



SUBJECT: MACQUARIE GENERATION  
ANNUAL REPORT  
DATE: 30 JUNE 2002



# CONTENTS

<u>LETTER TO SHAREHOLDERS</u>	PAGE 1
<u>MACQUARIE GENERATION IS...</u>	PAGE 2
<u>CHAIRMAN'S REVIEW</u>	PAGE 3
<u>CHIEF EXECUTIVE'S REPORT</u>	PAGE 5
<u>FINANCIAL PERFORMANCE</u>	PAGE 8
<u>PERFORMANCE HIGHLIGHTS</u>	PAGE 9
<u>SAFETY PERFORMANCE</u>	PAGE 10
<u>ENVIRONMENTAL PERFORMANCE</u>	PAGE 12
<u>NEWS IN 2002</u>	PAGE 14
<u>DIRECTORS' REPORT</u>	PAGE 20
<u>FINANCIAL STATEMENTS</u>	PAGE 26
<u>INDEPENDENT AUDIT REPORT</u>	PAGE 52
<u>CORPORATE GOVERNANCE</u>	PAGE 53



SUBJECT: LETTER TO SHAREHOLDERS  
DATE: 30 JUNE 2002

OCTOBER 2002

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 and the Statement of Financial Position for the financial year ended 30 June 2002, as audited by the Auditor-General of New South Wales.

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



HE Rees  
Chairman



GV Every-Burns  
Chief Executive and Managing Director

October, 2002

SUBJECT: MACQUARIE GENERATION IS...

DATE: 30 JUNE 2002

MACQUARIE GENERATION IS A STATE-OWNED CORPORATION (SOC) FORMED IN MARCH 1996 AS A RESULT OF NEW SOUTH WALES ELECTRICITY INDUSTRY DEREGULATION.

Macquarie Generation is the owner and operator of Bayswater and Liddell coal-fired Power Stations in the Upper Hunter Valley of New South Wales. Its core responsibility is the efficient and safe production of electricity for the National Electricity Market (NEM).

The NEM comprises the states of New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory. It serves more than 16.6 million Australians.

In 2002, Bayswater (2640 MW) and Liddell (2000 MW) coal-fired Power Stations near Muswellbrook supplied approximately 15% of the electricity consumed in the NEM.

Governance of Macquarie Generation is vested in an independent Board of Directors, who report directly to the Shareholders.

An Executive Group led by the Chief Executive and Managing Director implements Board policies and oversees business operations at the power stations and a corporate office in the Newcastle suburb of Lambton.

At 30 June 2002, Macquarie Generation employed 614 people, the majority of whom work at the power stations and live in the Upper Hunter region.

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 which 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
- |Industry leading commercial performance
- |People with meaningful and rewarding jobs
- |Safe workplaces
- |Environmentally responsible operations
- |Good corporate citizenship

2002 production

**Bayswater**

Energy sent out  
16765.98 GWh

Availability  
93.74%

Forced outage rate  
0.53%

Station trip rate  
0.15 trips per 1000hrs

Thermal efficiency  
sent out  
35.49%

**Liddell**

Energy sent out  
7828.20 GWh

Availability  
91.93%

Forced outage rate  
2.23%

Station trip rate  
0.25 trips per 1000hrs

Thermal efficiency  
sent out  
32.67%

## SUBJECT: CHAIRMAN'S REVIEW

DATE: 30 JUNE 2002

FINANCIAL YEAR 2002 WAS THE MOST SUCCESSFUL IN MACQUARIE GENERATION'S HISTORY NOT ONLY IN TERMS OF FINANCIAL PERFORMANCE BUT ALSO, AND MOST IMPORTANTLY, IN TERMS OF INDUSTRY LEADERSHIP.

Such a goal is often talked about but its achievement relies inevitably on the pursuit of continuous improvement. It is pleasing to see the results of that culture across the Corporation. Work teams who accepted increased responsibility played an important part in the growth of Net Profit before Tax to a record \$181.6 million in 2002. While weather conditions contributed to this outcome, our window of opportunity would not have opened fully without a consistently high level of plant availability.

In 2002, enhanced productivity was complemented by an outstanding improvement in the Corporation's safety record. An injury frequency rate of 0.8 accidents per million hours worked is a world-class accomplishment, but of course, we won't be satisfied until a zero-injury rate is secured and maintained.

To support that goal, the Board has approved an innovative scheme known as the Year of Enterprise Safety (YES), which will reward 10 randomly selected employees and their families upon the Corporation's achievement of 365 days without a lost-time injury.

In December, the Board was delighted to take part in Bayswater's celebration of one year without a lost-time injury and particularly pleased that employees chose to mark the occasion with Christmas donations to Upper Hunter charities. To all employees at Bayswater, Liddell and Lambton, I extend the Board's congratulations and thanks for a successful year.

Again in 2002, the performance of the National Electricity Market (NEM) came under scrutiny from commentators. While constructive criticism is always welcome, it shouldn't distract from success. This includes the significant fact that since May 1995, the State Government estimates New South Wales consumers have saved more than \$1.74 billion in real terms on their electricity bills.

Over the same period, Macquarie Generation has returned almost \$682 million to its Shareholders in the form of dividends, equity repayments and shareholder guarantee funds. In addition, it has repaid debt totalling \$671 million to bring the total of financial contributions to the Shareholders to \$1.35 billion. A further equity payment of \$400 million will be made in July 2002.

There can be no doubt that in Macquarie Generation's case, deregulation has delivered benefits for all the parties involved. Corporate effectiveness has improved and substantial cost reductions have been achieved. Building on this record, my Board will continue to commit substantial resources to effective and accountable governance. Corporate problems here and overseas in 2002 have only served to strengthen our resolve to ensure that Macquarie Generation's policies and procedures meet the expectations of all stakeholders.

In closing, I would like to place on record my thanks to my fellow Directors for their efforts in 2002 and in particular, the Board Audit and Assurance Committee which has taken on additional responsibilities in the important area of compliance and governance.

We enter 2003 with high expectations of continuing achievement including progress towards the realisation of projects such as planning approval for gas turbine peaking generation, development of the Macquarie Generation Industry Zone and sequential upgrading of Liddell's operating plant.



HE Rees  
Chairman

Corporate problems here and overseas in 2002 have only served to strengthen our resolve to ensure that Macquarie Generation's policies and procedures meet the expectations of all stakeholders.



THE BOARD OF DIRECTORS (FROM LEFT):  
DEBORAH PAGE, JAMES WATT, ANNA BUDDUS,  
EVAN HESS (CHAIRMAN), JOHN CAHILL,  
GRANT STARY-EHRAS (MANAGING DIRECTOR),  
ROBERT WEISBERG



# SUBJECT: CHIEF EXECUTIVE'S REPORT

DATE: 30 JUNE 2002

THE 2002 FINANCIAL YEAR WAS PARTICULARLY CHALLENGING FOR MACQUARIE GENERATION AS WE WITNESSED THE EFFECTS OF GROWING COMPETITION IN THE NATIONAL ELECTRICITY MARKET (NEM).

High levels of power transfer between New South Wales and Queensland resulted in competitive pressures that reduced prices across the NEM and particularly in the eastern states for much of the year.

Against this backdrop it is pleasing to report continued profit growth from the Corporation's ability to maintain revenue while reducing operating costs. The availability and reliability of Liddell and Bayswater Power Stations were again important to the achievement of the Net Profit before Tax of \$181.6 million, our highest since disaggregation in 1996.

We are equally pleased with our new safety record measured by a reduction in the Lost Time Injury Frequency Rate from 4.6 in 2001 to 0.8 in 2002. These figures reflect the occurrence of a single lost time accident during the year.

A zero-injury rate remains our goal, and I firmly believe that with the continuing commitment of employees, it is attainable.

## Market Performance

Price volatility is a feature of the NEM, in which Macquarie Generation is a major participant with market share of approximately 15%. For most of 2002, the market was characterised by below average demand and falling prices.

On 1 April 2002, the Code change sought by the National Electricity Code Administrator (NECA) to increase the Value of Lost Load (VoLL) was implemented. This doubled the wholesale price cap to \$10,000/MWh, despite the concerns of many market participants—including Macquarie Generation—that the move would impose unnecessary risks.

While short-run price peaks make for sensational press headlines, they distract from the underlying importance of price signals to market efficiency and new investment. Pool price timeframes as short as a day or a week are not prime measures of market efficiency. The lead times for new generation investment are long, varying between one and 10 years and therefore, the question of whether the market has been efficient in this regard will only be answered years from now.

In 2002, the average New South Wales pool price was \$34.76/MWh, \$2.84/MWh down on the 2001 average and barely sufficient in today's investment climate to attract new generation industry entrants.

Ultimately, the prime measure of success is the ability of the market to attract investment and deliver long-term, reliable generation at competitive prices.

## Market Governance

Macquarie Generation remains concerned over the level of unfinished business surrounding conduct of the NEM. We believe there must be confidence in the discrete allocation of policymaking and regulatory powers. There is a strong case for a permanent policy body involving the various governments, and of equal importance, a need for simplification of the National Electricity Code to give effect to market principles. Interstate transmission connection and pricing are other significant yet unresolved policy issues for the industry and consumers in southeastern states.

Our views on these and other market performance issues have been submitted to the Council of Australian Governments' Energy Market Review at <http://www.energymarketreview.org/submissions/MacGen.pdf>.

Macquarie Generation appreciates the opportunity to submit its views and looks forward to release of a draft report in mid-2003.

The lead times for new generation investment are long, varying between one and 10 years, and therefore, the question of whether or not the market has been efficient in this regard will only be answered years from now.

Cognisant of the community's increasing demand for electricity and desire for minimal environmental impact from its production, Macquarie Generation has undertaken a number of voluntary initiatives.

### Fuel Supplies

As the largest domestic buyer of Hunter Valley coal, the Corporation has a strong interest in coal industry developments and their potential to influence supply options.

It is pleasing to report that in 2002 several outstanding issues were resolved through robust commercial negotiation. The parties involved have recommitted to securing a long-term future for the coal mining and power generation industries in the Upper Hunter.

### State Initiatives

In 2002, the New South Wales Government released policy positions covering two important aspects of Macquarie Generation's operations—electricity trading and greenhouse gas emissions.

Both proposals impact on the Corporation's financial outcomes, operational requirements and risk profile. The Corporation has been given the opportunity to consult on the changes, and is committed to making meaningful contributions to future reform.

The State's foreshadowed introduction of compulsory greenhouse gas abatement benchmarks—reducing per capita emissions to 5 per cent below 1989/1990 levels by 2006/2007—are significant for the electricity industry. The implications and opportunities for Macquarie Generation from such initiatives will influence our strategic planning.

Macquarie Generation will continue to look to biomass co-firing and other forms of commercially proven renewable energy generation to meet State and Federal environmental obligations.

### Corporate Initiatives

Cognisant of the community's increasing demand for electricity and desire for minimal environmental impact from its production, Macquarie Generation has undertaken a number of voluntary initiatives.

The ongoing success of biomass co-firing is making a tangible contribution to the abatement of greenhouse gas emissions while maximising the end use of otherwise wasted wood-based material.

Replacement of Liddell's four low pressure turbines between 2003-2005 is on schedule with the promise of increased generating capacity and a reduction of carbon dioxide emissions of up to 400,000 tonnes per annum.

A mini-hydroelectric station with up to 850 kilowatts of generating capacity has been brought into service at the Corporation's Plashett Reservoir and will take advantage of regular water transfers in the power stations' infrastructure to produce GreenPower.

