

ANNUAL REPORT **2003**



LETTER OF SUBMISSION TO THE VOTING SHAREHOLDERS

The Hon M. Egan MLC
Treasurer, Minister for State Development
and Vice-President of the Executive Council

The Hon J. J. Della Bosca MLC
Special Minister of State, Minister for
Commerce, Minister for Industrial Relations,
Assistant Treasurer and Minister for the
Central Coast

Dear Shareholders,

It is our pleasure to submit to you the annual report of Delta Electricity for the year ending 30 June 2003. The annual report covers Delta's activities and contains the statement of accounts for the financial year.

The annual report was prepared in accordance with Section 24A of the State Owned Corporation Act 1989 and the Annual Reports (Statutory Bodies) Act 1984. It is being submitted for presentation to Parliament.



Peter Dodd
Chairman



Jim Henness
Chief Executive

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Front cover:
Tasmin and Hannah Tynski
visiting Mt Piper Power Station.

Q. How are you taking responsibility for our future?

A. We are dedicated to business solutions that ensure the future is a sustainable one.

The principles of sustainability are defining the policy initiatives of government and are a major factor in the strategy development of many businesses.

For Delta Electricity, the principles mean the development of a framework that provides for the long-term security of its commercial operations, preserves the environment for future generations and supports the development and growth of communities in which the these operations are located.

The approach to this Report provides Delta's stakeholders with information about the way the Corporation makes responsible decisions for the development of the business, including recognising the benefits and impact of these decisions. The Report integrates Delta's environment report which has been produced as a separate report in the past. Additionally, information on social and economic performance is included for a more complete view of our business.

Delta's long-term business success is through the development of new market opportunities that strengthen its commercial position but lower the overall rate of greenhouse gas emissions. Some delays have occurred in the quest to develop biomass co-generation facilities but Delta remains optimistic that within the next couple of years renewable energy capacity of more than 60MW will have been commissioned.

EXECUTIVE SUMMARY

REPORTING OBJECTIVES

Delta Electricity's report aims to meet a standard of reporting that satisfies our stakeholders' expectations for accountability and transparency. The information needs of Delta's key constituencies – customers, local communities, employees and shareholders – may be different but there is convergence on a framework that best meets these needs.

For this reason, guidelines developed by the Electricity Supply Association of Australia have been used to structure the content of the report.

The guidelines assist Delta in the communication of its performance from economic, environmental and social perspectives. The framework is also used to describe Delta's capability to manage its operations for long-term viability.

This report provides information to stakeholders for an assessment of Delta's performance and the sustainability of its operations. We believe it conveys a message of a business that seeks to play its part in the long-term energy solutions for Australia.

PERFORMANCE SUMMARY

MAJOR ACHIEVEMENTS

Delta Electricity's key achievements in the year were:

Plant Performance

Excellent plant performance over the past two years has resulted from a maintenance approach focused on improving plant reliability.

Environmental Management

Delta maintained its accreditation to the international environmental standard ISO 14001 by successfully completing surveillance audits at each power station site. The requirements of this standard include the involvement and commitment by all staff to vigorous environmental management and systems.

Licence Compliance

Delta is subject to a number of licence conditions required by regulators. In the past year, Delta has achieved full compliance with all licence conditions. Due to effective procedures and systems, plant performance and staff training there have been no significant environmental incidents at any power station site in the last three years.

Particulate Emissions

Total particulate emissions were significantly reduced to a level of less than half the amount three years ago. This reduction comes from the introduction of flue gas conditioning at Wallerawang where a major reduction in emissions has occurred from the level three years ago.

Safety

Each of Delta's three business units maintained a Five Star rating under the National Safety Council of Australia's safety award system with Mt Piper, Munmorah and Wallerawang power stations and Corporate office all recording milestones in relation to days without a lost time injury.

MAJOR CHALLENGES

Safety

Delta Electricity's safety record has generally shown an improving trend over the past six years. Delta recognises that many injuries result from the behaviour of people. In an effort to reduce such injuries, a behavioural safety program will be implemented. This type of program operates on the basis that the main cause of injuries are unsafe acts, rather than unsafe

conditions, and focuses on positive performance indicators as the drivers of change.

Stack Emissions

Delta's annual community survey identifies stack emissions from Vales Point Power Station as an area of rising concern for local residents. The emissions are well within the licenced limits for the station but under certain weather conditions, the plume is readily visible.

Delta has continually updated the community on precipitator improvements, and the introduction of flue conditioning at Vales Point has shown some early positive signs. While the number of complaints and enquiries has fallen over the last two years, monitoring of the emissions will determine the need for further initiatives.


Water


Drought conditions in inland NSW have reduced inflows to the dams supplying Mt Piper and Wallerawang power stations. Under Delta Electricity's water licence, environmental flows are reduced when a "drought trigger" combined storage level is reached in these dams. The drought trigger was in effect for the entire year. Continued dry weather will further reduce water storage levels and place pressure on generation from these stations in the medium-term.

The following table represents Delta's performance for the year measured against 9 key indicators. The green bar indicates the target range from lowest (left) to highest (right), the yellow box indicates Delta's actual result. The further right the yellow box, the better the result.

FIGURE ONE: **Balanced Scorecard**

MEASURE AND DESCRIPTION	RANGE AND RESULT	COMMENT
Net Profit Before Tax This indicator is the key financial measure of the performance of the organisation.	<div> <div>5077.5116.2</div> <div> <div></div> <div></div> </div> <div>\$M116.5</div> </div>	Sound financial performance based on customer relations and plant performance.
Equivalent Forced Outage Rate Represents the percentage of total energy lost due to all forced outages and is a key measure of plant performance and the effectiveness of asset management.	<div> <div>5.03.62.00.0</div> <div> <div></div> <div></div> </div> <div>%1.7</div> </div>	A low outage rate demonstrates effective asset management programs.
Coal Purchases The comparison between the cost of coal purchases with the export price equivalent allows a measure of the success of Delta's purchasing strategy.	<div> <div>10-10-15</div> <div> <div></div> <div></div> </div> <div>%-14</div> </div>	Soft export conditions and an appreciating Australian dollar made domestic markets more attractive to coal suppliers.
Environment Emission rates reflect plant efficiency.	<div> <div>910907893890</div> <div> <div></div> <div></div> </div> <div>908tonnes/GWh</div> </div>	Scheduled maintenance at Mt Piper and transfer of generation from Vales Point to Wallerawang resulted in a higher intensity rate than planned.
Compliance with international environmental systems mitigates against environmental risks.		ISO 14001 accreditation retained.
Community Rating A rating from a regular survey of community attitudes which includes a random sample of the local community and a number of key decision-makers.	<div> <div>3.03.24.0</div> <div> <div></div> <div></div> </div> <div>3.7</div> </div>	A broad community program has strengthened relationships with local communities.
Employee Survey Index Provides a measure of the standard of working life in Delta in relation to a number of important areas such as training, communication, safety and leadership.	<div> <div>55606870</div> <div> <div></div> <div></div> </div> <div>%62</div> </div>	Delta participated in an external benchmarking exercise that attempted to identify the BEST Employers to work for in Australia. Over 50% of Delta's staff responded to this survey, and issues raised have been incorporated into organisation and Business Unit plans.
Innovation An innovation is a step change that results in improved performance and is measured by the savings that are realised in one year as a result of the change.	<div> <div>0.04.05.0</div> <div> <div></div> <div></div> </div> <div>\$M4.7</div> </div>	A range of innovations added to the value of Delta's business.
Green Energy Production (GWh) This measure tracks our progress towards the implementation of known projects.	<div> <div>0645</div> <div> <div></div> <div></div> </div> <div>GWh15.7</div> </div>	Increased production from last year but drought and fuel availability restricted output for the year.

 Represents the targetted performance range from lowest (left) to highest (right)

 Indicates the results for the year – the further to the right the result, the better the performance

CHAIRMAN'S REPORT

For the second consecutive year, outstanding plant performance enabled Delta Electricity to deliver a sound financial result. A forced outage rate of below two percent ensured the plant met market demands from our customers for flexibility and reliability of supply. A net profit before tax of \$102.0 million is testament to the capability and effort of Delta's people and on behalf of the Board, I thank them for this result.

MARKET PERFORMANCE

The National Electricity Market (NEM) continued to experience increased demand for energy. Record summer demands were experienced by New South Wales, Queensland and Victoria, with the latter two states also establishing record winter demands in the year.

Despite this growth in demand, average yearly spot prices in New South Wales declined for the second year running. Increases in the transfer capacity of interconnectors coupled with extra generation from new plants in Queensland saw a growth in the levels of electricity imported into New South Wales.

Delta Electricity's response to these competitive pressures came from all areas of the business and a generation level of over 20,000 gigawatt hours was achieved over the year.

MARKET DIRECTIONS

The National Electricity Market developed further throughout the year with greater involvement of the jurisdictions. The significant developments during the year included:

- Separate reviews of the NEM conducted by member jurisdictions through the NEM Ministers' Forum; and



- The Council of Australian Government's Energy Markets Review (the "Parer Panel").

Delta has and will continue to actively work with these regulatory and governing agencies in the development of the market environment and regulatory framework.

GOVERNANCE

Stakeholder demands for accountability, risk assessment and monitoring and integrity in corporate performance received widespread commentary during the year. The Board examined Delta's corporate governance practices against better practice recommendations to determine the extent these practices were already in place. I am pleased to report Delta's practices are substantially aligned to the recommendations.

Sandra Moait joined the Board during the year, replacing Jennie George who resigned to contest successfully a seat in Federal Parliament. I thank Jennie for her valuable contribution during her term on the Board.

FUTURE DIRECTIONS

The dominant consideration in Delta's strategic direction is the increasing capacity in the electricity market, particularly in Queensland, that has depressed spot market prices. This means Delta's existing portfolio of plant must remain low cost, reliable and efficient. The exceptional plant performance over the past two years will need to be replicated into the future and planned flexible maintenance strategies have been developed to meet this requirement.

Additionally, a focus will be increasing Delta's internal efficiency. Material and expense costs will need to be continually reduced. Improvements to plant outage programs, supplier arrangements and coal supply sourcing

are all expected to reduce costs and improve Delta's competitive position.

Reviews of market design principles and environmental policy frameworks create an uncertain climate for the industry. Delta's submission to the Mandatory Renewable Energy Target Review supported a slight increase in the energy target and the introduction of either indexed escalation to the penalty or other commercial incentives to support this emerging industry.

Low greenhouse gas emission developments remain a focus and development consent and approval has been received for construction of a 30 megawatt renewable energy plant at the New South Wales Sugar Milling Co-operative's Condong site. Also, environmental assessment of a proposed wind farm in the southern tablelands region of New South Wales was substantially progressed.

On behalf of my fellow Board members I want to thank Jim Henness and his team for their combined efforts that have produced another excellent performance.

To the staff of Delta thank you for your commitment and support.

Peter Dodd
Chairman

CHIEF EXECUTIVE'S REPORT

Delta Electricity continued its strong performance throughout the year with effective contributions from all parts of the business. Plant operations were a significant factor enabling a high level of unit availability to meet customer energy needs.

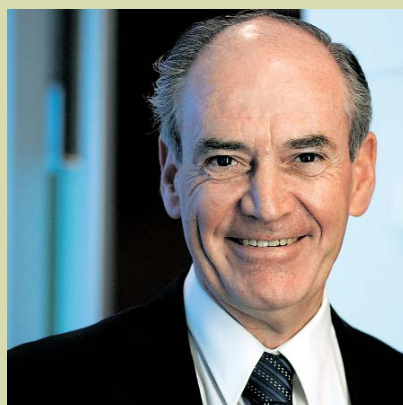
Successful management of market risks enabled Delta to report a net profit before tax of \$102.0 million, slightly above target. A dividend of \$113.1 million was declared to the Shareholders which included a special dividend of \$50 million sourced from retained profits.

On a range of financial measures Delta performed extremely well. However, there are other, non-financial measures on which businesses are also being assessed. Environmental and social performance as well as the rigour of corporate governance arrangements are areas on which stakeholders are now seeking information. Delta has continued to measure its performance using the "balanced scorecard" method covering financial, employee, plant, environment and community indicators. This Report is structured to convey information to stakeholders on these business areas as well as Delta's overall financial performance.

ENVIRONMENT

Delta's strategy to improve greenhouse gas emission rates by diversifying its generation portfolio gathered momentum. Renewable energy production increased to more than 15 gigawatt hours this year mainly through successful co-firing of accredited biomass materials at three power stations. Additionally, a third mini-hydro generator was commissioned at Dungog, an environmental assessment for a wind-farm was progressed and development consent was granted for a co-generation plant at Broadwater.

Delta maintained its accreditation to the international environmental standard ISO 14001 by successfully completing surveillance audits at each power station site. The requirement of this standard includes



the involvement and commitment by all staff to vigorous environmental management and systems. That Delta recorded, for the third consecutive year, no major environmental incidents or licence breaches, is testament to the endeavours and commitment of our people.

Dust emissions from power station operations are a source of concern for local communities. It is, therefore, pleasing to report a significant decline in these emissions since 1999/2000, which follows the installation of flue conditioning plants at Wallerawang and Vales Point.

ETHICS AND RISK

Delta values fairness and integrity in the work environment and particular attention is given to the expectations of employee behaviour. The ethical framework in place is clear and unambiguous and provides all stakeholders with a high level of confidence in their dealings with any employee.

Delta's Code of Conduct was revised in the year, taking into account trends that have emerged in corporate responsibilities.

The Code was reviewed by an independent external agency to ensure it met contemporary community expectations.

Compliance with various Acts and industry specific Codes is important for the protection of Delta's commercial position and reputation. A computer-based program for trade practices compliance training was implemented in the year to raise awareness and develop an understanding of these regulatory principles.

Additionally a fraud and corruption risk assessment, including a review of key policies and audit reports, demonstrated that the risk mitigation measures in place are effective in preventing fraudulent activity.

International events and the response from the Commonwealth and State governments resulted in the adoption of new security measures at each of Delta's establishments. While there has been no specific threat to any power station, Delta has implemented initiatives consistent with the level of security alert for the protection and safety of its plant, employees and local communities.

SAFETY

Each of Delta's three business units maintained a Five Star rating under the National Safety Council of Australia's safety award system. However, an increase in injuries involving lost time from work is an area of concern and will be addressed through the implementation of a behavioural safety program. A task based risk assessment tool has been implemented across each of the business units as part of a safety rules management system, further strengthening Delta's commitment to the risk management principles outlined in the revised OHS Regulations.

COMMUNITY

Delta's community relationship program addressed community stakeholders' needs, with a structured approach including sponsoring diverse community activities. Some 120 community groups in the Lithgow and Central Coast regions now partner with Delta.

The annual survey of Lithgow and Central Coast communities found that general environmental concerns are increasing in these communities. While our survey generally indicates that Delta is not viewed as a major contributor, specific initiatives at the power station sites have addressed these concerns.

FUTURE DIRECTIONS

Average annual market prices, although supported by volatility in periods of high demand, have declined in the past two years. Excess generating capacity is likely to keep this downward pressure on prices and deter any major new investment in the short-term. In this environment cost reductions will be important to maintain Delta's competitive presence.

The implementation of initiatives resulting from the several reviews of the electricity market, will determine changes to the market in which Delta will operate. It is expected that these changes will provide for a more efficient market and Delta welcomes these changes.

I am proud of Delta's achievements in this and previous years and I am confident that Delta will continue to meet the competitive challenges of the market. Delta employees have provided the impetus for our performance and I thank them for their effort. I also thank the Board for its sound and valuable advice.

A handwritten signature in black ink, reading "Jim Henness". The signature is fluid and cursive, with a large, stylized 'J' and 'H'.

Jim Henness
Chief Executive

CORPORATE PROFILE

OVERVIEW

Delta Electricity is an electricity generation company. We produce electricity from several facilities and a diversified set of energy sources including coal, water and biomass materials.

Our generators produce around 13% of the electricity needed for the national electricity spot market, meeting the needs of electricity consumers from Queensland to South Australia across the east coast of Australia.

Most of Delta's generation derives from the coordinated operation of four coal-fired power stations located in NSW: Mt Piper and Wallerawang near Lithgow, and Vales Point and Munmorah on the Central Coast. The total available generating capacity is 4,240 MW.

Delta aims to achieve a lowest cost of overall production commensurate with the needs of managing the commercial risks of our participation in the market. While coordinating the operation of the four power stations presents complex operating challenges, we gain considerable benefits from our ability to respond rapidly to changing market and plant conditions.

The remainder of Delta's generation is from renewable energy sources. The contribution from mini-hydro generators and biomass materials is small at this time, but will grow as new projects are completed.

Delta Electricity operates under the Energy Services Corporations Act (1995) and the State Owned Corporations Act (1989). The organisation was formed on 1 March 1996 as part of the NSW Government's restructure of the state's electricity industry. This restructure was in response to large scale changes in generation, transmission and supply of electricity in eastern Australia following the Federal Government's program of competition reform.

PRINCIPAL FUNCTIONS AND OBJECTIVES

Delta Electricity's principal functions are to:

- (a) establish, maintain and operate facilities for the generation of electricity and other forms of energy
- (b) supply electricity and other forms of energy.

Guiding Delta in carrying out these functions are the following principal objectives:

- (a) to be a successful business and, to this end to:
 - (i) operate at least as efficiently as any other comparable businesses;
 - (ii) to maximise the net worth of the state's investment in Delta; and
 - (iii) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.
- (b) to protect the environment by conducting its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the Protection of the Environment Administration Act 1991;
- (c) to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates;
- (d) to operate efficient, safe and reliable facilities for the generation of electricity;
- (e) to be an efficient and responsible supplier of electricity;
- (f) to be a successful participant in the wholesale market for electricity.

VISION, MISSION AND VALUES

Vision

Generating Performance Through Innovation

Mission

To be the supplier of first choice in the electricity market by ensuring that:

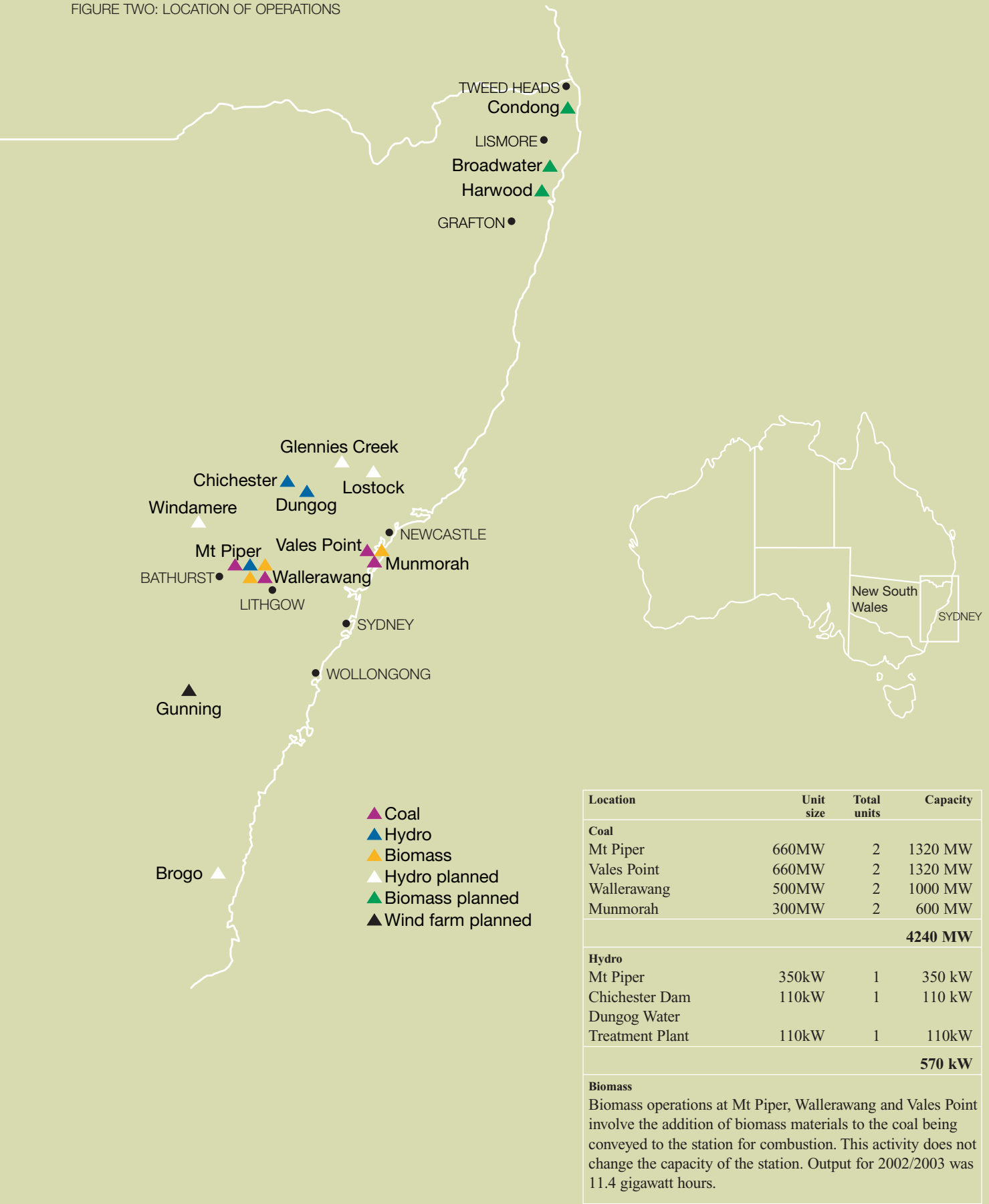
- **Customers** receive competitive prices, reliable supply and innovative, customised services.
- **Staff** work in a safe, challenging and creative workplace, receive a fair return for their contribution, and have opportunities to develop.
- **Community** members welcome us as a valued, environmentally responsible organisation.
- **Stakeholders** are confident that we effectively manage the business and associated risks.

Shared Values

We value:

- **productive relationships**
Maintaining productive relationships with customers, colleagues and suppliers.
- **safety, health and welfare**
Providing for the safety, health and welfare of our people, visitors and the community.
- **continuous improvement**
Demonstrating continuous improvement in all aspects of our business.
- **learning and development**
Supporting the learning and development of our people for business success.
- **environmental performance**
Caring for the environment for future generations.
- **honesty, fairness and integrity**
Ensuring honesty, fairness and integrity in all that we do.

