	291,691	447,176
Plant and Equipment		
Power stations:		
At Directors' valuation 2004	2,425,875	-
At Directors' valuation 2003	-	2,103,165
At cost	-	57,576
Less: Accumulated depreciation	154,431	76,451
	2,271,444	2,084,290
Other plant and equipment:		
At Directors' valuation 2004	24,433	-
At Directors' valuation 2003	-	20,433
At cost	-	1,765
Less: Accumulated depreciation	6,602	3,624
	17,831	18,574
TOTAL NON-CURRENT PLANT AND EQUIPMENT	2,289,275	2,102,864
TOTAL DEPRECIATED VALUE OF NON-CURRENT PROPERTY, PLANT AND EQUIPMENT	2,600,000	2,561,540

Independent Valuation 2004 of Non-infrastructure Land and Buildings:

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

	2004	2003
	$'000	$'000

Note 9—Property, Plant and Equipment (continued)

Directors' Valuation 2003 and 2004

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

Directors' Valuation 2004

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

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

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

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

Reconciliations

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

	2004 $'000	2003 $'000
Land—Infrastructure		
Carrying amount at start of year	10,700	3,281
Revaluation increments	6,934	7,419
Additions	-	-
Disposals	-	-
Depreciation expense	-	-
Carrying amount at end of year	17,634	10,700
Land—Non-infrastructure		
Carrying amount at start of year	900	900
Revaluation increments	600	-
Additions	-	-
Disposals	100	-
Depreciation expense	-	-
Carrying amount at end of year	1,400	900
Buildings—Power Stations		
Carrying amount at start of year	445,257	123,940
Revaluation increments	-	336,860
Additions	24	-
Disposals	-	-
Reclassification to Plant and Equipment—Power Stations	140,046	-
Depreciation expense	15,544	15,543
Carrying amount at end of year	289,691	445,257
Buildings—Other		
Carrying amount at start of year	2,306	2,400
Revaluation increments	115	-
Additions	48	-
Disposals	381	-
Depreciation expense	88	94
Carrying amount at end of year	2,000	2,306

Note 9—Property, Plant and Equipment (continued)

	2004 $'000	2003 $'000
Plant and Equipment—Power Stations		
Carrying amount at start of year	2,084,290	1,598,227
Revaluation increments	97,598	523,462
Reclassification from Buildings—Power Stations	140,046	-
Additions	29,398	39,052
Disposals	1,767	-
Depreciation expense	78,121	76,451
Carrying amount at end of year	2,271,444	2,084,290
Plant and Equipment—Other		
Carrying amount at start of year	18,574	17,654
Revaluation increments	108	3,157
Additions	3,210	1,765
Disposals	748	332
Depreciation expense	3,313	3,670
Carrying amount at end of year	17,831	18,574
Total		
Carrying amount at start of year	2,562,027	1,746,402
Revaluation increments	105,355	870,898
Additions	32,680	40,817
Disposals	2,996	332
Depreciation expense	97,066	95,758
Carrying amount at end of year	2,600,000	2,562,027

Note 10—Deferred Tax Assets

	2004 $'000	2003 $'000
Non-current		
Future income tax benefit	10,030	8,659

Note 11—Intangible Assets

	2004 $'000	2003 $'000
Non-current		
Water entitlements	910	359
Less: Accumulated amortisation	69	20
	841	339

Note 12—Other Non-current Assets

	2004 $'000	2003 $'000
Current		
Prepayments	581	317
New South Wales Greenhouse Abatement Certificates (NGACs)	2,494	-
	3,075	317
Non-current		
New South Wales Greenhouse Abatement Certificates (NGACs)	4,096	-
	4,096	-

As a consequence of the New South Wales Greenhouse Gas Abatement Scheme legislation, Macquarie Generation has an obligation to acquire and acquit NGAC's with respect to the Tomago Aluminium Direct Supply contract. Macquarie Generation has acquired and carried forward NGAC's to be acquitted against future years' liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000
Note 13—Payables		
Current (Unsecured)		
Trade creditors	82,392	101,381
Accrued interest on borrowings	11,693	15,291
	94,085	116,672
Note 14—Interest Bearing Liabilities		
Current (Unsecured)		
Borrowings	255,306	299,389
Non-current (Unsecured)		
Borrowings	805,958	870,700

Borrowings are comprised of fixed rate debt of $998,764,145 (2003-$1,077,589,006) bearing interest rates of between 5.0% and 6.9% and the remainder bearing floating interest rates of between 5.5% and 5.7%. These rates are exclusive of the government guarantee fee and New South Wales Treasury Corporation administration fees.