Macquarie Generation also became a signatory to the Federal Government's Generator Efficiency Standards, confirming its commitment to best practice engineering and plant maintenance.

In May, the Corporation submitted an Environmental Impact Statement to PlanningNSW covering the construction in three phases of a gas-fired peaking power plant on the Tomago Industrial Estate near Newcastle. We regard it as essential to identify and permit future generation sites in advance of construction to profitably and efficiently meet the expectations of customers.

Our workforce remains the strength of the Corporation. I thank them all for their commitment, which has helped to make us a better, safer and more commercial organisation.



GV Every-Burns  
Chief Executive and Managing Director



EXECUTIVE TEAM INSPECTION OF FIRE SUPPRESSION TESTING AT LIDDELL POWER STATION. TESTS ARE REGULARLY SCHEDULED DURING PLANNED UNIT OUTAGES AT LIDDELL AND BAYSWATER.



# SUBJECT: FINANCIAL PERFORMANCE

DATE: 30 JUNE 2002

A SUMMARY OF MACQUARIE GENERATION'S FINANCIAL PERFORMANCE  
FROM 1 JULY 2001 TO 30 JUNE 2002.

	2002	2001	CHANGE
STATEMENT OF FINANCIAL PERFORMANCE	\$ MILLIONS	\$ MILLIONS	%
Revenue	813.6	810.2	0.4
Expenses from ordinary activities	473.9	511.8	-7.4
Earnings before depreciation, interest and tax	339.7	298.4	13.8
Depreciation	85.1	85.8	-0.8
Earnings before interest and tax (EBIT)	254.6	212.6	19.7
Borrowing costs (net)	73.0	69.4	5.2
Net profit before income tax	181.6	143.2	26.8
Income tax	60.3	39.6	52.2
NET PROFIT	121.3	103.6	17.1
<b>STATEMENT OF CASH FLOWS</b>			
Cash flows from operating activities (excluding financing)	286.0	300.8	-4.9
Capital expenditure	20.2	11.4	77.7
Dividends paid	100.0	59.3	68.6
<b>STATEMENT OF FINANCIAL POSITION</b>			
Total Assets	2,125.9	2,064.8	3.0
Total Debt	899.4	939.1	-4.2
Equity	691.0	694.7	-0.5
<b>FINANCIAL STATISTICS</b>			
EBIT to Revenue (%)	31.3	26.2	19.2
Debt to Equity (%)	130.2	135.2	-3.7
Interest Cover (times)	3.5	3.1	13.8
Return (after tax) on Equity (%)	17.6	14.9	17.7
<b>OPERATING STATISTICS</b>			
EBIT per average employees (\$ 000's)	415.9	344.0	20.9
Safety (accidents per million hours worked)	0.8	4.6	-82.6
Equivalent forced outage (%)	1.3	2.0	-37.5
Availability (%)	93.03	86.6	7.5
Production per employee (GWh)	40.1	39.5	1.5

# SUBJECT: PERFORMANCE HIGHLIGHTS

DATE: 30 JUNE 2002

Earnings before interest and tax (EBIT) increased by 19.7% from \$212.6 million to \$254.6 million as a result of improved average sales prices, steady sales volume and improved cost control.

Improved efficiency levels were evident across the board with particular reference to the EBIT to revenue ratio (up 19.2% on 2001), EBIT per employee (up 20.9%) and production volume per employee (up 1.5%).

Total equity reduced by 0.5% due to a decrease in retained profits from \$13.6 million to \$9.9 million.

Total debt reduced by \$39.7 million or 4.2% due to a repayment made in January 2002 as part of the Corporation's on-going debt repayment program.

As a result the debt to equity ratio decreased by 3.7% to 130.2%

Net borrowing costs increased by 5.2% to \$73.0 million.

Net profit after tax increased by 17.1% to \$121.3 million.

Return on equity after tax increased by 17.7% from 14.9% to 17.6%.

Dividend provided increased by 25% to \$125 million.

The Corporation improved the high standard of plant performance with a 7.5% increase in availability and 37.5% reduction in forced outages from those recorded last year.

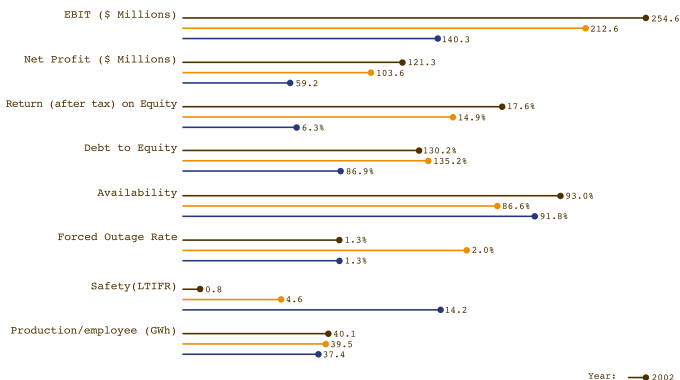
Safety (LTIFR) improved by a significant 82.6%.

After balance date events have occurred in July 2002 as reported in Note 22 of the Financial Statements. These include:

- revaluation of the infrastructure Property, Plant and Equipment in accordance with Accounting Standard AASB 1041 'Revaluation of Non Current Assets' resulting in an increase in the carrying value of these assets,
- repayment of equity of \$400 million made to the Shareholders as a result of the finalisation of New South Wales Treasury's review of the Corporation's capital structure,
- increase in debt of \$400 million in order to fund the repayment of equity made to the Shareholders.

Net profit before tax increased by 26.8% due to:

- increased average sales prices of 1.5%
- steady sales volume
- increased sales revenue of 0.3%
- increased total revenue of 0.4%
- increased net borrowing costs of 5.2% and
- reduction in other expenses from ordinary activities of 7.4% including a decrease in fuel costs of 9.4%



**SUBJECT: SAFETY PERFORMANCE**

**DATE: 30 JUNE 2002**

Everyone should be extremely proud of the excellent safety result for 2002, concluding with a 12-month rolling average for the Corporation of 0.8 accidents per million hours worked. This compares with a Lost-Time Injury Frequency Rate (LTIFR) in 2001 of 4.6. Macquarie Generation employees have recorded no lost-time injuries since October 2001.

On 27 November 2001, Bayswater Power Station employees achieved a full year without a lost-time injury and marked the event with \$10,000 in corporate donations to the Hunter Rescue Helicopter Service, the Salvation Army and St Vincent de Paul Society. Bayswater and Liddell were also awarded the maximum 5-Star rating by the National Safety Council of Australia in 2002.

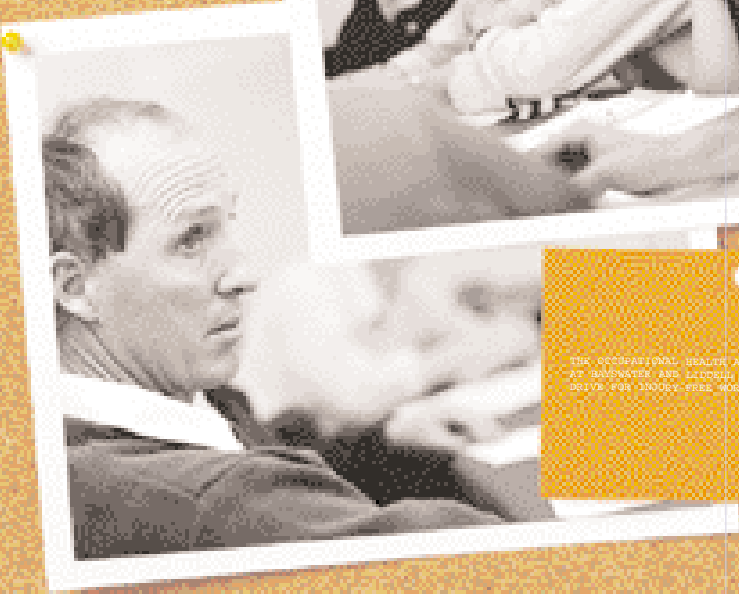
A pointer to these achievements occurred in October when Macquarie Generation retained its title as Power Industry Safety Champions for the fourth year in a row. Bayswater hosted the competition, which began in 1958 to improve first aid skills at NSW power stations and was expanded in 1962 to include fire teams.

The Bayswater team comprising Wayne Long, Wayne Hofman, Gary Picton, Gareth Lloyd, Scott Wild and Phil Garland won the demanding fire fighting competition, involving a theory examination and three live scenarios.

Bayswater's Peter Walkling repeated his 1998 performance by winning the individual first aid competition. He then joined teammates Nigel Woolley, Matthew Skardon, Janelle Cook, Ben Fairweather and the station's fire fighting team to take out the competition's first combined event.

Congratulations to everyone for their commitment to occupational health and safety, and in particular, the Bayswater and Liddell oh&s committees for maintaining their focus on excellence.

Macquarie Generation employees have recorded no lost-time injuries since October 2001.



THE OCCUPATIONAL HEALTH AND SAFETY COMMITTEES AT BANGSWATER AND LIDDELL ARE THE FOCUS OF THE DRIVE FOR JOKEEY-FREE WORKPLACES.

# SUBJECT: ENVIRONMENTAL PERFORMANCE

DATE: 30 JUNE 2002

MACQUARIE GENERATION AIMS TO CONTINUOUSLY IMPROVE ITS ENVIRONMENTAL PERFORMANCE AND RECOGNISES THAT GOOD ENVIRONMENTAL PERFORMANCE IS THE RESPONSIBILITY OF ALL INDIVIDUALS WITHIN THE ORGANISATION.

## Macquarie Generation is:

- I A foundation member of the Commonwealth Government's Greenhouse Challenge;
- I A partner in the Commonwealth Government's Greenhouse Gas Abatement Program;
- I A signatory to the Commonwealth Generator Efficiency Standards Program;
- I A signatory to the Electricity Supply Association of Australia's Code of Environmental Practice;
- I A member of the Hunter River Catchment Management Committee;
- I A member of the Coastal Valleys Water User's Customer Service Committee;
- I Convenor of the Macquarie Generation Community Consultative Group;
- I A member of the Upper Hunter Forests Steering Committee;
- I A member of the Clean Air Society of Australia and New Zealand (CASANZ)
- I A member of the Australian Wind Energy Association (AUSWEA).

## Regulatory Compliance

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

## Non-coal fuel consumption

### Biomass

Bayswater	22,183 tonnes
Liddell	50,231 tonnes
Coal replaced by biomass	37,338 tonnes

### Oils

Liddell (Supplementary Fuels Program)	13,729 tonnes
Liddell (boiler start-up)	3429 tonnes
Bayswater (boiler start-up)	2233 tonnes

## Air Emissions<sup>i</sup>

Sulfur dioxide	4.9 kg/MWh (Bayswater)
	3.5 kg/MWh (Liddell)
Oxides of nitrogen (expressed as NO2)	2.2 kg/MWh (Bayswater)
	2.9 kg/MWh (Liddell)
Particulate matter	0.02 kg/MWh (Bayswater)
	0.17 kg/MWh (Liddell)
Carbon dioxide <sup>ii</sup>	931.7 kg/MWh (Bayswater)
	978.1 kg/MWh (Liddell)

## Water Management

Water diverted (Hunter River)	29,712 ML
Salt extracted	13,217 tonnes
<u>Hunter River Salinity Trading Scheme</u>	
Water/salt discharged	1,145 tonnes
Salinity Credits Days traded-in	54 days
Salinity Credits Days traded-out	Nil
Regional mine waters treated	Nil

## Land Management

By-product sales:	
Fly ash	34,395 tonnes
Bottom ash	14,945 tonnes
Lime	1,789 tonnes
Gypsum	6,117 tonnes
Cenospheres	2,785 m3
Eels (Plashett Reservoir)	3,571 kg
Hardwood plantation trials in association with State Forests (NSW) continuing.	