FIGURE TWO: LOCATION OF OPERATIONS



EXECUTIVE SUMMARY

TABLE ONE: **Key Performance Indicators – Statistical Summary**

	Unit	02/03*	01/02	00/01	99/00	98/99	97/98
Financial statistics							
Total Sales Revenue	\$m	727.7	719.3	737.8	639.8	562.9	559.8
EBIT	\$m	173.2	200.6	225.1	167.1	96.4	96.9
Net Profit Before Tax	\$m	102.0	142.4	188.1	158.7	60.7	54.6
Net Profit After Tax	\$m	61.4	95.0	133.0	119.7	38.5	31.9
Total Debt	\$m	784.3	728.6	730.9	351.4	420.9	424.6
Total Equity	\$m	800.6	393.6	384.1	760.8	727.7	722.0
Return on Assets	%	8.6	12.6	14.5	11.2	7.0	7.1
Return on Equity	%	7.7	24.1	34.6	13.4	5.3	4.4
Gearing	%	49.5	64.9	65.6	31.6	36.6	37.0
Interest Cover	Times	2.4	3.4	6.1	4.9	2.7	2.3
Debt:Equity	%	98.0	185.1	190.3	46.2	57.8	58.8
Current Ratio		1.3	1.3	1.3	1.3	1.0	1.3
Operational statistics							
Production	GWh	20,354	20,843	21,163	20,481	20,006	19,222
EFOF	%	1.7	0.9	3.5	9.6	4.2	4.5
Availability	%	88.8	90.4	85.2	82.9	86.7	87.5
Thermal Efficiency	%	35.3	35.0	34.9	35.2	35.3	35.6
Coal Stockpile Levels	\$m	65.8	54.9	48.3	30.2	28.0	32.8
Employee statistics							
GWh/employee		27.1	27.6	27.1	25.9	24.3	18.6
Staff Numbers		751	754	782	797	822	1032
Training	Days/employee	5.9	7.1	6.9	7.2	8.2	8.3
Sick Leave	Days/employee	6.1	5.8	6.5	6.6	8.5	9.2
Safety	Frequency rate	8.7	5.3	7.0	11.8	5.7	14.6
Environment Statistics							
Licence Breaches		0	0	0	2	3	3

* Figures relate to Delta Electricity's consolidated result



Q. How can reporting improve environmental performance?

Eric Mahoney,
Lithgow/Oberon
Landcare Association

A. What gets reported, gets measured. What gets measured, gets done.



ENERGY AND GREENHOUSE

The Greenhouse Effect suggests that human activities are changing the composition of the atmosphere and these changes are altering global weather patterns and climate. To reduce greenhouse emissions, State and Federal governments have introduced several initiatives including encouraging people to buy energy generated from renewable sources and introducing mandated renewable energy targets and abatement schemes.

Delta has responded to these initiatives by diversifying its portfolio with renewable energy projects. While total output is small at this time, it is expected to increase in time as more facilities are developed and commissioned. Improving the efficiency of existing coal-fired plant is another contributor to lowering greenhouse gas emissions.

Energy consumption and supply

Delta generated 21,500 GWh of electricity in the year from its four coal-fired power stations, representing almost 13% of the total electricity produced for the National Electricity Market. Black coal consumption of more than eight million tonnes equated to a sent out efficiency of 35.3%.

Approximately two thirds of the electricity supplied by Delta is generated at the two western region stations. The remaining one third is mainly generated at Vales Point. Mt Piper Power Station, as the most efficient black coal fired plant in NSW, operates at a high capacity factor, whilst Vales Point and Wallerawang operate at intermediate capacity factors. Munmorah operates on an intermittent basis depending on market demand.

Renewable energy production

Delta now co-fires small quantities of accredited biomass materials and operates three mini-hydro facilities which produce renewable energy and lower emission rates. Proposed projects include co-generation from sugar cane materials in conjunction with the NSW Sugar Milling Cooperative, further mini-hydro facilities and wind farms.

Renewable energy production totalled over 11GWh primarily from co-firing biomass materials at three power station sites (refer Table Three). The major production of renewable energy was at

FIGURE THREE: CONTRIBUTION TO TOTAL ENERGY GENERATED

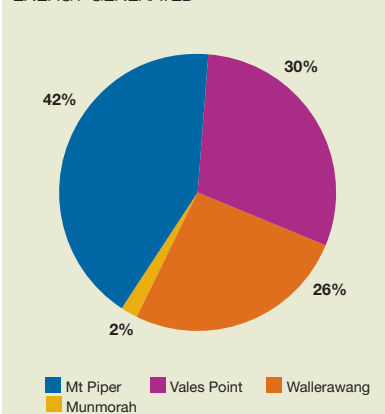


TABLE TWO: ENERGY CONSUMPTION AND SUPPLY

Energy consumed	
Black coal	207.7 PJ
Fuel oil	0.4 PJ
Energy supplied	
Generated	77.5 PJ (21,537 GWh)
Used in works	4.2 PJ (1,168 GWh)
Net energy supplied	73.3 PJ (20,369 GWh)
Efficiency sent out	35.3%

Vales Point, where full scale biomass co-firing commenced in May 2003. Output from biomass production in the western region was constrained due to technical issues with plant and fuel availability. Dungog mini-hydro was commissioned in May 2003, several months later than expected due to drought and some technical problems with the water supply system.

Further development of renewable energy generation is proceeding and it is expected that 2003/04 will see a significant increase in output.

Greenhouse emissions

Production of electricity at Delta Electricity power stations involves the combustion of black coal. The primary greenhouse gas emitted from this process is carbon dioxide (CO₂) which

constitutes more than 99% of total greenhouse emissions from Delta's operations. Small amounts of other greenhouse gases (methane and nitrous oxide) are also released during combustion. Emissions are normally expressed in carbon dioxide equivalents (CO₂-e), ie. the global warming potential of the gases when compared to carbon dioxide.

In 2002/03 Delta Electricity power stations generated approximately 500 GWh less than in the previous year. This resulted in greenhouse emissions of 18.5 Million tonnes of carbon dioxide equivalent, a reduction of 0.3 million tonnes from the previous year's emissions.

The emission rate per unit of energy supplied increased slightly to 908 tonnes

per GWh sent out, up from 903 tonnes/GWh in 2001/02. The main cause of the increase was scheduled maintenance and consequent lower production from Mt Piper, the most efficient coal-fired power station in NSW.

Generator Efficiency Standard performance

Delta was the first generator to sign the Commonwealth Government's voluntary Generator Efficiency Standards Agreement that agreed legally binding targets to reduce greenhouse emissions. To do this Delta is making its existing power plants operate more efficiently. These plants are constantly monitored, refined and upgraded to lower greenhouse emissions.

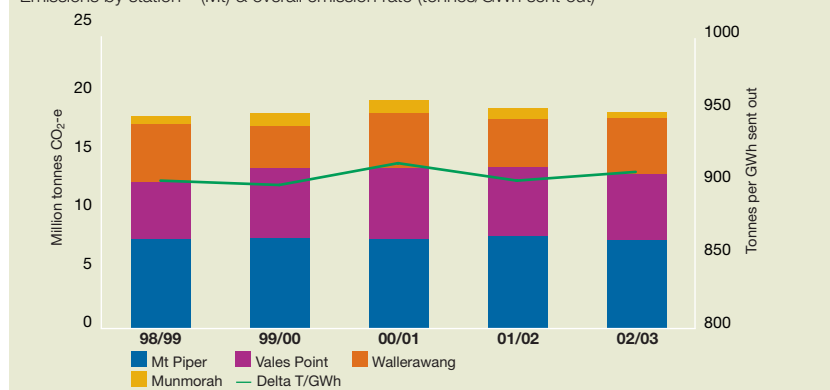
With the exception of Munmorah, all sites met or exceeded the Generator Efficiency Standard requirements. Although Munmorah fell outside the upper bound of the standard, a significant cause of this was the intermittent operation of the plant in 2002/03 with only 10% capacity utilisation.

	Energy supplied	Details
Sustainable biomass	11.4GWh	Vales Point – 6.2 GWh; Wallerawang – 3.5GWh; Mt Piper – 1.8 GWh
Mini – hydro*	0.2 GWh	Chichester, Dungog

*Excludes Mt Piper mini hydro as it is classified as green energy

FIGURE FOUR: GREENHOUSE GASES

Emissions by station – (Mt) & overall emission rate (tonnes/GWh sent out)

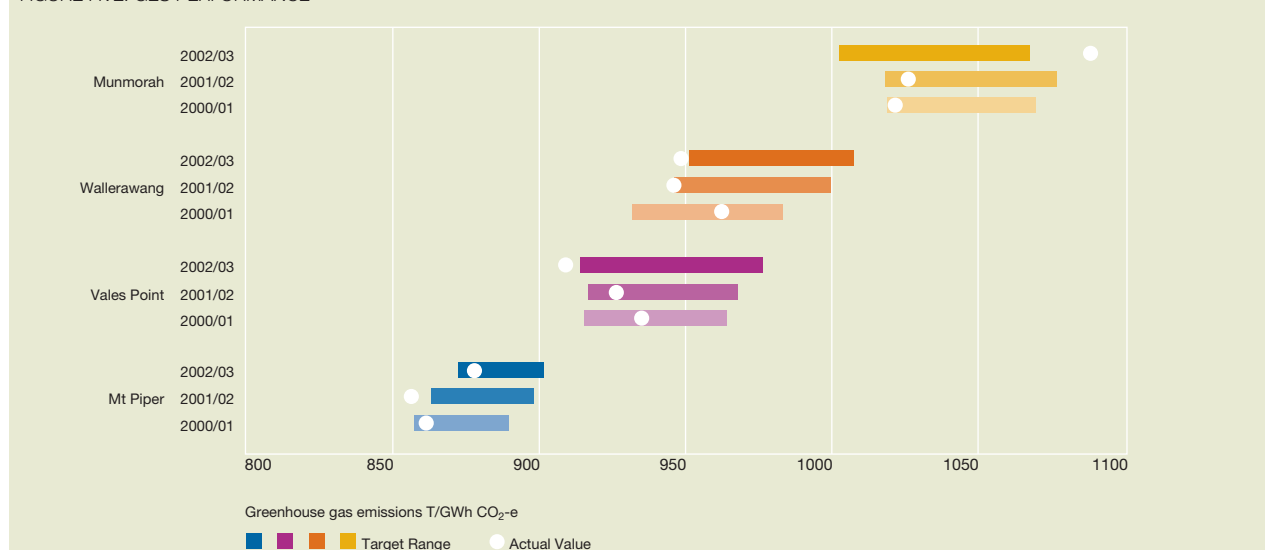


AIR EMISSIONS

Nitrogen Oxides

Nitrogen Oxides total emissions and emission rate fell slightly in 2002/03, mainly due to a small decrease in production from Mt Piper, the highest emission rate plant in Delta's portfolio and a significant reduction in the emission rate from Wallerawang.

FIGURE FIVE: GES PERFORMANCE



ENVIRONMENT

Sulfur Oxides

Sulfur Oxides emission rates increased slightly during 2002/03 due to an increase in total generation from the Western region stations. While the sulfur content of coal used at all sites is low, Western region coals are slightly higher in sulfur than Central Coast coals.

Particulate emissions

Munmorah and Mt Piper power stations are equipped with fabric filters that remove 99.95% of all particulates, resulting in dust emission levels well below all the NSW statutory limits. Vales Point and Wallerawang power stations are fitted with more energy efficient fans and electrostatic precipitators which remove 99.5% of all particulates. As a result these power stations emit higher levels of dust but are still well below the applicable NSW statutory limits.

Total particulate emissions were significantly reduced in 2002/03, continuing a trend which commenced with trials of flue gas conditioning at Wallerawang in 1998/99. With this plant now fully operational, certified testing conducted for the Environment Protection Authority load-based licensing scheme indicates that Wallerawang emissions have been reduced to 14% of their 1999/00 level. Total emissions from Delta plant is now less than half of its 1999/00 value.

Flue gas conditioning has also been installed at Vales Point and, although not as effective as at Wallerawang, due to different coal properties, has significantly reduced visible emissions when burning certain coals. The plant became fully operational in May 2003 and it is expected that emissions from this power station will be noticeably reduced in the next year.

WATER USE

The main use of water in power stations is for cooling steam after it has passed through the generator turbines. In order to cool the steam from the production of one gigawatt hour (GWh) of electricity, 1.6 to 1.8 megalitres (ML) of water must be evaporated. The more efficient a power station the less water is needed for cooling. Small amounts of water are also used at power stations for steam to drive the turbine generators and for other general applications such as station cleaning.

In the case of coastal power stations (Vales Point and Munmorah), cooling water is extracted from and returned to

saline lakes. The heat absorbed is lost through evaporation of sea water and this water is not included in water accounting. In the case of inland power stations (Mt Piper and Wallerawang), fresh water is extracted from local rivers (Coxs River and Fish River) and evaporated in cooling towers.

Delta's use of fresh water is therefore determined by the relative generation between coastal and inland power stations and, to a lesser extent, by the relative efficiencies and generation of the inland stations. Due to maintenance work at Mt Piper, both the total amount of generation at Wallerawang and the proportion of generation at

FIGURE SIX: NITROGEN OXIDES
Emissions by station – (tonnes) & overall emission rate (tonnes/GWh sent out)

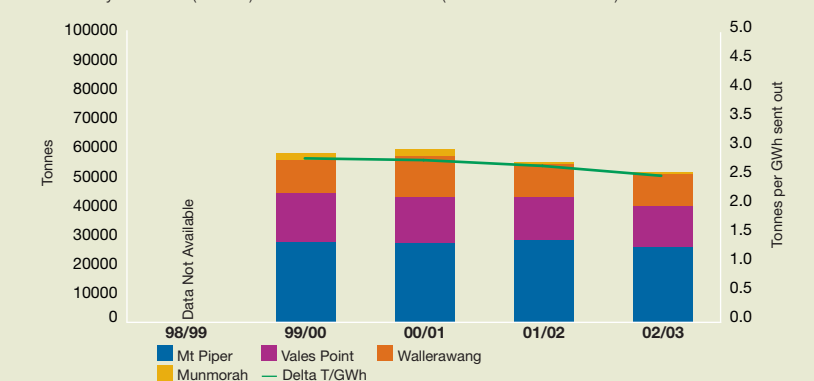


FIGURE SEVEN: SULFUR OXIDES
Emissions by station – (tonnes) & overall emission rate (tonnes/GWh sent out)

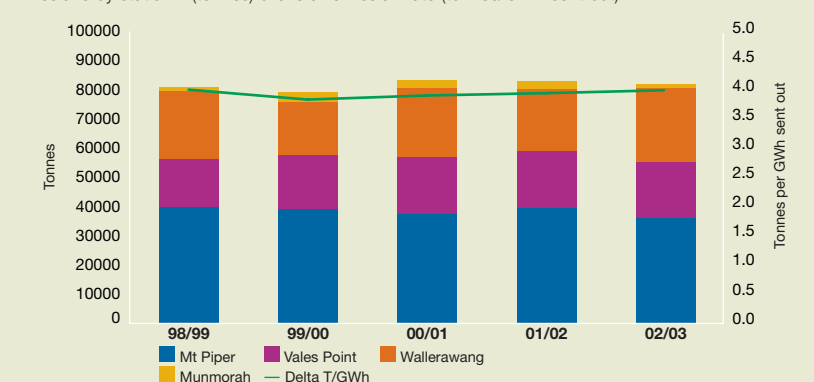
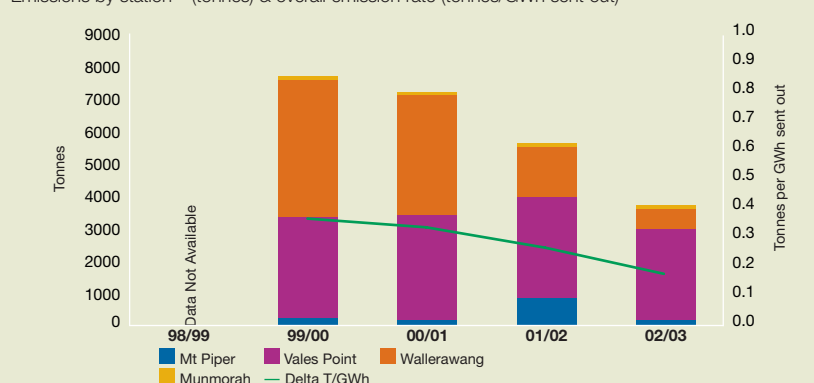


FIGURE EIGHT: PARTICULATES
Emissions by station – (tonnes) & overall emission rate (tonnes/GWh sent out)



Wallerawang to Mt Piper increased slightly in 2002/03. Consequently there was a slight increase in total water use per GWh sent out.

Extractions and environmental flow 2002/03

COXS RIVER SYSTEM

During 2002/03 a severe drought in NSW resulted in reduced inflows to the dams supplying Mt Piper and Wallerawang power stations. Under Delta's water licence, environmental flows are reduced when a "drought trigger" combined storage level is reached in these dams. The drought trigger was in effect for the entire year and environmental flow was restricted to 18% of natural inflows.

Additional water requirements for power station operations were obtained from non-natural sources (mine discharge, sewage plant discharges) and by drawing down the water supply dam levels.

FISH RIVER SUPPLY SYSTEM

About one third of the fresh water used at Mt Piper and Wallerawang is extracted from the inland flowing Fish River system. This supply was restricted to 80% of normal when storage levels

in Oberon Dam reached a drought trigger in May 2003.

RESOURCE MANAGEMENT

Resource consumption

In addition to energy and water the main resources used in power station operations include:

- 8.5 million tonnes of coal;
- 8,000 tonnes of fuel oil;
- 10,000 tonnes of biomass; and
- 148,000 litres of lubricating oil.

Other resources used include approximately 1,600 tonnes of sulfuric acid, 1,400 tonnes of caustic soda and 50 tonnes of ferric chloride for water purification processes, and approximately 140 tonnes of chlorine and 35 tonnes of ammonia for corrosion and scaling control.

Material recycling and reuse

NSW's Waste Reduction and Purchasing Policy (WRAPP) was announced in September 1997 by the Premier. The Policy requires all state government agencies to develop and implement a WRAPP Plan to reduce waste and increase purchases of recycled content materials.

Delta has implemented the WRAPP, including preparation of a Waste

Reduction and Purchasing Plan, and reports performance to Resource NSW.

Waste reduction activities include: re-use of 187,000 tonnes of power station ash; co-firing of 10,000 tonnes of radiata pine sawmill waste, construction and demolition wood waste and green waste for energy recovery; and a large reduction in general station wastes to landfill. A further 5,000 tonnes of composted green waste was purchased and used for ash dam rehabilitation works at Wallerawang. In addition, the majority of the lubricating oil usage shown above is collected in station systems and re-used elsewhere as fuel oil.

Ash re-use

Fly ash is used in cement manufacture, with about 10% of Delta's ash used for this purpose. The cement manufacture industry is currently fully supplied and Delta is actively pursuing other opportunities to use the remaining ash.

Although a number of promising technologies are available to use the ash (brick, tile, wall panel, light-weight aggregate), to date, none of these products has been successfully brought to market.

FIGURE NINE: FRESH WATER
Consumed by station – (ML) & overall usage rate (ML/GWh sent out)

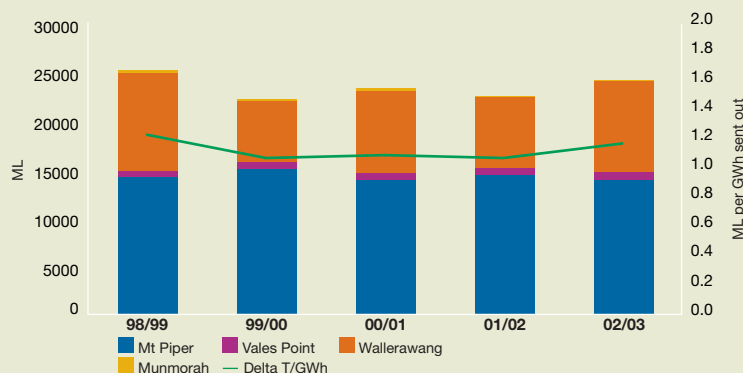
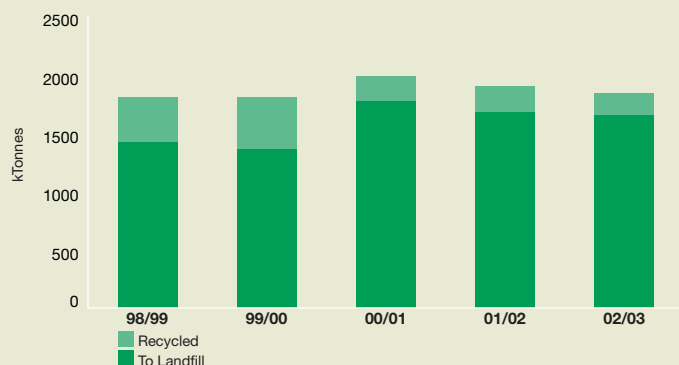


FIGURE TEN: ASH GENERATED AND RECYCLED



ENVIRONMENT

Waste reduction

Delta has implemented a waste management plan, which aims to reduce, reuse and recover waste materials. In 2002/03 this program has reduced the amount of material sent to council landfill to 60% of the 1998/99 figure.

COMMUNITY ENQUIRIES

Delta has established a comprehensive system of monitoring and addressing community concerns and enquiries. All community enquiries are recorded and reported. In all cases, Delta's environmental officers personally contact the person to ensure that the issue or concern is addressed to their satisfaction.

The number of enquiries and concerns received by Delta over the preceding 12 months has remained consistent with those recorded in previous years. During the 2002/03 reporting period, Delta received 34 enquiries regarding power station operations. Of these, 14 were subsequently found to be not directly related to power station operations.

Stack emission enquiries, mainly concerning Vales Point, were the most common community enquiry. However, there have been no community enquiries regarding stack emissions since the flue gas conditioning plant started operating in May 2003. A significant number of noise enquiries were also received by Vales Point. Seven of these noise enquiries were later found to be related to other industrial (non-power station) sources.

COMPLIANCE

Delta Electricity operates within the bounds set by government legislation, regulations and licences issued by various government authorities, including the NSW Environment

Protection Authority (EPA) and the Department of Infrastructure Planning and Natural Resources. These licences cover the full range of power generation activities including fuel and water use, air and water emissions, community air monitoring and other environmental protection activities.

One of the key environmental objectives is to comply with all statutory requirements by ensuring that there are no non-compliance issues with regard to EPA licences. Delta is pleased to report that for the third year in succession, no licence non-compliance events were

reported. Delta Electricity has not been issued with an environmental infringement notice, prosecution or penalty for non-compliance since its formation in March 1996.

