

DELTA ELECTRICITY ANNUAL REPORT 2002

NEW HORIZONS

The lower half of the cover is a large graphic. It features a bright, multi-pointed starburst or sunburst effect in the center-right, set against a gradient blue background. To the left of the starburst is a dark, curved, abstract shape that resembles a stylized horizon or a part of a landscape. The overall composition is clean and modern.

LETTER OF SUBMISSION TO THE VOTING SHAREHOLDERS

Hon M Egan MLC

Hon JJ Della Bosca MLC

NEW

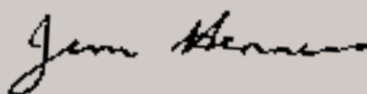
Dear Shareholders

It is our pleasure to submit to you the annual report of Delta Electricity for the year ending 30 June 2002. 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 Corporations 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

CONTENTS

HIGHLIGHTS 2

Summarises Delta's major achievements for the year.

PROFILE 3

A description of Delta's business and its key foundations for business success including a summary of the industry structure and arrangements for the sale of electricity.

STRATEGIC DIRECTIONS AND OUTCOMES 6

A narrative summary of Delta's strategic objectives, results and future directions.

CHAIRMAN'S REPORT 7

Peter Dodd details the major developments and outcomes for Delta in the year.

CHIEF EXECUTIVE'S REPORT 8

Jim Henness discusses the operational performance of Delta and its people.

BALANCED SCORECARD 9

A look at the indicators used by Delta to measure performance.

KEY PERFORMANCE INDICATORS – STATISTICAL SUMMARY 10

A range of measures that shows Delta's performance over time.

BUSINESS 11

A look at Delta's four interlinking activities for the production and marketing of electricity including the support functions of information technology and maintenance.

- Marketing
- Production
- Maintenance
- Information Technology

ENVIRONMENT 17

A report on Delta's management of the environmental impacts of electricity generation including progress on developing renewable energy projects.

- Management of Operations
- Portfolio Diversification

SOCIAL 21

This dimension of Delta's activity deals with its human resource practices and relationships with communities near power station operations.

- People
- Community

CORPORATE GOVERNANCE 25

A report on the framework for the effective conduct and reporting on Delta's business and the management of major risks.

FINANCIAL STATEMENTS 32

Delta's audited financial statements including notes.

SUPPLEMENTARY INFORMATION 53

Provides details on legislative reporting requirements not covered elsewhere in the Report.

COMMUNICATION OBJECTIVES

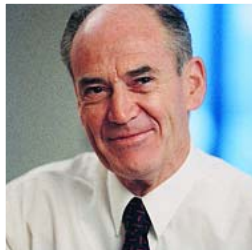
Delta Electricity's Annual Report aims to meet a standard of reporting for the benefit of our stakeholders. Each group – customers, local communities, employees, industry participants and shareholders – has different information requirements about the management, operation and performance of Delta.

This Report contains information relevant to the expectations of each group. It conveys a message of Delta's continuing evolution and maturity in both its foundations for business success and in delivering performance. The structure is framed by the elements of corporate social responsibility which reflects Delta's aim to be a sustainable business operation.

HORIZONS

Three influences dominate the electricity industry future. The need for new long-life energy assets, policy responses to greenhouse emissions and the review of the national electricity market.

1



FOCAL POINT: **STRATEGY**

Our strategy supports a consistent approach to meeting the future challenges of the electricity market and provides a framework for a unified approach from all of us to develop the value of the business. With the cultural flexibility to adapt to these changes, Delta will continue to achieve sustainable growth.

JIM HENNESSY

CHIEF EXECUTIVE

HIGHLIGHTS

Financial Performance

Profit (before tax) of \$142.4 million –

Achieved despite mild weather conditions and lower electricity demand.

Environment

ISO 14001 accreditation –

A significant level of recognition that places Delta Electricity's environmental management approach at international standards.

Environmental compliance –

No environmental incidents or licence breaches shows investment in environmental training and the development of environmental protection systems and procedures is working.

Plant Performance

Reduced outage rate and increased availability –

Exceptional performance achieved through expertise of Delta Electricity's people.

Community Profile

Increased awareness and support in local communities –

Reflects the effort in building relationships and communication with local residents.

Technology

Successful implementation of key business enterprise applications –

Using applications to foster business improvements and increase productivity.

Marketing

Preferred supplier to the Kurri Kurri aluminium smelter –

A 15 year electricity supply arrangement supports the future of the smelter and the development and employment in regional areas.

Maintenance

Alliance formed with Toshiba –

External project work to overhaul turbines and generators recognises the skills and expertise of maintenance workers.

Safety

Five star rating retained –

The focus on safety was again rewarded with this highest level of assessment for the three business units.

PROFILE

The Electricity Industry

Delta operates in a sophisticated and complex electricity market. The instantaneous matching of electricity supply and demand presents unique challenges to all participants. Further, in the pooled arrangement of the National Electricity Market (NEM) it is not possible to distinguish which generator produced the electricity consumed by a particular customer.

The NEM with its interconnecting grids includes Queensland, New South Wales, Australian Capital Territory, Victoria and South Australia. It commenced operation in December 1998 as part of the process of deregulation of the Australian power industry.

The National Electricity Market Management Company (NEMMCO) operates the physical wholesale market for supplying electricity between generators and electricity retailers in the NEM. All electricity generated must be supplied into the pooled market.

As a wholesale electricity generator, Delta competes against a number of other generators for the supply of electricity into this common pool.

Generators bid to supply energy into the market by offering prices and associated quantities on a half-hour basis. All offers submitted by generators are stacked in order of rising price until consumer demand is met. As demand for electricity increases, more expensive generators are committed to produce energy into the pool. The spot (or pool) price is the price where supply and demand are matched.

Generators are paid the spot price for the electricity they sell into the pool and retailers pay the spot price for the electricity they use from the pool. The spot price is set on a five-minute basis and published as a half-hour average. The spot price is capped at \$10,000/MWh and has a floor at -\$1,000/MWh.

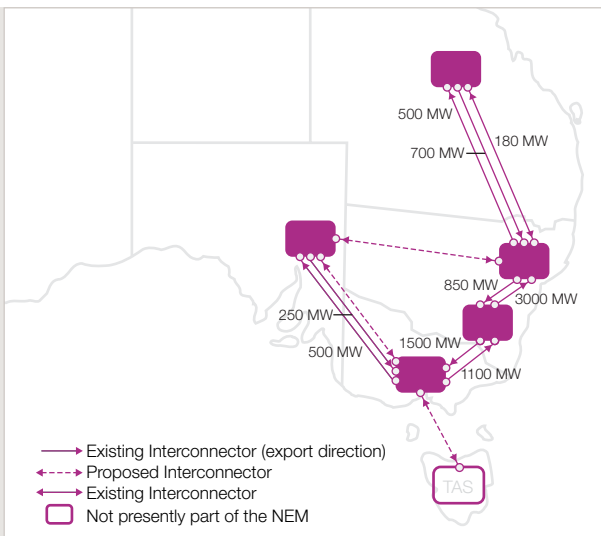
In parallel to and complementary to the NEM, a financial 'Over the Counter' (OTC) contract market has been developed by the participants. In this market, participants contract directly with each other to manage spot price uncertainty. All financial derivative contracts reference the published half-hour spot price.

The operation of the electricity market creates different risks for the various participants. For wholesale generators like Delta there are two sets of risks:

- Commercial risk for unmatched contracted sales and production; and
- Revenue risk to achieve price and volume on uncontracted production.

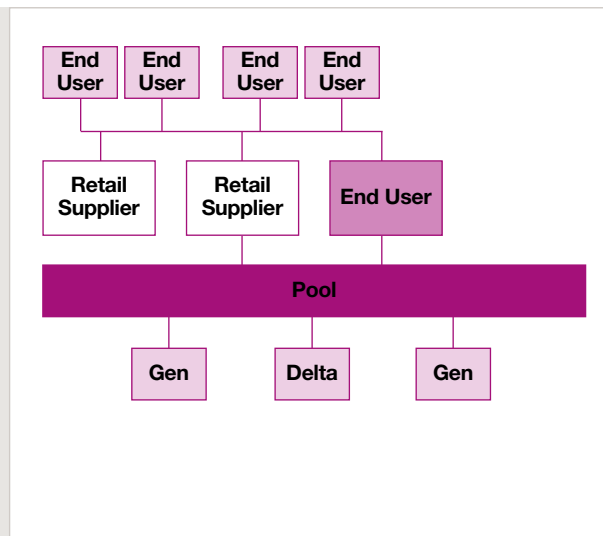
These risks are exacerbated by price volatility in the market. Delta manages these risks through its market activities.

Interconnectors in the NEM



Electricity supply pool

3



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 electricity hedge products. 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 to the electricity supply industry in eastern Australia following the program of competition reform by the States and Commonwealth.

Vision

Generating Performance Through Innovation

Mission

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

- **Customers** receive competitive prices 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.

4

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.

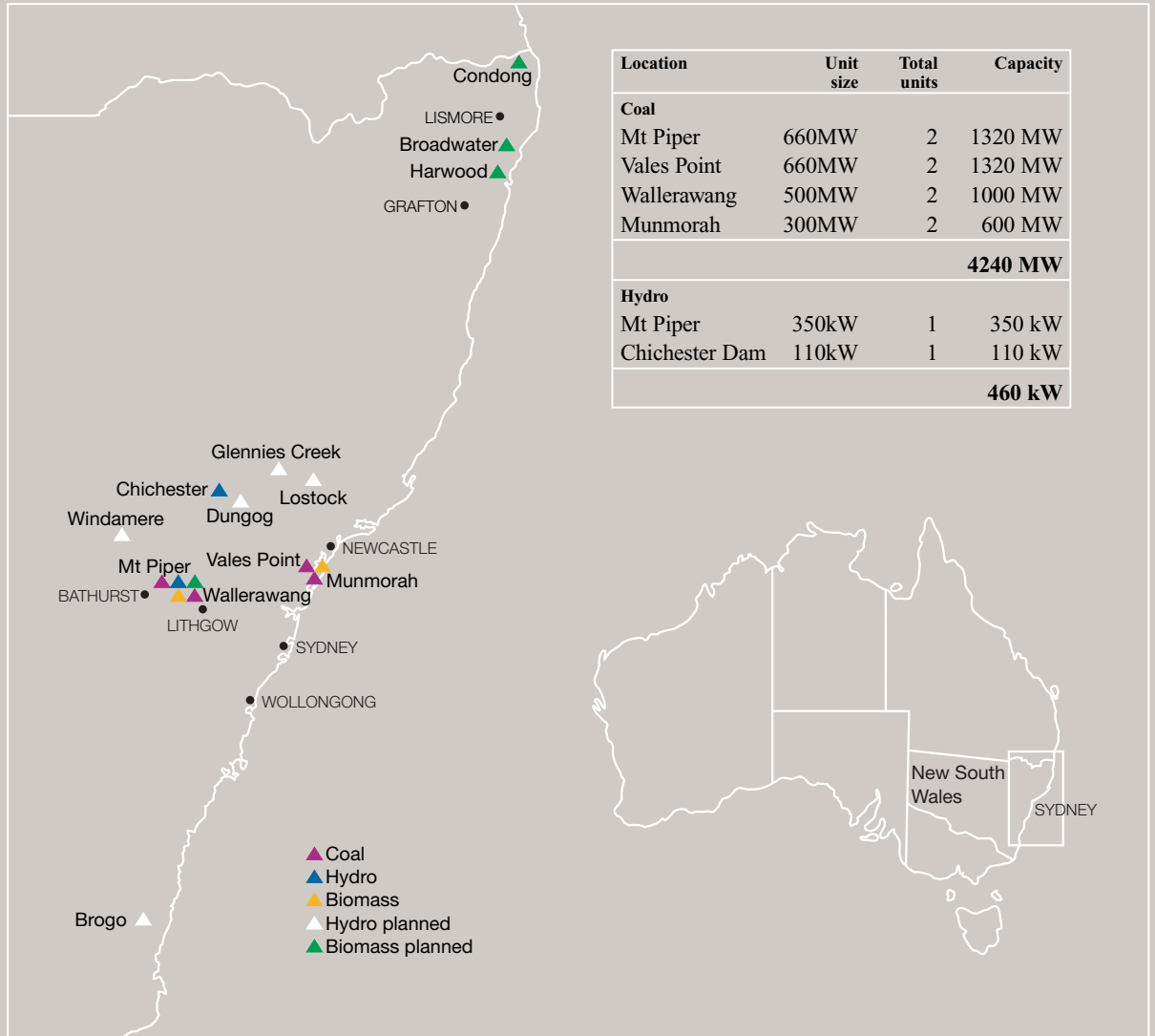
- **environmental performance.**

Caring for the environment for future generations.

- **honesty, fairness and integrity.**

Ensuring honesty, fairness and integrity in all that we do.

Map of Operations



5

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.