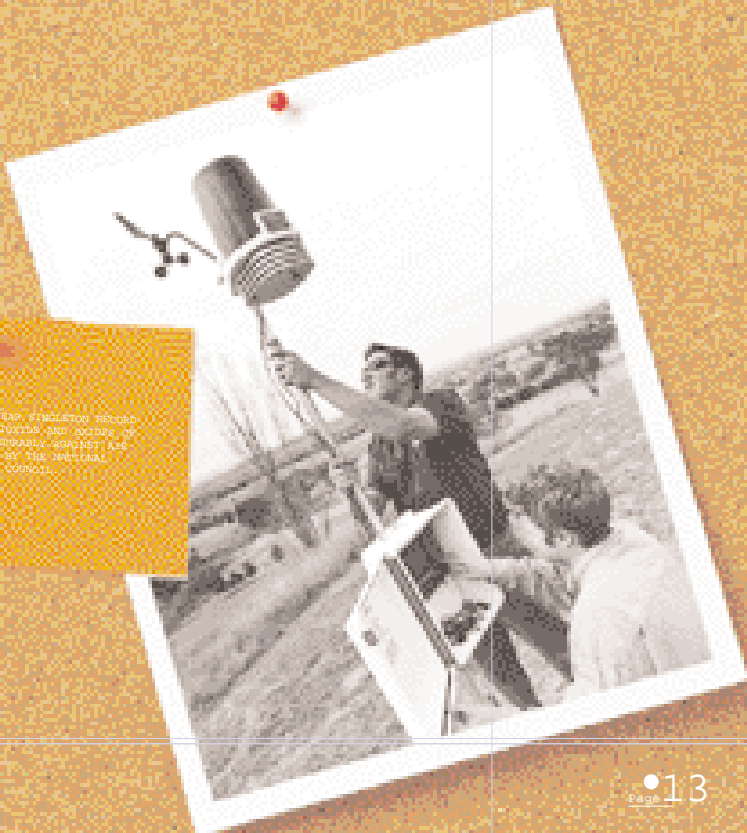
i-Annual average

ii-Formulated from total fuel consumption minus biomass



SINCE 1970, AIR QUALITY MONITORING IN THE UPPER HUMPER HAS BEEN AN INTEGRAL COMPONENT OF POWER PLANT OPERATIONS.

NECESSARY, GENERATION MAINTAINS FIVE AMBIENT AIR MONITORING STATIONS THAT PROVIDE VALUABLE IMEIT LIND DATA COLLECTED BY APPROPRIATE AGENCIES TO ASSESS THE IMPACT OF THE REGION'S DIVERSE INDUSTRIAL ACTIVITY.



STATIONS SUCH AS TACO ONE NEAR SINGLETON RECORD CONCENTRATIONS OF SULFUR DIOXIDE AND OXIDES OF NITROGEN WHICH MEASURE FAVORABLY AGAINST AIR QUALITY TARGETS ESTABLISHED BY THE NATIONAL HEALTH AND MEDICAL RESEARCH COUNCIL.

SUBJECT: NEWS IN 2002

DATE: 30 JUNE 2002

COMMISSIONING OF NEW PLANT, UPGRADING OF EXISTING FACILITIES AND PLANNING FOR FUTURE ELECTRICITY DEMAND.

#### TOMAGO GAS TURBINE POWER PLANT

MACQUARIE GENERATION HAS LODGED A FORMAL APPLICATION FOR DEVELOPMENT APPROVAL TO CONSTRUCT A NATURAL GAS-FIRED POWER PLANT ON THE TOMAGO INDUSTRIAL ESTATE BETWEEN NEWCASTLE AND RAYMOND TERRACE.

An Environmental Impact Statement addressing development of the facility in three phases has been lodged with PlanningNSW and relevant local authorities.

Phase One of the project—an open cycle gas turbine with up to 260 megawatts (MW) of generating capacity—will complement Macquarie Generation's existing generation portfolio (4,685 MW) and contribute to meeting peak electricity demand scenarios forecast for 2005. Domestic reverse cycle air-conditioning is emerging as a major contributor to relatively short but intensive peak electricity demand patterns in New South Wales.

Under normal circumstances, Phase One of the Tomago Gas-Fired Power Plant is expected to operate for three hours on less than 130 days of the year.

Natural gas was selected as the preferred fuel for the 'peaking' plant concept in the absence of additional large-scale hydroelectric generation opportunities in New South Wales.

Installation of the Phase One open cycle gas turbine and construction of associated infrastructure including a spur from an existing industrial gas pipeline at nearby Hexham is expected to cost about \$80 million.

Approximately 15 hectares of land between Old Punt Road and the Pacific Highway have been earmarked for the facility. Incorporating an ultimate Phase Three configuration (a combined cycle gas turbine of up to 800 MW), the plant will occupy a total of eight hectares.

The project has been granted "State Significant" status by the NSW Government, with the Minister for Planning the consent authority.

The EIS is available at <http://www.macgen.com.au/tomago/index.html>

#### MINI HYDROELECTRIC GENERATOR

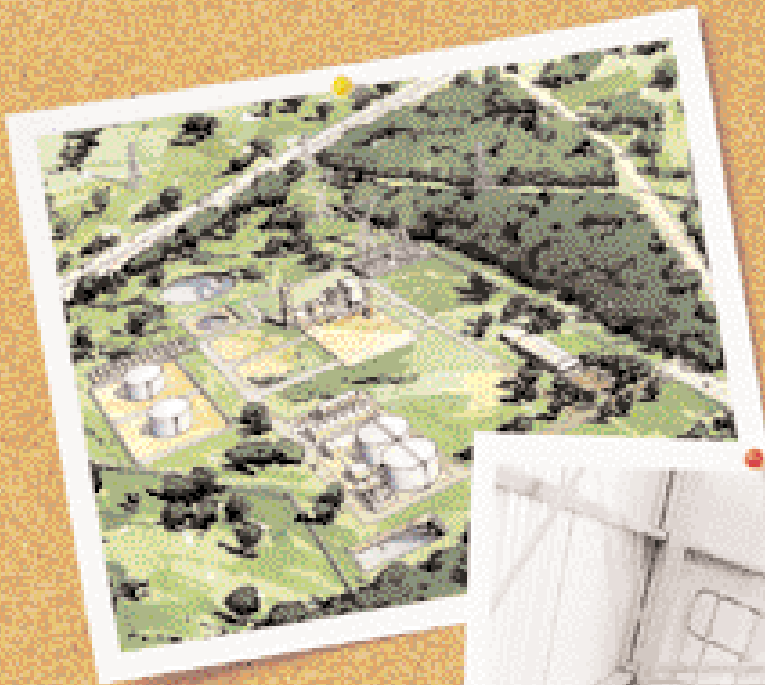
AN 850-KILOWATT CAPACITY HYDROELECTRIC GENERATOR IS THE LATEST ADDITION TO MACQUARIE GENERATION'S PORTFOLIO.

The turbine is driven by water fed to Bayswater and Liddell Power Stations via a canal from Plashett Reservoir, located near the Hunter River. Water stored in the 74,000 megalitre reservoir is released to the stations on more than 200 days per year.

The hydro generator plant has been built at the base of the reservoir and produces electricity from the water as it discharges into the canal.

The NSW Sustainable Energy Development Authority (SEDA) has accredited the generator's output under its GreenPower program.

Natural gas was selected as the preferred fuel for the 'peaking' plant concept in the absence of additional large-scale hydroelectric generation opportunities in NSW.



(ABOVE) KOTLER'S REPRESENTATION OF TOMASO PHASE ONE WITH UP TO 200 MW OF PEAK DEMAND GENERATING CAPACITY.

(RIGHT) WATER TEAM LEADER CRAIG BURTON INSPECTS QUALITY-DURING COMMISSIONING OF THE MINI-HYDROELECTRIC TURBINE.



SUBJECT: NEWS IN 2002 (CONTINUED)

DATE: 30 JUNE 2002

#### DISTRIBUTED CONTROL SYSTEM LIDDELL

THE TRANSITION OF LIDDELL'S 500 MW UNIT 3 CONTROL SYSTEM TO DIGITAL TECHNOLOGY MARKS THE FIRST PHASE IN A \$72 MILLION PROJECT TO IMPROVE THE STATION'S EFFICIENCY AND ENVIRONMENTAL PERFORMANCE.

Under the leadership of Liddell's Paul Farrelly, 46 Downer-RML Engineering, 16 Yokogawa Australia and seven Macquarie Generation employees are engaged full-time on the \$20 million DCS project, which has also called upon the support of a range of other teams and individuals. Liddell's original analogue control system was installed in the 1970s.

Some impressive statistics from the DCS project to date include:

More than 30,000 person hours on site in 2002 with no lost-time injuries;

Installation of 150 transmitters using 1000m of stainless steel tubing;

Installation of 250 transducers to convert field signals to a compatible source;

The laying of over 30,000m of cable run requiring in excess of 100,000 wire terminations.

Meanwhile, construction of the four new low pressure turbines to be installed at Liddell from 2003-2005 is on schedule. This \$52 million investment is expected to increase each unit's efficiency by 3%, meaning that the plant will use the same amount of coal and water to produce an additional 60 MW of electricity or reduce carbon dioxide emissions by up to 400,000 tonnes annually.

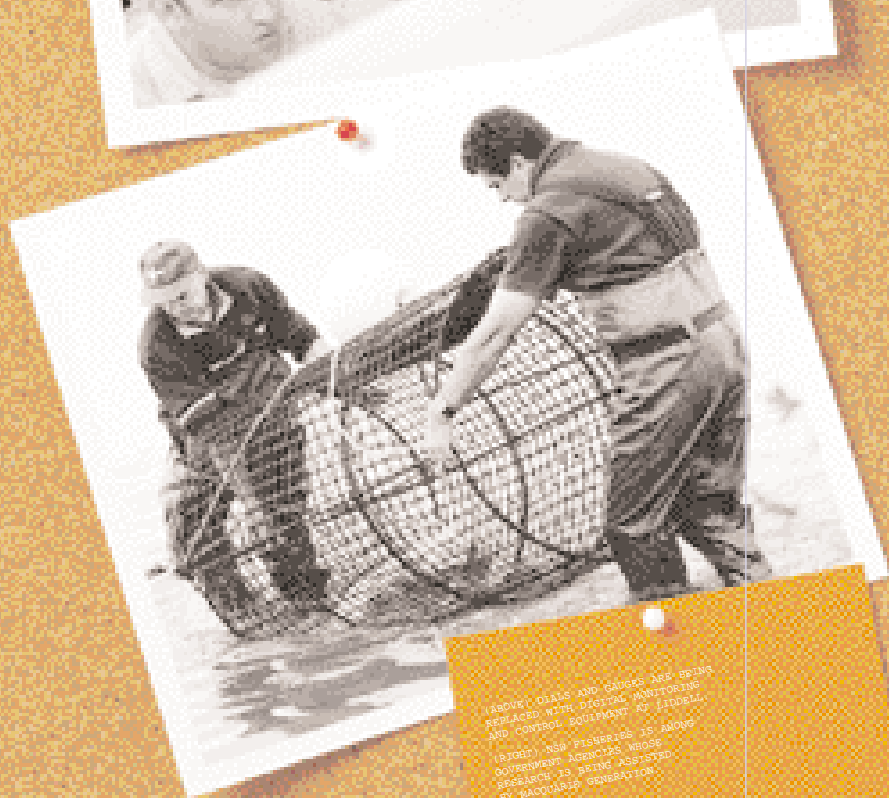
Construction of the four new low pressure turbines to be installed at Liddell from 2003-2005 is on schedule.