Maturity Analysis

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

	2004	2003
Up to one year	255,306	299,389
Over one and up to five years	462,154	505,726
Over five years	343,804	364,974
Total	1,061,264	1,170,089
Financing Arrangements		
Facilities Available		
Bank overdraft	2,000	2,000
New South Wales Treasury Corporation loans	1,650,000	1,650,000
New South Wales Treasury Corporation come and go facility	390,000	390,000
Total available	2,042,000	2,042,000
Facilities Utilised		
Bank overdraft	-	-
New South Wales Treasury Corporation loans	1,061,264	1,170,089
New South Wales Treasury Corporation come and go facility	-	-
Total utilised	1,061,264	1,170,089

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

	2004	2003
Note 15—Deferred Tax Liabilities		
Non-current		
Provision for deferred income tax	298,054	239,347

Deferred Income Tax

The provision for deferred income tax has been reduced by $30,645,430 (2003–$43,823,203) in respect of future income tax benefits attributable to tax losses (see also Note 4(b)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000
Note 16—Provisions		
Current		
Insurance	2,591	529
Dividend	100,000	56,000
Employee benefits	7,866	6,253
Mine rehabilitation	680	370
Unfunded employee superannuation	6,301	11,590
	117,438	74,742
Non-current		
Employee benefits	22,116	21,247
Mine rehabilitation	6,955	7,640
	29,071	28,887

Movements in Provisions

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

	Insurance	Dividend	Mine Rehabilitation	Total
	$'000	$'000	$'000	$'000
Current				
Carrying amount at the start of the year	529	56,000	370	56,899
Additional provisions recognised	3,582	100,000	685	104,267
Payments/other sacrifices of economic benefits	(1,520)	(56,000)	(375)	(57,895)
Carrying amount at the end of the year	2,591	100,000	680	103,271
Non-current				
Carrying amount at the start of the year	-	-	7,640	7,640
Additional provisions recognised	-	-	-	-
Payments/other sacrifices of economic benefits	-	-	(685)	(685)
Carrying amount at the end of the year	-	-	6,955	6,955

	2004	2003
Note 17—Other Liabilities		
Non-current		
Security deposit	36,000	36,000
	36,000	36,000

Security Deposit

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

	2004	2003
	$'000	$'000

Note 18—Equity

(a) Share Capital

	No. of Shares	No. of Shares
Ordinary shares, fully paid	2	2

In accordance with the State Owned Corporations Act, 1989, the two voting shareholders, the Honourable M.R. Egan MLC, Treasurer and the Honourable J.J. Della Bosca MLC, Special Minister of State hold one share each valued at $1.00 per share.

(b) Contributed Equity

	2004	2003
Balance 1 July 2003	281,078	681,078
Distribution to Shareholders	-	(400,000)
Balance 30 June 2004	281,078	281,078

Repayment of Equity to New South Wales Treasury

As a consequence of the finalisation of New South Wales Treasury's review of Macquarie Generation's Capital Structure a repayment of equity of $400 million was made in July 2002.

(c) Reserves

	2004	2003
Asset Revaluation Reserve:		
Balance 1 July 2003	870,898	-
Increment on revaluation of land, buildings, plant and equipment	105,241	870,898
Realisation of asset increments transferred to retained earnings	(894)	-
Balance 30 June 2004	975,245	870,898

(d) Retained Profits

	2004	2003
Retained profits at the beginning of the financial year	10,178	9,947
Transfer of realised asset revaluation increments from reserves	894	-
Adjustment resulting from change in accounting policy on adoption of AASB 1028 *Employee Benefits*	-	(406)
Net profit	101,241	56,637
Dividends provided for	(100,000)	(56,000)
Retained profits at the end of the financial year	12,313	10,178

Note 19—Cash Flow Information

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

Reconciliation of Net Cash Flows from Operating Activities to Operating Profit after Income Tax

	2004	2003
Operating profit after income tax	101,241	56,637
Depreciation and amortisation	97,115	95,774
Revaluation (increments)	(115)	-
Increase in net borrowings accruals	725	15,528
Net loss on sale of non-current assets	1,642	85
Tax profit (losses) recognised	13,178	(3,915)
Increase in net deferred taxes payable	44,158	47,996
Changes in assets and liabilities		
Decrease in trade and other debtors	7,013	55,190
(Increase) in inventories	(5,947)	(15,769)
(Increase) decrease in other operating assets	(6,854)	283
(Decrease) in trade and other creditors, employee entitlements and other provisions	(20,428)	(37,165)
NET CASH FLOWS FROM OPERATING ACTIVITIES	231,728	214,644

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	$'000	$'000

Note 20—Capital Expenditure Commitments

	2004	2003
Commitments for the acquisition of assets contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	36,445	36,133
Later than one year but not later than five years	31,072	18,007
	67,517	54,140

Note 21—Lease Commitments

	2004	2003
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	3,264	2,938
Later than one year but not later than five years	10,398	12,198
Later than five years	510	-
	14,172	15,136

Note 22—Events Occurring After Balance Date

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

Note 23—Financial Instruments

(a) Recognised Financial Instruments

Macquarie Generation has recognised certain financial instruments in the accounts. These financial instruments have been disclosed in Notes 6,7,13,14 and 17.

