

1996 annual report

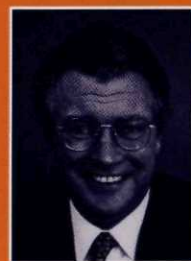
Macquarie *Generation*



The Shareholders

The Hon Michael Egan

Treasurer, Minister for Energy, Minister for State and Regional Development, Minister Assisting the Premier and Vice-President of the Executive Council



The Hon Paul Whelan

Minister for Police



30 October 1996

Dear Shareholders

We have pleasure in submitting the Macquarie Generation Annual Report including the Profit and Loss Statement and the Balance Sheet for the four months ended 30 June 1996, as certified by the Auditor-General of New South Wales.

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

A handwritten signature in cursive script, appearing to read 'E. Peers'.

Chairman

A handwritten signature in cursive script, appearing to read 'J. Naerys'.

Chief Executive

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Board of Directors

Appointments to the Board were made by the voting shareholders in accordance with the Energy Services Corporations Act 1995 as detailed below:

Mr Evan Rees FIE Aust CP Metallurgy
Chairman and Non-Executive Director

Mr Grant Every-Burns BEng(Hons)
Chief Executive

Ms Anna Buduls BA MCom
Non-Executive Director

Mr John Cahill
Non-Executive Director

Mr Graham Stanford FCA
Non-Executive Director

Mr James Watt FAICD BSc(For) BA MF
Non-Executive Director

The Hon Robert Webster AFAIM
Non-Executive Director

4th Year Electrical Apprentice Max Wright.

about macquarie generation

Who we are and what we do...

Macquarie Generation is a new electricity generator established on 1 March 1996 in line with reforms in the NSW electricity industry. These reforms have deregulated the industry and created an environment of competition in the market place.

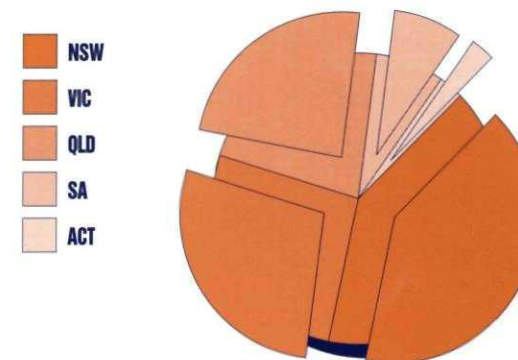
We are a state owned corporation, with an independent Board of Directors.

Macquarie Generation owns and operates two major coal-fired power stations. Bayswater and Liddell Power Stations are located in the Upper Hunter Valley, between the towns of Muswellbrook and Singleton in NSW. This area is well known for its plentiful supply of black coal. Our power stations source their coal from five local mines.

The two stations have a combined generating capacity of 4640 MW and contribute 42% of the state's electricity supply. The electricity generated by Macquarie Generation is sold to electricity distributors and bulk users. Macquarie Generation electricity is "transported" to customers by TransGrid and the distributors via the high voltage transmission network and the distribution outlets.

As part of the Australian and NSW Governments' reforms to the electricity industry, generators now market and sell their product in the state wholesale market. This has provided an opportunity to prepare for our entry to the national electricity market. When the national market commences, Macquarie Generation will compete with generators from other states. Our aim is to provide competitively priced electricity to a growing customer base in the emerging market.

Macquarie Generation has total assets exceeding \$2 billion. Our operating profit for the four month period March-June 1996 was \$50.6 million. As at 30 June 1996, Macquarie Generation had 826 employees.



Indications of electricity demands in the eastern states of Australia.

Board of Directors
Anna Buduls, James Watt, Evan Rees, John Cahill,
Grant Every-Burns, Robert Webster and Graham Stanford.
Inset: Tradesperson Simon West and Power Worker Kathy Sadler.



1 March 1996 was the first day of operations for Macquarie Generation. It was established as a state owned corporation in a period of unprecedented change in the electricity industry. It is change that we can expect to be a constant for some time, as we position ourselves for entry to the national electricity market.

The national market will bring new challenges. We enter a market with known over-supply and already there is evidence of some selling of power below the cost of production. As New South Wales and Victorian generators and distributors will be keen to secure a greater market share, our success will be dependent on our competitiveness.

With one of the most efficient power stations, and a plentiful local coal supply, Macquarie Generation is well placed to participate competitively in the market. Our two power stations have continued to produce electricity cleanly and efficiently. Our workforce, reduced in number as a consequence of restructuring which preceded the disaggregation process, has maintained its high standard of performance to achieve this efficiency. Our people are the key to our continued commercial success.

Mr Grant Every-Burns, the Chief Executive, has capably led the executive team and assisted the new Board in its understanding of electricity generation and the impact of the industry reforms on the workforce. His executive team has been supportive in the change process. Through Mr Every-Burns' and his executive team's leadership, the people of Macquarie Generation have been encouraged to embrace the need for continued, steady improvements in productivity.