#### ENVIRONMENTAL PARTNERS

MACQUARIE GENERATION IS ASSISTING NSW FISHERIES IN TWO DISTINCT BUT EQUALLY IMPORTANT PROJECTS TARGETING THE ENHANCEMENT OF THE AQUATIC ENVIRONMENT.

Dr Michael Lowry and his team from the Recreational Research Division have been testing a new fish trap in Lake Liddell that allows air breathing native animals such as tortoises and platypus to escape through a 'rooftop hatch'. Captured fish stay alive in the trap, which then allows for the return to the waterway of native species and removal of invading European Carp.

At the popular holiday destination of Port Stephens, NSW Fisheries is embarking on a program to remove up to 10,000 tonnes of wooden posts and stakes from abandoned oyster leases. The posts and stakes, currently a major navigational hazard, will be sorted and mulched before being transported to Liddell Power Station for use in the Corporation's Biomass Co-firing Program.



ANALOG DIALS AND GAUGES ARE BEING REPLACED WITH DIGITAL MONITORS AND CONTROL EQUIPMENT AT FIDELL. (FISHING) NEW FISHERIES IS AMONG GOVERNMENT AGENCIES WHOSE RESEARCH IS BEING ASSISTED BY MACQUARRIE GENERATION.



# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2002

<u>DIRECTORS' REPORT</u>	PAGE 20
<u>FINANCIAL STATEMENTS</u>	PAGE 26
<u>DIRECTORS' DECLARATION</u>	PAGE 51
<u>INDEPENDENT AUDIT REPORT</u>	PAGE 52
<u>CORPORATE GOVERNANCE</u>	PAGE 53
<u>STATUTORY INFORMATION</u>	PAGE 55

(ABOVE) A PLEASANT LAKE, LIDDELL, WITH LIDDELL AND BRIDGEWATER POWER STATIONS IN THE BACKGROUND.  
(RIGHT) MEMBERS OF THE LIDDELL FIRE FIGHTING TEAM IN ACTION AT THE 2001 POWER INDUSTRY SAFETY CHAMPIONSHIPS.



## DIRECTORS' REPORT

### 30 JUNE 2002

The Board of Directors present their report together with the Financial Statements of the Corporation for the year ended 30 June 2002 and the auditors' report thereon:

#### DIRECTORS

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

|Evan Rees  
|Grant Every-Burns  
|Anna Buduls  
|John Cahill  
|Deborah Page  
|James Watt  
|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 2000 for a three year term ending on 28 February 2003. Mr Rees is also a member of the Board Legal Affairs Sub-Committee.

Mr Rees worked for Australian National Industries (ANI), Australia's largest publicly listed engineering company for over thirty four years. Mr Rees was an ANI Board member from 1986 when he was appointed Executive Director with the responsibility for 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) MAICD

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 1999 for a three year term ending on 31 August 2002.

He was also Director and Vice President of the National Safety Council of Australia Limited from 1995 until early 2001. He is Chairman of the NEMMCO Participant Advisory Committee and Deputy Chairman of the National Generator Forum.

Mr Every-Burns has over twenty six years of extensive engineering and managerial experience in running thermal power stations in New South Wales. His former roles included 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 and is the Chairman of the Board Remuneration and Human Resources Committee and is a member of the Board Legal Affairs Sub-Committee. Ms Buduls was reappointed as a Director on 1 March 2002 for a two year term ending on 28 February 2004.

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 and Freedom Furniture Limited.

## DIRECTORS' REPORT (CONTINUED)

### 30 JUNE 2002

#### 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 and Board Issues Management Sub-Committee. Mr Cahill was reappointed as a Director on 1 March 2002 for a year ending on 28 February 2003.

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 Chairman of the Board Audit Committee.

Mr Cahill has twenty-four years industrial experience in the electricity generation industry.

#### Deborah Page BFC 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 and the Chairman of the Board Legal Affairs Sub-Committee. Mrs Page was reappointed as a Director on 1 March 2002 for a year ending 28 February 2003.

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. She 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. She is also a member of the Audit Committee of the Sydney Harbour Federation Trust.

#### 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 2000 for a three year term ending on 28 February 2003.

#### Robert Webster AFAIM

Non-Executive Director

Mr Webster was appointed Director of Macquarie Generation on 1 March 1996 and is Chairman of the Board Issues Management Committee and a member of the Board Remuneration and Human Resources Committee. Mr Webster was reappointed as a Director on 1 March 2002 for a two year term ending on 28 February 2004.

Mr Webster is a Senior Client Partner of Korn/Ferry International and a former State Government Minister. He is Chairman of the National Science and Technology Centre, a Director of Australian Stock Exchange Settlement and Transfer Corporation Pty Ltd, Allianz Australia Limited, Brickworks Ltd and the Mirvac Group Limited.

## DIRECTORS' REPORT (CONTINUED)

30 JUNE 2002

### 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 2002 were:

	BOARD MEETINGS		BOARD AUDIT AND ASSURANCE COMMITTEE MEETINGS		BOARD REMUNERATION AND HUMAN RESOURCES COMMITTEE MEETINGS		BOARD LEGAL AFFAIRS SUB-COMMITTEE MEETINGS	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
	Mr Evan Rees (5)	11	11	-	-	-	1	4
Mr Grant Every-Burns (1) (2) (3)	11	11	-	9	-	4	-	4
Ms Anna Buduls (4)	11	11	-	2	4	4	4	4
Mr John Cahill	11	11	-	-	4	4	-	-
Mrs Deborah Page (5)	11	11	9	9	-	1	4	4
Mr James Watt	11	11	9	9	4	4	-	-
The Hon Robert Webster	11	10	-	-	4	3	-	-

- (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 Legal Affairs Sub-Committee, Mr Every-Burns attended all meetings of that Committee by invitation.
- (4) Although not a member of the Board Audit and Assurance Committee, Ms Buduls attended two meetings held by invitation.
- (5) Although not a member of the Board Remuneration and Human Resources Committee, Mr Evan Rees and Mrs Deborah Page attended one meeting 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 and national energy markets; and  
 the management of market risk arising from participation in the New South Wales and national energy markets.

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

### OPERATING RESULTS

The operating profit after tax of the Corporation for the financial year ended 30 June 2002 was \$121.3 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 \$50.0 million in respect of the year ended 30 June 2001 was paid on 7 August 2001;
- a final dividend of \$50.0 million in respect of the year ended 30 June 2001 was paid on 7 December 2001; and
- a dividend of \$125.0 million in respect of the year ended 30 June 2002 has been provided for in the Financial Statements.

## DIRECTORS' REPORT (CONTINUED)

30 JUNE 2002

### CAPITAL DISTRIBUTION

A review of the Capital Structure Policy of Macquarie Generation by New South Wales Treasury commenced during the 2000/2001 financial year. An initial repayment of equity of \$240 million was made to the Shareholders during the 2000/2001 financial year. No capital distributions have been made during the 2001/2002 financial year.

### STATE OF AFFAIRS

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

### 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 is contained in the attached Financial Statements.

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.

The Shareholders have announced that the Corporation's superannuation arrangements will be transferred from the existing New South Wales State Schemes to the Electricity Industry Superannuation Scheme. The impact of the transfer and the final timing of any transfer are not known at this time.

Finally, 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.

### EVENTS SUBSEQUENT TO BALANCE DATE

The Corporation's Non Current Assets were revalued in accordance with Accounting Standard AASB 1041 'Revaluation of Non Current Assets' on 1 July 2002.

As a result of the finalisation New South Wales Treasury's review of Macquarie Generation's Capital Structure a repayment of equity of \$400 million was made to the Shareholders in July 2002. This payment was funded by an increase in the Corporation's borrowings through New South Wales Treasury Corporation of \$400 million in July 2002.

### ENVIRONMENTAL PERFORMANCE REPORT

#### Protection of the Environment Operations Act 1997

Bayswater and Liddell Power Stations were licensed by the Environment Protection Authority (EPA) under the Protection of the Environment Operations Act 1997, which came into force on 1 July 1999.

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 licence. 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

## DIRECTORS' REPORT (CONTINUED)

30 JUNE 2002

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.

Macquarie Generation complied fully with all relevant discharge limits, monitoring and reporting requirements. There were no exceedences of licensed limits for atmospheric emissions or aqueous discharges. There were no events causing actual or potential environmental harm which required reporting.

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.

As per the requirements of Part 9 of the Water Management Act 1912, the Licence was subject to a public review resulting in some modifications to the Licence.

The conversion of the Licence to the requirements of the Water Management Act 2000 has not taken place as of 30 June 2002. The Department of Land and Water Conservation is yet to advise of the Licence transfer process and its implications.

### 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. This contract is a legacy from Macquarie Generation's antecedent entity Pacific Power. 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)

Macquarie Generation submitted its first Waste Reduction and Purchasing Plan to the EPA in April 2001.

Macquarie Generation will commission an independent waste audit at each site prior to the end of the 2002/2003 financial year to identify further WRAPP initiatives and data collection procedures.

The main measures taken include:

#### Reducing the Generation of Waste

Beneficial re-use of two by-products from the power station water treatment process; calcium carbonate (a lime substitute) and calcium sulphate (gypsum), in soil remediation and fertilising by the agricultural industry. Approximately 7,906 tonnes of lime and gypsum by-product were re-used in 2001/2002.

## DIRECTORS' REPORT (CONTINUED)

30 JUNE 2002

Beneficial re-use of two by-products of the power generation process; fly ash (fine particles) and bottom ash (coarse particles), as a cement substitute in concrete, and in landscaping and roadworks. Approximately 34,395 tonnes of fly ash and 14,945 tonnes of bottom ash were re-used in 2001/2002.

### Resource Recovery

Co-firing of up to 5% untreated wood waste (biomass) with coal. The majority of the wood waste is sourced from licenced saw mills. Since the program trials in August 1999, over 255,000 tonnes of waste biomass has been utilised, and over 249,000 MWh of greenhouse neutral electricity has been produced.

### Use of Recycled Material

Paper recycling system established at each site.

Use of recycled toner cartridges in photocopiers, printers and facsimiles at each site.

Use of recycled oil in boiler start-up at Liddell Power Station.

Recycling and re-use of scrap metal, concrete and asphalt.