Minor environmental issues

Whilst Delta is required by law to report significant environmental incidents to the appropriate licensing authority, it believes that its responsibility in safeguarding the environment does not end there. Delta views all environmental issues very seriously and action is taken to

FIGURE ELEVEN: INERT WASTE TO COUNCIL LANDFILL

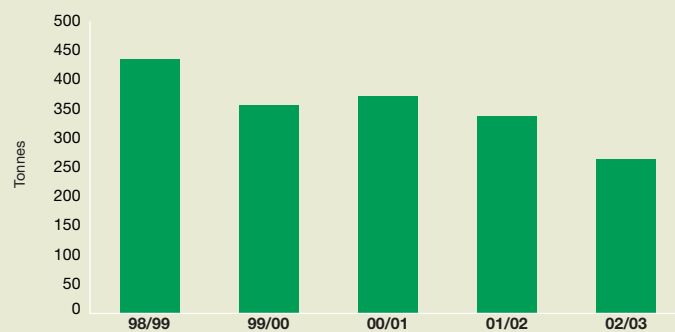


FIGURE TWELVE: COMMUNITY ENQUIRIES

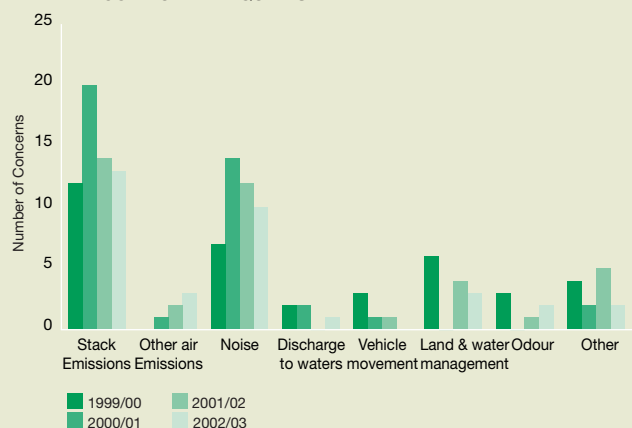
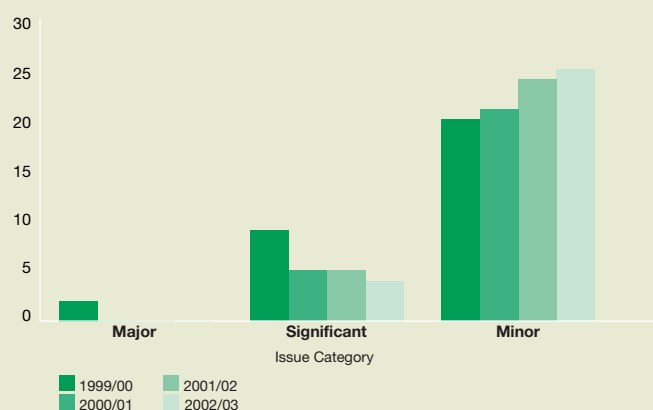


FIGURE THIRTEEN: ENVIRONMENTAL ISSUES



ascertain the maximum amount of information from each issue to ensure that it is not repeated. During 2002/03, although the number of more significant issues are decreasing, there was a further small increase in the number of minor issues reported. Procedures are in place to ensure that all environmental issues are recorded, classified and reported regularly to senior management. Each environmental issue is classified into one of three categories:

Issues Categories

Category 1 incidents are those that involve a breach of an EPA licence condition or other statutory regulation.

Category 2 issues are near miss incidents that involve a possible or potential breach of a licence condition or other statutory regulation.

Category 3 issues are minor plant related matters that, although not serious in nature, are monitored to assist in the management of potential environmental problems.

ENVIRONMENTAL PERFORMANCE INDICATORS

The following information conforms to the Environmental Performance Indicator Guidelines for the Australian Electricity Industry February 2003. The guidelines were produced by the Electricity Supply Association of Australia (ESAA) as part of an eco-efficiency agreement with Environment Australia.

The purpose of the guidelines is to establish a core set of environmental indicators recommended for use by ESAA member companies to measure and report to internal and external stakeholders. For more information on this and other environmental initiatives, refer to the Environment & EMF section of the ESAA web site at <http://www.esaa.com.au>

TABLE FOUR: **Management Indicators**

Total number of incidents reported to environmental legislators	Nil
Number of warnings or infringement notices received	Nil
Number of prosecutions	Nil
Penalties for non – compliance	Nil
ESAA Code of Practice Audit results (maximum score is 5)	Policy area Sustainable development 3.7 / 3.8 Social responsibility 3.8 / 3.7 Environmental management 4.0 / 3.5 Resource management 3.8 / 3.6
Fraction of activity with EMS to ISO 14001 (divided into certified and not certified)	100% of operation and maintenance of thermal generating sites. Excludes corporate head office and other non-thermal generating activities.

TABLE FIVE: **Performance indicators**

Greenhouse gas emissions (tonnes, t/GWh sent out)	Mt Piper	7,567,000 t	873 t/GWh
	Wallerawang	4,847,600 t	947 t/GWh
	Vales Point	5,575,800 t	913 t/GWh
	Munmorah	504,000 t	1081 t/GWh
	Delta total	18,494,400 t	908 t/GWh
NOx emissions (tonnes, t/GWh sent out)	Mt Piper	25,650 t	2.96 t/GWh
	Wallerawang	10,950 t	2.14 t/GWh
	Vales Point	14,000 t	2.29 t/GWh
	Munmorah	900 t	1.98 t/GWh
	Delta total	51,000 t	2.53 t/GWh
SOx emissions (tonnes, t/GWh sent out)	Mt Piper	35,950 t	4.15 t/GWh
	Wallerawang	25,200 t	4.92 t/GWh
	Vales Point	19,450 t	3.18 t/GWh
	Munmorah	1,350 t	2.92 t/GWh
	Delta total	85,950 t	4.02 t/GWh
Dust (particulate) emissions (based on PM10) (tonnes, t/GWh sent out)	Mt Piper	128 t	0.01 t/GWh
	Wallerawang	174 t	0.03 t/GWh
	Vales Point	1,451 t	0.24 t/GWh
	Munmorah	17 t	0.04 t/GWh
	Delta total	1,770 t	0.09 t/GWh
Carbon monoxide emissions (tonnes, t/GWh sent out)	Mt Piper	920 t	0.11 t/GWh
	Wallerawang	530 t	0.11 t/GWh
	Vales Point	650 t	0.11 t/GWh
	Munmorah	50 t	0.11 t/GWh
	Delta total	2,150 t	0.11 t/GWh
Net water consumption or use, by source (eg surface water, groundwater, recycled waste water) (megalitres, ML/GWh sent out)	<i>Direct extraction from river systems (see below)</i>		
	Mt Piper	13,807 ML	1.59 ML/GWh
	Wallerawang	9,349 ML	1.83 ML/GWh
	<i>Domestic (treated) water from Council supply</i>		
	Vales Point	801 ML	0.13 ML/GWh
	Munmorah	103 ML	0.22 ML/GWh
	Delta total	24,060 ML	1.18 ML/GWh
Influence on water flows (surface or groundwater)	Coxs River system		
	Natural inflow at Lake Lyell	11,708 ML	
	Environmental flows released	2,121 ML	(18%)
	Non-natural inflow (STP, industrial)	5,503 ML	
	Extracted for power stations	14,861 ML	
	Fish River system		
	Extracted for power stations	8,295 ML	

ENVIRONMENT

TABLE FIVE: **Performance Indicators continued**

Total energy consumption by fuel source (e.g. coal, oil, diesel)		Black coal	Fuel oil
	Mt Piper	84.5 PJ	0.09 PJ
	Wallerawang	55.7 PJ	0.06 PJ
	Vales Point	61.8 PJ	0.19 PJ
	Munmorah	5.5 PJ	0.04 PJ
	Delta total	207.5 PJ	0.38 PJ
Thermal efficiency (% sent out)	Mt Piper	36.9%	
	Wallerawang	33.0%	
	Vales Point	35.5%	
	Munmorah	30.1%	
	Delta total	35.3%	
Consumption of recycled fuels (e.g. refuse derived fuels, waste oil)	0.06% of total fuel consumed		
Energy consumed in station GWh, % of generated	Mt Piper	455GWh	5.0%
	Wallerawang	394GWh	7.2%
	Vales Point	282GWh	4.4%
	Munmorah	36GWh	7.2%
	Delta total	1,168 GWh	5.4%
Total waste by type (hazardous, non-hazardous) and destination (reused, recycled, land-filled, destroyed)	Hazardous waste – Nil		
	Non-hazardous waste to council landfill		264 tonnes
	Non-hazardous (ash) to landfill		1,647,000 tonnes
Oil recycled	100% of waste oil produced		
Ash recycled	Mt Piper	16%	
	Wallerawang	0%	
	Vales Point	12%	
	Munmorah	0%	
	Delta total	10%	
PCBs (scheduled and non – scheduled) released to the environment, removed, captured & destroyed	Nil		
Total amount of land used for power generation activities (excluding buffer zones)	Not available		
Ratio of land rehabilitated to land used	Not available		
Compliance with water quality discharge licence conditions	All monitoring requirements met		
	All discharges within limits		



Left to right:
Sue Graves,
George Quinell and
Anne Wells,
Lithgow Tidy Towns

Q. How does
Delta's business
practices benefit
the community?

A. Working in partnerships builds better and more sustainable communities.



EMPLOYEES

Quality of Management

Balanced Scorecards were used as a way of recording and communicating the performance of Delta overall, and each of its business units. The scorecards contain key performance measures and the results are used to determine an annual performance payment to staff.

In the year, Delta participated in an external staff survey to identify the BEST Employers to work for in Australia. Over 50% of Delta's staff responded to this opportunity to have their say. The results have been discussed with staff and considered when developing business plans for both the organisation and individual business units.

Consistent with Delta's Strategic Plan 2002/03, local business plans were developed by involving a cross section of staff to review strategies and actions associated with their part of the business. This occurred in each of the business units and in respect of other corporate plans. Business unit plans were cascaded to team and individual performance agreements ensuring alignment at all levels of the business.

A number of programs were run during the year to reinforce the accepted behaviours and culture consistent

with Delta's vision and values. Employees were made aware of Delta's revised Code of Conduct through workshops addressing the legal and ethical considerations associated with our competitive environment.

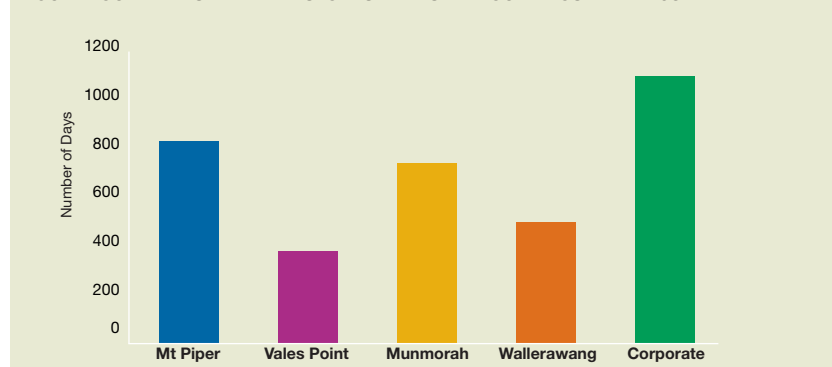
Industrial Relations

The successful negotiation of a new Delta Electricity Employees Award, commencing in March 2003, provided for salary increases in line with industry standards for staff over the two year life of the Award and a number of other changes including:

- The opportunity for employees to salary sacrifice from their pre-tax income for the financing of a novated motor vehicle lease, purchase of a laptop computer and extension of the amount of extra optional employer superannuation contributions;
- Reimbursement through salary sacrifice arrangements for the payment of their electricity account (up to a limit);
- Removal of payments when staff move between sites in the Central Coast and Western regions; and,
- Standardised 12 hour shift provisions across all sites;

Delta's Chief Executive met on a number of occasions throughout the

FIGURE FOURTEEN: SAFETY MILESTONES – DAYS WITHOUT A LOST-TIME INJURY



year with the Labor Council of NSW and union officials to discuss trends and developments both within Delta and the electricity industry.

Health and Safety

During the year the following milestones were achieved in relation to days without a lost time injury.

- Mt Piper Power Station exceeded 800 days.
- Munmorah Power Station exceeded 700 days.
- Wallerawang Power Station exceeded 500 days.
- Corporate exceeded 1,100 days.

As at 30 June 2003 each of Delta's three business units maintained a Five Star rating under the National Safety Council of Australia's safety award system.

Delta recognises that many injuries result from the behaviour of people. In an effort to reduce such injuries, a Delta wide behavioural based safety initiative was developed and will commence in 2003/04.

The contractor Occupational Health and Safety (OHS) management system was further strengthened with the introduction of an outage safety award scheme which recognises contractors with outstanding safety performance. Local community initiatives and businesses are supported as part of this process.

A Delta wide task based risk assessment tool has been implemented across each of the business units as part of the NiSoft safety rules management system, further strengthening Delta's commitment to the risk management principles outlined in the revised OHS Regulations.

Following a fatality of a contractor's employee at Mt Piper Power Station in October 2000, WorkCover initiated prosecutions against the contractor and Delta. Delta's matter was heard in May 2003. In a judgment handed down on the 10th July 2003, Delta was fined \$81,500. In determining a penalty at the lower-end of the scale the Judge took into account a range of factors including that it was not an easily foreseen risk, Delta's commendable record in safety, and the remedial actions initiated by Delta following the incident.

An employee assistance program operated as part of Delta's commitment to employee well being. This program provides employees and their families

with professional and confidential counselling services on a range of matters.

Human Rights

EQUAL OPPORTUNITY &
NON-DISCRIMINATION POLICIES
AND PROGRAMS

1. Harassment Prevention

As part of Delta's commitment to a harassment free work environment, in May and June 2003, the Anti-Discrimination Board conducted harassment prevention training for all team leaders and managers. This training supplemented the compulsory harassment prevention training that was conducted for all Delta employees in June 2002.

2. Indigenous Employment Strategy

Delta recognises its responsibility towards the Aboriginal and Torres Strait Islander people of New South Wales and the need to achieve sustainable improvements in employment opportunities. To this end, Delta provided the opportunity on the Central Coast for an additional

12 month Traineeship to be offered to a person of Aboriginal and Torres Strait Islander descent.

Delta also endeavoured to provide the opportunity for two apprenticeships to be offered to Aboriginal or Torres Strait Islanders. Whilst these positions were advertised through local training groups in the Central Coast and Western Regions, no suitable applicants could be identified. Delta has again committed to providing two such positions for 2004.

3. Disability Plan 2002 – 2004

Delta's Disability Plan 2002 – 2004, ensures that equal opportunities exist for people with disabilities, enabling maximum participation and contribution. The major strategies outlined in the Plan are proceeding in accordance with the targeted timeframes.

In the last financial year, Delta's Western region provided an opportunity for a 12 month Traineeship for a person with a disability, whilst they undertook an Engineering Production Certificate.

TABLE SIX: TRENDS IN THE REPRESENTATION OF EEO GROUPS¹

EEO Group	Benchmark	% of Total Staff ²			
		2000 or Target	2001	2002	2003
Women	50%	8%	7%	8%	7%
Aboriginal People or Torres Strait Islanders	2%	1.4%	0.8%	1%	0.7%
People whose first language was not English	20%	5%	5%	5%	6%
People with a disability	12%	9%	8%	9%	9%
People with a disability requiring work-related adjustment	7%	4.1%	3.3%	3.8%	4.1%

TABLE SEVEN: TRENDS IN THE DISTRIBUTION OF EEO GROUPS¹

EEO Group	Benchmark	Distribution Index ³			
		2000 or Target	2001	2002	2003
Women	100	94	98	96	98
Aboriginal People or Torres Strait Islanders	100	n/a	n/a	n/a	n/a
People whose first language was not English	100	117	116	114	110
People with a disability	100	95	101	102	99
People with a disability requiring work-related adjustment	100	91	99	96	94

Notes

1. Staff Numbers are as at 30 June.

2. Excludes Casual Staff.

3. A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Value less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The Distribution Index is automatically calculated by the software provided by ODEOPE.

SOCIAL EMPLOYEES & COMMUNITY

4. Ethnic Affairs Priority Statement (EAPS) 2002 – 2004

Delta recognises the importance and benefits of cultural diversity to our organisation and to the community at large. Delta supports the NSW Government's initiatives and Delta's EAPS and Implementation Plan ensures that our business activities support these initiatives. The key result areas covered by the EAPS plan are: social justice; community harmony and economic and cultural opportunities.

5. Action Plan for Women

Delta is committed to the ideology of the Spokeswomen programme and has ensured that it is incorporated into our business practices. An example includes targeted recruitment training which incorporates equal employment principles.

Training

The ongoing training and development of Delta staff remains a priority for the organisation. All staff have an individual development program which is developed in consultation with them at the start of the year and is aligned to their current role and future potential. A review is conducted twice annually of progress in implementing individual development programs.

Delta provided a range of training support for staff during the year including:

- On-the-job training;
- Attendance at programs during normal work hours;
- External programs and courses of study (for which study leave and fee reimbursement is made);
- Acting in higher graded positions; and,
- Other development opportunities outside of a person's normal area of involvement such as participation in special projects, secondment opportunities and filling vacant positions.

On average each employee attended approximately six days of formal training during work hours. This equates to in excess of 4,400 days devoted to the training of Delta staff. In addition to this, 35 people took advantage of the study leave provisions to undertaking external courses of study. Programs undertaken ranged from Certificate level courses through to studies at Masters level and included

courses and programs in Australia and overseas.

Leadership development continued to remain an area of importance. In addition to a number of people undertaking external studies in this area, two were selected to complete a leadership development program through the Mt Eliza Business School. Delta also offered two Chief Executive

CASE STUDY HUMAN RESOURCES

The development of our people is valued in Delta. Whilst there are processes in place to ensure that all staff are given appropriate development opportunities a priority for Delta is in the development of our future leaders.

The following examples demonstrate two ways in which leadership development has been approached.

In two years, six team leaders have or are undertaking the Performance Development Program through Mount Eliza Business School which was chosen by Delta as a capstone leadership program. The course has the advantages of being able to be studied without frequent regular classes which busy team leaders find hard to attend, but with some concentrated group activity from time to time. Another benefit of the course is a work related, practical assignment.

Jason Riley, Technology Manager with the Information Technology and Communication Group, completed the course during the year. "It certainly opened my eyes to a number of aspects of leadership which I have tried to incorporate into the way I work with my team", said Jason. One of the unique challenges facing Jason is having staff reporting to him from three sites.

If the excellent results of a recent survey of his staff concerning Jason's leadership style are any indication, then the course is contributing as intended.

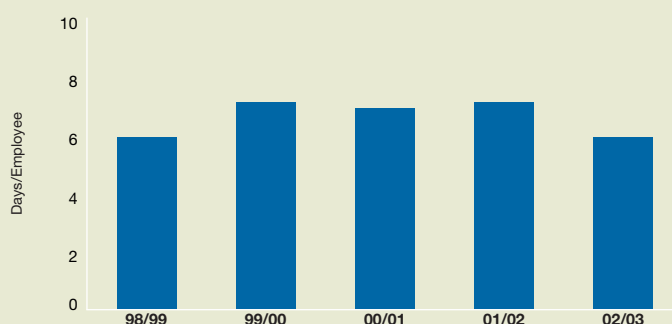
The Chief Executive's Scholarship provides the opportunity for an employee to accelerate their studies. Andrew Davies, Asset Manager/Unit Plant with Western Production was burning the candles at both ends until he was awarded the scholarship during the year.

"The scholarship allowed me to complete my MBA in six months full time study without work distractions", Andrew said. "Now I am back at work I can devote my full attention to the job as well as bring additional knowledge to the task at hand". Andrews' results were outstanding and should bring new perspectives to his work.

Andrew also commented that "getting the scholarship helped ease the pressures of having a young family, for which I am also grateful".

Two more scholarships will be awarded in 2003/04.

FIGURE FIFTEEN: TRAINING



Scholarships for people who were involved in external study, providing them with the opportunity to undertake some component of their studies on a full time basis (see case study).

Significant changes and upgrades to Delta's information technology systems occurred during the year. This resulted in a series of training programs in these applications. In addition to face to face sessions, self paced computer based training enabled Delta to meet the high demand for training in this area.

COMMUNITY

Community Development

Delta's community relationship program addresses community stakeholders' needs, with a structured approach including sponsoring diverse community activities. The approach to community relations seeks to broaden relationships within the community, enhance understanding of community issues and identify opportunities.

In developing this approach, reviews of feedback from community and employee research and the prior year's performance are assessed. The strategy is updated to reflect opportunities and issues, and to ensure it continues to meet Delta's objectives and addresses areas of community concern.

Sponsorship is a critical element of the strategy which also addresses resources, involvement in local organisations and stakeholder relationships. A formal sponsorship policy clearly outlines the criteria Delta uses for community partners ensuring corporate sponsorships and donations reflect the social and environmental responsibilities of Delta in each region.

Delta partners with many volunteer and community organisations. Specific goals for each partner vary but most seek to improve an element of their local community. The scope of organisations partnering with Delta increases local volunteer activity on many fronts. Specific benefits such as new parks, new sporting and arts awards, improved wetland management, new sports facilities and better managed events have added to the quality of the local community environment.

Delta targets groups dealing with issues identified as most important by community research, so funds and support are focussed on areas of greatest need. For the Lithgow and Central Coast communities the partnerships mean better funded community groups and greater surety of funding for those who meet objectives. In some cases, Delta and a community group enter into a three year agreement, enabling the group to be more strategic and focussed on service delivery.

The process of measurement and review has seen specific sponsorships redesigned where the existing format was deemed unsuccessful (as measured, for example, by falling attendances) and converting a single event into multiple events throughout the region.

SPONSORSHIPS AND DONATIONS

Delta's community sponsorship and donation program covers financial contributions, in-kind support and dedicated staff resources. Additionally, staff represent Delta at specific sponsored events and staff donations to several charities are matched dollar for dollar.

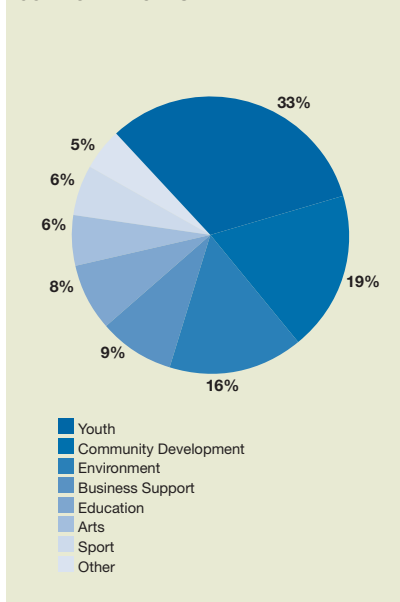
The direct financial contribution of Delta in the two regions exceeded \$520,000 for the year. This expenditure was spread over 120 organisations and community groups. The distribution of funds for the year by activity is given in the table below.