(b) Unrecognised Financial Instruments

Interest Rate Exposure

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

(i) Interest Rate Swap Contracts

The Corporation's borrowings at 30 June 2004 include securities that bear an average variable interest rate of 5.6%. It is the policy to protect the borrowings from exposure to increasing interest rates. Accordingly New South Wales Treasury Corporation has entered into interest rate swap contracts on Macquarie Generation's behalf under which the Corporation is obliged to receive and pay interest at variable rates and fixed rates. The contracts are settled on a net basis each 90 days and the net amount receivable or payable at the reporting date is included in other debtors or other creditors. Liability swaps in place at 30 June 2004 have fixed interest rates ranging between 6.0% and 6.3% and variable rates of 5.6%.

At 30 June 2004, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	2004	2003
	$'000	$'000
Less than 1 year	18,400	-
1–2 years	-	18,400
2–3 years	11,600	46,000
3–4 years	-	11,600
	30,000	76,000

(ii) Interest Rate Futures

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

Note 23—Financial Instruments (continued)

(b) Unrecognised Financial Instruments (continued)

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

	Delivery Month	Number Contracts Sold	Number Contracts Bought	Total Nominal Value	Total Nominal Value
				2004	2003
				$'000	$'000
3 Year Bond Futures *	-	-	-	-	(19,100)
10 Year Bond Futures	-	-	-	-	9,000
		-	-	-	(10,100)

* The negative amounts represent bought futures positions

Foreign Currency Exposure

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

At balance date the details of the outstanding contracts are:

	2004	2003	2004	2003
	Australian Dollars		Average Exchange Rate	
	$'000	$'000		
Buy United States Dollars				
Maturity				
0–6 months	687	1,855	0.690	0.668
1–2 years	-	976	0.690	0.668
Buy Swiss Francs				
Maturity				
0–6 months	580	188	0.874	0.902
6–12 months	-	562	0.874	0.902
1–2 years	572	561	0.874	0.902
2–3 years	-	556	0.874	0.902
Buy Euros				
Maturity				
0–6 months	8,717	-	0.571	-
1–2 years	3,632	-	0.571	-
2–3 years	3,275	-	0.571	-
3–4 years	6,664	-	0.571	-
4–5 years	6,402	-	0.571	-
Buy Japanese Yen				
Maturity				
6–12 months	832	-	74.706	-

As these contracts are hedging anticipated future purchases, any unrealised gains and losses on the contracts, together with the cost of the contracts, are deferred and will be recognised in the measurement of the underlying transaction provided the underlying transaction is still expected to occur as originally designated. Amounts receivable and payable on open contracts are included in other debtors and other creditors respectively. As at 30 June 2004 the Corporation's foreign exchange position gave rise to an unrealised loss of $44,691 (2003–$556,471) which has been deferred.

Electricity Hedging Contracts

The terms and face values of the Corporation's outstanding electricity hedging contracts at the reporting date are detailed in the following table:

	2004	2003
	Face Values	
	$'000	$'000
Less than 1 year	238,000	446,000
1 to 5 years	250,000	462,000
5 to 10 years	50,000	96,000
	538,000	1,004,000

Note 23—Financial Instruments (continued)

(b) Unrecognised Financial Instruments (continued)

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

The weighted average fixed price of electricity hedging contracts is $36.19/MWh (2003–$36.01/MWh).

The unrealised loss in respect of electricity hedging contracts at 30 June 2004 was $30,000,000 based on the forward curve at 30 June 2004 (2003–$27,000,000 unrealised gain). Subsequent to 30 June 2004 there has been a movement in the forward price curve such that the Corporation's unrealised loss in respect of electricity hedging contracts at 6 August 2004 (latest available date prior to signing of accounts) was $7,000,000.

The gain or loss is determined using readily available independent market price estimates as provided by the Australian Financial Markets Association, using conventional market valuation techniques and is quoted in net present value terms discounted by the Corporation's weighted average cost of capital.

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

In addition, the Corporation has entered into electricity options, caps and collars which have not been valued as at 30 June 2004 as a reliable and generally accepted valuation methodology is not currently available and the value is not considered material. The valuation model is in the process of being developed in conjunction with preparation for implementation of International Financial Reporting Standard AASB 139 *Financial Instruments Recognition and Measurement*.

(c) Interest Rate Risk Exposure

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

	FLOATING INTEREST RATE 2004	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS 2004	1 TO 5 YEARS 2004	OVER 5 YEARS 2004	NON-INTEREST BEARING 2004	TOTAL 2004
	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets						
Cash	93,481	-	-	-	3	93,484
Receivables	142	-	-	-	88,012	88,154
	93,623	-	-	-	88,015	181,638
Weighted average interest rate	5.5%	-	-	-		
Financial Liabilities						
Trade creditors	-	-	-	-	82,392	82,392
Accrued interest	-	-	-	-	11,693	11,693
Borrowings	62,500	245,306	409,654	343,804	-	1,061,264
Security deposit	-	-	-	-	36,000	36,000
Interest rate swaps *	(30,000)	18,400	11,600	-	-	-
	32,500	263,706	421,254	343,804	130,085	1,191,349
Weighted average interest rate	5.6%	5.5%	6.1%	6.0%		
NET FINANCIAL ASSETS (LIABILITIES)	61,123	(263,706)	(421,254)	(343,804)	(42,070)	(1,009,711)