## DIRECTORS' INTERESTS

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

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

## DIRECTORS' BENEFITS

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

## INDEMNIFICATION OF DIRECTORS AND OFFICERS

During the financial year Macquarie Generation paid a premium of \$160,275 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  
Chairman



GV Every-Burns  
Chief Executive and Managing Director

30 August 2002

STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2002

		2002	2001
	Note	\$'000	\$'000
<b>Revenue from ordinary activities</b>	2	817,560	814,135
Borrowing costs expense	3	(77,040)	(73,225)
Other expenses from ordinary activities (excluding borrowing costs)	3	<u>(558,949)</u>	<u>(597,680)</u>
<b>Profit from ordinary activities before income tax expense</b>		181,571	143,230
Income tax expense relating to ordinary activities	4	(60,257)	(39,579)
<b>NET PROFIT</b>		<u>121,314</u>	<u>103,633</u>
Total changes in equity other than those resulting from owners as owners	18(c)	<u>121,314</u>	<u>103,633</u>

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

STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2002

		2002	2001
	Notes	\$'000	\$'000
<b>Current Assets</b>			
Cash assets	6	136,993	79,489
Receivables	7	150,085	79,633
Inventories	8	83,152	68,800
Other	12	711	13,186
<b>TOTAL CURRENT ASSETS</b>		<u>370,941</u>	<u>241,108</u>
<b>Non-Current Assets</b>			
Receivables	7	270	300
Property, plant and equipment	9	1,746,402	1,813,303
Deferred tax assets	10	7,906	9,863
Intangible assets	11	188	-
Other	12	189	189
<b>TOTAL NON-CURRENT ASSETS</b>		<u>1,754,955</u>	<u>1,823,655</u>
<b>TOTAL ASSETS</b>		<u>2,125,896</u>	<u>2,064,763</u>
<b>Current Liabilities</b>			
Payables	13	125,793	80,199
Interest bearing liabilities	14	297,280	235,929
Provisions	16	133,362	108,703
Other	17	20,495	19,254
<b>TOTAL CURRENT LIABILITIES</b>		<u>576,930</u>	<u>444,085</u>
<b>Non-Current Liabilities</b>			
Interest bearing liabilities	14	602,165	703,202
Deferred tax liabilities	15	194,513	136,213
Provisions	16	25,263	33,512
Other	17	36,000	53,040
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>857,941</u>	<u>925,967</u>
<b>TOTAL LIABILITIES</b>		<u>1,434,871</u>	<u>1,370,052</u>
<b>NET ASSETS</b>		<u>691,025</u>	<u>694,711</u>
<b>Equity</b>			
Contributed equity	18(b)	681,078	681,078
Retained profits	18(c)	9,947	13,633
<b>TOTAL EQUITY</b>		<u>691,025</u>	<u>694,711</u>

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 2002**

	2002	2001
	Notes	\$'000
<b>Cash Flows from Operating Activities</b>		
Cash received in the course of operations		817,901
Cash paid in the course of operations		(531,883)
Interest received		4,014
Borrowing costs		(73,538)
<b>NET CASH INFLOWS FROM OPERATING ACTIVITIES</b>	19	<u>216,494</u>
<b>Cash Flows from Investing Activities</b>		
Payments for property, plant and equipment		(20,042)
Payments for intangible assets		(192)
Proceeds from sale of property, plant and equipment		930
<b>NET CASH (OUTFLOWS) FROM INVESTING ACTIVITIES</b>		<u>(19,304)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from borrowings		-
Repayment of borrowings		(39,686)
Dividend paid	18(c)	(100,000)
Repayment of share capital	18(b)	-
<b>NET CASH (OUTFLOWS) FROM FINANCING ACTIVITIES</b>		<u>(139,686)</u>
<b>NET INCREASE IN CASH HELD</b>		57,504
Cash at the beginning of the reporting period		79,489
<b>CASH AT THE END OF THE REPORTING PERIOD</b>	6	<u>136,993</u>

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 2002

**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**

From 1 July 2001, Macquarie Generation became subject to the National Tax Equivalent Regime which reflects Federal Income Tax Acts.

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 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.

Commencing 2000/2001, the tax accounting treatment for prepaid superannuation contributions has changed from being treated as a timing difference to a permanent difference, as it has been determined that the contributions are not assessable under the Tax Equivalent Regime.

**(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 gains and losses are brought to account in determining the profit or loss for the year.

*(ii) Specific Commitments*

Hedging is undertaken in order to avoid or minimise possible financial effects of movements in exchange rates. Gains or losses arising from hedging transactions are brought to account on a basis consistent with the underlying foreign physical asset or liability.

**(d) Receivables and Revenue Recognition**

Trade debtors are primarily attributable to electricity sales. Electricity sales revenue comprise National Electricity Market settlements at spot market price and also payments due to the Corporation by counter parties in respect of hedge contracts.

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.

**(e) 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.

**(f) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

**Note 1-Summary of Significant Accounting Policies (continued)**

**(f) Recoverable Amount of Non-Current Assets (continued)**

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. The 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.

**(g) Property, Plant and Equipment**

Property, plant and equipment were initially brought to account on acquisition at cost. This equated to a valuation previously undertaken in the disposing entity.

Property, plant and equipment are brought to account at cost or at independent or Directors' valuation, less, where applicable, any accumulated depreciation.

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

Property, plant and equipment are valued in accordance with New South Wales Treasury Accounting Policy for Valuation of Physical Non-Current Assets. Revaluation increments are credited directly to the asset revaluation reserve.

Revaluation decrements are recognised immediately as expenses in net profit or loss, 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.

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.

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

Power Stations	40 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.

**(h) 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.

**(i) Leased Assets**

Macquarie Generation leases a large proportion of its vehicles and 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.

**(j) 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 being 15 years.

**(k) Trade and Other Creditors**

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 counter parties in respect of electricity hedge contract sales.

**(l) Interest Bearing Liabilities**

Borrowings are carried at their principal amounts, representing proceeds received on issue, net of amortisation. Discount or premium on borrowings is amortised over the terms of the borrowings and is included in the Statement of Financial Performance as a financing charge. Interest is recognised as an expense in the period to which it relates and is accrued as part of other creditors.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002**Note 1—Summary of Significant Accounting Policies (continued)****(m) 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 its electricity production capacity using commodity based contracts and employs a range of hedging instruments to manage market risk. In accordance with a direction from New South Wales Treasury dated 1 July 1998 these arrangements are viewed as commodity contracts, which are excluded from the disclosure requirements of AAS 33 'Presentation and Disclosure of Financial Instruments'.

**(n) 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(g). Other routine operating maintenance, repairs and minor renewal costs are also charged as expenses as incurred.

**(o) Employee Entitlements***(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 current pay rates in respect of employees' services up to that date.

*(ii) Long Service Leave*

A liability for long service leave is recognised, and is measured as 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 national government guaranteed securities 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 net market value of the schemes' assets at that date. The present value of accrued benefits is based on expected future payments which arise from membership of the schemes 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 national government guaranteed securities with terms to maturity that match, as far as possible, the estimated future cash outflows. 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.

**(p) Provision for Internal Insurance**

Macquarie Generation has external insurance but carries a significant excess on most of its policies. In accordance with industry practice in prior periods an internal insurance provision was created to recognise this self-retained risk. The liabilities were determined by specialist internal insurance staff and whenever necessary in conjunction with independent insurance advisers and loss adjusters. The balance of the provision was represented by the present value of future estimated insurance policy excesses and unreported claims based on statistical estimates discounted by the Corporation's weighted average cost of capital.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

Note 1-Summary of Significant Accounting Policies (continued)

**(p) Provision for Internal Insurance (continued)**

**Change in Accounting policy for the Provision for Internal Insurance**

For the period commencing 1 July 2001 the provision is represented by the amounts of reported claims. The previous balance, represented by the present value of future estimated insurance policy excesses and unreported claims, has been written back to insurance expense in preparation for the new accounting standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets', which is effective from 1 July 2002.

The change in accounting policy resulted in a decrease in insurance expense as at 1 July 2001 of \$8.975 million and a corresponding reduction in the carrying amount of the insurance provision at the same date.

The pro forma statement of financial performance and the restatements of retained profits, insurance provision and future income tax benefit below show the information that would have been disclosed had the new accounting policy always been applied.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

Note 1-Summary of Significant Accounting Policies (continued)

**(p) Provision for Internal Insurance (continued)**

	2002	2001
	\$'000	\$'000
	(Restated)	(Restated)
<b>Pro Forma Statement of Financial Performance</b>		
Profit from ordinary activities before insurance provision writeback and insurance expense	173,910	143,230
Less: Insurance expense	<u>(1,313)</u>	<u>(1,506)</u>
Profit from ordinary activities before income tax expense	172,597	141,724
Income tax expense	<u>(57,565)</u>	<u>(39,145)</u>
<b>NET PROFIT</b>	<b>115,032</b>	<b>102,579</b>

**Restatement of Retained Profits**

Previously reported retained profits at the end of the previous financial year	13,633	19,331
Change in accounting policy for insurance provision	<u>6,282</u>	<u>7,336</u>
Restated retained profits at the beginning of the year	19,915	26,667
Net profit	115,032	102,579
Dividends provided for or paid	<u>(125,000)</u>	<u>(109,331)</u>
<b>RESTATED RETAINED PROFITS AT THE END OF THE FINANCIAL YEAR</b>	<b>9,947</b>	<b>19,915</b>

**Restatement of Insurance Provision**

Previously reported insurance provision at the end of the financial year	875	9,409
Change in accounting policy for insurance provision	<u>-</u>	<u>(8,975)</u>
<b>RESTATED INSURANCE PROVISION AT THE END OF THE FINANCIAL YEAR</b>	<b>875</b>	<b>434</b>

**Restatement of Future Income Tax Benefit**

Previously reported future income tax benefit at the end of the financial year	7,906	9,863
Change in accounting policy for insurance provision	<u>-</u>	<u>(2,693)</u>
<b>RESTATED FUTURE INCOME TAX BENEFIT AT THE END OF THE FINANCIAL YEAR</b>	<b>7,906</b>	<b>7,170</b>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

Note 1-Summary of Significant Accounting Policies (continued)

**(g) Segment Reporting**

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

**(r) 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.

**(s) Comparative Figures**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

	2002	2001
	\$' 000	\$' 000
<b>Note 2—Revenue</b>		
<b>Revenue from Operating Activities</b>		
Sales revenue	811,585	808,844
Miscellaneous sources	952	859
	<u>812,537</u>	<u>809,703</u>
<b>Revenue from Outside the Operating Activities</b>		
Net foreign exchange gains	79	-
Interest revenue	4,014	3,832
Sale of property, plant and equipment	930	600
	<u>5,023</u>	<u>4,432</u>
<b>REVENUE FROM ORDINARY ACTIVITIES</b>	<u>817,560</u>	<u>814,135</u>
<b>Note 3—Operating Profit</b>		
<b>(a) Net Gains and Expenses</b>		
Profit from ordinary activities before income tax expense includes the following specific net gains and expenses:		
<b>Net Gains</b>		
Net gain on disposal of		
Land	-	259
Buildings	337	202
Writeback of insurance provision	8,975	-
<b>Expenses</b>		
Borrowing costs		
Interest and related finance charges	77,040	73,225
Depreciation		
Buildings	7,337	7,325
Plant and equipment	77,812	78,452
<b>TOTAL DEPRECIATION</b>	<u>85,149</u>	<u>85,777</u>
Amortisation—water entitlements	4	-
Bad and doubtful debts		
Sundry debtors	1	49
Trade debtors	849	-
<b>TOTAL BAD AND DOUBTFUL DEBTS</b>	<u>850</u>	<u>49</u>
Net loss on disposal of property, plant and equipment	180	42
Other provisions		
Employee entitlements	7,856	7,160
Redundancy	140	(822)
<b>TOTAL OTHER PROVISIONS</b>	<u>7,996</u>	<u>6,338</u>
Superannuation expense—defined benefit funds	15,773	12,284
Superannuation expense—accumulation funds	1,111	942
<b>TOTAL SUPERANNUATION EXPENSE</b>	<u>16,884</u>	<u>13,226</u>
Net loss on foreign currency transactions	-	147
Operating lease rentals	1,914	1,993
Directors' remuneration	395	312

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

	2002	2001
	\$' 000	\$' 000

**Note 3-Operating Profit (continued)****Expenses (continued)**

Auditors' remuneration		
Audit of the Financial Statements	128	128
Consultants' fees	2,941	2,616

**(b) Expenses from ordinary activities, excluding borrowing costs  
expense, included in the Statement of Financial Performance by function:**