Strategic Directions and Outcomes

STRATEGIC OBJECTIVES	RESULT	FUTURE
People Ensure Delta has the skills and resources required to achieve its vision of the future.	Succession planning programs implemented including rotation and secondment opportunities. Training programs for new systems and business processes also implemented.	Integration of performance management principles through the Balanced Scorecard approach.
Marketing Improve sales opportunities.	Secured 15-year supply arrangement with an aluminium smelter.	Become the supplier of choice to targeted customers across the market through products.
Competitiveness Improve plant capability and performance to meet future market demands.	Excellent plant performance in the year. Control and instrument upgrade commenced at Vales Point.	Continue to have low cost, reliable and environmentally sustainable plant ready to respond to market requirements and opportunities.
Business Systems Ensure Delta has the systems and processes required to achieve its vision of the future.	Major upgrade of Delta's enterprise resource application and other significant programs implemented.	Improve the effective utilisation of Delta's IT systems.
Portfolio Secure Delta's position as a successful supplier of new renewable energy.	Delta produced 3.5 GWh of renewable energy in the year and progressed biomass co-generation, co-firing and wind developments.	Continue to identify and pursue developments to reach a target of 1,200 GWh of renewable energy by 2010.
Environment Perform to the expectations of environmental regulators and stakeholders.	Received ISO 14001 accreditation and no licence breaches were recorded.	Expand Delta's production capability with low greenhouse gas intensive capacity.
Stakeholder Relations Ensure business sustainability through maintaining a licence to operate in local communities.	Structured approach to community relations activities including a sponsorship program for community-based events. Research showed the community rates Delta favourably.	Expand this approach to other communities as Delta develops new sites for other forms of electricity generation.
Fuel Secure long-term fuel supplies at competitive prices.	Long-term competitive coal supply contracts agreed with Powercoal.	Maintain coal supply competitiveness and security.

Chairman's Report

I am pleased to report on another successful year for Delta Electricity. Outstanding plant performance allowed us to meet market and customer needs and maintained Delta's position as a leading electricity generator. A net profit before tax of \$142.4 million continues a trend of delivering strong financial outcomes in an increasingly competitive market. A shareholder dividend of \$85.5 million was declared from the results.

Performance

Delta's primary strategic focus is the effective commercial operation of its generation portfolio to increase the value of the business. High levels of plant performance boosted Delta's competitiveness and flexibility in responding to market opportunities. Several long-term electricity supply contracts were secured and reinforced Delta's market position as a provider of tailored risk management products. Environmental performance is again a highlight for the year. Participation in State and Federal policy initiatives has improved Delta's greenhouse emission rate through power station efficiency improvements. Renewable energy projects are progressing and will assist in lowering Delta's 'footprint' in future years.

Governance and Risk

The Board's review of the charters of its Committees took into account the discussion on standards of governance during the year. The reviews were undertaken to ensure Committee charters reflect 'best practice' and give stakeholders confidence in Delta's ability to be effectively managed in a changing environment. Following the retirement of Delta's internal auditor, an external firm was appointed to perform the auditing function.

Strategic Direction

The maturity of the electricity market has changed the planning horizon and the conditions in which electricity businesses operate. Future market conditions will also be influenced by regulation flowing from government policy, which in turn is likely to be influenced by sustainability principles.

Sustainability is now a key factor in defining strategic directions. Delta's view of this new strategic landscape recognises the balance between operational performance and environmental management.

For the long-term security of its commercial operations, Delta needs to identify and develop new market opportunities. This will involve effective use of existing plant and equipment and consideration of a number of alternatives for renewable and greenhouse gas friendly generation opportunities. Delta's largest renewable energy project is the joint venture with the NSW Sugar Milling Co-operative to produce electricity from sugar cane materials. Construction work on two 30MW units is expected to begin in the next financial year.

Delta's capital expenditure program reflects its approach of improving plant whilst also seeking to address opportunities in the energy market created by the Commonwealth Government's Renewable Energy Act and the NSW Government's greenhouse gas reduction program with energy retailers. Co-firing programs and mini-hydro projects are examples of this approach and the Board has also endorsed investigations for a wind energy project.

The growing list of environmental regulations provides the impetus for the timing and direction of the industry's transition to a more sustainable basis. Delta takes a proactive approach to emission control, pursuing a policy of operating 'beyond compliance'. Delta will continue to improve the efficiency of its emission control systems through technology improvements and improved understanding of fuel quality on their performance.

On behalf of my fellow directors I thank the employees of Delta for their efforts and achievements which have ensured another successful year.



A handwritten signature in black ink that reads "Dodd". The signature is stylized and cursive.

Peter Dodd
CHAIRMAN

Chief Executive's Report

The adaptability of Delta Electricity's people in developing business solutions to major challenges in the external environment enabled Delta to again record a successful year. Changing environmental requirements, revaluation of the business, increased competition with new generation capacity and greater risk premiums all necessitated a reassessment of strategy and operations.

Delta adopted the 'balanced scorecard' approach to meet stakeholder expectations in operational performance, environmental management and social contribution. The scorecard measured and rewarded business performance. Delta's achievements for the year demonstrate a balance for strong financial outcomes, management of operations to preserve and better the environment and respectful relations with local communities.

Plant and Systems

The performance of Delta's four coal-fired power stations was exceptional. The outage rate fell below one percent with availability of plant in excess of ninety percent. Delta's ability to flexibly meet customer and market demands was boosted by this outcome.

A number of major information technology developments were implemented during the year. The most significant was an upgrade of Delta's Enterprise Resource Planning system, Ellipse, which facilitated substantial improvements to asset management, budgeting and procurement processes.

Contract Portfolio

In late June, Delta successfully executed 15-year agreements for electricity supplies to the Kurri Kurri aluminium smelter. The choice of Delta as the preferred wholesale provider of electricity to the smelter reflects Delta's ability to tailor individual supply contracts and meet customer needs. The retail supplier was the choice of the smelter and the arrangements entail contracts between the smelter, retail supplier and Delta.

Environment

Delta has demonstrated a strong commitment to environmental excellence since its formation. We have a proud record of achievement both in compliance with environmental regulation and in the development of environmental management programs.

Continuing these achievements, Delta became the first NSW-based electricity generator to meet the certification requirements of the International Organisation for Standardisation for its Environmental Management System (EMS). This achievement means that Delta has been officially recognised as having an EMS that meets the acknowledged world standard for environmental management systems.

Environment risks from power station operations are constant and it is pleasing to report that Delta recorded no environmental breaches of its licences in the year. These environmental outcomes are a testament to the dedication and commitment of Delta's people in minimising environmental incidents.

Community

As stakeholders continue to examine the whole of an organisation's operations, corporate social responsibility has become an area of attention. Delta continued its emphasis on developing its relationships with the communities surrounding its power station operations.

Sponsorship programs of broad-based community events included a range of environmental, social and business related activities. Community consultation programs continued and were implemented for new renewable energy projects while newsletters provided another avenue for communication with the community. Research conducted in the year showed that the community has a positive view of Delta's role and a high recognition and acceptance of its contribution through these activities.

Renewable Energy

Delta expanded its renewable portfolio through the installation of the biomass plant at Wallerawang Power Station for the co-firing of accredited renewable fuel sources. Trials were also conducted at Vales Point and Mt Piper during the year.

Delays with new mini hydro-generators hampered the achievement of Delta's renewable energy targets. However, the major issues preventing progress have been resolved and new facilities will be commissioned in the next twelve months.

People

For the first time, Delta used the balanced scorecard as the approach to performance management. The focus on performance extended beyond the usual financial measures and linked these measures to business unit, team and individual assessments. The alignment throughout the business of the scorecard measures strengthened the engagement of people to Delta's strategic direction. The efforts and achievements of Delta's people across all measures were outstanding and I thank them for the contribution that continues to position Delta as one of Australia's leading generators.

The longer-term success of Delta will be based upon further investment in its people, strengthening customer relationships and the reliability, availability and cost competitiveness of both existing and new plant.



A handwritten signature in dark ink, appearing to read 'Jim Hennessey', written in a cursive, flowing style.

Jim Hennessey
CHIEF EXECUTIVE

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.	<p>100 170 198</p> <p>\$M 142</p>	Average prices and production were below expectations due to lower demand and prices.
Gross Energy Sales Relates to the amount of income generated through the sale of electricity and reflects Delta's marketing performance.	<p>700 758 782 800</p> <p>\$M 719</p>	Mild weather conditions dampened electricity demand, resulting in lower sales.
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.	<p>5.0 3.6 2.4 0.0</p> <p>% 0.93</p>	Delta's lowest ever rate demonstrates a commitment to asset management strategies.
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.	<p>10 -10</p> <p>% -8</p>	Flexible purchasing strategy allowed the opportunity to secure low priced spot supplies.
Environment Compliance with international environmental systems mitigates against environmental risks. Emission rates reflect improvements in generation efficiency.	<p>910 907 890</p> <p>tonnes/GWh 900</p>	These results continue Delta's proud record and leadership in environmental management.
Safety Index An index from the National Safety Council of Australia where a score of 50 or below needs to be achieved on this measure to attain the maximum 5 Star rating.	<p>150 30 20</p> <p>26.7</p>	Delta's operations continue to receive the highest accreditation in safety.
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.	<p>3.0 3.2 4.0</p> <p>4.0</p>	Efforts to engage the community have been effective and resulted in an improved understanding of the community's needs and Delta's role.
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.	<p>50 55 67 70</p> <p>% 64</p>	The survey provides measures for a number of indicators that contribute to a productive workforce.
Innovation An innovation is 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.	<p>0.0 3.0 4.0</p> <p>\$M 3.7</p>	Employees responded to this invitation with numerous ideas and innovations to improve Delta's performance.
Green Energy Production This measure tracks our progress towards the implementation of known projects.	<p>0 3 33 35</p> <p>GWh 3.5</p>	Delays in the progress of some projects prevented Delta from a greater production of renewable energy.



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

Key Performance Indicators – Statistical Summary

	Unit	96/97	97/98	98/99	99/00	00/01	01/02
Financial							
Total Sales revenue	\$m	673.1	559.8	562.9	639.8	737.8	719.3
EBIT	\$m	186.3	96.9	96.4	167.1	225.1	200.6
Net Profit Before Tax	\$m	305.6	54.6	60.7	158.7	188.1	142.4
Net Profit after Tax	\$m	195.6	31.9	38.5	119.7	133.0	95.0
Total debt	\$m	521.9	424.6	420.9	351.4	730.9	728.6
Total Equity	\$m	711.4	722.0	727.7	760.8	384.1	393.6
Return on assets	%	12.5	7.1	7.0	11.2	14.5	12.6
Return on Equity	%	11.8	4.4	5.3	13.4	34.6	24.1
Gearing	%	42.3	37.0	36.6	31.6	65.6	64.9
Interest cover	Times	3.9	2.3	2.7	4.9	6.1	3.4
Debt:Equity	%	73.4	58.8	57.8	46.2	190.3	185.1
Current ratio		0.8	1.3	1.0	1.3	1.3	1.3
Operational							
Production	GWh	18738	19222	20006	20481	21163	20843
EFOF	%	2.3	4.5	4.2	9.6	3.52	0.9
Availability	%	87.8	87.5	86.7	82.9	85.2	90.4
Thermal efficiency	%	35.8	35.6	35.3	35.2	34.9	35.0
Coal Stockpile levels	\$m	34.2	32.8	28.0	30.2	48.3	54.9
Employee							
GWh/employee		17.2	18.6	24.3	25.9	27.1	27.6
Staff Numbers		1091	1032	822	797	782	754
Training	Days/employee	7.3	8.3	8.2	7.2	6.9	7.1
Sick leave	Days/employee	9.6	9.2	8.5	6.6	6.5	5.8
Safety	Frequency rate	15.9	14.6	5.7	11.8	7.0	5.3
Environmental							
Incidents		26	16	8	11	5	5

BUSINESS

New generation capacity in the market has increased customer choice and competition.

11



FOCAL POINT: **OPERATIONS**

More effective management of our operations and costs is required for Delta to remain an effective competitor in the electricity market. More creative opportunities in operations and maintenance are being explored for greater plant efficiency supported by enhanced information systems.

PETER GRAY

Production Manager

BUSINESS

Marketing

Delta and its customers faced a year characterised by regulatory change and variable market conditions which included:

- the introduction of the Frequency Control Ancillary Service (FCAS) Spot market;
- commencement of full retail contestability in both NSW and Victoria;
- an increase in the level of the price cap for electricity in the NEM (VoLL) to \$10,000/MWh;
- operation of the Commonwealth Renewable Energy (Electricity) Act (which set mandatory renewable energy targets for electricity retailers);
- enactment of the Financial Services Reform Act;
- the Queensland–NSW Interconnector (QNI) being fully commissioned;
- a significant increase in new generation capacity across the National Electricity Market (NEM);
- industry acquisitions and mergers between retailers and;
- low market prices mainly due to a warm winter in 2001 and a mild summer in 2002.

In the face of these changes and challenges, Delta's marketing team continued to work closely with its customers, the retailers of the national electricity market, successfully developing products to meet their needs. The team's effective co-ordination of plant bidding, contracting, and the management of commercial exposure in the Spot market controlled risk and contributed to Delta's success during a difficult year.

FCAS

The FCAS market commenced on 30 September 2001. The market requires FCAS service providers to offer their services (system frequency regulation and contingency services) into a Spot market, similar to the energy market. Delta prepared effectively for the new market with full systems in place to ensure a smooth transition.

During the first month of the market there was unexpected and extreme FCAS price volatility in Queensland due to transmission network outages and the current structure of the Code. These prices may have been avoided if FCAS costs were contained within the region requiring the services. A code change, which Delta supports, has been proposed and submitted to NECA for consideration.

Generation Capacity

The year saw more than 2,000MW of new generating capacity commissioned in Queensland, Victoria and South Australia. This significantly altered the regional shares of NEM system generation with electricity imports into NSW increasing by 40% due mainly to increased exports from Queensland as the transmission interconnector between New South Wales and Queensland became fully commissioned.

Regulation

During the year reviews were conducted by NECA, NEMMCO and the ACCC on a range of market matters. Delta pro-actively contributed to these reviews through submissions and participating in industry forums and working groups.