Note 23—Financial Instruments (continued)

(c) Interest Rate Risk Exposure (continued)

	FLOATING INTEREST RATE 2003	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS 2003	1 TO 5 YEARS 2003	OVER 5 YEARS 2003	NON-INTEREST BEARING 2003	TOTAL 2003
	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets						
Cash	62,458	-	-	-	3	62,461
Receivables	238	-	-	-	94,929	95,167
Interest rate swaps *	-	-	-	-	-	-
Interest rate futures **	(19,100)	19,100	-	-	-	-
	43,596	19,100	-	-	94,932	157,628
Weighted average interest rate	5.0%	4.4%	-	-		
Financial Liabilities						
Trade creditors	-	-	-	-	101,381	101,381
Accrued interest	-	-	-	-	15,291	15,291
Borrowings	92,500	299,444	413,226	364,919	-	1,170,089
Security deposit	-	-	-	-	36,000	36,000
Interest rate swaps *	(76,000)	76,000	-	-	-	-
Interest rate futures **	(9,000)	9,000	-	-	-	-
	7,500	384,444	413,226	364,919	152,672	1,322,761
Weighted average interest rate	4.8%	5.3%	6.0%	5.9%		
NET FINANCIAL ASSETS (LIABILITIES)	36,096	(365,344)	(413,226)	(364,919)	(57,740)	(1,165,133)

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

(d) Credit Risk Exposure

Recognised

Credit risk is the risk of financial loss arising from another party to a contract or financial position failing to discharge a financial obligation thereunder. Macquarie Generation's exposure to credit risk is represented by the carrying amounts of financial assets, net of any provision for doubtful debts on the Statement of Financial Position. The recognised financial assets of the Corporation include amounts receivable from Government owned agencies (74%), secured debtors (18%) and other debtors (8%).

Unrecognised

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

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

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

The Corporation calculates credit risk in accordance with Australian Prudential Regulation Authority guidelines and the amount calculated at balance date under this method was $32,109,000 (2003–$117,590,000).

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

(e) Net Fair Value of Financial Assets and Liabilities

Bases for Determining Net Fair Values

Recognised

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

Note 23—Financial Instruments (continued)

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

Unrecognised

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

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

	2004 Carrying Amount $'000	2004 Net Fair Value $'000	2003 Carrying Amount $'000	2003 Net Fair Value $'000
Recognised Financial Instruments				
Financial Assets				
Loans to employees	142	129	238	218
TOTAL	142	129	238	218
Financial Liabilities				
Borrowings and accrued interest	1,072,957	1,073,326	1,185,380	1,221,331
Security deposit	36,000	12,044	36,000	12,475
TOTAL	1,108,957	1,085,370	1,221,380	1,233,806
Unrecognised Financial Instruments				
Financial Assets				
Electricity hedging contracts	-	-	-	27,000
Interest rate futures	-	-	-	22
TOTAL	-	-	-	27,022
Financial Liabilities				
Electricity hedging contracts	-	30,000	-	-
Forward foreign exchange contracts	-	46	-	556
Interest rate swaps	-	205	-	1,733
TOTAL	-	30,251	-	2,289

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

Note 24—Superannuation

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

(a) Defined Benefit Superannuation Funds

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

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

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

Note 24—Superannuation (continued)

(a) Defined Benefit Superannuation Funds (continued)

	SASS (i)	SANCS (ii)	SSS (iii)	TOTAL
	2004	2004	2004	2004
	$'000	$'000	$'000	$'000
Gross liability assessed by actuaries as at 30 June 2004	25,706	9,729	66,238	101,673
Investment reserve	21,902	8,298	65,172	95,372
(Unfunded superannuation liabilities)	(3,804)	(1,431)	(1,066)	(6,301)

	2003	2003	2003	2003
	$'000	$'000	$'000	$'000
Gross liability assessed by actuaries as at 30 June 2003	22,750	8,543	62,565	93,858
Investment reserve	18,592	7,041	56,635	82,268
(Unfunded superannuation liabilities)	(4,158)	(1,502)	(5,930)	(11,590)

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

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

The actuarial assumptions used in determining the financial positions of each of the schemes shown above are as follows:

	2004/05	2005/06	2006/07 and thereafter
	% p.a.	% p.a.	% p.a.
Investment return	7.0	7.0	7.0
Salary growth rate	4.0	4.0	4.0
Consumer price index	2.5	2.5	2.5

(b) Accumulation Superannuation Funds
Macquarie Generation also contributes to various accumulation superannuation funds on behalf of employees and Directors at the statutory rate of salaries and wages or Directors' fees as determined by the Superannuation Guarantee (Administration) Act 1992 which was 9% (2003–9%).

Note 25—Directors' Interests

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

Note 26—Remuneration of Directors

	2004	2003
	$	$
Income paid or payable, or otherwise made available, to Directors in connection with the management of the affairs of the entity	901,823	858,292

The numbers of Directors whose total income from the entity was within the specified bands are as follows:

$	No.	No.
60,000–69,999	4	4
70,000–79,999	1	1
100,000–109,999	1	1
420,000–429,999	-	1
450,000–459,999	1	-

Details of the nature and amount of each element of the remuneration of each Non-executive Director of Macquarie Generation are set out in the following tables.