Electricity generation operational expenditure	558,949	597,680
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**Note 4-Income Tax**

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

Prima facie income tax on the operating profit at 30%/34%	54,471	48,698
Tax effect of permanent differences:		
Non-assessable revenue	(101)	(57)
Non deductible superannuation contributions	4,732	4,176
Non deductible asset revaluation decrement	151	-
Non deductible entertaining expenses	23	20
Non deductible consultants' fees	253	85
Non deductible legal expenses	716	3
Non deductible sundry items	(12)	(1)
	<u>5,762</u>	<u>4,226</u>
Income tax adjusted for permanent differences	60,233	52,924
Net adjustment to deferred income tax liabilities and assets to reflect the decrease in company tax rates to 30%/34%	-	(5,872)
Prior period timing differences reassessed as permanent	-	(7,703)
Under provision in previous year	24	248
<b>INCOME TAX EXPENSE</b>	<u>60,257</u>	<u>39,597</u>

Aggregate income tax expense comprises:

Tax profit recognised	22,409	12,467
Deferred income tax provision	35,891	33,743
Future income tax benefits	1,957	(6,613)
	<u>60,257</u>	<u>39,597</u>

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

**Note 5-Dividend**

In accordance with the share dividends scheme determined by the voting shareholders, and as required by the Energy Services Corporations Act 1995, the Board has provided for a dividend payment of \$125,000,000 (2001-\$100,000,000). This will be paid during the course of the 2002/2003 year and is represented by the balance of the provision at 30 June 2002.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

	2002	2001
	\$' 000	\$' 000
<b>Note 6-Cash Assets</b>		
Cash at bank and on hand	3	1,680
Deposits at call	136,990	77,809
	<u>136,993</u>	<u>79,489</u>

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

**Deposits at Call**

The deposits are bearing floating interest rates which at balance date averaged 4.8% (2001-5.0%).

**Note 7-Receivables**

**Current**

Trade debtors	150,431	78,827
Less: Provision for doubtful debts	849	-
	<u>149,582</u>	<u>78,827</u>
Sundry debtors-secured*	114	185
Sundry debtors-unsecured	389	621
	<u>150,085</u>	<u>79,633</u>

**Non-Current**

Sundry debtors-secured*	<u>270</u>	<u>300</u>
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\*Secured by mortgages over the subject properties.

**Note 8-Inventories**

Coal stocks (at cost)	37,892	26,719
Biomass (at cost)	-	782
Stores and materials (at cost)	43,651	39,333
Oil stocks (at cost)	1,609	1,966
	<u>83,152</u>	<u>68,800</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

	2002	2001
	\$' 000	\$' 000
<b>Note 9-Property, Plant and Equipment</b>		
<b>Buildings</b>		
Power stations:		
At cost	169,256	168,794
Less: Accumulated depreciation	45,316	38,116
	<u>123,940</u>	<u>130,678</u>
Other buildings:		
At independent valuation 2002	650	-
At cost	-	1,935
Less: Accumulated depreciation	-	330
	<u>650</u>	<u>1,605</u>
At Independent valuation 2002	1,750	-
At Directors' valuation 1999	-	1,410
Less: Accumulated depreciation	-	126
	<u>1,750</u>	<u>1,284</u>
<b>TOTAL BUILDINGS</b>	<u>126,340</u>	<u>133,567</u>
<b>Land</b>		
Infrastructure:		
At cost	3,281	3,281
Non infrastructure:		
At cost	-	16
At Independent valuation 2002	900	-
At Directors' valuation 1999	-	1,000
<b>TOTAL LAND</b>	<u>4,181</u>	<u>4,297</u>
<b>Plant and Equipment</b>		
Power stations:		
At cost	2,054,384	2,039,173
Less: Accumulated depreciation	456,157	382,911
	<u>1,598,227</u>	<u>1,656,262</u>
Other plant and equipment:		
At cost	35,905	33,334
Less: Accumulated depreciation	18,251	14,157
	<u>17,654</u>	<u>19,177</u>
<b>TOTAL PLANT AND EQUIPMENT</b>	<u>1,615,881</u>	<u>1,675,439</u>
<b>TOTAL DEPRECIATED VALUE OF PROPERTY, PLANT AND EQUIPMENT</b>	<u>1,746,402</u>	<u>1,813,303</u>

**Valuation of Non Infrastructure Land and Buildings**

Valuations of non infrastructure land and buildings are based on the capitalisation of the estimated rental value of the property in the open market if applicable or the land value plus depreciated replacement value of improvements. The 2002 revaluation was carried out by members of the Australian Property Institute on behalf of International Valuation Consultants as at 31st January 2002.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

	2002	2001
	\$' 000	\$' 000

**Note 9—Property, Plant and Equipment (continued)**

**Reconciliations**

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

**Land—Infrastructure**

Carrying amount at start of year	3,281	3,275
Additions	-	6
Carrying amount at end of year	<u>3,281</u>	<u>3,281</u>

**Land—Non Infrastructure**

Carrying amount at start of year	1,016	1,016
Revaluation decrements	116	-
Carrying amount at end of year	<u>900</u>	<u>1,016</u>

**Buildings—Power Stations**

Carrying amount at start of year	130,678	137,866
Additions	462	-
Depreciation expense	7,200	7,188
Carrying amount at end of year	<u>123,940</u>	<u>130,678</u>

**Buildings—Other**

Carrying amount at start of year	2,889	3,026
Additions	36	-
Revaluation decrements	388	-
Depreciation expense	137	137
Carrying amount at end of year	<u>2,400</u>	<u>2,889</u>

**Plant and Equipment—Power Stations**

Carrying amount at start of year	1,656,262	1,718,188
Additions	15,211	10,826
Depreciation expense	73,246	72,752
Carrying amount at end of year	<u>1,598,227</u>	<u>1,656,262</u>

**Plant and Equipment—Other**

Carrying amount at start of year	19,177	22,094
Additions	3,816	2,964
Disposals	773	181
Depreciation expense	4,566	5,700
Carrying amount at end of year	<u>17,654</u>	<u>19,177</u>

**Total**

Carrying amount at start of year	1,813,303	1,885,465
Additions	19,525	13,796
Disposals	773	181
Revaluation decrements	504	-
Depreciation expense	85,149	85,777
CARRYING AMOUNT AT END OF YEAR	<u>1,746,402</u>	<u>1,813,303</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

	2002	2001
	\$' 000	\$' 000

**Note 10-Deferred Tax Assets****Non-Current**

Future income tax benefit	7,906	9,863
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**Note 11-Intangible Assets****Non-Current**

Water entitlements	192	-
Less: Accumulated amortisation	4	-
	188	-

**Note 12-Other****Current**

Prepayments	711	13,186
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**Non-Current**

Development costs carried forward	189	189
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**Note 13-Payables****Current (Unsecured)**

Accounts payable	113,570	68,540
Accrued interest	12,223	11,659
	125,793	80,199

**Note 14-Interest Bearing Liabilities****Current (Unsecured)**

Borrowings	297,280	235,929
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**Non-Current (Unsecured)**

Borrowings	602,165	703,202
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Borrowings are comprised of fixed rate debt of \$869,445,322 (2001-\$909,130,243) bearing interest rates of between 4.7% and 11.4% and the remainder bearing floating interest rates of between 4.3% and 5.4%. 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.

Up to one year	297,280	235,929
Over one and up to five years	346,365	422,342
Over five years	255,800	280,860
<b>TOTAL</b>	<b>899,445</b>	<b>939,131</b>

**Financing Arrangements****Facilities Available**

Bank overdraft	2,000	2,000
New South Wales Treasury Corporation loans	1,250,000	1,010,000
New South Wales Treasury Corporation come and go facility	390,000	390,000
<b>TOTAL AVAILABLE</b>	<b>1,642,000</b>	<b>1,402,000</b>

**Facilities Utilised**

Bank overdraft	-	-
New South Wales Treasury Corporation loans	899,445	939,131
New South Wales Treasury Corporation come and go facility	-	-
<b>TOTAL UTILISED</b>	<b>899,445</b>	<b>939,131</b>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

	2002	2001
	\$' 000	\$' 000

**Note 15-Deferred Tax Liabilities**

**Non-Current**

Provision for deferred income tax	194,513	136,213
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**Deferred Income Tax**

The provision for deferred income tax has been reduced by \$28,540,822 (2001-\$50,949,519) in respect of future income tax benefits attributable to income tax losses. (See also Note 4(b)).

**Note 16-Provisions**

**Current**

Insurance	875	434
Dividend	125,000	100,000
Employee entitlements	7,237	6,819
Mine restoration	250	1,450
	<u>133,362</u>	<u>108,703</u>

**Non-Current**

Employee entitlements	17,245	16,432
Insurance	-	8,975
Mine restoration	8,018	8,105
	<u>25,263</u>	<u>33,512</u>

**Mine Restoration**

Under the terms of a license issued by the Department of Mineral Resources, the Corporation is required to restore a mine site the restoration cost of which has been independently determined. The net present value of the future cashflows to complete the restoration, discounted by the Corporation's weighted average cost of capital, is represented by the balance of the above provision.

**Note 17-Other Liabilities**

**Current**

Amounts received in advance	76	109
Coal contract termination payment	17,040	19,145
Unfunded superannuation liability	3,379	-
	<u>20,495</u>	<u>19,254</u>

**Non-Current**

Security deposit	36,000	36,000
Coal contract termination payment	-	17,040
	<u>36,000</u>	<u>53,040</u>

**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.

**Coal Contract Termination Payment**

The coal contract termination payment represents an amount payable to a supplier releasing them from their obligations under a long term contract. The contract was terminated as part of the settlement of a dispute. Payments under the terms of the settlement were completed in July 2002.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

	2002		2001	
	\$' 000	Shares	\$' 000	Shares
<b>Note 18—Equity</b>				
<b>(a) Share Capital</b>				
Ordinary Shares, fully paid	-	2	-	2
<b>(b) Contributed Capital</b>				
Opening balance	681,078	-	921,078	-
Distribution to Shareholders	-	-	(240,000)	-
<b>CLOSING BALANCE</b>	<b>681,078</b>	<b>-</b>	<b>681,078</b>	<b>-</b>

**Repayment of Equity to New South Wales Treasury**

As a consequence of a review of the Capital Structure Policy of New South Wales generators by the Treasurer, the Corporation made an initial repayment of equity of \$240 million on 12 April 2001.

	2002	2001
	\$' 000	\$' 000
<b>(c) Retained Profits</b>		
Retained profits at the beginning of the financial year	13,633	19,331
Special dividend paid to Shareholders	-	(9,331)
Net profit	121,314	103,633
Dividends provided for	(125,000)	(100,000)
<b>RETAINED PROFITS AT THE END OF THE FINANCIAL YEAR</b>	<b>9,947</b>	<b>13,633</b>

**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**

Operating profit after income tax	121,314	103,633
Depreciation and amortisation	85,153	85,777
Revaluation decrements	504	-
Increase (decrease) in net interest accruals	3,502	(1,297)
Net gain on sale of non-current assets	(157)	(419)
Tax profit recognised	22,409	12,466
Increase in net deferred taxes payable	37,849	27,131
Changes in assets and liabilities		
Decrease (increase) in trade and other debtors	(70,423)	45,109
Decrease (increase) in inventories	(14,351)	12,343
Decrease (increase) in prepayments	12,771	12,309
Increase (decrease) in trade and other creditors, employee entitlements and other provisions	17,923	(66,986)
<b>NET CASHFLOWS FROM OPERATING ACTIVITIES</b>	<b>216,494</b>	<b>230,066</b>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

	2002	2001
	\$' 000	\$' 000
<b>Note 20-Capital Expenditure Commitments</b>		
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	33,054	13,970
Later than one year but not later than five years	49,804	61,224
	<u>82,858</u>	<u>75,194</u>

**Note 21-Lease Commitments**

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	976	1,170
Later than one year but not later than five years	-	1,063
	<u>976</u>	<u>2,233</u>

**Note 22-Events Occurring After Balance Date**

The Corporation's Non Current Assets were revalued in July 2002 in accordance with Accounting Standard AASB 1041 'Revaluation of Non Current Assets'.