The following example illustrates one of a variety of partner projects and goals in community development. Summerland Point and Gwandalan Tidy Towns and LandCare are allocated a global budget which they nominate specific projects before seeking Delta's approval. Each year the group reviews its outcomes with Delta and explains areas of new need, resulting in a partnership that has succeeded for several years and seen rising volunteer numbers. The group has developed a Heritage Walk by rehabilitating a very degraded bushland area and building an interpretive shelter. Their goal is to continue partnering with Delta as a major sponsor to keep working for the betterment of the local community.

APPRENTICES

Delta's approach to the training of apprentices has been, since 1997, to sponsor a number of apprentice

FIGURE SIXTEEN: DISTRIBUTION OF COMMUNITY FUNDS



SOCIAL & ECONOMIC

opportunities through two apprentice training groups. These groups provide the co-ordination of apprentices through their industrial experience, hold the indentures and complete all necessary functions associated with the scheme.

Delta pays for the training and cost of wages for six apprentices in each of the Western and Central Coast regions in their first year and provides industrial experience opportunities in subsequent years for three of these in each region. Responsibility for the provision of appropriate industrial experience for the other three first-year apprentices rests with the training group.

WORK EXPERIENCE PROGRAMS

Delta supports a range of activities for school children and university students to gain business skills and industry experience. More than 65 high school and university students undertook work experience and vocational education programs.

Under the Business Enterprise Education program of Young Achievers Australia, young people form a company and manufacture and market a product. Delta provided facilities,

financial support, mentoring, skills transfer and, according to the group, enthusiasm.

PUBLIC PERCEPTION

Delta has several formal measurement processes of the effectiveness of its community program. Each year, the Lithgow and Central Coast communities are randomly surveyed by independent research companies, with specific questions on how they view Delta, whether they understand Delta's operations, awareness of specific sponsorship activities and issues that are important both in relation to Delta and to the overall community.

The 2003 results showed that Delta continued to rate favourably with the local communities. There is good recall of the community events that Delta sponsors, with residents being able to specify a number of events. Residents' recall of Delta's environmental programs was less known and is one area identified for improvement.

Generally, the results show that residents in these communities continue to be concerned about environmental issues, though they do not see Delta as

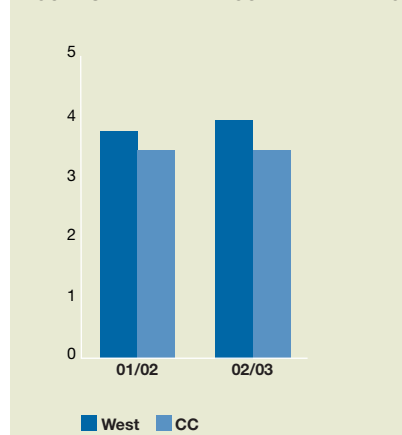
a main contributor. Stack emissions is an increasing concern to Central Coast residents and water usage is an emerging issue in the Western Region. Both regional communities identified youth support as an important area for Delta to consider.

Stakeholder Engagement

Reporting on community relations activities is undertaken through several media including regular community newsletters and newspaper inserts detailing recent activities. News releases, developed with partners, receive coverage in local newspapers, on radio and occasionally television. A monthly Delta Diary published in local papers summarises activities. This information is also available through Delta's website which has its own extensive community section. Specific stakeholder communications include community forums, planning meetings and surveys.

On the Central Coast, a Community Access Regional Environment (CARE) Forum has been in place for several years, providing a basis for feedback on current and proposed activities. The Forum is community-based and links into existing community networks, providing an outlet for community concerns. Each year stakeholders in the Western Region are invited to participate in a planning forum to assist with the formulation of the community strategy.

FIGURE SEVENTEEN: FAVOURABILITY RATING



CASE STUDY

HIGHER SCHOOL CERTIFICATE PHYSICS PROGRAM

The syllabus for high school students now includes a focus on generators, transformers and motors. Delta initiated a program relevant for year 12 physics classes of local high schools.

The program encompassed inspection of plant facilities including transformers, generators, and high and low voltage motors and a presentation describing the electrical apparatus and design and maintenance issues. Also, a cutaway induction motor was donated.

At the completion of the program, the students completed a survey which indicated they had found it helpful to their course, improved their awareness of the power station and most felt their understanding electricity generation technology had improved.

ECONOMIC

COMMERCIAL ACTIVITIES

Delta's core business is to establish, maintain and operate facilities for the profitable generation of electricity and ancillary services and to supply electricity in a safe, efficient, reliable and environmentally responsible manner to the satisfaction of its customers and Shareholders.

Other commercial activities that utilise Delta's skills and resource base are undertaken as opportunities arise where they add value to the business. A rigorous investment appraisal process is undertaken before any such activity is commenced.

Delta has carefully pursued opportunities to grow and expand the business with potential projects associated with green energy. The organisation has three (3) mini-hydro stations and has implemented biomass co-firing at existing thermal power stations. These projects and others have been subject to feasibility studies to assess environmental and financial viability prior to commitment.

Financial Performance

Delta aims to achieve an optimum level of profit to meet its commercial objectives while at the same time maintaining its assets in an economic operational condition. Delta has sophisticated planning and control mechanisms in place which assist the organisation in meeting performance targets.

The organisation has identified financial performance measures which are shown in Table Eight.

Investment Appraisal

Investment appraisals of major projects are undertaken at an early stage to assist in the development of options for investment of resources and prior to any commitment of resources.

An investment model has been designed to assist Delta in its decision making process by assessing the value each new project will add to the core business of the organisation. This process requires that all projects provide a return higher than the weighted average cost of the capital of the organisation.

ECONOMIC ACTIVITIES

Economic indicators focus on the manner in which an organisation affects

the stakeholders with whom it has direct and indirect economic interactions. Therefore, the focus of economic performance measurement is on how the economic status of the stakeholder changes as a consequence of the organisation's activities, rather than on changes in the financial condition of the organisation itself.

The electricity industry provides a significant benefit to Australia as shown in the graph on contribution to GDP. The industry contributes to economic growth by providing reliable, low cost energy supply. With an aggregate annual turnover of more than \$20 billion and employment of more than 30,000 people, the industry provides significant direct and indirect benefits.

Impacts

SALES

Delta generated 20,354 GWh of electricity last year resulting in sales revenue of \$727.7 million. This output represented almost 13% of the total generation in the National Electricity Market.

SUPPLIERS

In order to measure the processing efficiency in accounts payable functions, key performance indicators

have been established and are monitored monthly to determine trends and level of performance achieved.

One measure of performance is the processing invoices within Delta's basic terms of payments which is 30 days. This measure was introduced this year and shows that invoices are processed within Delta's basic terms of payments of 30 Days.

Distributions

The dividend payable provides for retention in the business of sufficient cash for operations and capital investment needs, to ensure the ongoing financial health of the organisation. Delta's current dividend policy is to allow for a dividend distribution equal to 100% of after tax profit.

Delta's funding requirements are determined each year by:

- Medium term fixed asset expenditure program;
- Investment in new business opportunities;
- Sustainable financial structure of Delta, and
- Working capital requirements.

Dividend payments and tax expenses are shown in Table Eight.

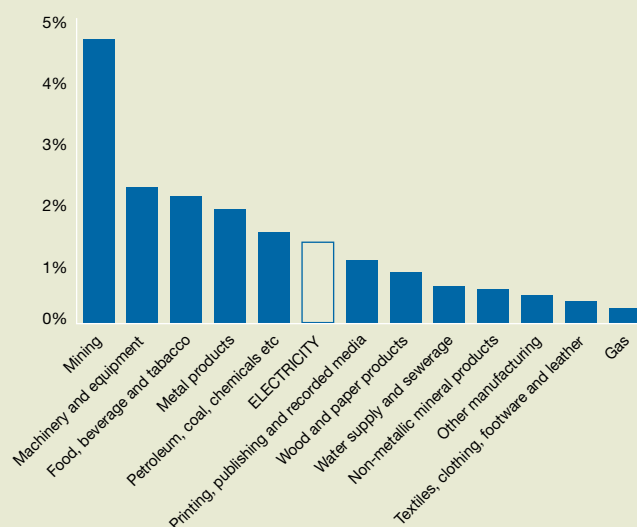
TABLE EIGHT: FINANCIAL PERFORMANCE TARGETS

	2002/03	2001/02	2000/01	1999/00	1998/99
Tax Expense (\$m)	33.9	47.4	55.0	39.0	22.2
Dividend Payable (\$m)	113.0	85.5	129.7	86.7	32.7
Return on Assets (%)	8.7	12.6	14.5	11.2	7.0
Return on Equity (%)	7.7	24.1	34.6	13.4	5.3

Notes

2002/2003 figures reflect impact of asset revaluation undertaken in 2002/03

FIGURE EIGHTEEN: CONTRIBUTION TO GDP



Source: ESAA Electricity Australia 2003

SOCIAL & ECONOMIC

Customers

Delta values its relationships with its customers, the retailers of the National Electricity Market. Delta's team works with our customers to better understand and meet their energy needs.

We recognise that our customers have different energy needs and that these needs are changing over time. Customers are increasingly looking for products to help them manage their risks in the market. Delta strives to meet these needs by working closely with customers to tailor products to meet their specific needs.

Delta is also committed to providing a high quality of customer service. We are responsive to requests, receptive to new ideas, listen to our customers and make every effort to provide innovative solutions

We know there is more to achieving a satisfied customer than a good product at a good price – people are an important factor in customer satisfaction. Our customer satisfaction research reveals that our people are our strength. Our customers value highly Delta's team members trustworthiness, reliability, availability and professionalism. Delta's team are experienced and respected and know the industry.

Our customers have very high satisfaction levels with Delta and we will maintain these high levels of satisfaction by continuing to be responsive, proactive, innovative and professional in all our dealings with our customers.

CASE STUDY SUPPLIER INITIATIVES – AUTOMATIC INVOICING

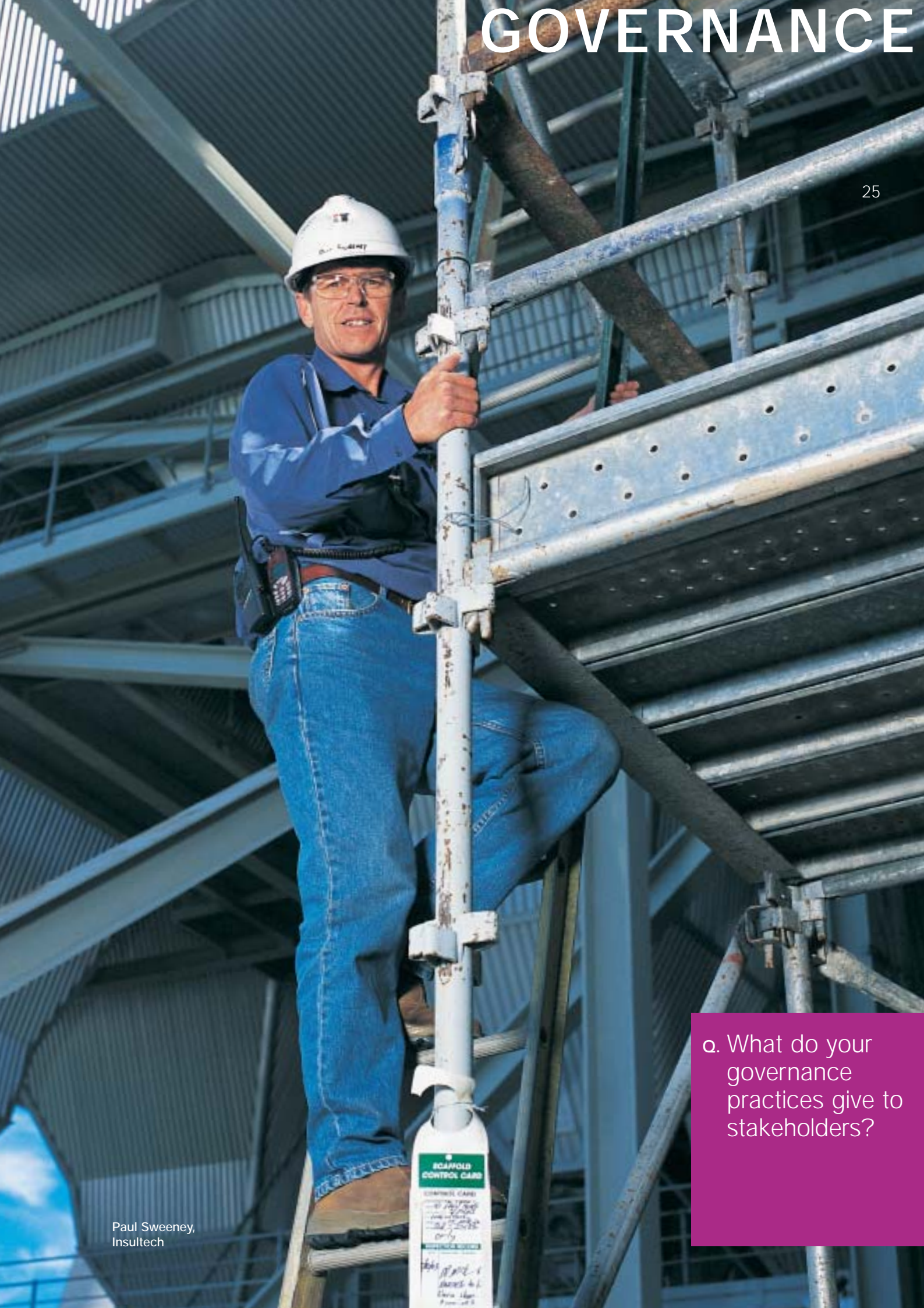
Delta Electricity purchases an extensive range of high volume/low value consumable items from key suppliers. Considerable time is expended in the processing of the invoices associated with these purchases. To improve the productivity of this process Delta has worked closely with several key suppliers to implement an automated Recipient Created Tax Invoice system.

These suppliers do not submit invoices to Delta Electricity. Upon the receipt and acquittal of items from these suppliers, Recipient Created Tax Invoices are generated by Delta and issued to the suppliers. At the same time, the system automatically commits a payment for the invoice value in accordance with the agreed terms of payment.

The following benefits have resulted from this initiative:

- Improved payment terms for suppliers
- Reduction in the number of invoices loaded manually
- Reduction in the number of pricing errors on invoices.
- Reduction in the number of quantity mismatches between deliveries quantity and invoice quantity.

Expansion of automatic invoicing is planned with other appropriate suppliers.



Paul Sweeney,
Insultech

o. What do your governance practices give to stakeholders?

A. Confidence in our integrity and business dealings.



The Board of Directors of Delta Electricity guides and monitors the business and affairs of the Corporation on behalf of the shareholders by whom they are elected and to whom they are accountable.

The shareholders are the Hon. Michael Egan MLC, NSW Treasurer and the Hon. John Della Bosca MLC, Special Minister of State, each hold one share for and on behalf of the New South Wales Government.

The Energy Services Corporations Act 1995 and the State Owned Corporations Act 1989 (the "Act") are the principal Acts that govern the operation of Delta Electricity as a State Owned Corporation.

The Acts deal with Directors' accountability to the Government Shareholders of the Corporation. The Government, as the owner of the business, is relying on the Directors to ensure the commercial success of Delta and that accountability to the shareholders is maintained.

Corporate Governance

The Board's focus on Corporate Governance issues this year included:

- Outsourcing of Internal Audit.
Following the retirement of the General Manager/Internal Audit on 2 August 2002 Delta outsourced the internal function and appointed Deloitte Touché Tohmatsu for a period of two years commencing 1 July 2002.
- Reviewing the terms of reference of the:
 - Board Audit Committee,
 - Board Remuneration & Staff Committee,
 - Board Environment & Occupational & Safety Committee,
 - Board Finance Committee
- Reviewing the Application of the ASX Principles of Good Corporate

Governance to Delta Electricity.

- As a State Owned Corporation, Delta and the Board have no legal obligation to adopt or comply with the ASX Principles nevertheless the Board resolved to consider the ASX Principles and determine the extent to which Delta should adopt them.

- Documenting Risk Management Processes:
 - Delta has implemented the following risk management systems to document and report risks
 - KnowRisk – enterprise wide
 - Emsoft – environment
 - Nisoft – OH&S task based
 - Treasury Management Framework and Operational Risk policies were reviewed
 - Electricity Market Risk Management policies were reviewed
 - Activity risk assessment processes have been established in each Business Unit designed to ensure that employees conduct work based risk assessments before performing tasks
 - A new financial evaluation model implemented with the analysis of project risk being a key component of the evaluation process
 - Environment audits are conducted on a three year cycle
- Implementation of a Trade Practices Compliance training program for employees, specially developed and tailored for Delta has commenced with the full roll out to be completed in the 2003/04 year.
- Implementation of a revised Code of Conduct in February 2003.
- Completion of a Fraud and Corruption Risk Assessment in June 2003.
- Establishment of a Security Review Committee to co-ordinate security arrangements within Delta and liaise with external bodies.

STRUCTURE AND COMPOSITION OF THE BOARD

To ensure the Board is sufficiently able to discharge its responsibilities, the nomination and selection of directors and the operation of the Board have been established through the Act and the Memorandum of Articles of Association of the State Owned Corporation.

Composition of the Board

The Board of Delta Electricity is presently composed of the following members:

- the Chief Executive Officer
- one director appointed by the voting shareholders on the recommendation of a selection committee comprising:
 - (a) two persons nominated by the Portfolio Minister; and
 - (b) two persons nominated by the Labor Council of NSW, being persons selected by the committee from a panel of three persons nominated by the Labor Council; and
- at least two and not more than five other directors appointed by the Voting Shareholders, at their discretion.

The Board of Delta Electricity meets monthly or as required and follows meeting guidelines, set down to ensure all directors are made aware of, and have available to them all necessary information, to participate in an informed discussion of all agenda items. The directors in office at the date of this statement are:

Non-Executive Directors

MR P DODD, CHAIRMAN AND DIRECTOR
BCom, MCom, MSc, PhD, Dip Ed

Mr Dodd was first appointed 1 March 2000 and subsequently reappointed to 28 February 2006.

THE HONOURABLE B J UNSWORTH,
DIRECTOR

Mr Unsworth was first appointed 1 March 1996 and subsequently reappointed for period ending 28 February 2006.

He is also a Director of TAB Limited and Tempo Services Limited and Chairman of the Board of the Ambulance Service of New South Wales and a former Premier.

MR WARWICK HILDER, DIRECTOR
BA(Hons) (Syd), M Comm (NSW)

Mr Hilder was first appointed 29 November 1996 and subsequently reappointed for period ending 28 February 2005.

He is also involved in a diverse range of areas encompassing insurance, risk management, commercial services and financial markets operations as Chief Executive Local Government Financial Services Pty Limited, Company Secretary StateCover Mutual Limited, Chairman Compliance Committee V J Ryan Cash Management Trust and Director Sunlodge Pty Limited.

MR. WARREN PHILLIPS, DIRECTOR
FCPA, FCIS, AIMM, MAICD, Dip Comm.

Mr Phillips was first appointed 1 March 2000 and subsequently reappointed for period ending 28 February 2004

He is currently Group Financial Officer, John Fairfax Holdings Limited. Mr Phillips has extensive Financial, Commercial and General Management experience gained in Australia, Asia, USA and Europe.

MR I LANGDON, DIRECTOR
B.Comm, MBA, Dip Ed, CA, AICA

Mr Langdon was first appointed 1 March 2000 and subsequently reappointed for period ending 28 February 2004

He is also Chairman of Dairy Farmers Group, Director of Rabo Bank Australia Ltd.

MS SANDRA MOAIT, DIRECTOR

Ms Moait was first appointed 18 September 2002.

Ms Moait is President of the Labor Council of NSW, a position she has held since 2000. In addition she is Board member and Chairperson of the Trades Hall Association; Vice-president of the Australian Council of Trade Unions (ACTU); Chairperson of the ACTU's overseas aid agency, Australian People for Health and Development Abroad (APHEDA).

Sandra is a registered nurse and was General Secretary of the NSW Nurses' Association from 1995 until 2002.

BOARD OF DIRECTORS



Top (left to right):
Mr Peter Dodd (Chairman),
Mr Jim Henness
(Chief Executive),
Hon. Barrie Unsworth,
Mr Warwick Hilder.

Bottom (left to right):
Mr Ian Langdon,
Mr Warren Phillips,
Ms Sandra Moait,
Mr Peter McIlveen
(Corporate Secretary).

The Board held a Strategic Review day in April 2003.

- examine remuneration and staff issues;
- enhance the independence and objectivity of Board decisions on sensitive commercial and personal issues related to Delta Electricity Executive Managers (being direct reports to the Chief Executive);
- enable the corporate and business

- **Objectives.** The primary objectives of the Board Audit Committee are to:
- Assist the Board in discharging their responsibilities relating to:
 - financial reporting practice
 - business ethics, policies and practices
 - accounting policies
 - management and internal controls
- Duties and responsibilities amended to include section on Legal Compliance and Compliance with Delta's Code of Conduct and Values
- Meeting with external auditors – The Committee will meet at least once per year with the External and Internal Auditors without Executive members present as per the Better Practice guide.

Directors Meetings

	Directors' Meetings									
	Regular Board Meetings		Board Remuneration & Staff Committee		Board Audit Committee		Board Environment, Occupational Health & Safety Committee		Board Finance Committee	
	A	B	A	B	A	B	A	B	A	B
Mr P Dodd	13	13	3	3						
Mr J Henness	13	13			2	2	4	4	5	5
Hon B Unsworth	13	13					4	4		
Mr W Hilder	13	13	3	2					5	5
Mr W Phillips	13	12	3	3	4	4			5	5
Mr I Langdon	13	13			4	4				
Ms S Moait	10	10	1	1	2	2	3	3		

Column A is the number of meetings held.
Column B is the number of those meetings attended

The Terms of Reference of the Internal Audit Charter was revised simultaneously with the Board Committee terms of reference.

The Committee shall comprise of at least three members all of which will be independent non-executive members.

Membership

Ian Langdon (Convenor), Warren Phillips, Sandra Moait

BOARD ENVIRONMENT & OCCUPATIONAL HEALTH & SAFETY COMMITTEE

The terms of reference of the Board Environment & Occupational Health & Safety Committee were reviewed in November 2002.

The Charter of the Committee is to:

- review and approve environmental and occupational health and safety policies and management plans to implement these policies;
- review and approve environmental policy changes and recommend to the Board;
- review and approve the program of environmental audits and occupational health and safety audits;
- require reports from senior management of any significant incidents and review management's response;
- evaluate the overall effectiveness of environmental and occupational health and safety policies and procedures through regular meetings with senior managers.

The Committee shall consist of three Directors nominated by the Board.

Membership

Hon. Barrie Unsworth (Convenor), Sandra Moait, Jim Henness.

BOARD FINANCE COMMITTEE

The terms of reference of the Board Finance Committee were reviewed in July 2002.

In reviewing the charter, the Committee was of the view that the document would be improved if the activities outlined under "Duties and Responsibilities" are separated into the four key areas of Finance, Insurance, Taxation and Treasury.