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

Name	Travel Allowance 2003	Directors' Base Fees 2003	Committee Fees 2003	Superannuation Expense 2003	Total 2003
	$	$	$	$	$
Evan Rees (Chairman)	941	96,434	-	8,573	105,948
Anna Buduls	580	54,565	5,000	5,361	65,506
John Cahill	949	54,565	-	4,911	60,425
Deborah Page	820	54,565	10,000	5,777	71,162
James Watt	580	54,565	7,000	5,541	67,686
The Hon. Robert Webster	396	54,565	1,667	5,061	61,689
Total Directors' fees	4,266	369,259	23,667	35,224	432,416

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Note 27—Remuneration of Executives

	2004	2003
	$	$
Total remuneration received, or due and receivable, from the entity by Executive Officers (including Directors) whose income is $100,000 or more	2,883,705	2,777,999

The numbers of Executive Officers (including Directors) whose remuneration from the entity was within the specified bands are as follows:

$	No.	No.
110,000–119,999	1	1
120,000–129,999	1	2
130,000–139,999	1	1
140,000–149,999	3	2
150,000–159,999	1	-
160,000–169,999	1	1
190,000–199,999	-	1
220,000–229,999	-	1
230,000–239,999	1	2
240,000–249,999	2	1
260,000–269,999	1	1
270,000–279,999	1	-
420,000–429,999	-	1
450,000–459,999	1	-

For the purposes of this note, Executive Officers are defined as being those senior management employees who take part in the management of the affairs of the entity, are employed under a performance based employment contract and whose total remuneration package including benefits and incentive payments received from the entity during this financial year exceeded $100,000.

The number of Executive Officers with remuneration (excluding incentive payments) equal to or exceeding the equivalent of Senior Executive Service (SES) Level 1 ($122,500 for the year ending 30 June 2004) at the end of the reporting period was 13 (2003–13).

The number of Executive Officer positions equal to or exceeding SES Level 1 filled by women in the current year was nil (2003–1).

The following specific remuneration and incentive payments were made to Senior Executive Officers during the financial year. The 2004 incentive payments were earned during the 2003/2004 year and will be paid during the 2004/2005 year. Likewise the 2003 incentive payments were earned during the 2002/2003 year and paid during the 2003/2004 financial year.

	2004	2004	2003	2003
	$ Remuneration Package	$ Incentive Payment	$ Remuneration Package	$ Incentive Payment
Position				
Chief Executive and Managing Director	348,427	154,880	331,244	110,500
Chief Financial Officer and Company Secretary	213,552	53,500	204,697	53,300
Manager Marketing and Trading	219,570	72,600	213,078	59,780
Manager Bayswater Power Station	198,086	54,600	189,479	47,500
Manager Liddell Power Station	198,138	49,625	189,617	45,600
Manager Fuel and Environment	189,094	81,500	181,131	45,375

Macquarie Generation has in place an executive and staff incentive program. In the case of executive contract staff, incentives are aligned to measurable commercial targets that increase profit and shareholder value outcomes. The incentive payments are subject to the recommendation of the Remuneration and Human Resources Committee for approval by the Board. Disclosure of the specific targets would entail the disclosure of commercially sensitive information.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

Note 28—Exemptions

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

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

END OF AUDITED FINANCIAL STATEMENTS

DIRECTORS' DECLARATION

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

(a) the accompanying Financial Statements and Notes comprise a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards, the State Owned Corporations Act, 1989, the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000 and mandatory professional reporting requirements and give a true and fair view of the Corporation's financial position as at 30 June 2004 and its performance for the year ended on that date;

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

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

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

HE Rees
Chairman

GV Every-Burns
Chief Executive and Managing Director

13 August 2004

INDEPENDENT AUDIT REPORT

AUDITOR-GENERAL
NEW SOUTH WALES

GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

MACQUARIE GENERATION

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of Macquarie Generation:

(a) presents fairly the Corporation's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and

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

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

The Board's Role

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

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does not provide assurance:

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

Audit Independence

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

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

R J Sendt
Auditor-General

SYDNEY
13 August 2004

CORPORATE GOVERNANCE STATEMENT 2004

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 the high standards of corporate governance.

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

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

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

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

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

The Board of Directors

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

Board Composition

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

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

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

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

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

Responsibilities

The responsibilities of the Board include:

- Contributing to the development of and approving the corporate strategy.
- Reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives.
- Overseeing and monitoring:
  - organisational performance and the achievement of the Corporation's strategic goals and objectives,
  - compliance with the Corporation's Code of Conduct, and
  - progress of major capital expenditures and other significant corporate projects.
- Monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Corporation's internal and external auditors via the Audit and Assurance Committee.
- Appointment, performance assessment and, if necessary, removal of the Managing Director allowing for consultation with the Shareholders.
- Ratifying the appointment, removal and performance assessment of the members of the senior management team.