Major initiatives during the year included the ACCC authorising Code changes dealing with transmission



pricing and new arrangements to deal with alternative dispute resolution in the NEM. Major reviews which commenced during the year included further proposed Code changes regarding bidding and rebidding by generators; approval of the South Australian/NSW transmission link as a regulated interconnector; and a proposal by NEMMCO to create new regions in the NEM.

Systems and Process

Over the year, Delta's marketing policies and procedures have been subject to ongoing review to ensure that sales and trading activities are conducted within approved and effective risk management frameworks. These policies are reviewed annually by Delta's Board.

With the enactment of the new Financial Services Reform Act, Marketing staff attended training on new and changed obligations for electricity contracting so that future compliance can be ensured.

The year also saw the implementation of a corporate wide system to provide effective management of Delta's financial and operational risks; the development of a messaging alert system to transmit key market and operating information to Delta's Marketing people; and the development and implementation of software to optimise Delta's Spot trading.

Kurri Kurri Aluminium Smelter

Following a year of intense, but co-operative negotiations, Delta and VAW Kurri Kurri Pty Ltd (now Norsk Hydro) agreed on the terms and conditions for a 15-year, wholesale electricity hedge to underwrite long-term retail electricity supplies for the Kurri Kurri aluminium smelter. VAW ultimately chose EnergyAustralia to be their retailer

and Delta, EnergyAustralia, and VAW executed back-to-back wholesale and retail contracts. Delta is pleased to play an active role in strongly supporting regional industry in NSW and looks forward to close and valued relationships with both EnergyAustralia and VAW to ensure long term electricity supplies for the Kurri smelter.

Looking Forward

Despite some price volatility emerging over the colder winter of 2002, the average annual Spot price for 2001/02 remained below 2000/01 levels and is below commercially sustainable price levels for long-term generation. We expect further challenges next year with:

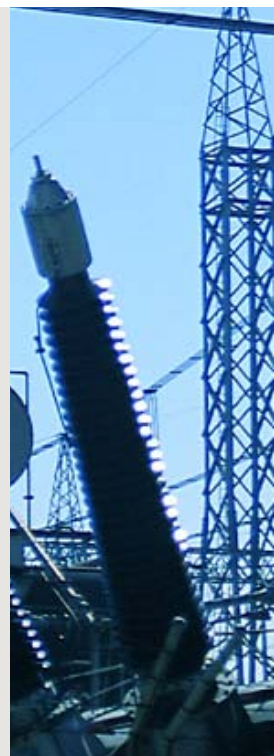
- increased imports into NSW intensifying competition;
- the COAG energy market review;
- the outcome of the ACCC review into rebidding; and
- NEMMCO's review of the formulation of inter and intra-regional network constraints.

Delta will successfully manage future changes by working with our customers, participating in industry groups and forums, presenting expert submissions to stakeholders, and by ensuring that our experienced, highly qualified people and our rigorous risk management policies and procedures are kept fully up to date at all times.

Production

Operational Performance

Delta continued its role as a reliable and efficient producer of electricity through the co-ordinated operation of the four power stations that constitute the generation portfolio.



BUSINESS

The operational performance of each station, with high levels of reliability, supported high availability and thermal efficiency results. Energy production of 20,843 GWh was below expectations as temperate weather lowered electricity demand.

Mt Piper and Vales Point power stations continued to provide an excellent contribution to Delta's business result. Mt Piper achieved outstanding technical performance with an equivalent forced outage rate of 0.07%, the best result in the station's history of operations. This performance saw the station produce more than 44% of Delta's total output.

Vales Point Power Station reproduced last year's high reliability with an outage rate of less than 1.4%. These units added significant value to Delta by performing much of the flexible market operations for the portfolio.

An extended outage at Wallerawang Power Station restricted production in the first part of the year.

Nevertheless, an outage rate of less than 1.7% was achieved and, like Mt Piper, was the best result in the stations' history. Wallerawang operated in an intermediate role but is meeting much of the load growth for Delta.

Munmorah Power Station delivered reliability above expectations in its standby role. The station generated above budget production in compensating for the extended outage at Wallerawang.

Ongoing problems with the operating life of the fabric filter bags have added to the underlying cost of operations at Mt Piper.

Operational Initiatives

In a planned ten-week outage commencing September 2001, Vales Point Unit 6 control systems were replaced with a distributed control system that has a screen based operator interface. The unit was returned to service ahead of program and, following a period of tuning and testing in service, has delivered excellent reliability with demonstrated efficiency improvements in line with contract performance guarantees. Unit 5 and the station plant controls will be replaced from September 2002, completing a project which will give Vales Point a sound basis for competing in the market as a flexible and efficient generator.

The capacity of Lyell Dam, a major part of Delta's water supply arrangements in the Western Region, was reinstated in May using a system of fusegates. Of concrete construction, the system allows Delta to store water consistent with its operating requirements, ensuring long-term viability. Environmental flows for the health of the Cocks River will also be maintained and the new system will provide higher water levels, restoring amenity to an area popular with the local community and tourists for fishing, camping and water-sports.

On Unit 8 at Wallerawang, deteriorating performance of the high-pressure feedwater heaters, which pre-heat water entering the boiler, has decreased thermal efficiency. These heaters were replaced in April, 2002. An increase in station efficiency is expected from more reliable heaters.

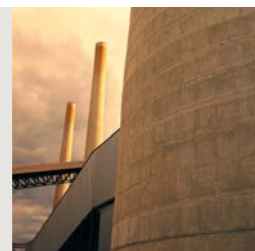
Environmental Initiatives

All four power stations received ISO 14001 accreditation for their environmental management systems. Co-firing programs were progressed at both Vales Point and



INNOVATION

When the drive unit coupling on one Vales Point Unit 6 airheater started to fail, Delta staff developed an innovative technique to repair the plant whilst in service rather than remove the unit from service for the repair. This saved money in avoiding unit restart costs, enhanced availability and was one of a number of Central Coast innovation projects during the year which collectively have saved over one million dollars.



Wallerawang power stations. Delays in plant construction and fuel availability resulted in lower than expected generation from co-firing at Wallerawang. Vales Point successfully completed a biomass co-firing trial, and has approvals to commence full production.

Vales Point completed a trial of sulphur trioxide injection to improve precipitator performance and reduce particulate emissions, and will install of a full-scale injection plant next year. A similar plant at Wallerawang has lowered particulate emissions from that station.

Community Programs

Membership of community-based committees contributed to an improved understanding and recognition of Delta's business operations. Community forums provided a constructive interface with local residents in developing support programs best suited to the community's needs. Delta also maintained strong working relationships with suppliers, regulatory bodies and community groups to ensure our continuing competitive operations within each region.

Maintenance

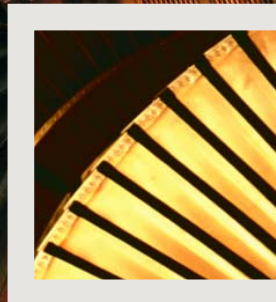
Delta's maintenance group continued to provide the majority of power station maintenance requirements performing corrective and preventive maintenance in each of Delta's power stations. The group is also involved in project management and execution of Delta's outage and non-outage projects and its skill capability was a contributing factor to Delta's excellent forced outage rate.

In November 2001, Delta entered an Alliance Agreement with Toshiba International Corporation Pty Ltd to cooperate on power station projects for the mutual benefit of both parties. The Alliance has secured contract work at Robe River Iron Associates' Cape Lambert Power Station in Western Australia. Planning has commenced for a scheduled outage in July 2002. The Alliance recognises the knowledge and confidence of Toshiba in the skills and capabilities of Delta's maintenance workforce.

The group's ISO 9000 Quality accreditation was retained, and a full review of its Quality Management System was initiated. Preserving this level of service and product delivery to an international benchmark provides certainty of performance for maintenance customers. With this service focus now well established the maintenance group is confident of attaining accreditation to the newer ISO 9001 in the next year.

The maintenance group's workforce culture of safety again saw the business unit retain its Five Star rating with the National Safety Council of Australia. This is the highest rating available under the program, and is achieved by less than ten percent of companies.

Individual training and development needs to support Delta's operational requirements were undertaken by the maintenance group in the year. Thirty-five trade apprenticeships were sponsored including five adults who are seeking a trade qualification. Several staff expanded their own range of skills by completing accredited WorkCover courses.



BUSINESS

Information Technology

The ability of Delta to effectively compete in the electricity market is built upon information systems that deliver competitive advantage in knowledge, analysis and application. Delta's strategic plan and external factors drove a number of significant information technology developments during the year.

The principal development was an upgrade of the Enterprise Resource Planning system, Ellipse, which facilitated a number of improvements to asset management, budgeting and procurement processes. The project involved a significant number of staff in the design and implementation of the new processes and technology. The nature and extent of the changes introduced through the new system required all staff to receive at least some degree of training.

As part of the Ellipse upgrade, Delta also implemented an innovative on-line help system. This system provides support for the users of the system through the provision of standardised processes and supporting guidelines. It has proven to be very successful and is considered a key plank in Delta's knowledge management strategy. As a result it is being progressively implemented throughout other key systems.

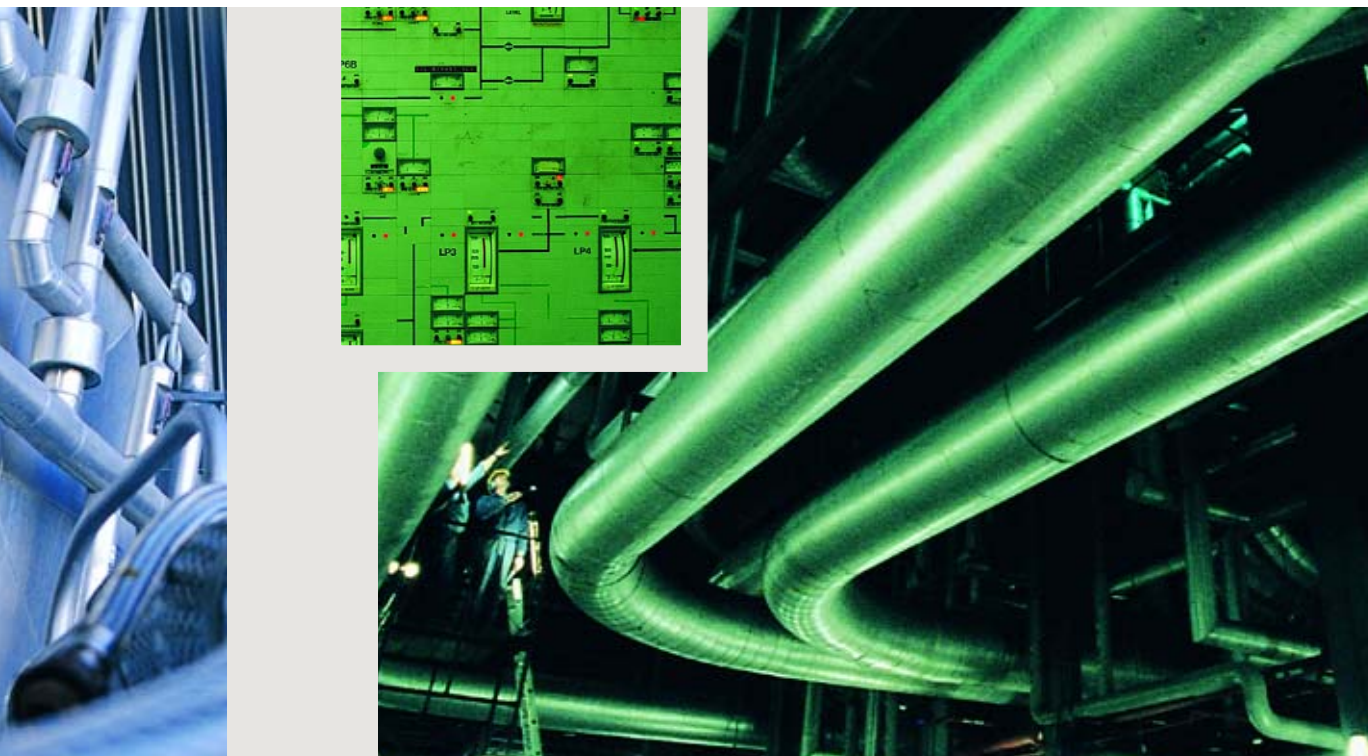
A revamped web site was launched during the year. A detailed assessment of stakeholder's information requirements framed the site's structure and content, enhancing interaction between Delta and the community,

suppliers and other stakeholders. The new technology employed by the site is consistent with the NSW Government's strategy to deliver a range of electronic services to the community.

Renewable energy trading commenced during the year with a requirement for Delta to effectively track the type and quantity of all forms of renewable energy sold or traded. Consequently, a new system to support the collection, management and auditing of the data associated with this new business activity was developed.

For many years Delta has utilised a custom-built system to support the safe isolation of power station plant. While the system has effectively supported the business function it has proven relatively expensive to maintain in a reliable form. Accordingly, a new package system was selected and the initial stages of implementation commenced.

Delta also made considerable advances in implementing a document management strategy. An upgrade of the document management system and infrastructure was completed which will allow the comprehensive and secure management of paper-based and electronic information. Training in the new system has commenced and will be completed during the next financial year.



ENVIRONMENT

In response to community demands, governments have initiated policy measures to reduce greenhouse gas emissions. Greater regulation and mass emission limits will alter the landscape in which electricity businesses operate.

17



FOCAL POINT: **SUSTAINABILITY**

Our approach to sustainable operations is to diversify plant type and fuel supplies consistent with our core business of electricity generation. This involves less carbon intensive fuels and renewable energy projects.