The charter of the committee is to:

- Oversee and appraise the quality of financial risk management conducted within Delta,

- Review the adequacy of Delta's short and long-term finance and risk management strategies,
- Review strategic issues associated with the structure of organisational funding and sources and application of funds
- Review market trading policies
- Review annually, all insurance requirements and analysis areas where Delta is exposed to risk
- Review compliance with all relevant taxation legislation and to the optimisation of tax payment obligations,
- Review Treasury risk management policies and procedures and overall level of debt and debt management strategies

The Committee shall consist of three Directors nominated by the Board.

Membership

Warwick Hilder (Convenor), Warren Phillips, Jim Henness

Board Responsibilities

In acting on behalf of the shareholders the Board is accountable to the shareholders. Further responsibilities include identifying the expectations of the shareholders, along with other regulatory and ethical expectations. It also has responsibility for identifying areas of significant business risk; ensuring arrangements are in place to adequately manage such risk.

The responsibility for the operation and administration of the economic entity is delegated by the Board to the Chief Executive and the executive team. The Board is required to ensure that the Chief Executive and executive members are appropriately qualified and experienced to discharge the responsibilities placed upon them. Procedures to assess the performance of the Chief Executive and the executive team are in place.

The Board is also responsible for ensuring management's objective and activities are aligned with the expectations and risks identified by the Board. Therefore, a number of procedures are in place for the achievement of these objectives.

These procedures include the following:

- Approval by the Board, of a strategic plan, which encompasses the organisation's vision, mission and strategy statements, meet stakeholder's needs and manages risk.

- Development of a Statement of Corporate Intent (SCI) which is a shareholder requirement outlining detailed organisational plans and performance levels.
- Development and approval of initiatives and strategies designed to ensure the continued growth and success of the organisation;
- Implementation of operating plans and budgets by management and Board and the monitoring of progress against budget. This includes establishing and monitoring key performance indicators (KPI's) for all business processes;
- Scrutiny of environmental and occupational health and safety issues, audit outcomes, and financial concerns such as the review and approval of acquisitions and disposals of business and assets, approval of contracts and financial arrangements within defined perimeters and advise on liquidity, currency, interest rate and credit policies.

MONITORING THE BOARD'S PERFORMANCE AND COMMUNICATION TO THE SHAREHOLDERS

The SCI is the cornerstone document in Delta's relationships with the shareholders and is intended to enhance accountability for performance and to provide the organisation with certainty as to the shareholders expectations.

Information is communicated to the shareholders through:

- The annual report;
- The half yearly report;
- The annual meeting and other meetings so called to obtain approval for Board action as appropriate.

BOARD POLICIES AND PROCEDURES

Throughout the year the Board has reviewed and approved a number of policies covering delegations of authorities, finance and treasury, marketing, occupational health and safety and the environment. Breaches of all policies are reported immediately to Delta's Chief Executive and subsequently to the Board.

Key policies are also subject to audit by external expert financial consultants. Past reviews have shown the policies to be entirely appropriate with no major areas requiring attention.

GOVERNANCE

BOARD ACCESS TO OTHER RESOURCES AND INDEPENDENT INFORMATION

All Board members receive detailed monthly financial, marketing and treasury information. They regularly receive reports and presentations by respective executive managers. Directors also liaise with senior managers and seek additional information where necessary.

CONFLICTS OF INTEREST OF DIRECTORS

Where a director declares a material personal interest in any matter being considered by the Board the director does not receive Board papers on the particular matters and is not present when the matter is discussed. Directors are required to keep the Board advised of any interest that could possibly conflict with those of the company. Board minutes document all disclosures.

THE ELECTRICITY MARKET

The electricity market is complex and an organisation within the industry needs special and carefully drafted policies so that it can not only respond quickly to market requests but also ensure that contracts are approved at an appropriate level.

The sale (offering) of physical electricity into the National Electricity (Wholesale) Market is governed by:

- National Electricity Law and Regulations; and
- National Electricity Code.

The hedging and trading of electricity-based financial risk-management instruments in the 'over-the-counter' or exchange-traded markets are governed by:

- Public Authorities (Financial Arrangements) Act 1993;
- Corporations Act; and
- Exempt Futures Market Declaration.

EXECUTIVE MANAGEMENT

Executive Committees oversee the implementation of Board approved strategic and operational decisions and the day to day operation of the business. Executive committees meet monthly. The charters and membership of the Executive committees is as follows:

Executive Management Committee

The charter of the committee is to:

- monitor corporate business performance;
- implement remedial action where necessary;
- develop quality strategy and review implementation;
- review progress in implementing business plan proposals;
- provide a forum for raising initiatives and disseminating strategic information.

Executive Environmental Committee

The charter of the committee is to:

- set and review environmental policy;
- receive and review environmental audits;
- investigate environmental incidents and public complaints; and develop major new environmental initiatives.

Executive Audit Committee

The charter of the committee is to:

- determine that adequate systems of internal control are in operation safeguarding assets from loss;
- review that all operations and activities and related policies and procedures are in accordance with statutory requirements;
- review that opportunities for improvement in internal control systems are identified and recommended for implementation to assist managers to continuously improve operations.

The Committee undertakes the objectives of the charter by the following methods:

- review and recommend an appropriate internal audit charter and, as required, proposals for periodic updating of the approved charter;
- review the Annual Audit Plan;
- review reports on the results of internal audits;
- review that appropriate action is taken in respect of all audit reports; and,

- review of matters affecting the audit

Executive Occupational Health & Safety Committee

The charter of the committee is to:

- establish health and safety policies and procedures;
- review accident frequency and duration rates;
- review occupational health, safety and fire audits of sites;
- make determinations on health and safety matters submitted by occupational health and safety committees;
- review accident investigations and recommendations;
- review and monitor outstanding health, safety and fire items of sites;
- approve recommendations from sub committees; and
- provide direction to sub committees and approve any recommendations emanating from those committees.

Executive Information Technology Strategy Committee

The charter of the committee is to:

- ensure that information technology and communications is applied in a consistent and cost – effective manner within Delta Electricity with the objective of maximising the benefit of information technology to the organisation; and
- review, approve and prioritise information technology projects and establish the strategic plan for information technology.

TABLE TEN: EXECUTIVE COMMITTEE MEMBERSHIP

Name & Title		A	B	C	D	E	F
Mr J Henness	Chief Executive	X	X	X	X	X	X
Mr P McIlveen	Corporate Secretary	X		X		X	
Mr R Street	Chief Financial Officer	X		X		X	
Mr S Saladine	General Manager Western	X	X	X	X	X	X
Mr R Hall	General Manager Central Coast	X	X	X	X	X	X
Mr D Hogg	Chief Information Officer	X		X		X	
Mr T Baker	General Manager Marketing	X		X		X	
Mr R Ward	General Manager Business Development	X		X		X	
Mr G Everett	General Manager Strategy	X	X			X	
Mr P Blume	General Manager Human Resources	X			X	X	X
Mr G Sharrock	Acting General Manager/ Delta Maintenance	X	X	X	X	X	X
Mr N Taylor	Occupational Health & Safety Manager				X		
Mr G Deans	Manager Environment		X				
Mr N DiFalco	Environment Manager Western		X				
Mr J Leotta	Deloitte Touche T Tohmatsu			X			
Mr S Addison	Deloitte Touche T Tohmatsu			X			
(A) Executive Management Committee		(D) Executive Occupational Health & Safety Committee					
(B) Executive Environment Committee		(E) Executive Information Technology Strategy Committee					
(C) Executive Audit Committee		(F) Executive Human Resources					

Executive Management Team

JIM HENNESS

BSc, BE(Hons), MEngSc, MBA, FAICD

Jim Henness was appointed Acting Chief Executive March 1996 and Chief Executive July 1996. Jim's experience in the power industry has provided him with the technical and managerial credentials for the position. His background includes work for Pacific Power in power station design and electrical demand forecasting and economic analysis. He was responsible for Pacific Power's coal supply planning and contracting from the early 1980s. Jim is responsible for the overall management of Delta and for strategically positioning the organisation in the National Electricity Market.

PETER MCILVEEN

Ind Rel Cert, Pers Admin Cert MACID

Peter McIlveen was appointed Corporate Secretary in March 1996. Prior to his appointment he held a number of senior management positions in Pacific Power, the last being Manager Government Relations. Peter is responsible for the administrative and legislative requirements of the Board, Corporate Governance issues, Internal Audit, legal, security, document management, transport and public affairs.

STEPHEN SALADINE

BE (Hons)

Steve Saladine was appointed General Manager Western in April 2000. Steve joined Delta with wide experience gained most recently from managing a large engineering contracting business and senior management and engineering positions with several generation businesses in NSW and Victoria. Steve has direct responsibility for the management of Mt Piper and Wallerawang power stations and associated infrastructure. Steve is also a member of the Management Board for the Co-operative Research Centre for Sustainable Use of Coal, the Greater Lithgow Business Advisory Board, and is President of Lithgow Chamber of Commerce and Industry.

ROHAN HALL

BSc, BE (Hons), FAICD

Rohan Hall was appointed General Manager/Central Coast in May 2003 with responsibility for the operation and maintenance of Vales Point and Munmorah Power Stations. His previous appointment was as General Manager/Delta Maintenance, a position he held for four years. Prior to that he held the positions of Production Manager and Engineering Manager in the Central Coast region.

RICHARD STREET

B.Ec ACA

Richard Street was appointed Chief Financial Officer in January 2000. Richard worked in private practice before joining Rio Tinto as Business Services Manager for Southern Copper Ltd at Port Kembla. He transferred to Kembla Coal & Coke in 1994 and to Rio Tinto Coal in 1997 as Chief Financial Officer to assist in a major restructure of Rio's NSW coal assets in the Hunter Valley. The Finance Group is responsible for all accounting related activities including financial and management accounting, treasury functions, taxation, financial systems administration, payments administration, and commercial services in the areas of procurement and payroll administration.

RODNEY WARD

B.Eng (Hons), MBA, FAICD, ASA

Appointed General Manager Business Development in January 2003, Rodney brings to the position direct experience in the national electricity market and a background in power station operations, energy policy, treasury and project finance. Joining Delta in 1997, as General Manager/Marketing, Rodney was responsible for the market operations of Delta's portfolio of generation. Prior to Delta, Rodney represented the Victorian Government's interest in the development of National Electricity Market. He is presently responsible for new business development projects, biomass fuel purchasing, greenhouse emission trading issues, project evaluation and business cost performance review.

GREG EVERETT

B.Comm., MBA, GAICD

Greg Everett has been General Manager/Strategy since November 1996, with a period as General Manager/Central Coast during 2002. He is currently responsible for strategic planning, fuel purchasing, corporate environmental governance and long term electricity pricing. He is also a Director of Sunshine Electricity, Delta's joint venture with the NSW Sugar Milling Co-operative. Greg has been with Delta since its inception and has a long association with the commercial operation of NSW's power stations.

GOVERNANCE

DAVID HOGG
BE UNSW., GAICD

David Hogg was appointed Chief Information Officer in October 1996, having previously held a range of positions in the Information Systems Group of Pacific Power since 1988. Prior to 1988 David was involved in civil engineering design and construction within Pacific Power. The Information Technology and Communications Group manage the delivery of IT services to Delta through a range of outsourcing contracts. The Group is also responsible for the formulation of IT and communications strategy, policy and standards.

PAUL BLUME
BEc, Dip. Labour Relations Law, Grad.
Cert. Marketing, GAICD

Paul Blume has been with Delta Electricity since its beginning, prior to

which he worked in senior roles in the electricity supply industry including human resources, marketing and as manager of two electricity technology advisory centres. The Human Resources Group is responsible for Delta's strategic direction in employee and related matters and for providing support in the delivery of these strategies. The Group also has functional responsibilities including in the areas of industrial relations, worker's compensation and human resources systems administration.

TIM BAKER
BSc, BEng(Hons), MBA, GAICD

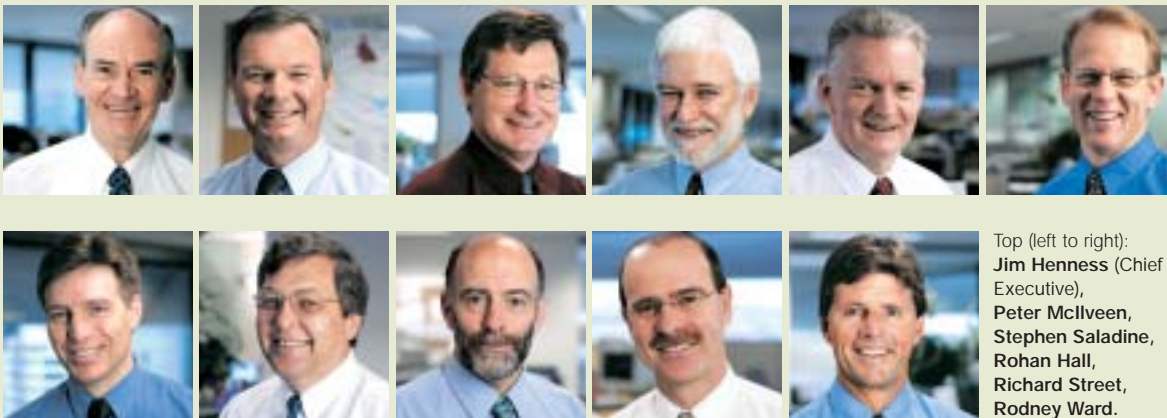
Appointed General Manager/Marketing at the end of 2002. Prior to this Tim co-ordinated the physical market operation of Delta's four power stations and has extensive background in system control, power station operation and interconnection trading within Pacific Power. As General Manager/Marketing Tim is responsible for the sales revenue and the development of physical market and hedge strategies to optimise the profitability of the corporation. These activities include sales, plant co-ordination, bidding and trading functions and management of regulatory issues.

GLENN SHARROCK
BSc, Grad. Cert. of Management

Currently acting as General Manager/Delta Maintenance since

May 2003 providing maintenance support to Production Business Units at the four Delta sites and external customers. Glenn had previously held senior production and environment positions where he was responsible for the operations and maintenance of Vales Point and Munmorah Power Stations including the development and management of environmental management systems, regulatory compliance, and community liaison.

EXECUTIVE MANAGEMENT



Top (left to right):
Jim Henness (Chief Executive),
Peter McIlveen,
Stephen Saladine,
Rohan Hall,
Richard Street,
Rodney Ward.

Bottom (left to right):
Greg Everett,
David Hogg,
Paul Blume,
Tim Baker,
Glenn Sharrock.

MANAGING RISKS

Delta operates in an environment where corporate governance and risk management culture are central to all activities. Risk management is based on the standard AS/AZS 4360: 1999 Risk Management.

Delta has in place procedures that are structured to provide its employees with policy, direction and framework for identification, assessment and reporting risk. The framework allows team leaders, plant owners and managers through to executive members to create and review risks in their own area of responsibility. Delta's prime objective is to establish risk management awareness supported by processes which become a natural part of work at all levels of the organisation. Bulletins and risk review requests are issued monthly.

Delta's risk management application 'Knowrisk' is well established (implemented October 2001) and provides Delta with an intuitive enterprise wide system to manage, monitor and report on all aspects of risk. The application architecture provides a hierarchical structure for the identification, recording, assessment, escalation and reporting risks. Risks are reviewed monthly at Business Unit and Executive Committee level and at least quarterly at Board level.

Environment

Environmental Audits are conducted on a three year cycle covering facilities and process, environmental management, compliance and due diligence. Delta has a system to document actions and to ensure audit recommendations are implemented. In addition, all sites are certified (June 2002) to ISO 14001 Environmental Management standard. This standard requires continuous re-assessment and reduction of all environmental risks.

Occupational Health and Safety

Occupational Health and Safety activity based risk assessment processes have been established in each business unit designed to ensure that employees conduct work based risk assessment before performing tasks.

Finance and Treasury Operations

Delta has Treasury Management Framework and Operational Risk Policies, reviewed by the Board each year. These policies establish effective internal controls and reporting systems for the management of treasury risks. Treasury operations are reported to the Board and Executive on a monthly basis.

Market Operations

Delta is Electricity Market Risk Management Policies, reviewed by the Board each year, supports procedures to address risks associated with market operations.

Delta has implemented the following risk management systems to document and report risks:

Knowrisk – enterprise wide

Emsoft – environment

Nisoft – OH&S

Each of these management systems identify, monitor, assess and manage risk. This methodology of risk management is based on the standard AS/AZS 4360: 1999 Risk Management.

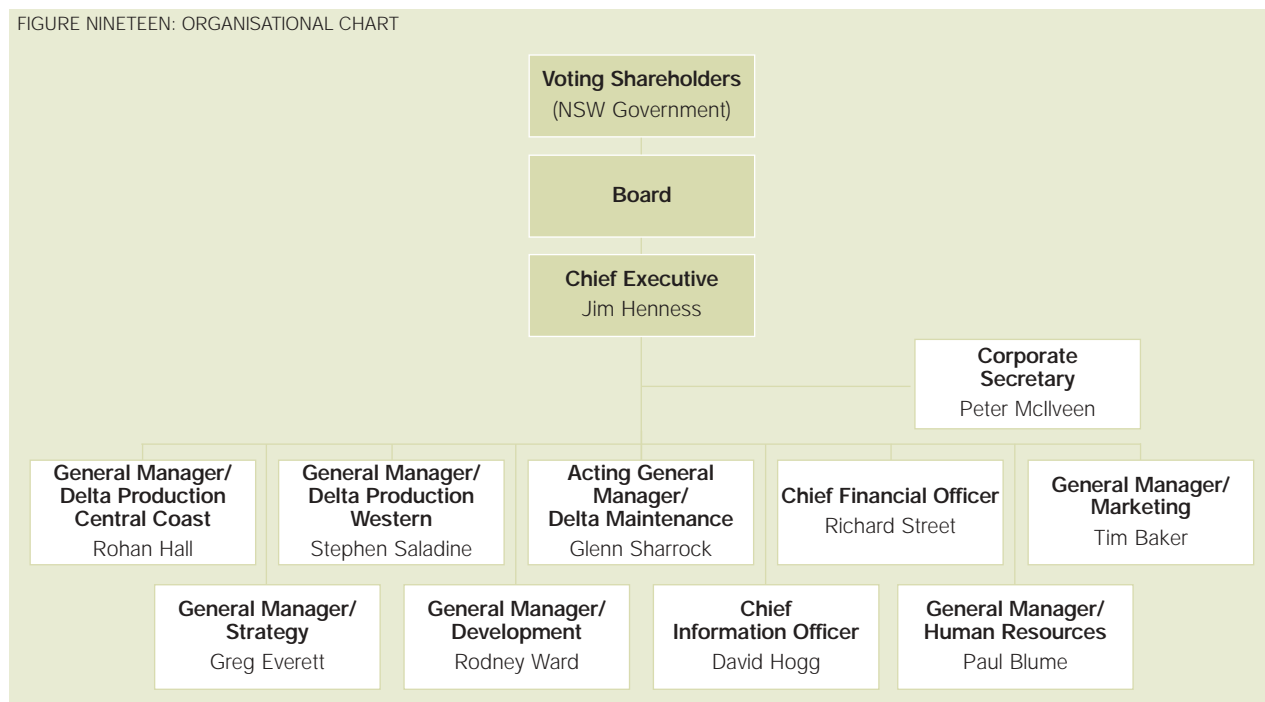
Framework for monitoring risks

Delta, its Directors and management are subject to a number of regulatory controls in relation to the functions of the organisation. The manner in which those functions are to be carried out and the responsibilities on individual Directors, is set out by legislation and the Memorandum and Articles of Association.

Business risks determined as part of the Risk Management Plan review are monitored and assessed as part of Delta's business planning and performance management system. These include:

- the Board's, Chief Executive's and Business Group Managers' performance agreements and performance reporting;
- the Board Audit Committee, Board Environment, Occupational Health & Safety Committee, Board Remuneration and Staff Committee and Board Finance Committee,

FIGURE NINETEEN: ORGANISATIONAL CHART



GOVERNANCE

- c) the Chief Executive's and Business Group Managers' monthly business reviews;
- d) executive committees of environment, occupational health & safety; business review; information systems and internal audit.
- e) management systems including financial management information system reporting, business planning and performance management and environmental management.
- f) monthly Board reports on Delta's performance; and
- g) established policies for the management of risks associated with marketing operations;
- h) financial risks associated with Treasury operations, managed by a combination of outsourcing methods to NSW Treasury Corporation (TCorp) of treasury services and meetings. Treasury operations are reported to the Board and Executive on a monthly basis.
- i) Review of business activities and Delta's control environment by the Internal Audit Director of Deloitte Touche Tohmatsu.

Financial asset and liability management

Financial asset and liability management is in accordance with Board approved Treasury management policies. These policies cover areas of credit risk, liquidity risk, interest-rate risk management, foreign exchange risk, commodity risk, investment management and permitted instruments. These policies are under regular review. To manage cash flows effectively, Delta maintains a detailed cash flow model. Funds surplus to short-term requirements are invested to maximise interest returns. These funds are recalled on an as-required basis

from investments to meet ongoing commitments.

Plant asset management

Market based asset management recognises that asset management contributes to electricity generation by the:

- cost of engineering;
- plant being ready when needed – our measure is 'availability'; and
- plant staying in service when needed – our measure is 'reliability'.

Fraud Prevention

Delta Electricity is committed to high standards of ethics. There is a strong commitment by Delta's Board and Executive Managers to ensure that fraud prevention maintains a strong strategic focus.

The Fraud Prevention Committee is responsible for the development and continual review of Delta's Fraud Prevention Strategy, and to ensure that adequate controls are in place to reduce the possibility of fraudulent or corrupt conduct.

The Fraud Prevention Committee reports to the Executive Audit Committee which reports to the Board Audit Committee.

In June 2003 Deloitte Touche Tohmatsu commenced a Fraud and Corruption Risk Assessment and during June conducted three workshops at each location within Delta.

In performing the review a number of activities were undertaken:

- key policies and guidelines were identified and reviewed
- audit reports were reviewed
- discussions and interviews were held with management and key personnel, and
- Fraud Risk Assessment workshops were conducted.

The results of the Risk assessment were presented to the Executive Committee in July 2003 and the overall residual fraud and corruption risk to Delta Electricity was rated as generally "medium" to "low".

The Fraud Prevention Strategy for 2003/2004 will incorporate the findings from the fraud risk assessment.

Code of Conduct

Delta's Code of Conduct was reviewed in August 2002 and updated to reflect trends that have developed in corporate

obligations and best practice, generally.

In developing the new Code that reflects the general values of those who work for Delta, and ensures it gained wide acceptance, a series of meetings were held which included focus groups throughout the organisation, the Fraud Prevention Committee and the Executive Committee.

The new Code was circulated to those who participated in the focus groups and Committees before submitting to the Board. The Code was also reviewed and endorsed by the Independent Commission Against Corruption.