Responsibilities (continued)

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

Board Members

Details of the members of the Board, 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 sets the term of office of each Director and consults 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 board meetings and two corporate strategy sessions during the year. Five of those meetings were held at operational sites of the Corporation, and one of those meetings was held via teleconference.

The number of meetings of the Corporation's Board of Directors and of each Board Committee held during the year ended 30 June 2004, and the number of meetings attended by each Director is disclosed on page 3 of the Directors' Report.

It is the Corporation's practice to allow its Managing Director to accept appointments outside the Corporation with the prior written approval of the Board. No appointments of this nature were accepted during the year ended 30 June 2004.

During the year ended 30 June 2004 the Chief Executive and Managing Director held the positions of Chairman of the NEMMCO Participant Advisory Committee and Deputy Chairman of the National Generators Forum.

Conflict of Interests

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

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

Corporate Reporting

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

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

Board Committees

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

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

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

Board Committees (continued)

All 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.

Remuneration and Human Resources Committee

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

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

The 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 Managing Director and other senior executives. Committee members receive regular input from an external remuneration expert on recent developments on remuneration and related matters.

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

The Committee also ensures that the key performance targets contained within the remuneration packages of the 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 Directors' and Executives' Remuneration is set out in Notes 26 and 27 to the Financial Statements.

The Committee has oversight responsibility for management succession planning, including the implementation of appropriate executive development programs and ensuring adequate arrangements are in place.

Audit and Assurance Committee

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

James Watt (Chairman)
Anna Buduls
Deborah Page

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

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

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

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

External Auditors

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

Risk Assessment, Internal Control and Management Reporting

The Board is responsible for ensuring there are adequate policies in relation to risk oversight and management, and internal control systems. In summary, the Corporation's policies are designed to ensure strategic, operational, occupational health and safety,

CORPORATE GOVERNANCE STATEMENT 2004

Risk Assessment, Internal Control and Management Reporting (continued)

legal, environmental, reputation and financial risks are identified, assessed, addressed and monitored to enable achievement of the Corporation's business objectives.

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

The Corporation has contracted for the provision of an effective internal audit function. PricewaterhouseCoopers currently provides this service which will be again tendered for a new three year period commencing in January 2005.

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

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

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

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

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

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

Executive Committees

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

- Executive
- Energy Trading
- Environment
- Safety

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

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

- Australian Equivalents to International Financial Reporting Pronouncements Implementation
- Budget Review
- Information Technology

Code of Conduct

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

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

Continuous Disclosure and Shareholder Communication

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

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

Senior Management Team

Title	Name and Qualification	Executive Committee Representation (1)
Chief Executive and Managing Director	Mr Grant Every-Burns BE(Hons) FAICD	1,2,4,5,6
Chief Financial Officer and Company Secretary (7)	Mr David Ipkendanz BEc DipEd FCPA	1,3,4,6
Manager Bayswater (7)	Mr John Neely BSc(Eng)	1,2,3,5,6
Manager Liddell (7)	Mr John Marcheff BE	1,2,3,5,6
Acting Manager Human Resources (7)	Mr Terry Wheeler BBus (Personnel Mngt and Industrial Relations) Assoc Diploma (Eng)	1,3,5
Manager Marketing and Trading (7)	Mr Russell Skelton BE	1,3,4
Manager Fuel and Environment (7)	Mr Steve Ireland BE BLegS	1,2

Notes:
(1) Reflects membership of Executive Committee
(2) Executive Environment Committee
(3) Executive Information Technology Governance Committee
(4) Executive Trading Committee
(5) Executive Safety Committee
(6) Executive Budget Review Committee
(7) 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 $33,392.70. The annual report is available on the Corporation's website at www.macgen.com.au.

Chief and Senior Executive Officers

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

Controlled Entities

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

Statement of Corporate Intent

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

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

	2003/2004 Actual ($m)	2003/2004 SOCI Target ($m)
Tax Expense	57.3	49.3
Dividend Payable	100.0	74.9

Macquarie Generation's performance was above target due primarily to higher than anticipated average electricity sales prices earned during the second half of the financial year.

STATUTORY INFORMATION

Equal Employment Opportunity (EEO)

As at 30 June 2004, Macquarie Generation's workforce comprised 607 employees (excluding casuals) including trainees and apprentices in the following categories by percentage of the total staff numbers:

Trends in the Representation of EEO Groups

EEO Group:	Government target	2004	2003 (% of Total Staff)	2002	2001
Women	50%	12%	11%	11%	11%
People identifying as Aboriginal or Torres Strait Islander	2%	1.2%	1.2%	1%	0.5%
People whose first language as a child was not English	20%	3%	4%	4%	4%
People with a disability	12%	10%	10%	10%	11%
People with a disability requiring adjustment in the workplace	7%	3.2%	3.2%	3.2%	3.4%

Trends in the Distribution of EEO Groups (Note 1)

EEO Group:	Benchmark or target	2004	2003 (Distribution Index)	2002	2001
Women	100	88	89	83	82
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	113	110	108	108
People with a disability	100	98	96	94	93
People with a disability requiring adjustment in the workplace	100	N/a	N/a	N/a	94

Note:
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 automatically calculated by the software provided by the Office of the Director of Equal Opportunity in Public Employment (ODEOPE).