JOHN HURT

Project Manager – Development

ENVIRONMENT

Management of Operations

Delta's environmental initiatives and actions are guided by corporate environmental objectives and targets that are reviewed annually. Delta's commitment to ongoing improvements is achieved by a dedicated Board Environment Committee and management structure with specific environmental responsibilities.

This year Delta achieved certification for all four power stations to ISO14001, the internationally recognised Standard for Environmental Management Systems. We are the first NSW based generator to achieve this certification, a culmination of Delta's work on environmental management since we were formed in 1996.

Protecting the environment

Delta was the first electricity generator to sign the Commonwealth Government's Generator Efficiency Standard (GES) in 2000. This Standard commits Delta to move towards best practice in the efficiency of its power generators.

A major achievement this year was a reduction in Delta's greenhouse emission rate from last year by meeting all targets under this scheme. All stations are operating at near best practice efficiency, with Mt Piper at near world's best for sub-critical pressure plant. Further improvements are proposed as part of the GES program.

The capacity of Wallerawang Power Station to store wet ash has been reduced as the ash dam is reaching its

capacity. Consequently, a dry ash system was installed at the station which uses a different ash disposal area. The transformation of the ash disposal system has identified new uses for the dry ash, further minimising environmental impacts.

Environmental flow releases from Lyell Dam into the Cocks River continue to be governed by a water licence issued in 2000. Delta was required to invoke the drought trigger in the licence as the Dam's level fell due to low rainfall. The resultant water releases, are designed to maintain the health of the River while providing security to Delta's production requirements from the two western power stations.

Emissions

As part of Delta's production from the combustion of black coal, flue gases containing oxides of nitrogen (NO_x) and oxides of sulphur (SO_x) are released through the chimney stacks into the atmosphere. Included with these flue gases is a small amount of particulate matter (dust).

Particle emissions were significantly reduced at Wallerawang as a result of flue gas conditioning. A similar plant is being installed at Vales Point to reduce this station's particle emissions.

Vales Point unit 6 NO_x emissions were reduced significantly as a result of re-tuning following boiler refurbishment. Unit 5 boiler refurbishment will be completed by the end of 2002 and Delta is confident of a similar reduction in NO_x emissions. A boiler NO_x re-tuning program has also commenced at Mt Piper.



Delta commissioned studies by CSIRO on the transport of NO_x and SO_x emissions from power stations. These studies show that on days when ambient air pollution levels in Sydney are highest, Delta's power stations make a negligible contribution.

Considering the interests of the community

All power stations maintain a system to record and respond to public concerns. Every effort is made by station environment officers to make personal contact and ensure satisfactory action has been taken. Thirty nine inquiries were made to stations in the year. The majority related to stack emissions and noise from Vales Point. While the emission levels remained well within licence conditions, Vales Point managed load to minimise the visual impact in response to these community concerns.

In developing a renewable energy co-generation plant at Broadwater with the NSW Sugar Milling Co-operative, Delta responded to concerns expressed by local residents. As a result of community consultation, project parameters were modified and an Environmental Impact Statement was prepared.

Complying with environmental regulations

For the second successive year there were no reportable environmental incidents or licence breaches at any station. This is a pleasing result and is a testament to Delta's significant investment in environmental training and sound environmental protection systems and procedures. Management systems are in place to ensure that even minor incidents are thoroughly investigated, thus ensuring that more serious incidents and licence breaches do not occur.

As part of our biomass generation program, a health risk assessment of co-firing construction and demolition material was completed. These studies showed that emissions are well below the applicable Regulation limits and that there are no health risks associated with co-firing this material at the levels proposed.

This year, reporting of National Pollutant Inventory data became compulsory in NSW. To ensure that this data is as accurate as possible, Delta assisted the Electricity Supply Association of Australia (ESAA) in reviewing standards for the industry reporting handbook. In addition, we assisted in the production of a number of brochures that will give the public accurate information about power station emissions and their context.

The ESAA has entered into an agreement with the Commonwealth to promote eco-efficiency throughout the electricity supply industry. The objectives of eco-efficiency are to reduce the consumption of resources, to reduce the impact on nature and to increase the product or service value. Delta is participating in a program that aims to develop eco-efficiency measures for the generation sector.

Portfolio Diversification

Delta is continuing to implement a strategy of diversifying its plant type and fuel supplies, without changing its core business of electricity generation. The strategy targets development of the lower-cost renewable activities

INNOVATION

An increase in the visibility of particulate emissions from Vales Point has resulted from changes to coal supplies and variability on coal quality. Delta has begun investigations to increase the efficiency of the precipitators to minimise both plume visibility and total emissions.

Precipitators are more efficient at collecting larger dust particles than smaller dust particles. Smaller particles, because of their greater numbers and larger total surface area, are more visible than an equivalent mass of larger particles.

In a first for an Australian power station, dust particles are being charged and electrostatically agglomerated before being collected in a precipitator. The smaller and harder to collect particles are attracted to and adhere to the larger particles which are more easily removed from the gas stream. This 'pre-agglomeration' is estimated to achieve a significant reduction in particulate emissions while using only very small quantities of energy.

This innovative technological development is being conducted by an Australian company, Indigo Technologies, with the support and co-operation of Delta. Two full scale trial units have been installed at Vales Point for performance measurement and further development.



ENVIRONMENT

including co-firing biomass, co-generation using bagasse, small-scale run of river hydro and wind generation. Delta is also investigating the feasibility of suitable sites for natural gas combined cycle power plants. The objective of this strategy is for Delta to be a major contributor to greenhouse gas emission reductions and legislated renewable energy targets.

The attainment of this objective took a significant step closer with the formal establishment of the Sunshine Electricity Joint Venture between the NSW Sugar Milling Co-operative and Delta Electricity. The Joint Venture is developing co-generation projects at Condong and Broadwater sugar mills.

The projects will utilise renewable sugar cane by-products as a fuel and will introduce green harvesting of cane eliminating the need for the pre-harvest burning currently undertaken. The material that was previously burnt in the field will be used to enable the plant to generate electricity all year round. When completed, this stage of the project will produce 420 GWh of renewable energy annually.

Production scale co-firing of renewable biomass fuels with coal is under way at Wallerawang. The plant is producing Renewable Energy Certificates accredited by the Office of the Renewable Energy Regulator from fuels such as plantation sawmill residue and construction and demolition waste timber, preventing its disposal in landfill. Trials conducted at Vales Point and Mt Piper also indicated that these plants are suitable for co-firing biomass as a supplementary fuel.

Delta continued to operate its mini hydro generators at Mt Piper and Chichester Dam, and construction commenced on a third hydro at Dungog Water Treatment Plant. When completed this facility will be the first "in pipe line" mini hydro developed in Australia. Agreement was also reached with State Water in NSW to construct mini hydro facilities at Brogo, Glennies Creek, Lostock and Windamere Dams.

Delta also completed a feasibility assessment of a number of potential wind farm sites in NSW.



SOCIAL

Community expectations now require businesses to be more open and consultative with stakeholders. The demands for businesses to account for their social responsibility is now a factor of the external environment.

21



FOCAL POINT: INTEGRITY

We recognise that corporate social responsibility through the engagement of community stakeholders is an important part of sustaining our “license to operate”. We seek to understand our neighbours concerns through regular interaction including forums and surveys.

MICHELLE BLACKLEY

Commercial Manager – Western

SOCIAL

People

Employee Performance and Reward

Delta continued towards remuneration arrangements that better recognise performance and contribution. A Balanced Scorecard approach, where performance is measured in a range of different business areas beyond the usual financial indicators, is now the basis for determining payments applicable to all Delta employees. The scorecards promote performance towards common objectives. Revised scorecards will be used again in 2002/03.

- At the end of the year there were seven innovation teams in operation (involving some 108 employees). Innovation teams payments are based on their performance against a team Balanced Scorecard.
- Balanced Scorecards for each business unit are used to determine business success payments for Award employees.
- Half of the available performance payments applicable to senior contract managers are based on Delta's overall and the business unit Balanced Scorecards.

The Workplace

Delta encouraged employees to voice their opinions through a new on-line employee survey. The survey covers half of the workforce every six months and replaces a larger and more time consuming annual survey. Survey feedback is considered at Executive meetings and in the development of business plans.

Weekly team leaders meetings, participation in project teams, Chief Executive and other Executive presentations to employees, quarterly meetings with employee representatives and the annual planning cycle are examples of other means whereby the views of employees are captured.

Throughout the year, Delta employees demonstrated flexibility and co-operation by working a range of work patterns to meet business needs. Delta continued to provide a range of family friendly options relating to leave arrangements and working hours to assist employees to balance work and family commitments.

As part of Delta's commitment to a harassment free work environment, Delta implemented a number of initiatives including: harassment prevention training conducted by the Anti-Discrimination Board, internal promotion of harassment prevention policies and the appointment and training of Grievance and Contact Support Officers. Further training for team leaders in relation to how to manage harassment issues is to be conducted in the next year.

Recognising the importance of utilising best practice methods in the recruitment process, Delta conducted recruitment training for key personnel. The training covered issues relating to behavioural interviewing techniques and highlighted Equal Employment Opportunity issues such as compliance with relevant legislation.

Occupational Health, Rehabilitation and Safety

During the year, Vales Point, Munmorah and Mt Piper Power Stations and Corporate groups all exceeded the



milestone of 700 days without a lost time injury. Each of Delta's three business units maintained the highest Five Stars rating under the National Safety Council of Australia's safety award system. The Western region was also a finalist in the National Safety Council Awards of Excellence for "Best Implementation of an Occupational Health and Safety (OHS) Management System".

Delta strengthened its contractor OHS management system with the implementation of site induction training, site specific safety management plans, contractor accreditation and auditing processes.

Activity based risk assessment processes and tools were developed in each of the Business units as part of Delta's ongoing commitment to the risk management requirements outlined in new OHS Regulations.

Delta's Central Coast First Aid Centre conducted extensive audiometric testing with in excess of 100 employees tested as part of its Noise Conservation program. No increase in occupational induced hearing loss was recorded.

An employee assistance program operated as part of Delta's commitment to employee wellbeing.

This program provides employees and their families with professional and confidential counselling services on a range of matters.

Employee Relations

Delta maintained a record of minimal disruption to business activities associated with employee relations matters. Where necessary, Delta and employees utilised the process of the Grievance and Disputes Procedures of the Award, which provides for an orderly settlement of

employment related complaints, including access to the Industrial Relations Commission of NSW.

Training

Delta has continued to provide training and development opportunities to support and enhance the efficient operations of our business. Opportunities to complete training on-the-job and to undertake programs during work hours were provided to employees. Time to attend external courses of study and fee reimbursement for relevant programs is also made available.

This year has seen a major upgrade of Delta's Information Technology systems. To ensure that Delta derives the most from this technology, considerable effort has been directed towards the training of employees.

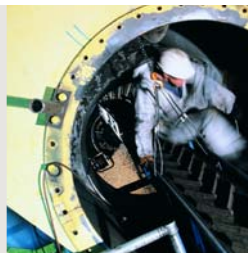
There continues to be a need to build and develop our leadership capacity. To achieve this, a number of employees are being supported in completing tertiary studies through the Monash Mt Eliza Business School. All employees have also had the opportunity of attending Harassment Prevention Workshops conducted by the Anti-Discrimination Board.

Community

Delta recognises that corporate social responsibility through the engagement of community stakeholders is an important part of sustaining our 'licence to operate'. Strengthening relationships with key stakeholders, and broadening the range of people and groups we actively engage, has helped Delta understand the needs

INNOVATION

A restructuring of Delta Maintenance in 2001 enhanced the profitability of the Project Services Group and facilitated the introduction of three additional innovation teams. The restructuring methodology included consultation in determining the preferred process for team member selection and validation of selection outcomes with team leaders. The result of this method was a better understanding of the need for change, a high level of acceptance and highly effective new teams.



SOCIAL

of its neighbours and in turn, has helped our neighbours better understand Delta's operations. New projects and challenges are expanding the range of communities Delta engages and we enter new areas with a greater understanding of the expectations of those who live around proposed new facilities.

Delta is an active community leader. Each year, a formal strategic community planning process seeks community input through community surveys and forums with community leaders and local employees.

Regular community surveys in the Western Region and on the Central Coast are providing positive feedback. Awareness and understanding of Delta's operations are increasing and generally we are viewed favourably. The community's greatest concern relates to Delta's environmental performance, particularly air and water quality, and active steps are being taken to address this by demonstrating our successes in minimising the environmental impact of the power stations.

Building trust with communities is a key to success. Relationships with communities influence business outcomes and Delta seeks to fairly tell its story and to hear from a wide range of community leaders, groups and members on areas of concern and opportunity. Delta works closely with the local media, produces regular community newsletters, has a dedicated community section on our web-site, participates in community meetings and holds public forums. On the Central Coast a regular Community Access Regional Environmental (CARE) Forum helps Delta understand the community's

expectations and values, and what they think about our activities in the region.

Each year a structured sponsorship program is developed as part of our community strategic plan. The focus is on broad-based community activities with several areas identified as particularly important to both the community and to Delta: youth, small business and the environment. Social, educational, cultural, sporting and business development are all supported.

On the Central Coast, Delta sponsors many local activities often in partnership with Wyong and Lake Macquarie Councils. Recently, Delta and the Councils have worked on sponsoring Landcare groups, developing community facilities, environmental research grants and a schools environment competition. Delta also supports local business awards.

In the Western Region, Delta sponsors Lithgow Business Awards, Celebrate Lithgow, Tidy Towns and Australia Day. We are also working closely with a range of community groups to establish Lithgow as a learning city.

In both regions we provide scholarships to local universities and offer schools computer donations and speech day prizes. Delta's Balanced Scorecard also includes community relations as a measure ensuring we both review and improve our performance as part of our ongoing business management.