The Code has increased in content to cover contemporary areas of concern. Whilst there are minor changes in some sections of the code, the major changes included:

- Our Responsibilities – each sub-heading was on the expectations of a high level of ethical behaviour
- Hospitality Gifts and Benefits – the information within this topic was expanded to ensure clarity and the processes to be undertaken by employees
- A topic of significance was Drugs and Alcohol where the requirements included in the Code reflected recently released policies. The Code states that there is a zero tolerance policy in place.

The Code establishes standards of acceptable behaviour and makes references to the relevant policies and procedures and the means by which staff can report incidents or issues.

Freedom of Information

Delta Electricity received one Freedom of Information request which was completed within 21 days. Access was granted in part as some of the information requested was considered commercial-in-confidence within the meaning of the Freedom of Information Act 1989.

Delta Electricity's compliance with the Freedom of Information Act did not raise any major issues during the reporting period, nor did the compliance with the Act have any prominent impact on Delta Electricity's activities.

Executive Remuneration

The following payments were made to senior contract employees at the end of the 2002/2003 financial year.

The 2002/03 performance payments were made up of the following components, with a weighting towards the Balanced Scorecards.

- The result for a Delta overall Balanced Scorecard.
- The results for their respective Business Unit Balanced Scorecard.
- Individual performance components which were based on their:
- Individual Performance and Development Agreement (see criteria in table)
- Individual Management and Leadership Performance

TABLE ELEVEN: EXECUTIVE REMUNERATION

Name (Time in position)	Position as at 30 June 2003	Total Remuneration Package for Period	Total 2002/03 Performance Payment	Individual Performance Criteria
Jim Henness (All of year)	Chief Executive	\$353,466	\$60,000	Assessment of performance by the Board against corporate performance indicators including Delta's profit and plant performance and maintenance of effective external relationships.
Rod Ward (*From 1.1.03)	GM/ Development	\$209,873	\$42,700	Management of projects and assessment against other performance agreement targets.
Richard Street (All of year)	Chief Financial Officer	\$208,752	\$46,400	Management of financial projects and of the financial and management accounting function and assessment against other performance agreement targets.
Greg Everett (*From 1.1.03)	GM/ Strategy	\$205,357	\$51,100	Contracted coal purchases and assessment against other performance agreement targets (including performance in role of GM/ Central Coast).
Steve Saladine (All of year)	GM/ Western Production	\$205,250	\$50,400	Business Unit financial management, plant performance and assessment against other performance agreement targets.
Tim Baker (All of year)	General Manager/ Marketing	\$194,986	\$47,500	Implementation of strategic marketing initiatives and assessment against other performance agreement targets.
* From 1 July 2002 to 31 December 2002, Greg Everett carried out the role of GM/Central Coast and Rod Ward carried out the duties of GM/Strategy and Development.				

TABLE TWELVE: NUMBER OF EXECUTIVE OFFICERS

	Total	Women
Number of executive officers with remuneration equal to or exceeding equivalent of SES Level 1 2002/2003	29	1
Number of executive officers with remuneration equal to or exceeding equivalent of SES Level 1 2001/2002	30	1

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ANNUAL REPORTING COMPLIANCE

Delta is required to report on a range of matters which are covered by various Acts, including the Annual Reports (Statutory Bodies) Act, Regulations and Treasury and Premier's memoranda.

The following information is provided in accordance with these requirements.

Consultants

Expenditure on consultants totalled \$122,000. The main purpose of the engagements related to strategic advice on asset valuation, pricing and business services.

Cost of Annual Report

Delta Electricity has for several years produced an Annual Report and an Environment Report. To save on total reporting costs, the two reports have been combined into one which has increased the content in the Annual Report. Additionally, extra financial information for Delta Electricity and the initial accounts of Delta Electricity Australia Pty Limited has required an additional 16 pages over last year's Report. 1200 copies of the Report were produced at a cost of \$57 each.

Exemption from the Reporting Provisions

Approval was given by the New South Wales Treasury under delegation from the Treasurer, the Hon. Michael Egan MLC, to exempt Delta Electricity for the year ended 30 June 1997 and subsequent financial years from the following financial requirements:

- Budgets
- Research and Development
- Land Disposal
- Payment of Accounts
- Time for Payment of Accounts
- Investment Management Performance
- Liability Management Performance

Exemptions for the following annual reporting requirements were approved subject to the condition that comments and information relating to these items are disclosed in summarised form:

- Summary Review of Operations
- Management and Activities
- Consumer Response
- Report on Risk Management and Insurance Activities

Other exemptions were approved subject to specific conditions:

HUMAN RESOURCES

Overseas visits with main purposes highlighted, are required to be disclosed.

CONSULTANTS

Total amount spent on consultants is to be disclosed along with a summary of the main purposes of the engagements.

DISCLOSURE OF CONTROLLED ENTITIES

Names of the controlled entities are to be disclosed along with a summarised disclosure of the controlled entities' objectives, operations and activities and measures of performance.

FINANCIAL STATEMENTS OF CONTROLLED ENTITIES

Exempt from preparing manufacturing and trading statements but required to prepare a summarised operating statement.

Overseas Visits

During the year the following officer went overseas:

Name: Rohan Hall

Date: 26 September to 27 October

Destination: United Kingdom

Purpose: Attend leadership development program at the London Business School.

Promotion

The following publications are available.

Information for the Public:

1996 Annual Report

1997 Annual Report

1998 Annual Report

1999 Annual Report

2000 Annual Report

2001 Annual Report

1996-1999 Environment Report

2000 Environment Review

2001 Environment Report

Central Coast Operations

Introducing Delta Electricity

Discovery of Electricity

Electricity Generation

Electricity in New South Wales

Energy Expo

Power from Coal

Selenium Facts

The History of Delta Electricity

Western Operations

Sunshine Energy –
Cogeneration Project

Delta Central Coast

Community Newsletter

Information for Delta Electricity Staff

Code of Conduct

Deltanet

Employee Assistance Services

Family Care Link

Into the Future

Disability Plan 2002-2004

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**FINANCIAL
STATEMENTS
2003**

STATEMENT OF FINANCIAL POSITION

As at 30 June 2003	Note	Consolidated 2003 \$'000	Parent Entity 2003 \$'000	2002 \$'000
Current Assets				
Cash Assets	5	48,693	48,693	125,886
Receivables	6(a)	99,378	99,381	189,657
Tax Assets	4(b)	4,516	4,516	—
Inventories	7	96,377	96,377	85,485
Other Financial Assets	8	16,592	16,592	15,858
Other	9(a)	6,337	6,337	6,255
Total Current Assets		271,893	271,896	423,141
Non-Current Assets				
Receivables	6(b)	1,771	5,330	59
Property, Plant and Equipment	10	1,712,372	1,712,372	1,156,241
Deferred Tax Assets	4(e)	18,614	17,878	18,251
Other	9(b)	1,044	21	—
Total Non-Current Assets		1,733,801	1,735,601	1,174,551
Total Assets		2,005,694	2,007,497	1,597,692
Current Liabilities				
Payables	11(a)	107,019	107,103	170,309
Interest Bearing Liabilities	12(a)	34,405	34,405	63,022
Current Tax Liabilities	4(c)	—	—	7,330
Provisions	13(a)	72,586	72,586	92,674
Other		560	560	560
Total Current Liabilities		214,570	214,654	333,895
Non-Current Liabilities				
Payables	11(b)	614	614	—
Interest Bearing Liabilities	12(b)	749,854	749,854	665,610
Deferred Tax Liabilities	4(d)	178,382	178,382	154,266
Provisions	13(b)	61,678	61,678	50,334
Total Non-Current Liabilities		990,528	990,528	870,210
Total Liabilities		1,205,098	1,205,182	1,204,105
Net Assets		800,596	802,315	393,587
Equity				
Contributed Equity	14(a)	175,376	175,376	295,376
Reserves	14(b)	577,088	577,088	—
Retained Profits	14(c)	48,132	49,851	98,211
Total Equity		800,596	802,315	393,587

The accompanying Notes form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL PERFORMANCE

For the Year Ended 30 June 2003	Note	Consolidated 2003 \$'000	Parent Entity 2003 \$'000	2002 \$'000
Revenue from Ordinary Activities	2	738,473	741,137	735,254
Expenses from Ordinary Activities	3	565,232	565,441	534,606
Borrowing Costs Expense		71,238	71,238	58,289
Profit from Ordinary Activities Before Income Tax Expense		102,003	104,458	142,359
Income Tax Expense Relating to Ordinary Activities	4(a)	40,653	41,389	47,379
Profit from Ordinary Activities after Related Income Tax Expense		61,350	63,069	94,980
Net increase in asset revaluation reserve	14(b)	577,088	577,088	—
Increase in retained profits on adoption of revised accounting standards:				
AASB1028 Employee Benefits	14(c)	(1,229)	(1,229)	—
AASB1044 Provisions, Contingent Liabilities and Contingent Assets	14(c)	2,870	2,870	—
Total revenues, expenses and valuation adjustments recognised directly in equity		578,729	578,729	—
Total changes in equity other than those resulting from transactions with owners as owners		640,079	641,798	—

The accompanying Notes form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

		Consolidated 2003 \$'000 Inflows (Outflows)	Parent Entity 2003 \$'000 Inflows (Outflows)	2002 \$'000 Inflows (Outflows)
For the Year Ended 30 June 2003	Note			
Cash Flows From Operating Activities				
Cash Received in the Course of Operations		837,113	839,696	756,326
Interest Received		5,246	5,242	5,859
Cash Payments to Suppliers and Employees		(579,303)	(579,220)	(561,642)
Interest and Other Finance Costs Paid		(65,220)	(65,220)	(53,829)
Income Taxes Paid		(29,450)	(29,450)	(40,295)
Net Cash Provided/(Used) by Operating Activities	22(f)	168,386	171,048	106,419
Cash Flows from Investing Activities				
Proceeds from Sale of Property, Plant and Equipment		1,232	1,232	1,456
Payments for Property, Plant and Equipment		(45,531)	(45,531)	(48,068)
Payments for Construction Work in Progress		(797)	—	—
Loans to Related Parties		—	(3,459)	—
Net Cash Provided/(Used) by Investing Activities		(45,096)	(47,758)	(46,612)
Cash Flows from Financing Activities				
Proceeds from Borrowings		160,489	160,489	93,781
Repayment of Borrowings		(105,489)	(105,489)	(93,781)
Return of Contributed Equity to Shareholder		(120,000)	(120,000)	—
Dividends Paid		(135,483)	(135,483)	(119,740)
Net Cash Provided/(Used) by Financing Activities		(200,483)	(200,483)	(119,740)
Net Increase (Decrease) in Cash Held		(77,193)	(77,193)	(59,933)
Cash at the Beginning of the Financial Year		125,886	125,886	185,819
Cash at the End of the Financial Year	22(b)	48,693	48,693	125,886

The accompanying Notes form an integral part of these Financial Statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are a general purpose financial report prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, relevant sections of the New South Wales Public Finance and Audit Act 1983 and the New South Wales Public Finance and Audit Regulation 2000, and requirements of the State Owned Corporations Act, 1989 (as amended).

(a) Basis of Accounting

The financial statements have been prepared in accordance with the principles of accrual accounting and the historical cost convention, and except where stated do not take into account current valuations on non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

(b) Changes in Accounting Policies

(i) The accounting policies adopted are consistent with those of the previous year except as follows:

Property, Plant and Equipment

Property, plant and equipment is recognised at fair value in accordance with AASB1041 Revaluation of Non-Current Assets and the New South Wales Treasury Accounting Policy for the Valuation of Physical Non-Current Assets at Fair Value. Revaluations are made with sufficient regularity to ensure the carrying amount of property, plant and equipment does not differ materially from its fair value at reporting date. Any valuation adjustments are subject to approval of the Directors, irrespective of whether those values are determined internally or by independent valuation. Prior to 2002/03, Delta Electricity recognised property, plant and equipment on a cost basis except where revalued following the approval of the Directors.

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

Revaluation decrements are generally recognised immediately as expenses in the Statement of Financial Performance. A revaluation decrement is only recognised as a debit to the asset revaluation reserve when a credit balance for the same class of assets exists in the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of property, plant and equipment, but not otherwise.

(ii) The following new or revised accounting standards have been applied from 1 July 2002:

AASB1012 Foreign Currency Translation

AASB1028 Employee Benefits

AASB1044 Provisions, Contingent Liabilities and Contingent Assets

Changes to Delta Electricity's accounting policies as a result of the introduction of the new or revised standards and the financial effect of the changes have been included under the relevant section of this Note.

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Delta Electricity (parent entity) as at 30 June 2003 and the results of all controlled entities for the year then ended. Delta Electricity and its controlled entities together are referred to as the consolidated entity. The effect of all transactions between entities in the consolidated entity are eliminated in full. Disclosure of the consolidated entity is only provided in the Notes when information is different from that of the parent entity.

Delta Electricity has one controlled entity, Delta Electricity Australia Pty. Ltd, which commenced operations during 2002/03.

(d) Contributed Equity

Delta Electricity commenced operations on 1 March 1996. Under the terms of a Ministerial Order signed by the Honourable P.C. Scully Acting Minister for Energy and dated 1 March 1996, staff, assets, rights and liabilities were transferred from Pacific Power to Delta Electricity.

The State Owned Corporations Act, 1989 (as amended), requires Delta Electricity to have two voting shareholders; the Treasurer and another Minister, currently the Special Minister of State. Each shareholder holds one \$1 share.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(e) Liability Management

During the year, Delta Electricity actively managed its interest bearing liabilities against a benchmark in accordance with both Board approved policies and the Treasury Management Policy issued by New South Wales Treasury. New South Wales Treasury Corporation stock, interest rate and currency swaps, forward rate agreements and interest rate futures and options are available as a means of managing Delta Electricity's interest rate exposures. All gains and losses incurred in the use of these derivative instruments are recognised as borrowing costs in the Statement of Financial Performance as incurred.

(f) Depreciation

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 (excluding land) over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives of property, plant and equipment is 50 years for operating power stations (2002: 50 years) and ranges from 5 to 30 years for other property, plant and equipment (2002: 5 to 30 years). Information technology software is depreciated over 2.5 years (2002: 2.5 years).

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

Where material items of plant and equipment have separately identifiable components which are subject to regular replacement, those components are assigned useful lives distinct from the item of plant and equipment to which they relate.

(g) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, and gains and losses incurred in the use of derivative instruments for the management of interest rate exposure related to borrowed funds.

Discount and premium on borrowings is in the nature of an adjustment to the cost of borrowing.

Any discount or premium on borrowings is amortised over the term of the loans, with the amount applicable to each year being included in the Statement of Financial Performance as part of Delta Electricity's borrowing costs for that year. The interest bearing liabilities amounts appearing in the Statement of Financial Position are net of amortisation. Refer to Note 12.

(h) Assets Under Construction

Costs associated with borrowings specifically financing assets under construction are capitalised up to the date of completion of each asset to the extent those costs are recoverable. No borrowing costs were capitalised for the parent entity during the 2002/03 financial year.

(i) Employee Benefits

The liability for wages and salaries at reporting date are recognised in payables in respect of employee services provided up to the reporting date and are measured at the amounts expected to be paid when the liability is settled. The liability is settled within 7 days of reporting date.

Delta Electricity makes provision through its Statement of Financial Performance for its liability in respect of employee benefits for annual leave and long service leave. A calculation of the liability at reporting date is made each year for annual leave and long service leave employee benefits.

The basis of the liabilities and contributions are:

- (i) For annual leave, the liability represents the amount which Delta Electricity has a present obligation to pay resulting from employees' services provided up to reporting date. The provision has been calculated at nominal amounts based on expected future salary rates and includes related oncosts. Prior to 2002/03, the annual leave liability was based on salary rates (including oncosts) existing at reporting date. Adjustments to the carrying amount of the annual leave employee benefit provision as a result of the initial application of AASB1028 Employees Benefits have been made against opening retained profits. The effect of the revised policy in 2002/03 has been to reduce retained profits by \$1,229,000, increase future income tax benefit by \$527,000 and increase the provision for employee benefits by \$1,756,000.
- (ii) For long service leave, the liability has been determined using an actuarial shorthand method of calculation and represents the present value of expected future payments for long service leave, including projected remuneration rates. Associated oncosts are also included.

Superannuation entitlement details are provided in Note 15(b).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**(j) Cash Management and Other Managed Funds**

Cash management and other managed funds are stated at market values calculated by Delta Electricity's funds manager by referencing specific market quoted prices/yields prevailing at reporting date. Refer to Note 5 and Note 8.

Income earned from cash management and other managed funds is included as revenue in the Statement of Financial Performance.

(k) Insurance

Delta Electricity is a self-insurer for certain risks, while other risks are insured externally. In accordance with AASB1044 Provisions, Contingent Liabilities and Contingent Assets, the insurance provision in the Statement of Financial Position reflects the present obligation to settle amounts as a result of past transactions or events. There is some degree of uncertainty about the timing of the future payment and/or the amount to be paid.

Prior to 2002/03, Delta Electricity provided for potential future events as well as past events.

Adjustments to the carrying amount of the insurance provision as a result of the initial application of AASB1044 Provisions, Contingent Liabilities and Contingent Assets have been made against opening retained profits. The effect of the revised policy in 2002/03 has been to increase retained profits by \$2,870,000, decrease future income tax benefit by \$1,230,000 and decrease the provision for insurance by \$4,100,000.

(l) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended.

Delta Electricity determines the level of dividend for the current financial year prior to reporting date as part of the Statement of Corporate Intent process. The Statement of Corporate Intent is a performance agreement between the Delta Electricity Board and the shareholders.

(m) Inventory Valuation

Inventories are carried at the lower of cost and net realisable value. Cost is allocated on an average basis for stores and materials and on a weighted average cost per tonne/litre basis for coal and other fuel stocks.

(n) Taxation

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial Performance is matched with the accounting profit after allowing for permanent differences. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the Statement of Financial Position as a deferred tax asset or a provision for deferred income tax. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation.

Income tax payments are made to the New South Wales Office of State Revenue under the National Tax Equivalent Regime (NTER).

(o) Foreign Currency Translation

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables at reporting date are translated at exchange rates current at reporting date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

Exchange gains and losses arising on forward foreign exchange contracts entered into as hedges of specific commitments together with unrealised exchange gains and losses resulting from these transactions are deferred in the Statement of Financial Position and included in the determination of the amounts at which the hedged transactions are brought to account. The amounts receivable and payable for the forward foreign exchange contracts are also recorded in the Statement of Financial Position.

Prior to 2002/03, amounts receivable and payable on forward foreign exchange contracts, and deferred exchange gains and losses were not recorded on the Statement of Financial Position. As at 30 June 2003, this has resulted in an increase of \$2,343,000 in current payables, an increase of \$614,000 in non-current payables, an increase of \$2,220,000 in current receivables, an increase of \$592,000 in non-current receivables, an increase of \$124,000 in current other assets and an increase of \$21,000 in non-current other assets.

Where a hedging transaction is terminated prior to its maturity date and the hedged transaction is still expected to occur, any gains or losses realised are deferred and included in the measurement of the hedged transaction when it occurs. Where a hedging transaction is terminated prior to maturity because

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

the hedged transaction is no longer expected to occur, any gains or losses together with previously deferred gains or losses are recognised in the Statement of Financial Performance at the date of termination.

Exchange gains and losses relating to other hedge transactions are brought to account in the same period as the exchange rate movement. Costs on such contracts are amortised over the life of the hedge contract.

(p) Segment Reporting

Delta Electricity is an electricity generation corporation that operates in a single business and geographical segment. All production facilities are located in New South Wales.

(q) Revenue

Revenue from operating activities represents revenue earned from the sale of electricity and is recognised as it accrues. Revenue from outside operating activities includes rent and interest income on funds which are recognised as they accrue, gross proceeds on sale of non current assets which is brought to account on sale of the asset, and other miscellaneous income and proceeds from other operations which are recognised on performance of the service or delivery of the goods. Revenue is reported in Note 2.

(r) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense.

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

(s) Generating Costs

Generating costs represent all costs (raw materials, labour and overheads) associated with the production of electricity for sale in the National Electricity Market. Specific items requiring separate disclosure have been reported individually in Note 3.

(t) Comparative Figures

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

No comparative figures are shown for the consolidated entity as Delta Electricity's single controlled entity, Delta Electricity Australia Pty. Ltd, commenced operations on 1 July 2002.