This will result in an increase in the carrying value of infrastructure assets. This will also impact on future depreciation charges.

The estimated remaining useful lives of the infrastructure assets have been reassessed as at 1 July 2002. Accordingly the remaining useful lives of the power stations have been increased from 40 to 50 years, which was based on recent engineering assessments.

As a result 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 to the Shareholders in July 2002. This payment was funded by an increase in the Corporation's borrowings through New South Wales Treasury Corporation of \$400 million in July 2002.

**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 exposures.

**(i) Interest Rate Swap Contracts**

The Corporation's borrowings at 30 June 2002 include securities that bear an average variable interest rate of 5%. It is 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.

Asset and liability swaps in place at 30 June 2002 have fixed interest rates ranging between 5.5% and 6.3% and variable rates that range from 4.4% to 4.6%.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

Note 23-Financial Instruments (continued)

**(b) Unrecognised Financial Instruments (continued)**

**Interest Rate Exposure (continued)**

(i) Interest Rate Swap Contracts (continued)

At 30 June 2002, the notional principal amounts and periods of expiry of the interest rate swap asset and liability contracts are as follows:

	2002	2001
	\$ 000	\$ 000
2-3 years	18,400	-
4-5 years	11,600	-
2-3 years*	(18,400)	-
4-5 years*	(11,600)	-
	<u>-</u>	<u>-</u>

\*The negative amounts represent asset interest rate swap contracts.

(ii) Interest Rate Futures

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

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

	DELIVERY MONTH	NUMBER OF CONTRACTS SOLD	TOTAL VALUE
			\$000
90 Day Bill Futures	Sep-02	15	15,000
3 Year Bond Futures	Sep-02	10	1,000
		<u>25</u>	<u>16,000</u>

**Foreign Currency Exposure**

In the normal course of business the Corporation enters foreign currency contracts for the supply of parts and equipment. Macquarie Generation 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:

	2002	2001	2002	2001
	Australian Dollars \$' 000	\$' 000	Average Exchange Rate	
<b>Buy United States Dollars</b>				
Maturity				
0-6 months	1,827	2,531	0.565	0.507
1-2 years	958	1,048	0.565	0.507
2-3 years	926	1,005	0.565	0.507
3-4 years	-	953	-	0.507
<b>Buy Swiss Francs</b>				
Maturity				
0-6 months	377	-	0.842	-
6-12 months	424	-	0.842	-
1-2 years	426	-	0.842	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

Note 23-Financial Instruments (continued)

**(b) Unrecognised Financial Instruments (continued)**

**Foreign Currency Exposure (continued)**

As these contracts are hedging anticipated future purchases, any unrealised gains and losses on the contracts, together with the cost of 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 2000 the Corporation's foreign exchange position gave rise to an unrealised loss of \$232,070 (2001-\$50,079) which has been deferred.

**(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	FIXED INTEREST RATE MATURING IN:			NON- INTEREST BEARING	TOTAL
		1 YEAR OR LESS	1 TO 5 YEARS	OVER 5 YEARS		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2002</b>						
<b>Financial assets</b>						
Cash	136,990	-	-	-	3	136,993
Receivables	384	-	-	-	149,971	150,355
Interest rate swaps*	(30,000)	-	30,000	-	-	-
	<u>107,374</u>	<u>-</u>	<u>30,000</u>	<u>-</u>	<u>149,974</u>	<u>287,348</u>
Weighted average interest rate	6.0%	-	5.7%	-		
<b>Financial liabilities</b>						
Trade creditors	-	-	-	-	113,570	113,570
Accrued interest	-	-	-	-	12,223	12,223
Borrowings	30,000	287,280	326,365	255,800	-	899,445
Security deposit	-	-	-	-	36,000	36,000
Coal contract termination payment	-	-	-	-	17,040	17,040
Interest rate swaps*	(30,000)	-	30,000	-	-	-
Interest rate futures**	(16,000)	15,000	1,000	-	-	-
	<u>(16,000)</u>	<u>302,280</u>	<u>357,365</u>	<u>255,800</u>	<u>178,833</u>	<u>1,078,278</u>
Weighted average interest rate	-	6.3%	6.5%	6.6%		
<b>NET FINANCIAL ASSETS (LIABILITIES)</b>	<u>123,374</u>	<u>(302,280)</u>	<u>(327,365)</u>	<u>(255,800)</u>	<u>(28,859)</u>	<u>(790,930)</u>

\* Notional principal amounts

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

**Note 23—Financial Instruments (continued)**

**(c) Interest Rate Risk Exposure (continued)**

	FLOATING INTEREST RATE	FIXED INTEREST RATE MATURING IN:			NON- INTEREST BEARING	TOTAL
		1 YEAR OR LESS	1 TO 5 YEARS	OVER 5 YEARS		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2001</b>						
<b>Financial assets</b>						
Cash	79,486	-	-	-	3	79,489
Receivables	485	-	-	-	79,448	79,933
	<u>79,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,451</u>	<u>159,422</u>
Weighted average interest rate	5.0%	-	-	-		
<b>Financial liabilities</b>						
Trade creditors	-	-	-	-	68,540	68,540
Accrued interest	-	-	-	-	11,659	11,659
Borrowings	30,000	235,929	402,342	270,860	-	939,131
Security deposit	-	-	-	-	36,000	36,000
Coal contract termination payment	-	-	-	-	36,185	36,185
	<u>30,000</u>	<u>235,929</u>	<u>402,342</u>	<u>270,860</u>	<u>152,384</u>	<u>1,091,515</u>
Weighted average interest rate	5.4%	6.0%	7.6%	6.5%		
<b>NET FINANCIAL ASSETS (LIABILITIES)</b>	<b>49,971</b>	<b>(235,929)</b>	<b>(402,342)</b>	<b>(270,860)</b>	<b>(72,933)</b>	<b>(932,093)</b>

**(d) Credit Risk Exposure**

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 (84%), secured debtors (12%) and other debtors (4%). The recognised financial assets also include unrealised gains from derivative financial instruments.

**(e) Net Fair Value of Financial Assets and Liabilities  
Recognised**

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

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

**Unrecognised**

The net fair value of unrecognised financial assets and financial liabilities are represented by their carrying value which represents the amount currently receivable or payable at the reporting date, and the present value of the estimated cash flows which have not been recognised as an asset or liability.

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.

The net fair value for forward foreign exchange contracts is taken to be the unrealised gain or loss at balance date calculated by using the exchange rates at balance date. The net fair value of futures represents the margin call at balance date.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

Note 23-Financial Instruments (continued)

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

	2002		2001	
	Carrying	Net Fair	Carrying	Net Fair
	Amount	Value	Amount	Value
	\$'000	\$'000	\$'000	\$'000
<b>Recognised financial instruments</b>				
<b>Financial assets</b>				
Loans to employees	384	336	485	416
<b>TOTAL</b>	<b>384</b>	<b>336</b>	<b>485</b>	<b>416</b>
<b>Financial liabilities</b>				
Borrowings and accrued interest	911,668	926,659	950,790	969,733
Security deposit	36,000	11,453	36,000	9,083
Coal contract termination payment	17,040	17,040	36,185	34,780
<b>TOTAL</b>	<b>964,708</b>	<b>955,152</b>	<b>1,022,975</b>	<b>1,013,596</b>
<b>Unrecognised financial instruments</b>				
<b>Financial liabilities</b>				
Forward foreign exchange contracts	-	232	-	51
Interest rate swaps	-	353	-	-
Interest rate futures	-	192	-	-
<b>TOTAL</b>	<b>-</b>	<b>777</b>	<b>-</b>	<b>51</b>

Note 24-Superannuation

Macquarie Generation contributes to three 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 liability. These payments are held in Investment Reserve Accounts by Pillar Administration. The Investment Reserve Accounts are invested by Pillar Administration and the resultant investment income or deficit adds to or subtracts from the balance of these accounts.

At balance date any unfunded superannuation liability is recognised as a liability in the Statement of Financial Position. Similarly, the amount of any 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 liability included in the Statement of Financial Position as at 30 June 2002 is composed of:

	SASS (i)	SANCS (ii)	SSS (iii)	TOTAL
	\$'000	\$'000	\$'000	\$'000
	2002	2002	2002	2002
Gross liability assessed by actuaries as at 30 June 2002	19,701	7,928	56,517	84,146
Investment reserve	17,578	6,672	56,816	81,066
(Unfunded superannuation liability)/prepaid contributions	(2,123)	(1,256)	299	(3,080)
	2001	2001	2001	2001
Gross liability assessed by actuaries as at 30 June 2001	17,006	7,027	51,408	75,441
Investment reserve	19,152	7,304	61,678	88,134
Prepaid contributions	2,146	277	10,270	12,693

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

Note 24-Superannuation (continued)

Triennial actuarial reviews of the above schemes are carried out by the Scheme's Actuary. The last review was conducted as at 30 June 2000. 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:

	2002/03	2003/04	2004/05
	% p.a.	% p.a.	% p.a.
Investment return	7.0	7.0	7.0
Salary growth rate	6.5	4.0	4.0
Consumer price index	2.5	2.5	2.5

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 made by Macquarie Generation with a Director, an entity of which a Director is a member or an entity in which a Director has a substantial financial interest.

The following Directors have disclosed that they hold or have held positions with the following organisations that the Corporation has business dealings with, which are all made in the normal course of business and on normal commercial terms.

Director	Position	Organisation
Mr James Watt	Non-Executive Director	SFE Corporation Limited

Mr Watt resigned as a Director of SFE Corporation Limited in January 2002.

Note 26-Renumeration of Directors

	2002	2001
	\$	\$
Income paid or payable, or otherwise made available, to Directors in connection with the management of the affairs of the entity	823,367	701,750

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

	\$	No.	No.
40,000-49,999	-	-	5
50,000-59,999	-	1	-
60,000-69,999	-	4	-
70,000-79,999	-	-	1
90,000-99,999	-	1	-
390,000-399,999	-	-	1
420,000-429,999	-	1	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

**Note 27-Remuneration of Executives**

	2002	2001
Total remuneration received, or due and receivable, from the entity by Executive Officers (including Directors) whose income is \$100,000 or more	\$ 2,697,916	\$ 2,788,290

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

	\$	No.	No.
100,000-109,000	1	1	2
110,000-119,000	1	-	-
120,000-129,999	3	1	1
130,000-139,999	-	-	1
140,000-149,999	1	3	-
150,000-159,999	1	-	-
170,000-179,999	-	1	-
190,000-199,999	1	-	-
210,000-219,000	1	3	-
220,000-229,000	1	3	-
230,000-239,000	2	-	-
260,000-269,000	1	-	-
390,000-399,000	-	1	-
420,000-429,000	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 all benefits and incentive payments received from the entity during the 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 (\$112,500 for the year ending 30 June 2002) at the end of the reporting period was 13 (2001-13).

The number of Executive Officer positions equal to or exceeding SES Level 1 filled by women in the current year was 1 (2001-1).