GOVERNANCE

Guidelines to strengthen internal controls within companies have required Boards and executive managements to reassess their approach to managing risks. The consequences of failed governance has seen a greater focus on compliance processes and systems in companies.

25



FOCAL POINT: ETHICS

Our internal control framework provides employees and stakeholders with evidence of an active and vigorous approach to maintaining standards of ethical behaviour.

SUE FOLEY

Compliance Manager

GOVERNANCE

The shareholders of Delta Electricity are the Hon. Michael Egan MLC, NSW Treasurer and the Hon. John Della Bosca MLC, Special Minister of State, each holding one share for and on behalf of the New South Wales Government, in accordance with the State Owned Corporations Act 1989.

The Structure and Composition of the Board of Delta Electricity

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 appointed 1 March 2000 to 28 February 2003.

He also is Head of Corporate Finance ABN AMRO Australia Limited.

Additional directorships are:

Macquarie Goodman Funds Management Ltd,
Macquarie Goodman Industrial Management Pty Ltd,
and Macquarie Goodman Management Ltd

The Honourable B J Unsworth,
Director

Mr Unsworth was first appointed 1 March 1996 and subsequently reappointed for period ending 28 February 2003. He is also a Director of TAB Limited and Tempo Services Limited, Chairman of the Australia Day Council of NSW, and the Board of the Ambulance Service of NSW. Mr Unsworth is a former Premier of NSW.

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 and General Management experience gained in Australia, Asia, USA and Europe.

Mr I Langdon, Director
B.Comm, MBA, Dip Ed, CPA, 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 Australia Ltd and Primary Industries Bank of Australia, Director of Pivot Agriculture.

Ms Jennie George, Director
BA, Dip.Ed

First appointed 1 March 2000 and resigned from the Board on 5 October 2001, following her nomination to contest a seat for the last Federal election.

Executive Director

Mr J Henness, Chief Executive Officer and Director
BSc, BE (Hons), MEngSc, MBA, FAICD

Mr Henness was appointed Executive Director 1 March 1996. He also holds the positions of Director, Australian Graduate School of Engineering Innovation, Director, Electricity Supply Association of Australia and Member of Reliability Panel, established by the National Electricity Code Administrator.

Meetings of the Board

In addition to the monthly Board meetings, the Board discusses matters from time to time through circulated papers or telephone conference. Meetings are held either in the corporate office or at one of the power stations allowing the Board to see the operation of the business. The attendance of

	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	12	11	3	3						
Mr J Henness	12	12	3	3	5	5	4	4		
Hon B Unsworth	12	12					4	4		
Mr W Hilder	12	12	3	3					4	4
Mr W Phillips	12	10	3	3	5	4			4	3
Mr I Langdon	12	12			5	5				
Ms J George	12	3*	3	2						

Column A is the number of meetings held.

Column B is the number of those meetings attended

* Ms George resigned on the 5th October 2001.

Directors at these meetings is shown below. Committees of the Board meet quarterly or as required.

Responsibility for the preparation of papers, agenda and minutes rests with the Corporate Secretary.

Remuneration of Board Members

The remuneration of each non-executive director is paid out of the funds of Delta Electricity and is determined by the voting shareholders. The Chief Executive is not entitled to any additional remuneration for being an executive director.

Board Committees

To assist in its roles and responsibility the Board has established four committees to target specific areas of importance within the corporation. These committees operate under a charter approved by the Board to ensure that an effective internal control framework exists within Delta.

These committees meet at least quarterly and report to the full Board. The Board committees and their charters are listed below.

Board Remuneration and Staff Committee

The Board has established a Remuneration Committee, comprising three non-executive directors.

The charter of the committee is to:

- examine remuneration and associated issues;
- enhance the independence and objectivity of Board decisions on sensitive commercial and personal issues related to the executives of the corporation;
- enable the corporate and business strategies and plans and remuneration strategy and policy to be effectively linked;
- ensure that the remuneration strategy, policy and practice complies with legal and taxation requirements, corporation reporting obligations, and overall corporation policy and direction; and
- ensure that policies, procedures and practices are in place so as to maximise employee contributions.

Membership

Peter Dodd (Convenor), Warwick Hilder, Warren Phillips, Jim Henness

Board Audit Committee

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

The purpose of the Audit Committee is to provide internal controls to deal with both the effectiveness and efficiency of significant business process.

Examples of these processes are:

- the safeguarding of assets;
- the maintenance of proper accounting records; and
- the reliability of financial information as well as financial considerations such as the benchmarking of operational key performance indicators.

The Board has delegated the responsibility for the establishment and maintenance of a framework of internal controls and ethical standards for the management of the economic entity to the audit committee.

The charter of the committee is to:

- oversee and appraise the quality of audits conducted by both Delta Electricity's internal and external auditors;
- maintain, by scheduling regular meetings, open lines of communication among the Board, the internal auditors and the external auditors to exchange views and information, as well as confirm their respective authority and responsibilities;
- determine the adequacy of Delta Electricity's administrative, operating and accounting controls.

Membership

Ian Langdon (Convenor), Warren Phillips, Jim Henness

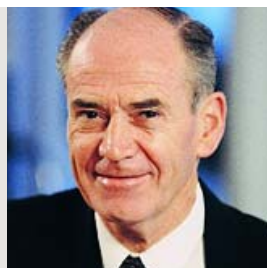
Board Of Directors

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,
Mr Peter McIlveen
(Corporate Secretary).**



GOVERNANCE

Board Environment & Occupational Health & Safety Committee

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; and
- evaluate the overall effectiveness of environmental and occupational health and safety policies and procedures through regular meetings with senior managers.

Membership

Hon. Barrie Unsworth (Convenor), J George (part year), Jim Henness.

Board Finance Committee

The charter of the committee is to:

- Review Delta Electricity's overall level of debt and debt management strategies;
- Oversee and evaluate Treasury Management functions including:
 - Management of debt and investment portfolios;
 - Cash management;
 - Foreign exchange hedging, and Debt draw-down duration;
 - Taxation;
- Review treasury and financial risk management policies and procedures;
- Provide financial advice and counsel to the Board and Executive Management; and
- Identify and direct any special projects or necessary investigations.

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.

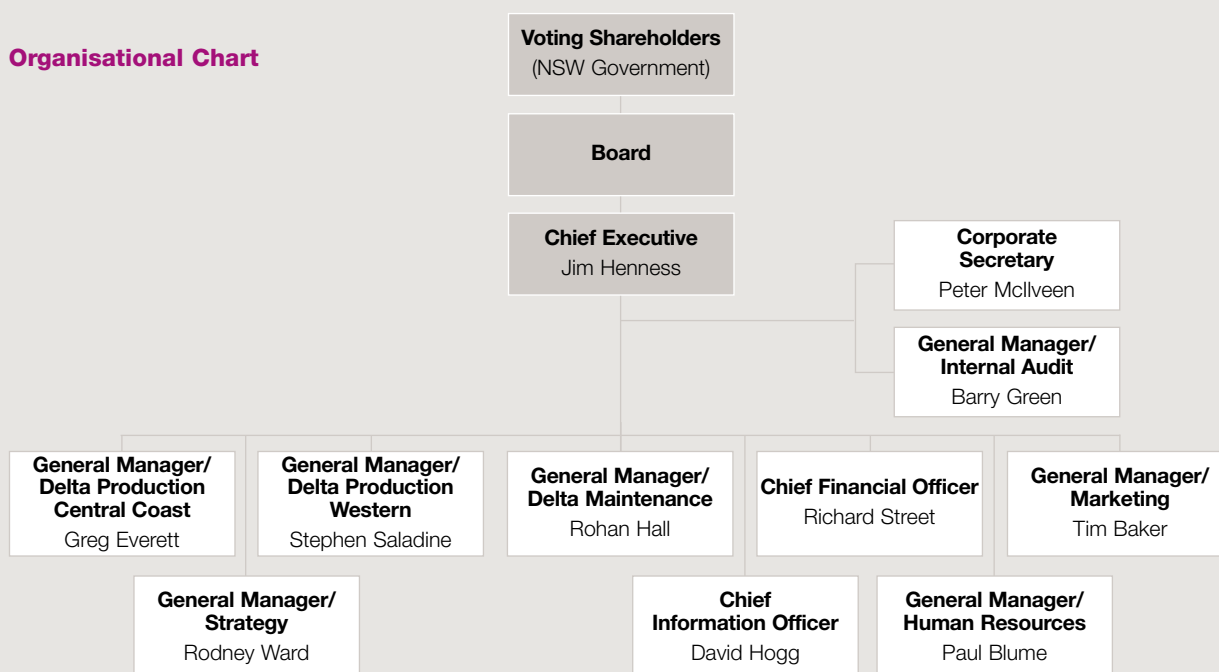
The responsibility for the operation and administration of the economic entity is delegated by the Board to the Chief Executive and the executive team. The Board is required to ensure that the Chief Executive and executive members are appropriately qualified and experienced to discharge the responsibilities 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 objectives 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 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 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.

Organisational Chart



Communication to the Shareholders

Information is communicated to the shareholders through:

- The annual report;
- The half yearly report; 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.

Delta's policies are reviewed and upgraded each year and submitted to the Board for approval. 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.

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 corporation. 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 (bidding) 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 is 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:

- Ensure that all operations and activities are properly planned, controlled, monitored and reported upon and that results are consistent with established objectives and targets;
- Ensure that adequate systems of internal control are in operation safeguarding assets from loss;
- Ensure that all operations and activities and related policies and procedures are in accordance with statutory requirements; and
- Ensure 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 and approve the Strategic Audit Plan;
- review and approve the Annual Audit Plan;
- review reports on the results of internal audits;
- ensure that appropriate action is taken in respect of all audit reports; and
- review of matters affecting the audit function including proposals for future action submitted by the Manager, Internal 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.

GOVERNANCE

Name & Title

Mr J Hennessy ^{ABCDE}

Chief Executive

Mr P McIlveen ^{ACE}

Corporate Secretary

Mr R Street ^{ACE}

Chief Financial Officer

Mr S Saladine ^{ABCDE}

General Manager Western

Mr R Hall ^{ABCDE}

General Manager Delta Maintenance

Mr D Hogg ^{ACE}

Chief Information Officer

Mr T Baker ^{ACE}

General Manager Marketing

Mr R Ward ^{ACE}

General Manager Strategy

Mr G Everett ^{ABE}

General Manager Central Coast

Mr P Blume ^{ADE}

General Manager Human Resources

Mr G Deans ^B

Manager Environment

Mr G Sharrock ^B

Production and Environment Manager Central Coast

Mr Nino DiFalco ^B

Environment Manager Western

(A) Executive Management Committee

(B) Executive Environment Committee

(C) Executive Audit Committee

(D) Executive Occupational Health & Safety Committee

(E) Executive Information Technology Strategy Committee

Executive Management Team

Jim Hennessy

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

Mr Hennessy was appointed Acting Chief Executive March 1996 and Chief Executive July 1996. Jim's experience in the power industry has provided him with technical and managerial credentials. 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 and managed the transition from tied markets to competitive purchasing. 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

Mr McIlveen was appointed Corporate Secretary at the formation of Delta in March 1996. Prior to the formation of Delta, Peter held a number of senior positions within Pacific Power the most recent being the Manager Government Relations. He is responsible for all Secretariat functions covering Corporate Governance issues, Board and Executive support, document management, legal, transport and public affairs. From 2 August 2002 is responsible for Internal Audit following the retirement of the General Manager/Internal Audit.

Stephen Saladine

BE (Hons)

Mr Saladine was appointed General Manager Western in April 2000. Steve has worked across the spectrum of the energy industry most recently as General Manager of a privately owned power industry contracting business working in all states of Australia and South East Asia. Prior to this he held executive and senior management positions in Victoria at Loy Yang A, Macquarie Generation and Pacific Power. Steve manages the Mt Piper and Wallerawang power stations and the regional water supply scheme where he is responsible for the stations meeting the highest standards in electricity generation.

Rohan Hall

BSc, BE (Hons), FAICD

Mr Hall was appointed General Manager Delta Maintenance in May 1999. He has previously held the position of Production Manager Delta Production Central Coast and prior to that was Production Manager Munmorah, and Engineering Manager Vales Point with Pacific Power from 1990–1993. Delta Maintenance provides maintenance support to Production business units and external customers.

Richard Street B.Ec ACA

Mr 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

Mr Ward was appointed General Manager Strategy in May 2002. Rodney brings to the position direct experience in the national electricity market and a background in power station operations and treasury finance. Since 1997, as General Manager Marketing, Rodney was responsible for the market operations of Delta's portfolio of generation. Prior to joining Delta, Rodney represented the Victorian Government's interest in the development of the National Electricity Market and policy aspects of Victoria's electricity industry restructure and privatisation. He is presently responsible for corporate strategic planning, new business projects, fuel purchasing, production planning and corporate environmental governance.

Greg Everett

B.Comm., MBA, GAICD

Mr Everett was appointed General Manager Central Coast in May 2002 after a 5 year period as General Manager Strategy. Greg has been with Delta since its inception and has a long association with the commercial operation of NSW's power stations. His background includes strategic planning, developing new business projects, fuel purchasing, corporate environment governance and market development. As General Manager Central Coast he is responsible for the reliable operation of Vales Point and Munmorah power stations in a safe, competitive and environmentally responsible manner. He is also a Director of Sunshine Electricity, Delta's joint venture with the NSW Sugar Milling Co-operative.