(u) Rounding of Amounts

Amounts shown in the financial statements have been rounded to the nearest thousand dollars except where the disclosure of whole dollar amounts is appropriate.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Consolidated 2003 S'000	Parent Entity 2003 S'000	2002 S'000
2. REVENUE FROM ORDINARY ACTIVITIES			
Revenue from Operating Activities			
Sale of Electricity	727,689	727,689	719,297
Revenue from Outside Operating Activities			
Rent	162	162	87
Interest	5,987	5,983	6,274
Proceeds from Sale of Non-Current Assets	1,339	1,339	1,456
Proceeds from Other Operations	1,600	1,600	1,285
Miscellaneous:			
– Insurance Recoupment	–	–	5,692
– Other	1,696	4,364	1,163
Revenue from Ordinary Activities	738,473	741,137	735,254

3. EXPENSES FROM ORDINARY ACTIVITIES

Expenses from ordinary activities			
Generating Costs	470,847	471,056	465,982
Depreciation:			
– Buildings	8,792	8,792	4,678
– Plant and Equipment	48,127	48,127	29,480
– Motor Vehicles	695	695	697
Depreciated Value of Non-Current Assets Sold	1,148	1,148	1,271
Superannuation Expenses	6,593	6,593	6,285
Provision for Employee Benefits	9,680	9,680	6,642
Write Down in Value of Inventories	158	158	612
Bad and Doubtful Debts	–	–	1,326
Operating Lease Rental Expense	2,235	2,235	1,950
Auditors' Remuneration	140	140	130
Directors' Remuneration	456	456	389
Consultants Fees	122	122	476
Other Expenses	586	586	466
Expenses from ordinary activities considered individually significant			
Adjustments in defined benefit superannuation funds	15,653	15,653	14,222
Expenses from Ordinary Activities	565,232	565,441	534,606

The net gain on the disposal of property, plant and equipment was \$191,000 (2002: \$185,000).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Consolidated 2003 \$'000	Parent Entity 2003 \$'000	2002 \$'000
4. INCOME TAX			
(a) Income Tax Expense			
The income tax on the profit from ordinary activities differs from the amount prima facie payable on that profit as follows:			
Prima facie income tax on the profit from ordinary activities at 30% (2002: 30%)	30,601	31,337	42,708
Tax effect of differences which:			
Reduce tax payable due to:			
– Research and development	(25)	(25)	(33)
– Non Assessable Income	(1,376)	(1,376)	–
Increase tax payable due to:			
– Employer Superannuation	5,320	5,320	6,152
– Depreciation on Property, Plant and Equipment (revalued)	5,904	5,904	–
– Entertainment Expenses	5	5	6
– Development Expenses	239	239	469
– Other Income	2	2	2
Restatement of deferred tax balances due to changes in tax rate	–	–	(1,905)
Under/(over) provision in prior year	(17)	(17)	(20)
Income tax expense relating to profit from ordinary activities	40,653	41,389	47,379
Income tax expense relating to profit from ordinary activities is made up of:			
Income Tax Paid	21,378	21,378	16,612
Current Tax Receivable	(4,516)	(4,516)	–
Provision for Income Tax	–	–	7,330
Provision for Deferred Income Tax	24,857	24,857	20,697
Deferred Tax Assets	(1,066)	(330)	2,740
	40,653	41,389	47,379
(b) Current Tax Assets			
Current Tax Receivable	4,516	4,516	–
	4,516	4,516	–
(c) Current Tax Liabilities			
Provision for Income Tax	–	–	7,330
	–	–	7,330
(d) Non-Current Deferred Tax Liabilities			
Provision for Deferred Income Tax	178,382	178,382	154,266
	178,382	178,382	154,266
Provision for Deferred Income Tax comprises the estimated deferred expense at the applicable rate of 30% (2002:30%).			
(e) Non-Current Deferred Tax Assets			
Deferred Tax Assets	18,614	17,878	18,251
	18,614	17,878	18,251

Deferred Tax Assets comprises the estimated future benefit at the applicable rate of 30% (2002:30%).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Consolidated 2003 \$'000	Parent Entity 2003 \$'000	2002 \$'000
5. CASH ASSETS			
Bank	352	352	248
Cash Management Funds	48,341	48,341	125,638
	48,693	48,693	125,886

6. RECEIVABLES**(a) Current**

Trade Debtors	95,982	95,982	181,378
Other Debtors	3,396	3,399	10,929
Less: Provision for Doubtful Debts	—	—	(2,650)
	99,378	99,381	189,657

(b) Non-Current

Advance to Wholly Owned Subsidiary	—	3,559	—
Other Debtors	1,771	1,771	59
	1,771	5,330	59

Trade and other debtors are carried at nominal amounts due less any provision for doubtful debts. Collectibility from debtors is reviewed on an ongoing basis and a provision for doubtful debts is recognised when reasonable doubt exists about the collectibility of the amount.

Trade debtors incorporates electricity sales activities with participants in the National Electricity Market. Funds from trade debtors are receivable by no later than 21 working days after completion of the billing period. Board policies are in place for determining eligible counterparties and limits applying to those parties.

Current other debtors incorporate miscellaneous non-core activities undertaken by Delta Electricity and receivables due on forward foreign exchange contracts hedging specific commitments. Amounts for miscellaneous non-core activities are due 30 days after invoicing while receivables on forward foreign exchange contracts are due on settlement date.

Advance to wholly owned subsidiary represents the advance of funds to Delta Electricity Australia Pty. Ltd. in accordance with the terms of a joint venture arrangement to develop renewable energy plant. The advance is presently interest free and there are no set repayment terms.

Non-current other debtors represent debtors with terms greater than one year from reporting date and receivables due on forward foreign exchange contracts hedging specific commitments which settle more than one year after reporting date.

	Parent Entity 2003 \$'000	2002 \$'000
7. INVENTORIES		
Stores and Materials	29,540	29,608
Coal Stocks	65,791	54,943
Other Fuel Stocks	1,046	934
	96,377	85,485

8. OTHER FINANCIAL ASSETS

Other Managed Funds	16,592	15,858
	16,592	15,858

These funds represent asset reserves for funding the internal insurance and employee benefits provisions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Consolidated 2003 \$'000	Parent Entity 2003 \$'000	2002 \$'000
9. OTHER ASSETS			
(a) Current			
Refundable Security Deposit	5,418	5,418	—
Prepayments	629	629	6,242
Deferred Foreign Exchange Losses and Costs	124	124	—
Miscellaneous	166	166	13
	6,337	6,337	6,255
(b) Non-Current			
Deferred Foreign Exchange Losses and Costs	21	21	—
Construction Work In Progress	1,023	—	—
	1,044	21	—

A refundable security deposit has been provided to satisfy a requirement under Delta Electricity's self insurer's licence for workers' compensation. This deposit can be redeemed in exchange for a bank guarantee.

Prepayments of \$6.0 million in 2001/02 related to the funding position of the defined benefit superannuation schemes administered by the SAS Trustee Corporation. During 2002/03, the defined benefit superannuation schemes moved to an \$11.7 million unfunded position. This position is recorded as a liability in non-current provisions. Refer to Note 13(b) and Note 15(b).

10. PROPERTY, PLANT AND EQUIPMENT**(a) Valuation of Property, Plant and Equipment**

Property, plant and equipment was revalued to fair value on 1 July 2002. The revaluation was based on an independent valuation. A subsequent assessment of fair value as at 30 June 2003 was undertaken, and it was determined that the written down value of property, plant and equipment was not materially different from fair value at reporting date.

Depreciation expense increased by \$19.7 million in 2002/03 as a consequence of the revaluation.

(b) Reconciliation of written down value for asset classes

	Parent Entity 2003 \$'000	2002 \$'000
Land		
At cost	—	5,852
At fair value	23,409	—
Total Land	23,409	5,852
Buildings		
Power Stations		
At cost	—	202,465
At fair value	261,220	—
Less: accumulated depreciation	(7,566)	(29,416)
Total power stations	253,654	173,049
Other Buildings		
At cost	—	308
Independent Valuation	28,985	—
Less: accumulated depreciation	(1,226)	(71)
Total other buildings	27,759	237
Total Buildings	281,413	173,286

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Reconciliation of written down value for asset classes (continued)

	Parent Entity	
	2003	2002
	\$'000	\$'000
Plant and Equipment		
Power Stations		
At cost	–	1,114,598
At fair value	1,386,422	–
Less: accumulated depreciation	(41,905)	(171,437)
Total power stations	1,344,517	943,161
Other Plant and Equipment		
At cost	–	49,305
At fair value	69,950	–
Less: accumulated depreciation	(6,917)	(15,363)
Total other plant and equipment	63,033	33,942
Total Other Plant and Equipment	1,407,550	977,103
Total Written Down Value of Property, Plant and Equipment	1,712,372	1,156,241

The above table includes work in progress for buildings of \$Nil (2002: \$Nil) and plant and equipment of \$45.5 million (2002: \$36.1 million).

(c) Reconciliation of 2003 movements in asset classes:

	\$'000					
	Land	Power Stations – Buildings	Other – Buildings	Power Stations – Plant and Equipment	Other – Plant and Equipment	Total
Carrying amount at beginning of year	5,852	173,049	237	943,161	33,942	1,156,241
Valuation Increment	17,648	87,997	28,748	411,769	30,926	577,088
Additions	–	174	–	31,492	6,148	37,814
Disposals/Write-offs	(91)	–	–	–	(1,066)	(1,157)
Depreciation Expense	–	(7,566)	(1,226)	(41,905)	(6,917)	(57,614)
Carrying amount at end of year	23,409	253,654	27,759	1,344,517	63,033	1,712,372

	Consolidated 2003	Parent Entity	
	2003	2003	2002
	\$'000	\$'000	\$'000

11. PAYABLES

(a) Current

Accounts Payable	93,402	93,486	160,528
Other Creditors	13,617	13,617	9,781
	107,019	107,103	170,309

(b) Non-Current

Other Creditors	614	614	–
	614	614	–

Accounts payable represents amounts to be paid in the future for goods received and services provided at reporting date. These liabilities are usually settled within 42 days. Current other creditors represents interest due on borrowings which are payable within 6 months and amounts payable on forward foreign exchange contracts initiated as a specific hedge of future transactions due to settle within one year of reporting date. Non-current other creditors represents amounts payable on forward foreign exchange contracts initiated as a specific hedge of future transactions due to settle greater than one year from reporting date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Parent Entity	
	2003 \$'000	2002 \$'000
12. INTEREST BEARING LIABILITIES		
(a) Current		
NSW Treasury Corporation Short-Term Loans	34,405	63,022
	34,405	63,022
(b) Non-Current		
NSW Treasury Corporation Loans	749,854	665,610
	749,854	665,610

At reporting date, Delta Electricity had Executive Council approval to borrow up to \$1,000 million (2002: \$880 million). Maturing loans may be re-financed if the borrowing limit is not exceeded. As such, Interest Bearing Liabilities of \$132.3 million (2002: \$80.4 million) with less than one year to maturity have been classified as non-current.

Premium on domestic loans issued by New South Wales Treasury Corporation amounted to \$12,414,000 (2002: \$9,984,000). Refer to Note 1(g).

	Parent Entity	
	2003 \$'000	2002 \$'000
13. PROVISIONS		
(a) Current		
Dividend	63,069	85,482
Employee Benefits	5,908	4,428
Redundancy	684	—
Insurance	2,925	2,764
	72,586	92,674
(b) Non-Current		
Employee Benefits	33,471	28,930
Superannuation	11,707	—
Insurance	16,500	21,404
	61,678	50,334

On 31 August 1996, Delta Electricity obtained a Self Insurer's licence for Worker's Compensation. In accordance with the licence conditions Delta Electricity has a current provision of \$1,165,000 (2002: \$883,000) and a non-current provision of \$3,780,000 (2002: \$3,285,000) for worker's compensation included in the Insurance Provision.

(c) Movements in Provisions

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

	2003 \$'000			
Current	Dividend	Redundancy	Insurance	Total
Carrying amount at start of year	85,482	—	2,764	88,246
Add: Additional provision	113,070	684	2,928	116,682
Less: Payments	(135,483)	—	(2,767)	(138,250)
Carrying amount at end of year	63,069	684	2,925	66,678

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

13. PROVISIONS (CONTINUED)

		2003 \$'000
Non-Current	Insurance	Total
Carrying amount at start of year	21,404	21,404
Less: Adjustment on application of AASB1044	(4,100)	(4,100)
Less: Adjustment to assessed liability	(804)	(804)
Less: Payments	—	—
Carrying amount at end of year	16,500	16,500

	Parent Entity	
	2003 \$'000	2002 \$'000

14. EQUITY

(a) Contributed Equity

Balance at beginning of year	295,376	295,376
Return of Contributed Equity to Shareholder	(120,000)	—
Contributed Equity at end of year	175,376	295,376

On 1 July 2002, Delta Electricity returned \$120 million of contributed equity to the Shareholder. This return of equity was funded through borrowings from New South Wales Treasury Corporation.

(b) Reserves

Asset Revaluation Reserve		
Balance at beginning of year	—	—
Increment on revaluation of Property, Plant and Equipment	577,088	—
Asset Revaluation Reserve at end of year	577,088	—

	Consolidated 2003 \$'000	Parent Entity 2003 \$'000	2002 \$'000
(c) Retained Profits			
Balance at beginning of year	98,211	98,211	88,713
Profit from Ordinary Activities after Related Income Tax Expense	61,350	63,069	94,980
Adjustments to opening retained earnings arising from initial adoption of new/revised standards:			
AASB1028 Employee Benefits	(1,229)	(1,229)	—
AASB1044 Provisions, Contingent Liabilities and Contingent Assets	2,870	2,870	—
Dividends provided for or paid	(113,070)	(113,070)	(85,482)
Retained Profits at end of year	48,132	49,851	98,211

In accordance with the provisions of the Share Dividend Scheme, dividend payments in respect of the year ended 30 June 2003 will total \$113.1 million (2002: \$85.5 million).

15. EMPLOYEE BENEFITS AND SUPERANNUATION

(a) Employee Benefits

The aggregate employee benefit liability is composed of:

	2003 \$'000	2002 \$'000
Accrued Wages and Salaries	283	637
Provision for Employee Benefits – Current	5,908	4,428
Provision for Employee Benefits – Non-Current	33,471	28,930
	39,662	33,995

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

15. EMPLOYEE BENEFITS AND SUPERANNUATION (CONTINUED)

(b) Superannuation

Defined benefit superannuation schemes are administered by Pillar Administration on behalf of the SAS Trustee Corporation (STC). An actuarial review of superannuation liabilities for the defined benefit schemes was carried out by Mercer as at 30 June 2003.

The economic assumptions used in calculating the gross superannuation liability of the various defined benefit schemes as at 30 June 2003 was as follows:

	2003/04 % pa	2004/05 % pa	Thereafter % pa
Investment Return	7.0	7.0	7.0
Salary Growth Rate	4.0	4.0	4.0
Consumer Price Index	2.5	2.5	2.5

Assumptions with regard to rates of mortality, resignation, retirement and other demographics are those to be used for the 2003 triennial review.

Delta Electricity recommenced payments to Pillar Administration in November 2002 for the State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and State Authorities Non-Contributory Superannuation Scheme (SANCS) after being on a superannuation holiday. Payments to these funds totalled \$4.0 million for the financial year (2002: \$Nil).

The position of the defined benefit schemes are as follows:

	SASS \$'000	SANCS \$'000	SSS \$'000	2003 \$'000	2002 \$'000
Gross Liability Assessed by SAC as at 30 June	36,747	11,775	84,086	132,608	114,068
Less: Investment Reserve Account Balance	(31,481)	(10,513)	(78,907)	(120,901)	(120,095)
Unfunded Liability / (Prepaid Contributions)	5,266	1,262	5,179	11,707	(6,027)

The net unfunded liability of \$11.7 million is recognised as a non-current provision in the Statement of Financial Position.

The net movement in the defined benefit superannuation schemes for the period was \$17.7 million (2002: \$20.1 million). This is explained by superannuation expenses (\$6.0 million) which represents the expected expense, an individually significant item (\$15.7 million) which represents the unexpected movement due to below benchmark performance of investments and adjustments to key economic assumptions (Note 3), and cash contributions (\$4.0 million).

	Parent Entity	
	2003 \$'000	2002 \$'000

16. EXPENDITURE COMMITMENTS

Expenditure contracted for at reporting date but not recognised as liabilities in the Statement of Financial Position:

(a) Capital

Payable no later than one year	10,848	22,785
Payable later than one, not later than 5 years	15,323	8,928
Payable later than 5 years	—	250
	26,171	31,963

(b) Operating (excluding lease commitments)

Payable no later than one year	10,457	9,994
Payable later than one, not later than 5 years	1,373	6,998
Payable later than 5 years	—	100
	11,830	17,092

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Parent Entity	
	2003	2002
	\$'000	\$'000
17. OPERATING LEASE COMMITMENTS		
Future operating lease rentals contracted for at reporting date but not recognised as liabilities in the Statement of Financial Position:		
Payable no later than one year	866	1,323
Payable later than one, not later than 5 years	3,304	341
Payable later than 5 years	437	—
	4,607	1,664

Delta Electricity leases office accommodation under an operating lease expiring in December 2008. There is no option for renewal at the end of the lease period.

There was one further operating lease in place relating to power station equipment which will expire in July 2003. There are no terms for renewal for this lease.

18. CROSS BORDER LEASE

Delta Electricity has entered into several arrangements designed to optimise investment in Mt Piper Power Station. These arrangements have been executed through a series of agreements which in legal form constitute lease, prepayment and deposit transactions. These arrangements will run until 2 January 2020 and include options allowing Delta Electricity to purchase the assets at the end of the term.

The substance and commercial effect of these transactions is to leave Delta Electricity with uninterrupted use and control of the associated infrastructure (subject to the satisfaction of the transaction's contractual obligations), which remains on the Statement of Financial Position.

The benefits derived by Delta Electricity were brought to account on inception of the arrangement.

No significant credit risk or concentration of credit risk arises as a consequence of these arrangements.

19. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no known contingent liabilities or contingent assets in existence at reporting date.

20. CONTROLLED ENTITIES

Delta Electricity acquired the two issued \$1 ordinary shares of Delta Electricity Australia Pty. Ltd. in 1997. Delta Electricity Australia Pty. Ltd commenced commercial operations in 2002/03.

21. FINANCIAL INSTRUMENTS**(a) Financial Instruments****Swaps, Forward Rate Agreements, and Futures**

Delta Electricity has a portfolio of debt consisting of short, medium and long-term borrowings. This debt is used to service the asset structure and ongoing activities of the organisation. Delta Electricity has identified interest rate risks associated with its debt portfolio. In managing the risks in accordance with Board approved limits, the organisation will be and is involved in derivative financial instruments.

Derivative financial instruments including swaps, forward rate agreements, interest rate futures and forwards are used to alter and modify the natural risks inherent in the Statement of Financial Position.

The nominal principal amounts and periods of expiry for interest rate futures held at reporting date were:

	Parent Entity	
	2003	2002
	\$'000	\$'000
Less than one year	(10,500)	(8,600)
One to five years	—	—

At reporting date, Delta Electricity had no interest rate swaps in place (2002: two). As the swaps offset, the total notional principal amount for 2002 was Nil.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONTINUED)

Forward Foreign Exchange Contracts

In the normal course of business, Delta Electricity is required to purchase goods or services from overseas which require settlement in the supplier's currency. Under Board approved policies, Delta Electricity hedges specific material foreign exchange commitments by use of forward foreign exchange contracts to protect the organisation from the effect of future exchange rate fluctuations. The contracts are timed to mature when overseas payments are made with any gain or loss realised being included in the measurement of the purchase.

Amounts receivable and payable on open contracts are included in other debtors and payables in the Statement of Financial Position.

At reporting date, Delta Electricity had 15 (2002: 21) forward foreign exchange contracts. The values of these contracts are outlined in the table below:

	Parent Entity			
	2003		2002	
	Number of Contracts	Currency Value	Number of Contracts	Currency Value
USD	—	—	10	664,899
EUR	12	1,246,466	4	3,694,311
GBP	3	274,310	7	2,355,387

The contracts are showing an unrealised loss of \$101,000 (2002: \$811,000) and all are expected to mature in the next 14 months when payment for goods or service occurs.

Electricity Hedging Contracts

In the normal course of business, Delta Electricity enters into various types of hedging contracts with electricity market counterparties to manage the risks associated with fluctuations in wholesale electricity market prices. These contracts are undertaken in accordance with Board approved policies.

(b) Credit Risk Exposures

The credit risk on financial assets which have been recognised on the Statement of Financial Position is generally the carrying amount, net of any provision for doubtful debts. The recognised financial assets of the Corporation include amounts receivable from government owned agencies (93.2%) and other debtors (6.8%).

The credit risk associated with electricity contracts is mitigated through the application of limits determined by a Board approved policy. These limits are based on the credit rating of the counterparty. In the absence of an acceptable public credit rating an internal credit rating is assigned determined by an external credit assessment specialist. The aggregate exposure on open electricity contracts at reporting date was \$146.3 million (2002: \$89.5 million).

Credit risk also arises from potential counterparty default on forward foreign exchange contracts and other derivative instruments. The Australian dollar value of this exposure at reporting date was \$Nil (2002: \$75,000).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest Rate Risk Exposures and Net Fair Values

The consolidated entity exposure to interest rate risk for financial instruments and the aggregate net fair values of financial assets and liabilities at 30 June 2003 are:

	Floating Interest \$'000	Fixed interest and electricity hedging contracts maturing in			Non-Interest bearing \$'000	Carrying amount \$'000	Aggregate net fair value \$'000
		< 1 year \$'000	1-5 years \$'000	> 5 years \$'000			
Financial Assets							
Cash	48,689				4	48,693	48,693
Trade Debtors					95,982	95,982	95,982
Other Debtors							
– Current					1,177	1,177	1,177
Other Debtors							
– Non-Current		51			1,127	1,178	1,178
Other Managed Funds	16,592					16,592	16,592
Forward Foreign Exchange Contracts					2,812	2,812	2,759
Other Miscellaneous							
– Current	160	5,418			124	5,702	5,702
Other Miscellaneous							
– Non-Current					21	21	21
Financial Liabilities							
Accounts Payable					93,402	93,402	93,402
Other Creditors					11,274	11,274	11,274
Forward Foreign Exchange Contracts					2,957	2,957	2,860
Interest Bearing Liabilities		166,739	299,420	318,100		784,259	837,083
Off – Statement of Financial Position							
Financial Instruments							
Financial Assets							
Futures ¹						310	310
Electricity Hedging Contracts (non-interest bearing) ¹		243,109	1,119,899	22,648		1,385,656	108,960
Financial Liabilities							
Futures ²	(10,500)					(319)	(319)

¹ Notional Face Value.

² Notional principal amount – positive amount indicates bought futures; negative amount indicates sold futures.
Carrying amount included in Current Accounts Payable.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONTINUED)

c) Interest Rate Risk Exposures and Net Fair Values (continued)

Delta Electricity's exposure to interest rate risk for financial instruments and the aggregate net fair values of financial assets and liabilities at 30 June 2002 were:

	Floating Interest \$'000	Fixed interest and electricity hedging contracts maturing in			Non-Interest bearing \$'000	Carrying amount \$'000	Aggregate net fair value \$'000
		< 1 year \$'000	1-5 years \$'000	> 5 years \$'000			
Financial Assets							
Cash	125,882				4	125,886	125,886
Trade Debtors					181,378	181,378	181,378
Other Debtors							
– Current					8,279	8,279	8,279
Other Debtors							
– Non-Current		59				59	59
Other Managed Funds	15,858					15,858	15,858
Other Miscellaneous	13					13	13
Financial Liabilities							
Accounts Payable					160,528	160,528	160,528
Other Creditors					9,781	9,781	9,781
Interest Bearing Liabilities		63,022	317,793	347,817		728,632	750,231
Off – Statement of Financial Position Financial Instruments							
Financial Assets							
Futures ¹	1,400					68	68
Interest Rate Swaps	14,900		(14,900)				(105)
Electricity Hedging Contracts (non- interest bearing) ²		282,481	1,241,033	22,648		1,546,162	53,120
Financial Liabilities							
Futures ¹	(10,000)					(72)	(72)
Interest Rate Swaps	(14,900)		14,900				(84)
Forward Foreign Exchange Contracts ³							(811)

¹ Notional principal amount – positive amount indicates bought futures; negative amount indicates sold futures.
Carrying amount included in Current Accounts Payable.

² Notional Face Value.

³ Positive amount indicates unrealised gain; negative amount indicates unrealised loss.

The weighted average interest exposure on financial assets is 4.8% (2002: 4.4%), while weighted average interest exposure incorporating a government guarantee fee on financial liabilities is 8.2% (2002: 7.6%).

The carrying amount approximates the net fair value for cash, all debtors, other managed funds, other miscellaneous, accounts payable and other creditors.

The net fair values of interest bearing liabilities have been determined by Delta Electricity's treasury service provider who uses a discounted cash flow methodology to market value the financial instruments. The discount rate used is based on the zero curve derived from market rates prevailing at reporting date.