Our people have achieved significant targets, and of this they should be justly proud. I thank them for their contribution under what I consider to have been turbulent, and uncertain times for them.

Over the past four months, Macquarie Generation has begun to establish a strong identity and market position. This augurs well for the future. Our main priorities will be on continuous improvement, operating efficiency and cost management. A primary objective is to secure competitively-priced coal.

Both the Board and I have every confidence in the people of Macquarie Generation to contribute to the Corporation's continued success by taking a prominent position in Australia's electricity industry.

Evan Rees
Chairman

chairman's report

Shift Fitter Peter Baum.
Inset: Professional Officer Melanie McDonald and
Technical Officer Rachael Crossely.

Macquarie Generation was formed through the process of electricity industry reform. Our ability to compete well in the state wholesale market, and later, in the national market, depends on our ability to operate every part of the business to maximum effectiveness.

As the state's leading electricity generator, with two highly reliable and productive power stations, we have set ourselves the goal of being the best electricity generating business in Australia.

Our achievements in our first four months of operation are testimony to our capabilities and determination to achieve that goal.

The Corporation returned a creditable profit of \$50.6 million as a result of successful operation in the electricity market, coupled with cost reductions in all areas including financial restructuring.

The creation of a strategic business plan for the years ahead has been achieved despite an uncertain price path for traded electricity. For the first time, the revenue streams of the electricity generators will be dependent on market prices.

Health, safety and environment have been high priority matters for the new Corporation. The Board has approved an environmental policy promoting very high standards of leadership. The Executive Safety Committee and local safety committees have been established and safety outcomes are regularly reviewed at all levels. Whilst the safety achievements in some areas are outstanding, there is a need for improvement in others to reduce risks to the point where an accident-free workplace is attained.

Bayswater and Liddell Power Stations have both operated effectively in the period. Bayswater achieved record energy output and reliability in the last year and, with its high thermal efficiency, operated at base load in comparison to Liddell which operated in a planned intermediate role. This combined operation ensures the most cost effective and reliable electricity supply to our customers whilst delivering optimised environmental outcomes.

We are now poised to enter the next stage of electricity reforms. The implementation of the national electricity market is to commence soon. It is likely that this larger market will be an aggressive one. Our future success will be dependent on reliable and cost-effective fuel supplies and a flexible and skilled workforce.

Macquarie Generation will be competing with Victorian generators by early 1997, and the low fuel costs in that state are expected to create competitive pressure in New South Wales.

The Corporation will need new and additional coal supplies beginning in the 1996/97 financial year which will provide the opportunity for further cost reductions and more competitive electricity supply from our power stations. It will also create opportunities for the most price-effective coal suppliers.

Already the employees of Macquarie Generation have achieved a great deal. But to tackle the challenging competitive environment, we need to continue to strive for a high level of plant reliability, quality customer service, and efficient work practices to be able to compete vigorously on price and market share.

We are preparing to take advantage of the opportunities in the electricity market and I look forward to working with the Board and our employees to ensure that the positive results of this early period are mirrored into the future.



Grant Every-Burns
Chief Executive



chief executive's report

Power Plant Operator Reg Goldfinch and Assistant
Power Plant Operator Kevin Fleming.
Inset: Power Worker Trevor Day.



Bayswater Power Station

Capacity: 2640 MW from four 660 MW units
Commissioned: 1985 - 1986
Location: Upper Hunter Valley, New South Wales
Manager: John Neely

Liddell Power Station

Capacity: 2000 MW from four 500 MW units
Commissioned: 1971 - 1973
Location: Upper Hunter Valley, New South Wales
Manager: John Marcheff

Bayswater...

achieved record production levels with world-class operational performance. An outstanding accomplishment was the setting of an Australian record for energy produced by an individual power station in a single year, with an output of 18,626 GWh sent out. This was achieved by a plant availability rate of 97% and an equivalent forced outage rate of 0.3%. The station trip rate for the period was zero, which is an excellent result.

As a measure of our operating practices and maintenance, in April 1996 Unit No.4 set a new continuous operating record of 318 consecutive days in service.

The station is committed to providing a safe working environment and continued its excellent safety record. Using the National Safety Council's Five Star Safety System, it achieved the maximum rating of five stars.

Care for the environment is a major consideration in station operation and performance. An innovative project for the management of boiler ash has been implemented. The \$32m Ravensworth Ash Disposal project utilises leading technologies in the process of dense phase pumping of fly ash to a disused mine void. The disposal system has been recognised as both progressive and visionary in the environmental management of power station waste. In future years, the mine site will be returned to grazing and pastoral use. Tree planting activities involving local schools continued. The schools' tree planting project aims to plant 1,000,000 trees in the area.

Bayswater plays an important role in the community. It also supports the local tourist industry. The station has welcomed its 100,000th visitor since its commissioning. Due to its popularity with tourists to the area, the Station's Visitors' Centre has been refurbished with the inclusion of an exciting and informative display to help people learn about electricity generation.