David Hogg

BE UNSW, GAICD

Mr 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

Mr Blume was appointed head of Human Resources (HR) in April 1997. Paul has undertaken a number of senior roles in the electricity supply industry, not only in HR but also in marketing, and as manager of two electricity technology advisory centres. The HR Group is responsible for Delta's strategic direction in employee related matters and for providing support in the delivery of these strategies. The Group also has functional responsibilities including worker's compensation, HR systems administration and industrial relations.

Barry Green

B. Bus (Management), B.Comm., FCPA

Mr Green was appointed General Manager Audit in March 1997. Barry worked in the Queensland Public Service until January 1980 when he joined the Electricity Commission of NSW, and worked in a variety of areas. At the inception of Delta Electricity, Barry was the Senior Audit Manager in the Internal Audit Group, he transferred to Delta and retained that position until taking up his current role. Barry was responsible for all audit related functions such as operational performance reviews and compliance.

Barry retired from Delta Electricity on 2 August 2002.

Tim Baker

BSc, BE(Hons), MBA

Mr Baker assumed the role of General Manager Marketing in May 2002 having previously held the position of Manager Energy Trading. Prior to the formation of Delta he had an extensive background in system control, power station operation and interconnection trading within Pacific Power.

As General Manager/Marketing Tim is responsible for the market operation of Delta's four power stations. This includes sales activity, plant co-ordination, bidding and trading functions and management of regulatory issues.

Managing risks

Delta's Risk Management Plan was updated in October 2001 and conforms to the Australian Standard AS/NZS 4360:1999.

The plan is structured to provide Delta and its employees with a policy, direction and framework for identification, assessment and reporting of risk. After a recent series of major insurance claims from the private and electricity sectors the need for businesses to have in place an effective risk management process and reporting framework is paramount.

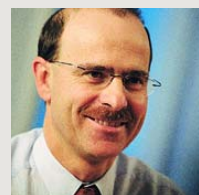
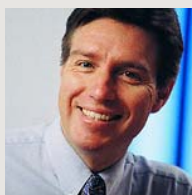
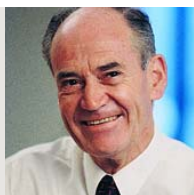
Delta has an enterprise-wide risk management framework supported by specialised risk software. The importance and substantial benefits of effective risk management at all levels of the organisation were highlighted during the launch, development and implementation of the new framework in October 2001.

Delta's risk management software supports a hierarchical framework which allows users at different levels to identify, register and/or escalate risks to higher levels in the organisation for review, comment and action. The framework has been designed to allow elevation of risk information from plant owners through to Executive members and to the Board if necessary.

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,
Barry Green,
Tim Baker.



GOVERNANCE

In addition to risks being identified and monitored on an ongoing basis, strategies are also formulated through the following:

- Annual planning conference and development of the annual Strategic Plan;
- Annual planning process which forecasts a 10-year horizon; and
- Annual asset management reviews.

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:

- (a) the Board's, Chief Executive's and Business Group Managers' performance agreements and performance reporting;
- (b) the Board Audit Committee, Board Environment, Occupational Health & Safety Committee and a Board Remuneration and Staff Committee;
- (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 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;
- (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 Manager Internal Audit through:
 - the performance of systematic reviews of business functions;
 - providing advice on control requirements where new systems or activities are being developed or are being amended; and
 - special investigations upon request or where irregularities are identified or suspected.

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.

Delta aims to reduce the risk of fraud and corruption by undertaking fraud risk assessments every two years.

The Fraud Prevention Committee will maintain a strong presence in Delta and will continue to pursue a targeted education and awareness program to employees, contractors, suppliers and customers.

Code of Conduct

Delta's Code of Conduct (the Code) provides a basis for the Board and all employees to perform their responsibilities effectively. As at 30 June the Code was being reviewed with the assistance of staff focus groups, it will shortly be reissued.

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.

The Code of Conduct is based on the following principles:

- Honesty, fairness and with integrity;
- The contribute by all to an environment of enthusiasm, pride, teamwork and excellence;
- Following of lawful and reasonable instructions;
- Compliance with Policies, Standards and Procedures of the company;
- Recognition, acceptance and accountability for one's own actions;
- Individual contribution to an ethical and equitable work environment; and
- Avoidance of conflicts of interests.

Freedom of Information

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.

FINANCIALS

Financial Statements 2002

CONTENTS

STATEMENT OF FINANCIAL POSITION 34

STATEMENT OF FINANCIAL PERFORMANCE 35

STATEMENT OF CASHFLOWS 36

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 37

STATEMENT BY MEMBERS OF THE BOARD 51

AUDITOR-GENERAL'S OPINION 52

BEGINNING OF FINANCIAL STATEMENTS AUDITED BY AUDITOR-GENERAL

FINANCIALS

Statement of Financial Position

AS AT 30 JUNE 2002

	Note	2002 \$'000	2001 \$'000
Current Assets			
Cash Assets	5	125,886	185,819
Receivables	6(a)	189,657	85,834
Inventories	7	85,485	79,404
Other Financial Assets	8	15,858	15,436
Other	9	6,255	26,446
Total Current Assets		423,141	392,939
Non-Current Assets			
Receivables	6(b)	59	78
Property, Plant and Equipment	10	1,156,241	1,139,430
Deferred Tax Assets	4(d)	18,251	22,189
Total Non-Current Assets		1,174,551	1,161,697
Total Assets		1,597,692	1,554,636
Current Liabilities			
Payables	11	170,309	92,980
Interest Bearing Liabilities	12(a)	63,022	41,347
Current Tax Liabilities	4(b)	7,330	39,871
Provisions	13(a)	92,674	134,280
Other		560	569
Total Current Liabilities		333,895	309,047
Non-Current Liabilities			
Interest Bearing Liabilities	12(b)	665,610	689,547
Deferred Tax Liabilities	4(c)	154,266	118,579
Provisions	13(b)	50,334	53,374
Total Non-Current Liabilities		870,210	861,500
Total Liabilities		1,204,105	1,170,547
Net Assets		393,587	384,089
Equity			
Contributed Equity	14(a)	295,376	295,376
Retained Profits	14(b)	98,211	88,713
Total Equity		393,587	384,089

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

Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 \$'000	2001 \$'000
Revenue from Ordinary Activities	2	735,254	756,731
Expenses from Ordinary Activities, excluding Borrowing Costs Expense	3	534,606	531,649
Borrowing Costs Expense		58,289	37,009
Profit from Ordinary Activities Before Income Tax Expense		142,359	188,073
Income Tax Expense Relating to Ordinary Activities	4(a)	47,379	55,029
Profit from Ordinary Activities after Related Income Tax Expense		94,980	133,044

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

FINANCIALS

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2002

	Note	2002 \$'000 Inflows (Outflows)	2001 \$'000 Inflows (Outflows)
Cash Flows From Operating Activities			
Cash Received in the Course of Operations		756,326	833,526
Interest Received		5,859	7,716
Cash Payments to Suppliers and Employees		(561,642)	(552,151)
Interest and Other Finance Costs Paid		(53,829)	(32,587)
Income Taxes Paid		(40,295)	(17,246)
Net Cash Provided/(Used) by Operating Activities	21(f)	106,419	239,258
Cash Flows from Investing Activities			
Proceeds from Sale of Property, Plant and Equipment		1,456	1,320
Payments for Property, Plant and Equipment		(48,068)	(31,704)
Net Cash Provided/(Used) by Investing Activities		(46,612)	(30,384)
Cash Flows from Financing Activities			
Proceeds from Borrowings		93,781	389,142
Repayment of Borrowings		(93,781)	(9,142)
Return of Contributed Equity to Shareholder		–	(380,000)
Dividends Paid		(119,740)	(96,653)
Net Cash Provided/(Used) by Financing Activities		(119,740)	(96,653)
Net Increase (Decrease) in Cash Held		(59,933)	112,221
Cash at the Beginning of the Financial Year		185,819	73,598
Cash at the End of the Financial Year	21(b)	125,886	185,819

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

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

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 Public Finance and Audit Act 1983 and the 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 on the basis of historical costs 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.

Non-current assets are revalued from time to time as considered appropriate by the Directors and are not stated at amounts in excess of their recoverable amounts. Except where stated, recoverable amounts are determined using discounted cash flows.

Land and buildings are valued at market value except that land under infrastructure assets that is reserved for operating power station usage is valued at net realisable value having due regard to the level of expenditure that would be required to prepare the land for sale.

All valuations apart from opening system asset balances at 1 March 1996 are determined by Delta Electricity and have not been adjusted in respect of the potential effect of any capital gains tax.

Investments are stated at market values calculated by Delta Electricity's funds manager by referencing specific market quoted prices/yields prevailing at balance date.

The accounting policies adopted are unless otherwise stated, consistent with those of the previous year.

(b) Contributed Equity

The Delta Electricity entity 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 Minister for Industrial Relations, Special Minister of State and Assistant Treasurer. Each shareholder holds one \$1 share.

(c) 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 New South Wales Treasury Management Policy. 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.

(d) 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 (2001: 50 years) and ranges from 5 to 30 years for other property, plant and equipment (2001: 5 to 30 years).

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

(e) Assets Under Construction

Interest costs on 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 during the 2001/02 financial year.

(f) 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 amount appearing in the Statement of Financial Position is net of amortisation (Note 12).

(g) Employee Entitlements

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

FINANCIALS

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(g) Employee Entitlements *continued*

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 balance date. The provision has been calculated at nominal amounts based on current salary rates and includes related oncosts.
- (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.

(h) Investments

Income earned from the investment of funds is included as revenue in the Statement of Financial Performance.

(i) Insurance

Delta Electricity is a self-insurer for certain risks, while other risks are insured externally.

(j) 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 oil stocks.

(k) 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 future income tax benefit 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).

(l) 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 balance date are translated at exchange rates current at balance date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

Exchange gains and losses and costs arising on forward foreign exchange contracts entered into as hedges of specific commitments are deferred and included in the determination

of the amounts at which the hedged transactions are brought to account. If 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 the hedged transaction is no longer expected to occur, any 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.

(m) 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.

(n) 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 investments 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.

(o) 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.

(p) Generating Costs

Generating costs represent all costs (raw materials, labour and overheads etc.) 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.

(q) 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

FOR THE YEAR ENDED 30 JUNE 2002

	2002 \$'000	2001 \$'000
2 REVENUE FROM ORDINARY ACTIVITIES		
Revenue from Operating Activities		
Sale of electricity	719,297	737,787
Revenue from Outside Operating Activities		
Rent	87	109
Interest	6,274	8,874
Proceeds from sale of non-current assets	1,456	1,271
Proceeds from other operations	1,285	1,372
Miscellaneous:		
– Insurance Recoupment *	5,692	5,480
– Other	1,163	1,838
Revenue from Ordinary Activities	735,254	756,731
* A further amount of \$4.1 million (2001: \$9.6 million) has been offset against generating costs for insurance repair costs incurred by Delta Electricity.		
3 EXPENSES FROM ORDINARY ACTIVITIES		
Expenses from ordinary activities		
Generating Costs	465,982	468,383
Depreciation:		
– Buildings	4,678	4,479
– Plant and Equipment	29,480	28,182
– Motor Vehicles	697	800
Depreciated Value of Non-Current Assets Sold	1,271	1,454
Superannuation Expenses	6,285	6,201
Provision for Employee Entitlements	6,642	7,524
Write Down in Value of Inventories	612	189
Bad and Doubtful Debts	1,326	1,325
Operating Lease Rental Expense	1,950	2,087
Auditors Remuneration	130	126
Fees Paid to Board Members	389	331
Consultants Fees	476	678
Other Expenses	466	416
Expenses from ordinary activities considered individually significant		
Asset surplus adjustments in superannuation funds	14,222	9,474
Expenses from Ordinary Activities	534,606	531,649

The net gain on the disposal of property, plant and equipment was \$185,000 (2001: net loss \$183,000).

FINANCIALS

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

	2002 \$'000	2001 \$'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% (2001: 34%)	42,708	63,945
Tax effect of differences which:		
Reduce tax payable due to:		
– Research and development	(33)	(59)
Increase tax payable due to:		
– Employer Superannuation Overfunded Contributions	6,152	(7,466)
– Entertainment Expenses	6	9
– Development Expenses	469	334
– Other Income	2	–
Restatement of deferred tax balances due to changes in tax rate	(1,905)	(1,967)
Under/(over) provision in prior year	(20)	233
Income tax expense relating to profit from ordinary activities	47,379	55,029
Income tax expense relating to profit from ordinary activities is made up of:		
Income Tax Paid	16,612	9,947
Provision for Income Tax	7,330	39,871
Provision for Deferred Income Tax	20,697	8,542
Future Income Tax Benefit	2,740	(3,331)
	47,379	55,029
(b) Current Tax Liabilities		
Provision for Income Tax	7,330	39,871
	7,330	39,871
(c) Non-Current Deferred Tax Liabilities		
Provision for Deferred Income Tax	154,266	118,579
	154,266	118,579
Provision for Deferred Income Tax comprises the estimated expense at the applicable rate of 30%. (2001:30%)		
(d) Non-Current Deferred Tax Assets		
Future Income Tax Benefit	18,251	22,189
	18,251	22,189
Future Income Tax Benefit comprises the estimated future benefit at the applicable rate of 30%. (2001:30%)		
5. CASH ASSETS		
Bank	248	267
Cash Management Funds	125,638	185,552
	125,886	185,819

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

	2002 \$'000	2001 \$'000
6. RECEIVABLES		
(a) Current		
Trade Debtors	181,378	80,646
Debtors other than trade	10,929	6,513
Less: Provision for Doubtful Debts	(2,650)	(1,325)
	189,657	85,834
(b) Non-Current		
Long-term debtors	59	78
	59	78
<p>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.</p> <p>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.</p> <p>Other debtors incorporate miscellaneous non-core activities undertaken by Delta Electricity. Amounts are due 30 days after invoicing.</p> <p>Long term debtors represent loans advanced to Delta Electricity employees to assist in the purchase of housing. These loans were originally issued by Pacific Power and were transferred to Delta Electricity on establishment. The loans have varying maturity terms up to 8 years and are secured by mortgages over the properties purchased.</p>		
7. INVENTORIES		
Stores and Materials	29,608	29,248
Coal Stocks	54,943	49,090
Oil Stocks	934	1,066
	85,485	79,404
8. OTHER FINANCIAL ASSETS		
Other Managed Funds	15,858	15,436
	15,858	15,436
These funds represent asset reserves for funding the internal insurance provision.		
9. OTHER ASSETS – CURRENT		
Miscellaneous	13	26
Prepayments	6,242	26,420
	6,255	26,446

Included in Prepayments is \$6.0 million (2001: \$26.1 million) relating to defined benefit superannuation schemes administered by the SAS Trustee Corporation (Note 15).