Achievements during 2003/2004 and key strategies proposed for 2004/2005

Key activities promoting workforce equity and diversity during the 2003/2004 financial year and planned for the 2004/2005 financial year included the following:

- Reviewing and improving flexible work options to meet employees' family needs, including child and elder care responsibilities
- Continuing financial support to child care centres to ensure provision of services are retained in the local community, providing indirect support to employee access
- Financial support to community groups supporting employment and other services to EEO target groups
- Workplace awareness programs promoting equity and diversity
- Reviewing policies and procedures to ensure equity and diversity practices are incorporated as appropriate
- Surveying employees through exit interviews and climate surveys
- Promoting and continuing to participate in traineeship programs, targeting EEO groups
- Participating in work experience programs for people with a disability
- Improving EEO Data Collection to achieve a 100% response rate

Ethnic Affairs Priorities Statement

In accordance with the requirements of the Community Relations Commission and Principles of Multiculturalism Act 2000, an Ethnic Affairs Priorities Statement (EAPS) has been implemented.

As an electricity generator and wholesaler, the Corporation does not provide direct services to the community. Bayswater and Liddell Power Stations are remote from townships with the nearest community being Muswellbrook, approximately 28 km distant. In dealings with providers of goods and services, some major contracts are made with international suppliers. In such circumstances, the

STATUTORY INFORMATION

Ethnic Affairs Priorities Statement (continued)

suppliers arrange to have Australian-based representatives involved in contract negotiations between the parties. Nevertheless, Macquarie Generation ensures cultural differences are considered in such processes.

In regard to the nature of the Corporation's operations, the geographical location of its major plant and the profile of its workforce, the EAPS has been closely aligned to the Corporation's Equity and Diversity Management Plan, focusing on merit based recruitment practices, flexible working arrangements and/or provision of facilities to accommodate the needs of employees in regard to cultural or religious difference and ensuring that written material produced by the Corporation is free of discriminatory references or language.

Freedom of Information

No requests for release of information under the NSW Freedom of Information Act were received by Macquarie Generation during the reporting period.

Funds Granted to Non-government Community Organisations

Macquarie Generation donations and sponsorships during the reporting year to Hunter region community organisations totalled $281,612.

Overseas Visits

Name	Title	Country	Purpose
D. Ipkendanz	Chief Financial Officer and Company Secretary	United Kingdom	Presentations and meetings with insurance underwriters
S. Abbott	Energy Trading Manager	United Kingdom	Meetings held with Energy Broker Affiliates and Energy Consultants
P. Shields	Regulations Officer	New Zealand	Study Tour of NZ Government Regulatory Bodies and Gentailers of NZ
R. Skelton	Manager Marketing and Trading	New Zealand	Study Tour of NZ Government Regulatory Bodies and Gentailers of NZ
P. Sewell	Production Manager Liddell Power Station	United Kingdom	London Business School Course attendance

Promotion

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

- Annual Report 2003;
- Awareness advertising, Rural Press Ltd (Upper Hunter TV Guide);
- Media releases, radio and TV interviews;
- Internet website updates: www.macgen.com.au;
- Community Billboard, Radio 2NM; and
- Casual newspaper and magazine advertising.

Consultants' Fees

Consultants equal to or more than $30,000

Consultant	$ Cost	Nature
Finance, accounting and tax		
KPMG	45,618	Financial Services Reform Advice
Deloitte Touche Tohmatsu	74,365	International Financial Reporting Standards Accounting Advice
Fuel and Environment		
Marston & Marston	263,949	Mine Assessment Advice
Marston International	185,086	Mine Assessment Advice
Hunwick Consultants	161,008	General Environmental Consultancy
GA Brown & Associates	33,942	ISO 14001 Compliance Consulting
Symbiosis Solutions	37,800	Recycling Projects

STATUTORY INFORMATION

Consultants' Fees (continued)

CCI Australia Pty Ltd	94,227	Coal Analysis Advice
Marketing and Trading		
Frontier Economics	37,000	Market Data Modelling
Frontier Economics	39,023	Market Strategy Modelling
Frontier Economics	67,138	Market Constraint Advice
Garrad Hassan Pacific	63,907	Wind Development Consultancy
Training		
Foresight Management Group	54,750	Executive Coaching Program
Total consultancies equal to or more than $30,000	**1,157,813**	

Consultancies less than $30,000

During the financial year 43 other consultancies were engaged in the following areas:

Area	$ Cost
Finance, accounting and tax	117,299
Engineering	122,821
Information technology	63,414
Legal	7,591
Environmental	136,043
Marketing and Trading	119,344
Human Resources	60,202
Training	1,350
Total consultancies less than $30,000	**628,064**
Total consultancies per Note 3(a) to the Financial Statements	**1,785,877**