The net fair value of futures represents the margin call at reporting date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS (CONTINUED)

c) Interest Rate Risk Exposures and Net Fair Values (continued)

The net fair value of interest rate swaps represents the amount Delta Electricity would expect to receive or pay on the termination of contracts at reporting date.

The net fair value of forward foreign exchange contracts payables and receivables is the amount Delta Electricity would expect to pay or receive on termination of contracts at reporting date.

The net fair value of electricity hedging contracts represents a best estimate of the amount Delta Electricity would expect to receive or pay on termination or replacement of the contracts at reporting date and has been calculated using a forward market price based on internal and external price information. The net fair value has been determined after discounting cash flows using Delta Electricity's weighted average cost of capital.

No financial assets are carried at values in excess of their net fair value at reporting date.

(d) Total Debt Maturity Table

Total debt outstanding and maturity at reporting date is as follows:

	Parent Entity	
	2003 \$'000	2002 \$'000
Up to one year	166,739	63,022
Over one and up to two years	135,311	80,385
Over two years and up to five years	164,109	237,408
Over five years	318,100	347,817
	784,259	728,632

22. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand, deposits held at call with financial institutions and investments in money market instruments, net of outstanding bank overdrafts and borrowings which are used in the cash management function on a day to day basis. It also includes investments held as part of the daily cash management function.

(b) Reconciliation of Cash

Cash at the end of the period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Consolidated 2003 \$'000	Parent Entity	
		2003 \$'000	2002 \$'000
Cash Assets	48,693	48,693	125,886
Balance as per Statement of Cash Flows	48,693	48,693	125,886

(c) Dividends and Taxes

No dividends were received during the period. Dividends paid by Delta Electricity during the period amounted to \$135.5 million (2002: \$119.7 million). Tax equivalent payments for the year were \$29.5 million (2002: \$40.3 million).

(d) Acquisitions and Disposal of Entities

There were no acquisitions or disposals during the year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

	Consolidated 2003 \$'000	Parent Entity 2003 \$'000	2002 \$'000
(e) Financing Arrangements			
Facilities Available			
Bank Overdraft	2,000	2,000	2,000
NSW Treasury Corporation Loans	1,000,000	1,000,000	880,000
Total Available	1,002,000	1,002,000	882,000
Facilities Utilised			
Bank Overdraft	—	—	—
NSW Treasury Corporation Loans	784,259	784,259	728,632
Total Utilised	784,259	784,259	728,632

Delta Electricity, with the exception of overdraft facilities, is required to borrow all new money through the New South Wales Treasury Corporation. The bank overdraft facility is available on an as required basis. The organisation also has an ongoing \$100 million draw down in place to be used on an as required basis.

	Consolidated 2003 \$'000	Parent Entity 2003 \$'000	2002 \$'000
(f) Reconciliation of Net Cash Provided/(Used) by Operating Activities to Profit from Ordinary Activities after Related Income Tax Expense			
Profit from Ordinary Activities after Related Income Tax Expense	61,350	63,069	94,980
Add/(Less): Non-Cash Items			
Depreciation	57,614	57,614	34,855
Amortisation	(2,157)	(2,157)	(2,270)
Project Costs	(204)	—	—
Inventory Adjustments	158	158	612
Assets Written Off	9	9	5
Bad and Doubtful Debts	—	—	1,326
Add/(Less): Items classified as Investing/Financing Activities			
(Gain)/Loss on sale of Property, Plant and Equipment	(191)	(191)	(185)
Accounting (Gain)/Loss on Debt Re-financing	2,784	2,784	—
Net Cash Provided by Operating Activities Before Changes in Assets and Liabilities	119,363	121,286	129,323
Net Changes in Assets and Liabilities During the Period			
(Increase)/Decrease in Trade Debtors	81,088	81,088	(103,646)
(Increase)/Decrease in Other Debtors	8,379	8,383	(3,877)
(Increase)/Decrease in Inventories	(5,072)	(5,072)	(11,367)
(Increase)/Decrease in Other Assets	(62)	(62)	19,532
Increase/(Decrease) in Payables	(62,976)	(62,977)	74,970
Increase/(Decrease) in Income Tax Related Assets/Liabilities	11,203	11,939	7,084
Increase/(Decrease) in Other Liabilities	16,463	16,463	(5,600)
Net Cash Provided/(Used) by Operating Activities	168,386	171,048	106,419

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**23. DIRECTORS' REMUNERATION**

The following remuneration was provided to Directors of Delta Electricity:

	Parent Entity	
	2003	2002
	\$'000	\$'000
Remuneration received, or due and receivable, by directors from the parent entity and related parties in connection with the management of the parent entity	418	360
Amounts paid to director superannuation funds or directly to directors in connection with the retirement of directors	38	29
Total remuneration paid or payable to directors	456	389

Directors' remuneration excludes insurance premiums paid by the parent entity in respect of directors' and officers' liability insurance as policies do not specify premiums paid in respect of individual directors and officers.

Mr P Dodd and Mr JP Henness are also directors of Delta Electricity Australia Pty. Ltd. No additional remuneration is paid to these directors for undertaking their Delta Electricity Australia Pty. Ltd directorship.

24. RELATED PARTY DISCLOSURES**(a) Directors and Director-Related Entities**

The Australia Day Council is a director-related entity of Delta Electricity. Delta Electricity has a minor sponsorship of \$10,000 with the Australia Day Council as part of the organisation's community sponsorship program.

The Directors of Delta Electricity hold directorships of other companies, some of which may have had transactions with Delta Electricity during the financial year. Any transactions with these entities would have been made in the normal course of business and on normal commercial terms and conditions. With respect to any such transaction, no Director has declared that he/she has control or significant influence on the financial and/or operating policies of those companies in their dealings with Delta Electricity.

(b) Wholly Owned Group

During the year ended 30 June 2003, Delta Electricity in accordance with a Deed of Capital Contribution dated 11 October 2001 provided an interest free advance of \$3.6 million to Delta Electricity Australia Pty. Ltd. There are no fixed terms for the repayment of the advance and no interest was received during the year.

25. EVENTS OCCURRING AFTER REPORTING DATE

There were no significant events occurring after reporting date.

26. COAL SUPPLY ARRANGEMENTS

In April 2002, Delta Electricity finalised long term coal contracts with Powercoal Pty Ltd. The contracts are commercially based with terms between 6 and 16 years duration and ensure a secure fuel supply for Delta Electricity's power stations. On 6 August 2002, Powercoal Pty Ltd was sold to Centennial Coal Company Limited. Subsequently, the coal contracts were novated to wholly owned subsidiaries of Centennial Coal Company Limited on 13 August 2002.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**27. TREASURER'S EXEMPTIONS**

Approval has been given under delegation from the Treasurer, the Hon. Michael Egan, MLC, to exempt, for the year ended June 30 1997 and subsequent years, Delta Electricity from the following financial reporting requirements:

Financial Reporting Exemptions

ITEM	REFERENCE	COMMENT
Format of Financial Statements	Public Finance and Audit Act (PF&AA)	
Financial Statements – presentation of manufacturing and trading statements	s41B(c) PF&AA	Subject to a condition*
Notes – Income and Expenditure	(Schedule 1, Part 1): PF&AA (General) Reg	
Amount set aside for renewal or replacement of fixed assets	Item 2	
Amounts set aside to any provision for known commitments	Item 4	
Amounts appropriated for repayment of loans/advances/debentures/deposits	Item 6	
Material items of income and expenditure on a program or function basis	Item 13	Subject to a condition*

* Conditions imposed by Treasury and conveyed to Delta Electricity in correspondence dated 11 July 1997.

END OF FINANCIAL STATEMENTS AUDITED BY AUDITOR-GENERAL

STATEMENT BY MEMBERS OF THE BOARD

Pursuant to Section 41 of the Public Finance and Audit Act, 1983, and in accordance with a resolution of Delta Electricity, we declare on behalf of Delta Electricity that in our opinion:

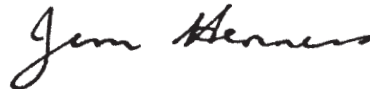
1. The accompanying Financial Statements exhibit a true and fair view of the financial position of Delta Electricity as at 30 June, 2003 and its performance for the year ended on that date.
2. The accompanying Financial Statements are a general purpose financial report which has been prepared in accordance with applicable accounting standards and other mandatory professional reporting requirements, the provisions of the State Owned Corporations Act, 1989, including Part 3 of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000, except where the Treasurer's exemption has been granted.
3. At the date of this statement, there are reasonable grounds to believe that Delta Electricity will be able to pay its debts as and when they become due and payable.
4. We are not aware of any circumstances at the date of this declaration that would render any particulars included in the financial report to be misleading or inaccurate.



Peter Dodd

Director

20 October 2003



Jim Henness

Director

20 October 2003



INDEPENDENT AUDIT REPORT DELTA ELECTRICITY

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of Delta Electricity:

- (a) presents fairly Delta Electricity's and the consolidated entity's financial position as at 30 June 2003 and their financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

The Board's Role

The financial report is the responsibility of the members of the Board of Delta Electricity. It consists of the statements of financial position, the statements of financial performance, the statements of cash flows and the accompanying notes for Delta Electricity and the consolidated entity. The consolidated entity comprises Delta Electricity and the entities controlled at the year's end or during the financial year.

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

- about the future viability of Delta Electricity or its controlled entities,
- that they have carried out their activities effectively, efficiently and economically, or
- about the effectiveness of their internal controls.

Audit Independence

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

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

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

R J Sendt
Auditor-General

STATEMENT OF FINANCIAL POSITION

As at 30 June 2003	Note	2003 \$
Current Assets		
Cash Assets	5	305
Receivables	6	106,083
Total Current Assets		106,388
Non-Current Assets		
Deferred Tax Assets	4(b)	736,118
Other	7	1,022,977
Total Non-Current Assets		1,759,095
Total Assets		1,865,483
Current Liabilities		
Payables	8(a)	24,542
Total Current Liabilities		24,542
Non-Current Liabilities		
Payables	8(b)	3,558,549
Total Non-Current Liabilities		3,558,549
Total Liabilities		3,583,091
Net Assets		(1,717,608)
Equity		
Contributed Equity	9(a)	2
Retained Profits/(Losses)	9(b)	(1,717,610)
Total Equity		(1,717,608)

The accompanying Notes form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL PERFORMANCE

For the Year Ended 30 June 2003	Notes	2003 \$
Revenue from Ordinary Activities	2	4,526
Expenses from Ordinary Activities	3	2,458,254
Borrowing Costs Expense		—
Profit/(Loss) from Ordinary Activities Before Income Tax Expense		(2,453,728)
Income Tax Expense/(Benefit) Relating to Ordinary Activities	4(a)	(736,118)
Profit/(Loss) from Ordinary Activities after Related Income Tax Expense		(1,717,610)
Net Increase in asset revaluation reserve		577,088

The accompanying Notes form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

	Notes	2003 \$ Inflows (Outflows)
For the Year Ended 30 June 2003		
Cash Flows From Operating Activities		
Cash Received in the Course of Operations		77,920
Interest Received		4,526
Cash Payments to Suppliers and Employees		(2,538,536)
Net Cash Provided/(Used) by Operating Activities	13(f)	(2,456,090)
Cash Flows from Investing Activities		
Payments for Construction Work in Progress		(1,002,156)
Net Cash Provided/(Used) by Investing Activities		(1,002,156)
Cash Flows from Financing Activities		
Proceeds from Advance from Parent		3,458,549
Proceeds from Call on Share Issue		2
Net Cash Provided/(Used) by Financing Activities		3,458,551
Net Increase (Decrease) in Cash Held		305
Cash at the Beginning of the Financial Year		—
Cash at the End of the Financial Year	13(b)	305

The accompanying Notes form an integral part of these Financial Statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are a general purpose financial report prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, State Owned Corporations Act 1989, and relevant sections of the New South Wales Public Finance and Audit Act 1983 and the New South Wales Public Finance and Audit Regulation 2000.

(a) Basis of Accounting

The financial statements have been prepared in accordance with the principles of accrual accounting and the historical cost convention, and except where stated do not take into account current valuations on non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

(b) Going Concern

The financial statements of Delta Electricity Australia Pty. Ltd have been prepared on a going concern basis. The company is a participant in a joint venture operation involved in the design, construction and operation of renewable energy generation plant. Under the terms of a Deed of Capital Contribution agreement, Delta Electricity (parent entity) is required to provide necessary funding to Delta Electricity Australia Pty. Ltd during the establishment and construction phase. Delta Electricity Australia Pty. Ltd is expected to commence earning revenue from operations on completion of generation plant construction.

(c) Contributed Equity

Delta Electricity Australia Pty Ltd was acquired on 15 December 1997 and is a wholly owned subsidiary of Delta Electricity. The company commenced operations on 1 July 2002.

(d) Joint Venture Operations

The proportionate interests in assets, liabilities and expenses of the joint venture operation have been incorporated in the financial statements under the appropriate headings. Details of the joint venture operation are set out in Note 14.

(e) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, and gains and losses incurred in the use of derivative instruments for the management of interest rate exposure related to borrowed funds.

(f) Assets Under Construction

Costs associated with the borrowings specifically financing assets under construction are capitalised up to the date of completion of each asset to the extent those costs are recoverable. A total of \$190,912 in borrowing costs were capitalised during the 2002/03 financial year.

(g) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended prior to reporting date.

(h) Taxation

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial Performance is matched with the accounting profit after allowing for permanent differences. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the Statement of Financial Position as a deferred tax asset or a provision for deferred income tax. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Tax losses will be utilised in the Delta Electricity Group following tax consolidation.

Income tax payments are made to the New South Wales Office of State Revenue under the National Tax Equivalent Regime (NTER).

(i) Segment Reporting

Delta Electricity Australia Pty. Ltd is an electricity generation corporation that operates in a single business and geographical segment. All production facilities will be located in New South Wales.

(j) Revenue

Interest income on cash reserves is recognised as it accrues. Revenue from operating activities will commence on completion of generation plant construction.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(k) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense.

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

(l) Comparative Figures

No comparative figures are shown as Delta Electricity Australia Pty. Ltd only commenced operations during 2002/03.

(m) Rounding of Amounts

Amounts shown in the financial statements have been rounded to the nearest dollar.

	2003 \$
2. REVENUE FROM ORDINARY ACTIVITIES	
Revenue from Outside Operating Activities	
Interest	4,526
Revenue from Ordinary Activities	4,526
3. EXPENSES FROM ORDINARY ACTIVITIES	
Feasibility Costs	2,127,270
Other Expenses	330,984
Expenses from Ordinary Activities	2,458,254
4. INCOME TAX	
(a) Income Tax Expense	
The income tax on the profit/(loss) from ordinary activities differs from the amount prima facie payable on that profit/(loss) as follows:	
Prima facie income tax on the profit/(loss) from ordinary activities at 30%	(736,118)
Tax effect of permanent differences	—
Income tax expense relating to profit/(loss) from ordinary activities	(736,118)
Income tax expense relating to profit/(loss) from ordinary activities is made up of:	
Deferred Tax Assets	(736,118)
	(736,118)
(b) Non-Current Deferred Tax Assets	
Deferred Tax Assets	736,118
	736,118

Deferred Tax Assets comprises the estimated future benefit at the applicable rate of 30%.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2003 \$
--	------------

5. CASH ASSETS

Bank	305
	305

6. CURRENT RECEIVABLES

Advance Receivable from Parent	100,000
Other	6,083
	106,083

Advance Receivable from Parent represents the value of advances currently approved but not paid. The funds will be transferred within three months.

7. OTHER NON-CURRENT ASSETS

Construction Works-in-Progress	1,022,977
	1,022,977

8. PAYABLES**(a) Current**

Accounts Payable	24,542
	24,542

Accounts Payable represents amounts to be paid in the future for goods received and services provided at reporting date. These liabilities are usually settled within 30 days.

(b) Non-Current

Advance from Parent Entity	3,558,549
	3,558,549

Under the terms of a Deed of Capital Contribution agreement dated 11 October 2001, Delta Electricity (parent entity) is required to provide specified funding to Delta Electricity Australia Pty. Ltd to enable the company's participation in a joint venture operation. Funding is currently provided interest free with no set terms for repayment.

	2003 \$
--	------------

9. EQUITY**(a) Contributed Equity**

Balance at beginning of year	—
Share Capital Paid up by Parent Entity	2
Contributed Equity at end of year	2

(b) Retained Profits/(Losses)

Balance at beginning of year	—
Profit/(Loss) from Ordinary Activities after income tax expense	(1,717,610)
Retained Profits/(Losses) at end of year	(1,717,610)

10. EXPENDITURE AND OPERATING LEASE COMMITMENTS

There were no contracted capital expenditure, operating expenditure or operating lease commitments at reporting date.

11. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no known contingent liabilities or contingent assets in existence at reporting date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. FINANCIAL INSTRUMENTS

(a) Credit Risk Exposures

The credit risk on financial assets which have been recognised on the Statement of Financial Position is generally the carrying amount.

(b) Interest Rate Risk Exposures and Net Fair Values

The exposure to interest rate risk for financial instruments at 30 June 2003 is as follows:

	Floating Interest \$	Non-Interest bearing \$	Carrying amount \$	Aggregate net fair value \$
Financial Assets				
Cash	305	—	305	305
Advance Receivable from Parent	—	100,000	100,000	100,000
Other Receivables	—	6,083	6,083	6,083
Financial Liabilities				
Accounts Payable	—	24,542	24,542	24,542
Advance from Parent	—	3,558,549	3,558,549	3,558,549

The weighted average interest exposure on financial assets is 4.0%. There is no interest exposure on financial liabilities.

The aggregate net fair value of financial assets and financial liabilities approximate the values recognised in the Statement of Financial Position.

No financial assets are carried at values in excess of their net fair value at reporting date.

13. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand, deposits held at call with financial institutions and investments in money market instruments, net of outstanding bank overdrafts and borrowings which are used in the cash management function on a day to day basis. It also includes funds held as part of the daily cash management function.

(b) Reconciliation of Cash

Cash at the end of the period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2003 \$
Cash Assets	305
Balance as per Statement of Cash Flows	305

(c) Dividends and Taxes

No dividends were received during the period. There were no dividend or tax equivalent payments during the period.

(d) Acquisitions and Disposal of Entities

There were no acquisitions or disposals during the year.

(e) Financing Arrangements

Delta Electricity has current approval under the Public Authorities (Financial Arrangements) Act to advance up to \$4 million to Delta Electricity Australia Pty. Ltd. At reporting date, \$3,558,549 of this limit had been utilised.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**13. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)**

	2003 \$
(f) Reconciliation of Net Cash Provided/(Used) by Operating Activities to Profit/(Loss) from Ordinary Activities after Related Income Tax Expense	
Profit/(Loss) from Ordinary Activities after Related Income Tax Expense	(1,717,610)
Net Changes in Assets and Liabilities During the Period	
(Increase)/Decrease in Other Debtors	(3,853)
Increase/(Decrease) in Payables	1,491
Increase/(Decrease) in Income Tax Related Assets/Liabilities	(736,118)
Net Cash Provided/(Used) by Operating Activities	(2,456,090)

14. INTEREST IN JOINT VENTURE OPERATION

The principal activity of Delta Electricity Australia Pty. Ltd is the participation in a joint venture operation called Sunshine Electricity to design, construct and operate renewable energy generation capacity in New South Wales.

Delta Electricity Australia Pty. Ltd has a 50% participating interest in the joint venture and is entitled to 50% of the output. The remaining 50% participating interest is held by Sunshine Renewable Energy Pty. Ltd.

Delta Electricity Australia Pty. Ltd's share of the net assets employed in the joint venture operation are represented by the values shown in the Statement of Financial Position except for items specifically related to transactions with the parent entity. These parent related transactions are disclosed under Advance Receivable from Parent (Note 6) and Advance from Parent Entity (Note 8(b)). Commitments for the joint venture operation are outlined in Note 10.

Delta Electricity Australia Pty. Ltd has acquired one of the two \$1 ordinary shares in Sunshine Electricity Management Pty. Ltd. The remaining \$1 ordinary share was acquired by Sunshine Renewable Energy Pty. Ltd. Sunshine Electricity Management Pty. Ltd was established specifically as an agent for the joint venture partners.

15. RELATED PARTY DISCLOSURES**Directors**

The names of each person holding the position of Director of the company during the year and at reporting date were Mr P Dodd and Mr JP Henness. The Directors of Delta Electricity Australia Pty. Ltd are also Directors of the parent entity. No additional remuneration is provided for being a Director of Delta Electricity Australia Pty. Ltd.

Ultimate Parent Entity

The ultimate parent entity at reporting date is Delta Electricity.

Disclosures Within the Wholly-Owned Group

During 2002/03, Delta Electricity charged \$3,458,549 in joint venture expenses to Delta Electricity Australia Pty. Ltd. Delta Electricity also provided engineering services to the value of \$205,018 to the joint venture operation. These services were provided on a commercial basis with Delta Electricity Australia Pty. Ltd's share of the expenses being \$102,509.

STATEMENT BY MEMBERS OF THE BOARD

Pursuant to Section 41 of the Public Finance and Audit Act, 1983, and in accordance with a resolution of Delta Electricity Australia Pty. Ltd, we declare on behalf of Delta Electricity Australia Pty. Ltd that in our opinion:

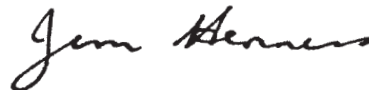
1. The accompanying Financial Statements exhibit a true and fair view of the financial position of Delta Electricity Australia Pty. Ltd as at 30 June, 2003 and its performance for the year ended on that date.
2. The accompanying Financial Statements are a general purpose financial report which has been prepared in accordance with applicable accounting standards and other mandatory professional reporting requirements, the provisions of the State Owned Corporations Act, 1989, including Part 3 of the Public Finance and Audit Act, 1983, the Public Finance and Audit Regulation, 2000, except where the Treasurer's exemption has been granted.
3. At the date of this statement, there are reasonable grounds to believe that Delta Electricity Australia Pty. Ltd will be able to pay its debts as and when they become due and payable.
4. We are not aware of any circumstances at the date of this declaration that would render any particulars included in the financial report to be misleading or inaccurate.



Peter Dodd

Director

20 October 2003



Jim Henness

Director

20 October 2003



INDEPENDENT AUDIT REPORT
DELTA ELECTRICITY AUSTRALIA PTY LTD

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of Delta Electricity Australia Pty Ltd:

- (a) presents fairly the Company's financial position as at 30 June 2003 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

The Board's Role

The financial report is the responsibility of the members of the Board of Delta Electricity Australia Pty Ltd. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

The Auditor's Role and the Audit Scope

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

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

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

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

My opinion does *not* provide assurance:

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

Audit Independence

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

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

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

R J Sendt

Auditor-General

SYDNEY

20 October 2003

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