FINANCIALS

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

10. PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of written down value for asset classes

	2002 \$'000	Cost 2001 \$'000	Accumulated Depreciation 2002 \$'000	2001 \$'000	Written Down Value 2002 \$'000	2001 \$'000
Land						
Infrastructure – at cost	5,852	5,880	–	–	5,852	5,880
	5,852	5,880	–	–	5,852	5,880
Buildings						
Power Stations – at cost	202,465	194,841	29,416	24,747	173,049	170,094
Other Buildings – at cost	308	286	71	69	237	217
	202,773	195,127	29,487	24,816	173,286	170,311
Plant and Equipment						
Power Stations – at cost	1,114,598	1,081,197	171,437	145,144	943,161	936,053
Other Plant and Equipment – at cost	49,305	39,681	15,363	12,495	33,942	27,186
	1,163,903	1,120,878	186,800	157,639	977,103	963,239
Total Property, Plant and Equipment	1,372,528	1,321,885	216,287	182,455	1,156,241	1,139,430

The above table includes work in progress for Buildings of \$ Nil (2001: \$0.1 million) and Plant and Equipment of \$36.1 million (2001: \$42.0 million).

(b) Reconciliation of 2002 movements in asset classes

	Land	Power Stations – Buildings	Other – Buildings	\$'000 Power Stations – Plant and Equipment	Other – Plant and Equipment	Total
Carrying amount at beginning of year	5,880	170,094	217	936,053	27,186	1,139,430
Additions	–	7,624	29	33,401	11,888	52,942
Disposals	(28)	–	–	–	(1,248)	(1,276)
Depreciation	–	(4,669)	(9)	(26,293)	(3,884)	(34,855)
Carrying amount at end of year	5,852	173,049	237	943,161	33,942	1,156,241

11. PAYABLES

	2002 \$'000	2001 \$'000
Accounts Payable	160,528	83,995
Other Creditors	9,781	8,985
	170,309	92,980

Accounts Payable represents amounts to be paid in the future for goods received and services provided at balance date. These liabilities are usually settled within 42 days. Other Creditors represents interest due on borrowings and payable within 6 months.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

	2002 \$'000	2001 \$'000
12. INTEREST BEARING LIABILITIES		
(a) Current		
NSW Treasury Corporation Short-Term Borrowings	63,022	41,347
	63,022	41,347
(b) Non-Current		
NSW Treasury Corporation Stock	665,610	689,547
	665,610	689,547
<p>At balance date, Delta Electricity had Executive Council approval to borrow up to \$880 million (2001: \$880 million). Maturing loans may be re-financed if the borrowing limit is not exceeded. As such, Interest Bearing Liabilities of \$80.4 million (2001: \$74.3 million) with less than one year to maturity have been classified as Non-Current.</p> <p>Premium on domestic loans issued by New South Wales Treasury Corporation amounted to \$9,984,000 (2001: Premium \$13,218,000). (Note 1(f))</p>		
13. PROVISIONS		
(a) Current		
Dividend	85,482	119,740
Employee Entitlements	4,428	6,547
Redundancy	—	5,868
Insurance	2,764	2,125
	92,674	134,280
(b) Non-Current		
Employee Entitlements	28,930	26,953
Insurance	21,404	26,421
	50,334	53,374
<p>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 \$883,000 (2001: \$860,000) and a non-current provision of \$3,285,000 (2001: \$2,686,000) for worker's compensation included in the Insurance Provision.</p>		
14. EQUITY		
(a) Contributed Equity		
Balance at beginning of year	295,376	675,376
Return of Contributed Equity to Shareholder	—	(380,000)
Contributed Equity at end of year	295,376	295,376
(b) Retained Profits		
Retained profits at beginning of year	88,713	85,409
Profit from Ordinary Activities after income tax expense	94,980	133,044
Dividends	(85,482)	(129,740)
Retained Profits at end of year	98,211	88,713

In accordance with the provisions of the Share Dividend Scheme, dividend payments in respect of the year ended 30 June 2002 will total \$85.5 million (2001: \$129.7 million).

15. SUPERANNUATION

Actuarial reviews of superannuation liabilities for various defined benefit schemes were carried out by Mercer for Pillar Administration. This involved a review of the key economic assumptions used by the Government Actuary in the last triennial review dated 30 June 2000.

FINANCIALS

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

	2002/03 % pa	2003/04 % pa	Thereafter % pa
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15. SUPERANNUATION CONTINUED

The economic assumptions used in calculating the gross superannuation liability of the various defined benefit schemes as at 30 June 2002 are as follows:

Investment Return	7.0	7.0	7.0
Salary Growth Rate	6.5	4.0	4.0
Consumer Price Index	2.5	2.5	2.5

Due to a continuation of a superannuation contribution holiday approved by the SAS Trustee Corporation, Delta Electricity was not required to make payments to Pillar Administration for State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and State Authorities Non-Contributory Superannuation Scheme (SANCS) during the year. (2001: Nil)

The position of the defined benefit schemes are as follows:

	SASS \$'000	SANCS \$'000	SSS \$'000	2002 \$'000	2001 \$'000
Gross Liability Assessed by SAC as at 30 June	30,188	10,473	73,407	114,068	105,815
Less: Investment Reserve Account Balance	28,852	8,989	82,254	120,095	131,942
Unfunded Liability/(Prepaid Contributions)	1,336	1,484	(8,847)	(6,027)	(26,127)

The net prepaid position of \$6.0 million is recognised as an asset in the Statement of Financial Position.

The decrease in prepaid contributions during the period of \$20.1 million (2001: decrease of \$15.3 million) has been separated into Superannuation Expenses (\$5.9 million) which represents the expected annual reduction in the surplus as a result of the superannuation contribution holiday, and an Individually Significant Item (\$14.2 million) which represents an unexpected reduction in the surplus. (Note 3).

16. EXPENDITURE COMMITMENTS

	2002 \$'000	2001 \$'000
--	----------------	----------------

Expenditure contracted for at balance date but not provided for in the Financial Statements:

(a) Capital

Payable no later than one year	22,785	27,360
Payable later than one, not later than 5 years	8,928	19,858
Payable later than 5 years	250	—

(b) Operating (excluding lease commitments)

Payable no later than one year	9,994	7,950
Payable later than one, not later than 5 years	6,998	4,365
Payable later than 5 years	100	—

17. OPERATING LEASE COMMITMENTS

Future operating lease rentals contracted for at balance date but not provided for in the Financial Statements:

Payable no later than one year	1,323	2,040
Payable later than one, not later than 5 years	341	1,459
Payable later than 5 years	—	—

Delta Electricity leases office accommodation under an operating lease expiring in December 2003. This lease provides a right of renewal at which time all terms will be renegotiated. There are two further operating leases in place relating to power station equipment which expire in July 2002 and July 2003. There are no terms for renewal in these leases.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

18. CONTINGENT LIABILITIES

There were no known contingent liabilities in existence at balance date.

19. CONTROLLED ENTITIES

Delta Electricity acquired the two issued \$1 ordinary shares of Delta Electricity Australia Pty. Ltd in 1997. The company has not traded since inception.

On 27 September 2001, Delta Electricity Australia Pty. Ltd acquired one of the two \$1 ordinary shares in Sunshine Electricity Management Pty. Ltd. The other \$1 ordinary share was acquired by Sunshine Renewable Energy Pty. Ltd. Sunshine Electricity Management Pty. Ltd was established as an agent for a proposed future investment in renewable energy.

Delta Electricity Australia Pty. Ltd has no other assets or liabilities apart from the \$1 ordinary share acquired in Sunshine Electricity Management Pty. Ltd.

20. FINANCIAL INSTRUMENTS

(a) Off-Statement of Financial Position 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 balance date were:

	2002 \$'000	2001 \$'000
Less than one year	(8,600)	25,600
One to five years	—	—

At balance date, Delta Electricity had 2 interest rate swaps in place. (2001: Nil) As the swaps offset, the total notional principal amount is Nil.

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.

At balance date, Delta Electricity had 21 (2001: 26) forward foreign exchange contracts. The values of these contracts are outlined in the table below:

	2002		2001	
Currency	Number of Contracts	Currency Value	Number of Contracts	Currency Value
USD	10	664,899	7	222,000
JPY	—	—	2	10,537,000
EUR	4	3,694,311	6	7,149,000
GBP	7	2,355,387	10	3,619,000
CHF	—	—	1	149,000

The contracts are showing an unrealised loss of \$811,000 (2001: \$1,096,000 unrealised loss) and all are expected to mature in the next 14 months when payment for goods or service occurs.

Electricity Futures Contracts

Delta Electricity enters into electricity futures contracts for the specific purpose of hedging the organisation's electricity contract position. Trading is undertaken under Board approved policies with strict limits in place.

At balance date, there were no electricity futures contracts in place. (2001: Nil).

FINANCIALS

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

20. FINANCIAL INSTRUMENTS continued

(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 (91.5%) and other debtors (8.5%). Electricity debtors amounted to \$181.4 million. Credit risk also arises from potential counter-party default on forward foreign exchange contracts and other derivative instruments. The Australian dollar value of this exposure at balance date was \$75,000 (2001: \$172,000).

(c) Interest Rate Risk Exposures and Net Fair Values

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 are:

	Floating Interest \$'000	<1 year \$'000	Fixed interest maturing in 1-2 years \$'000	2-5 years \$'000	>5 years \$'000	Non-Interest bearing \$'000	Carrying amount \$'000	Aggregate net fair value \$'000
Financial Assets								
Cash	125,882					4	125,886	125,886
Trade debtors						181,378	181,378	181,378
Debtors other than trade						8,279	8,279	8,279
Investments	15,858						15,858	15,858
Other Miscellaneous	13						13	13
Long Term Debtors		59					59	59
Financial Liabilities								
Accounts Payable						160,528	160,528	160,528
Other Creditors						9,781	9,781	9,781
Interest Bearing Liabilities		63,022	80,385	237,408	347,817		728,632	750,231
Off-Statement of Financial Position Financial Instruments								
Financial Assets								
Futures*	1,400						68	68
Interest Rate Swap^	14,900			(14,900)				(105)
Financial Liabilities								
Futures*	(10,000)						(72)	(72)
Interest Rate Swap^	(14,900)			14,900				(84)
Forward Foreign Exchange Contracts #								(811)

* Notional principal amount – positive amounts indicates bought futures; negative amount indicates sold futures. Net negative carrying amounts included in Accounts Payable.

^ Notional principal amount – positive amount indicates interest is receivable; negative amount indicates interest is payable. Negative aggregate net fair value indicates the cost to terminate the transaction.

Negative amount indicates unrealised loss.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

20. FINANCIAL INSTRUMENTS continued

c) Interest Rate Risk Exposures and Net Fair Values Cont'd

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 2001 were:

	Floating Interest \$'000	<1 year \$'000	Fixed interest maturing in			>5 years \$'000	Non-Interest bearing \$'000	Carrying amount \$'000	Aggregate net fair value \$'000
			1–2 years \$'000	2–5 years \$'000					
Financial Assets									
Cash	185,814						5	185,819	185,819
Trade debtors							80,646	80,646	80,646
Debtors other than trade							5,188	5,188	5,188
Investments	15,436							15,436	15,436
Other Miscellaneous	26							26	26
Long Term Debtors		78						78	78
Financial Liabilities									
Accounts Payable							84,558	84,558	84,558
Other Creditors							8,985	8,985	8,985
Interest Bearing Liabilities		115,669	94,306	243,583	277,336			730,894	751,733
Off-Statement of Financial Position Financial Instruments									
Futures*	25,600							7	7
Forward Foreign Exchange Contracts#								–	(1,096)

* Notional principal amount – positive amounts indicates bought futures. Carrying amounts included in Accounts Payable.

Negative amount indicates unrealised loss.

The weighted average interest exposure on financial assets is 4.4% (2001: 6.2%), while weighted average interest exposure on financial liabilities is 7.6% (2001: 7.9%).

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

The net fair values for 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 balance date.

The net fair value for futures represents the margin call at balance date.

The net fair value for forward foreign exchange contracts is the unrealised gain/loss on the instrument determined by using the exchange rates at balance date.

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

FINANCIALS

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

21. 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:

	2002 \$'000	2001 \$'000
Cash Assets	125,886	185,819
Current Interest Bearing Liabilities	—	—
Balance as per Statement of Cash Flows	125,886	185,819

(c) Dividends and Taxes

No dividends were received during the period. Dividends paid by Delta Electricity during the period amounted to \$119.7 million (2001: \$96.7 million). Tax equivalent payments for the year were \$40.3 million (2001: \$17.2 million).