CONTACT DETAILS

MACQUARIE GENERATION
CORPORATE OFFICE
34 GRIFFITHS ROAD
LAMBTON NSW 2299

POSTAL ADDRESS
PO BOX 3416
HAMILTON DC NSW 2303
AUSTRALIA

TELEPHONE
61 2 4968 7499

FACSIMILE
61 2 4968 7489
61 2 4968 7433

BUSINESS HOURS
8AM–5PM MONDAY TO FRIDAY

BAYSWATER
POWER STATION
LIDDELL POWER STATION
NEW ENGLAND HIGHWAY,
MUSWELLBROOK NSW 2333

POSTAL ADDRESS
PRIVATE MAIL BAG 2
MUSWELLBROOK NSW 2333
AUSTRALIA

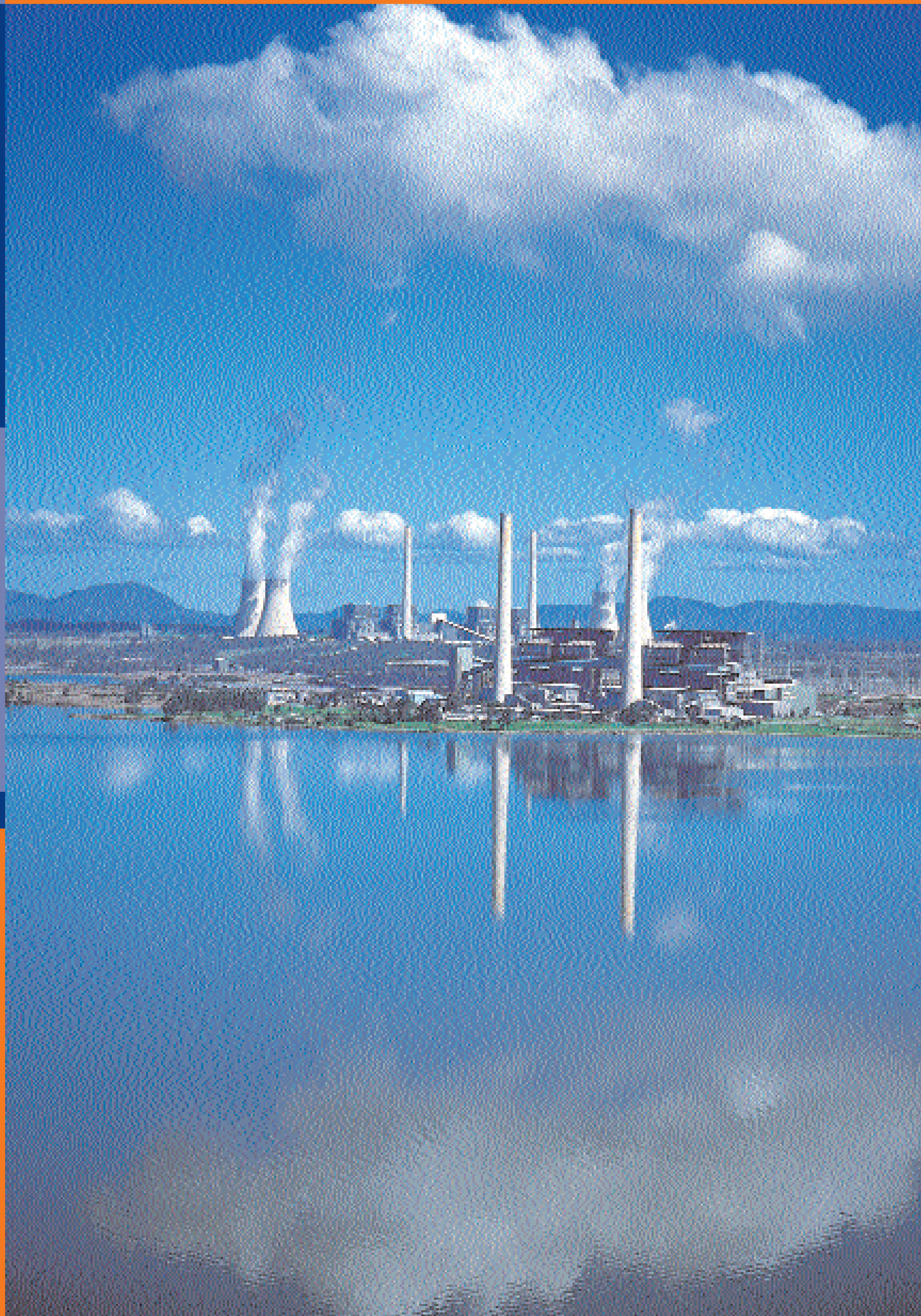
TELEPHONE
61 2 6542 0711

BUSINESS HOURS
ADMINISTRATION
8AM–4PM MONDAY TO FRIDAY

SECURITY AND
OPERATIONS
24 HOURS 7 DAYS

WEB SITE ADDRESS
WWW.MACGEN.COM.AU

FOR THE PURPOSES OF THIS
REPORT, THE YEAR 2004
REFERS TO THE FISCAL YEAR
1 JULY 2003 TO 30 JUNE 2004.



Macquarie Generation