In relation to the Chief Executive Officer and Managing Director and Managers reporting directly to him, the following specific remuneration and incentive payments were made during the financial year. The 2002 incentive payments were earned during 2001/2002 and will be paid during the 2002/2003 financial year. Likewise the 2001 incentive payments were earned during 2000/2001 and paid during the 2001/2002 financial year.

Position	2002		2001	
	\$ Remuneration Package	\$ Incentive Payment	\$ Remuneration Package	\$ Incentive Payment
Chief Executive and Managing Director	313,101	95,000	294,898	115,000
Chief Financial Officer and Company Secretary	190,975	43,090	182,652	43,100
Manager Marketing and Trading	204,822	49,200	184,685	62,900
Manager Bayswater Power Station	181,684	50,050	172,171	48,300
Manager Liddell Power Station	181,665	41,860	172,171	50,000
Manager Fuel and Environment	173,677	46,980	164,836	41,250
General Manager Human Resources	158,699	29,415	152,318	35,750

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 JUNE 2002

Note 27-Remuneration of Executives (continued)

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.

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 and trading 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.

## 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 2002 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 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

30 August 2002

GPO BOX 12  
SYDNEY NSW 2001

## INDEPENDENT AUDIT REPORT

### MACQUARIE GENERATION

#### To Members of the New South Wales Parliament

#### Scope

I have audited the accounts of Macquarie Generation for the year ended 30 June 2002. The Members of the Board of the Corporation are responsible for the financial report consisting of the accompanying statement of financial position, statement of financial performance and statement of cash flows, together with the notes thereto, and the information contained therein. My responsibility is to express an opinion on the financial report to Members of the New South Wales Parliament based on my audit as required by the *State Owned Corporations Act 1989* and the *Public Finance and Audit Act 1983* (the PF&A Act).

My audit has been conducted in accordance with statutory requirements and Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates.

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements, in Australia, so as to present a view which is consistent with my understanding of the Corporation's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

#### Audit Opinion

In my opinion, the financial report of Macquarie Generation complies with section 41B of the PF&A Act, other statutory reporting requirements and presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the financial position of the Corporation as at 30 June 2002 and the results of its operations and its cash flows for the year then ended.

A handwritten signature in black ink, appearing to read 'R J Sendt'.

R J Sendt  
Auditor-General

SYDNEY  
30 August 2002

## CORPORATE GOVERNANCE

### 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 Corporation 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.

The clients served by Macquarie Generation are participants trading in the wholesale electricity market, principally holders of retail licences in New South Wales and the Tomago Aluminium Smelter.

### The Board of Directors

The Macquarie Generation Board of Directors bears ultimate responsibility for the corporate governance of the Corporation. This includes strategic direction and performance, establishing goals for management and monitoring the achievement of these goals.

The names of current Directors, together with details of their experience, qualifications, special responsibilities and attendance at Board meetings are disclosed in the Directors' Report.

The Board exercises its functions and monitors the Corporation's performance through regular Board meetings and Board committees.

### Board Committees

The Board has established a Board Audit and Assurance Committee, a Board Remuneration and Human Resources Committee, a Board Legal Affairs Sub-Committee and a Board Issues Management Sub-Committee to assist it in decision-making, oversight and control. The minutes of all Board committee meetings are tabled and discussed and any recommendations considered at the next scheduled Board meeting. The memberships of the Board committees, the number of meetings held and Directors' attendance details are disclosed in the Directors' Report. The responsibilities of the Board Committees are as follows:

#### Audit and Assurance Committee

This committee reviews and makes recommendations to the Board on the Corporation's financial reporting, internal controls and internal and external audit processes to assist the Board to fulfil its oversight responsibilities and to ensure compliance with financial, regulatory and legal requirements.

#### Remuneration and Human Resources Committee

This committee makes recommendations to the Board on remuneration policies and practices for the Corporation. The committee considers independent advice in determining policies and practices that will attract and retain high quality employees.

#### Legal Affairs Sub-Committee

The committee's role is to make recommendations to the Board on the strategic direction and cost controlling mechanisms relating to the management of litigation and other legal issues for the Corporation.

#### Issues Management Sub-Committee

The committee's role is to identify and provide guidance on the management of internal issues with the potential to influence the Corporation's normal business activities.

### Risk Management and Internal Control

The Board monitors the operational and financial performance of the Corporation against budget and other key performance measures through monthly management reports. The Board also reviews and receives reports and advice on areas of operational and financial risk.

The Corporation has established internal controls to manage risk in the key areas of exposure relevant to its business. Systems have been designed to provide reasonable assurance that the assets of the Corporation are safeguarded and risk exposures are within limits defined by the Board in policy documents.

CORPORATE GOVERNANCE (CONTINUED)

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

- Energy Trading
- Environment
- Safety
- Budget Review
- Information Technology

Ethics and Conduct

The Corporation has established a formal Code of Conduct that identifies the ethical and general behavioural standards under which employees are to conduct themselves. The Code covers fairness and equity, confidentiality, the use of corporate resources, acceptance of gifts and benefits, conflicts of interests, corrupt conduct and accountability. In all aspects of its business, the employees of Macquarie Generation are expected to conduct themselves in a responsible manner, honestly and with integrity.

STATUTORY INFORMATION

Senior Management Team

Title	Name and Qualification	Executive Committee Representation (1)
Chief Executive and Managing Director	Mr Grant Every-Burns BE(Hons)	1,2,4,5,6
Chief Financial Officer (7) and Company Secretary	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
General Manager Human Resources (7)	Ms Lee Edmonds-Ward JP SRN(G), BA, MBA	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. A total of 2,000 copies have been printed at an estimated cost of \$26.56 per copy.

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.

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.

STATUTORY INFORMATION (CONTINUED)Equal Employment Opportunity

As at 30 June 2002, Macquarie Generation's workforce comprised 612 employees (excluding casuals) including trainees and apprentices in the following categories by percentage and number:

	Percentage	Number
Men	89%	542
Women	11%	70
People identifying as Aboriginal or Torres Strait Islander	1%	6
People from racial, ethnic or ethno-religious minority groups	4%	24
People whose first language as a child was not English	4%	25
People with a disability	10%	61
People with a disability requiring adjustment in the workplace	3%	19

Key activities promoting workforce equity and diversity included:

- | Flexible work practices to meet employees' carer responsibilities
- | Substantial financial support to two community-based child care centres
- | Financial and other support to community based play groups and day care centres
- | Workplace awareness programs
- | Review Corporate policies and procedures for inclusion of equity and diversity practices as appropriate
- | Surveying employees' workplace experience to monitor any discriminatory or harassment practices through climate survey and exit interviews
- | Continue EEO Data Collection to achieve a 100% response rate

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 \$161,695.

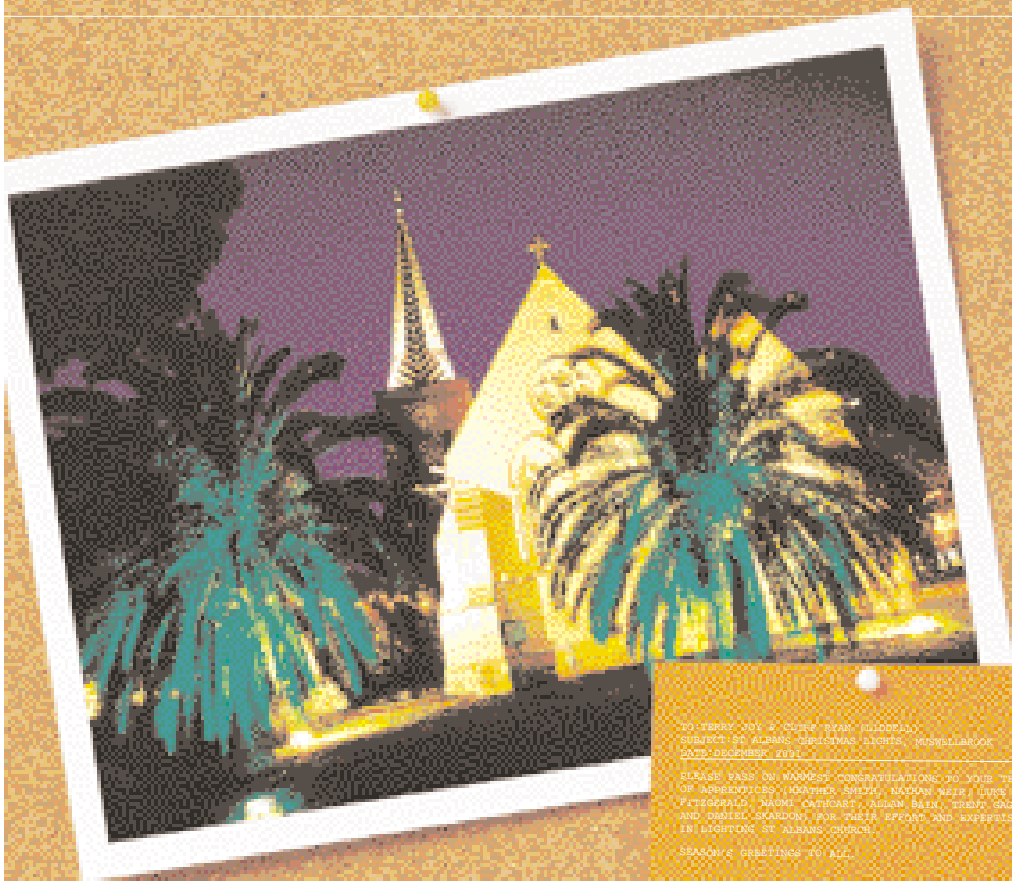
Overseas Visits

Name	Title	Country	Purpose
D Ipkendanz	Chief Financial Officer and Company Secretary	United Kingdom and United States	Initial presentations and meetings with insurance underwriters
G Every-Burns	Chief Executive Officer and Managing Director	United Kingdom	Follow up presentations and meetings with insurance underwriters
D Ipkendanz	Chief Financial Officer and Company Secretary		
S Ireland	Manager Fuel and Environment	United States	Discussions with expert witnesses regarding litigation which has since been settled.
J Marcheff	Manager Liddell Power Station	Singapore	Inspection of rehabilitated gas turbine for suitability at Tomago project.
B Wallace	Turbine Engineer Bayswater Power Station		

Promotion

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

- | Annual Report 2001
- | Awareness advertising, Rural Press Ltd (Upper Hunter TV Guide)
- | Television awareness campaign, Tomago project
- | Media releases, radio and TV interviews
- | Internet website updates: www.macgen.com.au
- | Community Billboard, Radio 2NM
- | Casual newspaper and magazine advertising.



TO: TERRY O'BY & COLLEEN BYRNE (LIDDELL)  
SUBJECT: ST ALBANS CHRISTMAS LIGHTS, MUSWELLBROOK  
DATE: DECEMBER 2001

PLEASE PASS MY WARMEST CONGRATULATIONS TO YOUR TEAM OF APPRENTICES (MURRAY SMALL, NATHAN WIFE) (DREW FITZGERALD, NAOMI CATHCART, AILEEN BAIN, TRENT GAGGLES AND DANIEL SKARDON) FOR THEIR EFFORT AND EXPERTISE IN LIGHTING ST ALBANS CHURCH.

SEAN'S GREETINGS TO ALL.

## CONTACT DETAILS

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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](http://WWW.MACGEN.COM.AU)

FOR THE PURPOSES OF THIS  
REPORT, THE YEAR 2002  
REFERS TO THE FISCAL  
YEAR 1 JULY 2001 TO 30  
JUNE 2002