(d) Acquisitions and Disposal of Entities

There were no acquisitions or disposals during the year.

(e) Financing Arrangements

Facilities Available

Bank Overdraft	2,000	2,000
NSW Treasury Corporation Loans	880,000	880,000
Total Available	882,000	882,000

Facilities Utilised

Bank Overdraft	—	—
NSW Treasury Corporation Loans	728,632	730,894
Total Utilised	728,632	730,894

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.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

	2002 \$'000	2001 \$'000
21. NOTES TO THE STATEMENT OF CASH FLOWS continued		
(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	94,980	133,044
Add/(Less): Non-Cash Items		
Depreciation	34,855	33,461
Amortisation	(2,270)	(341)
Inventory Adjustments	612	192
Assets Written Off	5	24
Bad and Doubtful Debts	1,326	1,325
Add/(Less): Items classified as Investing/Financing Activities		
(Gain)/Loss on sale of Property, Plant and Equipment	(185)	183
Accounting (Gain)/Loss on Debt Re-financing	—	5
Net Cash Provided by Operating Activities Before Changes in Assets and Liabilities	129,323	167,893
Net Changes in Assets and Liabilities During the Period		
(Increase)/Decrease in Trade Debtors	(103,646)	45,439
(Increase)/Decrease in Other Debtors	(3,877)	(1,069)
(Increase)/Decrease in Inventories	(11,367)	(9,633)
(Increase)/Decrease in Other Assets	19,532	13,937
Increase/(Decrease) in Payables	74,970	(17,202)
Increase/(Decrease) in Income Tax Related Assets/Liabilities	7,084	37,783
Increase/(Decrease) in Other Liabilities	(5,600)	2,110
Net Cash Provided/(Used) by Operating Activities	106,419	239,258

22. EVENTS OCCURRING AFTER REPORTING DATE

Executive Council approval was granted on 19 June 2002 for Delta Electricity to increase its borrowing limit to \$1,000 million effective from 1 July 2002. (2001: \$880 million). 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.

The Board of Delta Electricity considered and approved an independent valuation of Delta Electricity's assets on 25 July 2002 with effect from 2002/03. The revaluation resulted in an increase of \$577.1 million in the value of Property, Plant and Equipment and the total increment has been charged to the Asset Revaluation Reserve.

23. 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.

FINANCIALS

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2002

24. 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, 2002 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

CHAIRMAN

15 October 2002



Jim Hennessy

CHIEF EXECUTIVE

15 October 2002

FINANCIALS

Auditor-General's Opinion



Independent Audit Report Delta Electricity

To Members of the New South Wales Parliament

Scope

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

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

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

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

Audit Opinion

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

A handwritten signature in black ink, appearing to read "RJ Sendt".

RJ Sendt
AUDITOR-GENERAL
SYDNEY
15 October 2002

SUPPLEMENT

Supplementary Information

Chief and Senior Executive Officers

Delta Electricity has not been included as a Declared Authority under schedule 3 of the Public Sector Management Act 1988. Therefore, the information required by the Annual Reports (Statutory Bodies) Regulation is not applicable.

Consultants

Expenditure on consultants totalled \$476,000. The main purpose of the engagements related to the strategic advice on a capital restructure, environmental certification services and environmental consultancy services.

Cost of Annual Report

Twelve hundred copies of the Annual Report were produced at a cost of \$50 each.

Disability Plan

Delta Electricity's Disability Plan 2002–2004, ensures that equal opportunities exist for people with disabilities, enabling maximum participation and contribution.

The Plan addresses the following key result areas:

Employment, Access, and Communication and Reporting.

The major strategies and objectives outlined in the plan are proceeding in accordance with the targeted timeframes.

In the last financial year, Delta Electricity's Western region provided a Business Administration Traineeship for a person with a physical disability.

Equal Employment Opportunity

Staff by Level

LEVEL	Subgroup as % of Total Staff in each Category				Subgroup as Estimated Percent of Total Staff at each Level				
	TOTAL STAFF (Number)	Respondents	Men	Women	Aboriginal People & Torres Strait Islanders	People from Racial, Ethnic, Ethno-Religious Minority Groups	People Whose Language First Spoken as a Child was not English	People with a Disability	People with a Disability Requiring Work-related Adjustment
< \$27,606	0	0%	0%	0%	0%	0%	0%	0%	0%
\$27,606 – \$36,258	3	33%	33%	67%	0%	0%	0%	0%	0%
\$36,259 – \$40,535	111	59%	95%	5%	0%	3%	2%	5%	3%
\$40,536 – \$51,293	202	65%	91%	9%	2%	2%	2%	8%	5%
\$51,294 – \$66,332	256	66%	91%	9%	1%	5%	6%	11%	3%
\$66,333 – \$82,914	127	67%	95%	5%	0%	14%	13%	7%	2%
> \$82,914	55	84%	95%	5%	0%	4%	4%	9%	0%
TOTAL	754	66%	92%	8%	0.6%	5%	5%	8%	3%
Estimated Sub – Group Totals		496	696	58	5	41	39	62	26

Percent of Total Staff by Employment Basis

Employment Basis	Subgroup as % of Total Staff in each Category				Subgroup as Estimated Percent of Total Staff in each Employment Category				
	TOTAL STAFF (Number)	Respondents	Men	Women	Aboriginal People & Torres Strait Islanders	People from Racial, Ethnic, Ethno-Religious Minority Groups	People Whose Language First Spoken as a Child was not English	People with a Disability	People with a Disability Requiring Work-related Adjustment
Permanent	710	65%	92%	8%	0.6%	5%	5%	9%	3.7%
Contract	42	81%	95%	5%	0%	6%	6%	3%	0%
Temporary	2	0%	50%	50%	0%	0%	0%	0%	0%
Casual	3	67%	0%	100%	0%	0%	0%	0%	0%
TOTAL	757	66%	92%	8%	0.6%	5%	5%	8%	3.5%
Estimated Sub – Group Totals		498	696	61	5	41	39	63	26
Est. Number of Staff	757	498	696	61	5	41	39	63	26

SUPPLEMENT

Ethnic Affairs Statement

Delta Electricity is committed to ensuring that the needs of our culturally diverse community are reflected and accommodated in our business operations. Throughout the year Delta Electricity hosted power station visits from different ethnic groups from Australia and overseas.

As part of Delta's commitment to recognising cultural diversity, Delta undertook the promotion of a number of days of religious significance from different cultures amongst employees through our internal web.

Executive Remuneration

The following payments were made to senior contract employees at the end of the 2001/2002 financial year.

The 2001/02 performance payment was made up of the following components, in various combinations.

- The results for a Delta overall Balanced Scorecard applied to all.
- Business unit Balanced Scorecard measures applied to Messrs. Saladine, Hogg, Hall and Baker.
- Individual performance components applied to all and were based on their:
- Individual Performance and Development Agreement (see criteria in table)
- Individual Management and Leadership Performance

The performance payment was weighted towards the Balanced Scorecard components.

Name/ Time in position	Position	Total Remuneration Package for Period	Total 2001/02 Performance Payment	Individual Performance Criteria
Jim Henness/ All of year	Chief Executive	\$ 318,632	\$ 42,000	Assessment of performance by the Board against identified criteria including Delta's profit performance, implementation of strategy and effectiveness of relationships.
Rod Ward/To 13 May 2002*	General Manager / Marketing	\$ 204,063	\$ 28,917	Implementation of strategic marketing initiatives and assessment against other performance agreement targets.
Richard Street/ All of year	Chief Financial Officer	\$ 201,981	\$ 31,589	Management of financial projects (eg, Sugar Mills, asset revaluation) and assessment against other performance agreement targets.
Steve Saladine/ All of year	General Manager/ Western Production	\$ 195,174	\$ 40,097	Business Unit financial management, plant performance and assessment against other performance agreement targets.
Greg Everett/ To 13 May 2002*	General Manager/ Strategy	\$ 195,698	\$ 36,303	Contracted coal purchases, progress against development targets and assessment against other performance agreement targets.
David Hogg/ All of year	Chief Information Officer	\$ 167,779	\$ 30,848	Information Technology financial management, customer satisfaction survey, major upgrade implementation and assessment against other performance agreement targets.
Rohan Hall/ All of year	General Manager/ Delta Maintenance	\$ 164,633	\$ 30,787	Business Unit financial management, customer satisfaction survey and assessment against other performance agreement targets.
Tim Baker/ To 13 May 2002*	Manager/ Energy Trading	\$ 163,962	\$ 34,561	Achievement in relation to electricity sales and price results and assessment against other performance agreement targets.

* From 13 May, 2002 to the end of the financial year, Greg Everett took over the duties of General Manager/Central Coast, Rod Ward took over the duties of General Manager/Strategy and Tim Baker took over the duties of General Manager/Marketing.

Number of Executive Officers	Total	Women
Number of executive officers with remuneration equal to or exceeding equivalent of SES Level 1 2001/2002	30	1
Number of executive officers with remuneration equal to or exceeding equivalent of SES Level 1 2000/2001	31	1

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.

Indigenous Employment Strategy

Delta Electricity recognises our responsibility towards the Aboriginal and Torres Strait Islander people of New South Wales. Delta is committed to achieving sustainable improvements in employment opportunities for Aboriginal and Torres Strait Islanders.

Overseas Visits

During the year the following officers went overseas:

Name	Date	Destination	Purpose
Greg Everett	25 June to 6 August	USA	Stanford Executive Program
Rod Ward	5 March to 9 March	Malaysia	Guest speaker at APEC Coal Conference – travel expenses reimbursed by APEC.
Peter Coombes	5 March to 9 March	Malaysia	Guest speaker at APEC Coal Conference – travel expenses reimbursed by APEC.
Tim Baker	16 May to 25 May	United Kingdom	Presentation to Insurance Underwriters

SUPPLEMENT

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

Statement of Corporate Intent

The State Owned Corporations Act, 1989 requires Delta Electricity to identify and set out reasons for departures from the performance targets contained in the Statement of Corporate Intent.

Accordingly, the following points highlight the major departures from the Statement of Corporate Intent:

Statement of Corporate Intent

- Actual operating result for Delta Electricity of \$142.4 million was \$38.1 million below target.
- The dividend payable for the year in review totalled \$85.5 million compared to \$113.7 million in the Statement of Corporate Intent.
- Delta achieved a Shareholder Value Added position of \$42.7 million for the year in review, compared to the Statement of Corporate Intent expectation of \$72.1 million.
- Delta's performance for the reporting period was below target primarily due to the lower than anticipated spot prices in the National Electricity Market due to very mild weather conditions and a \$14.2 million reduction in Delta's share of prepaid superannuation surpluses.

Waste Reduction and Purchasing Policy

Delta Electricity has implemented the NSW Government's Waste Reduction and Purchasing Policy including preparation of a Waste Reduction and Purchasing Plan and reporting of performance to the Environment Protection Authority. The items reported in the plan are a minor component of Delta's operations and include items such as paper, toner cartridges, vegetation waste and construction and demolition wastes.

More significant waste reduction activities include re-use of 228,000 tonnes of power station ash for cement manufacture, co firing of plantation forest waste and construction and demolition material for energy recovery, efficiency improvements at power stations resulting in less coal burnt and a reduction of 10% in total waste sent to landfill.

Workforce Diversity

As part of Delta Electricity's commitment to a harassment free work environment, in June 2002, the Anti-Discrimination Board conducted harassment prevention training throughout Delta. This training supplemented in-house initiatives undertaken by Delta.

A			K	
Auditors-General's Opinion	52		Key Performance Indicators	10
B			L	
Balanced Scorecard	9, 22		Locations	Inside Back Cover, 5
Board Committees	27–28		Letter to Voting Shareholders	Inside Front Cover
Board Meetings	26		M	
Board of Directors	26		Marketing	12
C			Mission	4
Chairman's Report	7		Maintenance	15
Chief Executive's Report	8		N	
Code of Conduct	32		Notes to and Forming Part of	
Community Relations	15, 23		Financial Statements	37–50
Consultants	53		O	
Controlled Entities	46		Organisation Structure	28
Corporate Governance	25		Overseas Visits	55
Cost of Annual Report	53		P	
D			People	22
Disability Plan	53		Plant Performance	2, 8, 14, 20
Dividend	7		Profile	3–5
E			Profit	2, 7, 9
Electricity Market	3, 7, 12		Promotion	56
Environment	8, 14, 17		R	
Equal Employment			Renewable Energy	19–20
Opportunity	22, 53		Risk	31–32
Ethnic Affairs Statement	54		S	
Executive Committees	29		Safety	2, 22
Executive Management Team	30–31		Shared Values	4
Executive Remuneration	54		Statement of Cash Flows	36
Exemptions	50, 55		Statement of Corporate Intent	56
F			Statement of Financial	
FCAS	12		Performance	35
Financial Statements	33, 51		Statement of Financial	
Fraud Prevention	32		Position	34
Freedom of Information	32		Statement by Members of	
G			the Board	51
Generator Efficiency			Statistical Summary	10
Standard	18		Strategic Direction	6
Greenhouse Gas Emissions	18–19		V	
H			Vision	4
Highlights	2		W	
I			Workforce Diversity	22, 56
Information Technology	16		Waste Reduction	56
Indigenous Employment	55			

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Munmorah Power Station

Scenic Drive
Doyalson NSW 2262
Telephone 02 4390 1611
Facsimile 02 4390 1642
Office Hours 7.45am – 4.00pm

Vales Point Power Station

Vales Road
Manning Park NSW 2259
Telephone 02 4352 6111
Facsimile 02 4352 6007
Office Hours 7.45am – 4.00pm

Wallerawang Power Station

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Facsimile 02 6352 8847
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