Liddell...

celebrated 25 years of service on 17 May 1996. It has been a mainstay to the state's electricity supply throughout that period and continues to make a significant contribution. The station continues to benefit from the plant life extension program work carried out in recent years. Reliability has improved to achieve an 89% plant availability level.

The station's environmental performance has been enhanced through modifications to the main cooling water pumps. Substantial energy savings will now be achieved as water flows can be varied to suit cooling requirements. The station participated in trials to test the effective use of refined waste oil. The results proved successful, leading to the use of this product as a boiler start-up fuel.

Other environmental initiatives include the use of treated sewage water for irrigation of a wood lot plantation of over 3,000 trees, and installation of collection ponds around the coal storage area. Both these measures will increase the water quality of Lake Liddell. The local schools' tree planting initiative also includes Liddell.

The 168m high chimney stacks, a structural feature of the power station, were inspected after 25 years of continuous service. Both stacks were found to be in excellent condition with only minor repairs required.

operations review

University Graduate on work experience program
Ivy Lee (Industrial Chemistry).
Inset: Assistant Power Plant Operator Mark Telfer.



Marketing and Trading

Our operations commenced in line with the first stage of the competitive wholesale electricity market on 1 March 1996. The first stage of market operations involved limited wholesale competition.

In this stage, generators competed to supply electricity through a process that constrained prices that could be bid by each of the generators for the electricity they offered to produce.

This gave generators a guaranteed minimum share of the market in the initial period and enabled them to gain bidding experience in the supply of electricity in the wholesale market.

Revenue earned for production in this stage was based on administratively determined prices, unrelated to bid prices, which assured the revenue that could be earned from sales of electricity.

The second stage, which began on 10 May 1996, extensively opened the state wholesale market, freeing up generators to openly bid to sell their electricity.

From the start of this stage, electricity distributors and generators began to buy and sell electricity in the wholesale market at spot market prices. To provide a level of certainty of costs and revenues for the participants and to enable risks of trading in the spot market to be effectively managed, bilateral financial contracts were established. These contracts, covering 85% of each distributor's sales of electricity to customers in New South Wales and the Australian Capital Territory, were apportioned between the generators. Generators and distributors could contract above these levels to further manage risk exposure by trading in additional bilateral contracts.

During 1997 and beyond, the managed contract volume will decrease as retail competition and the competitive national electricity market is introduced. An increasingly larger part of the wholesale market will then be opened to competition by all generators. Major growth in competitively negotiated bilateral contracting is anticipated with these developments.

Macquarie Generation operated successfully in both stages of the market in the 1995/96 financial year in terms of market share and bilateral contract trading results.

Key issues for our marketing and trading operations in the developmental phases of the competitive market have been to establish strong foundations to ensure our success in the forthcoming national market. These have focused on developing new marketing, trading and risk management expertise, support systems and upgrading of skills and resources. Customer relations and service are vital considerations in our marketing and trading strategies.

The marketing and trading group has also made important contributions to the development of market practices by representation to the New South Wales Electricity Reform Taskforce, the National Grid Management Council and the Australian Competition and Consumer Commission.

3rd Year Apprentices Rob Hurney (Electrical)
and Paul Folpp (Mechanical) at Liddell's
Apprentice Workshop.
Inset: 2nd Year Apprentice Kerri Thompson (Electrical).



Human Resources

Our employees are central to meeting the competitive challenges of the future. The first four months of operations depended on the adaptability of our employees to adjust to the demands of establishing new corporate processes, as well as maintaining production.

With the formation of Macquarie Generation on 1 March 1996, employees located at the two power stations were transferred in their existing positions. A small team of people was transferred to the corporate office at Lambton, in Newcastle.

Our focus has been the establishment of new business structures. Team operations are a feature of the new organisation structure, with specific accountabilities for each team. To increase employee awareness of the competitive market, training programs were developed and conducted.

Negotiations for an Enterprise Agreement commenced in March 1996. A wide cross-section of employee representatives has continued to be involved in the process. At the time of reporting, discussions are continuing.

Improvements have been achieved in employee safety. Safety management systems are in place at the two power stations, and continuous improvement is a key component of both programs. Bayswater has achieved the highest level of safety under the National Safety Council 5 Star System. The Executive Safety Committee and Site Health and Safety Committees meet regularly. Each committee has set objectives for the forthcoming year. The Corporation has developed Statements of Commitment, to improve overall standards in health, safety, rehabilitation and fire prevention.

Equal Employment Opportunity continues to be an important tool in the cultural change process which will assist Macquarie Generation employees to achieve the organisation's goal to be the best electricity generating business in Australia.



Engineering Officers Greg Hopkins and Leesa Robinson
at Liddell Power Station.
Inset: Sampler Rosemary Munn at Liddell Power Station.



Environmental Management

Macquarie Generation accepts responsibility for environmental protection as an essential part of its business. Its objective is to comply with all applicable environmental laws in a commercially effective way which is consistent with community expectations, and to encourage improved environmental outcomes.

The Board is aware of its obligations in law for environmental performance. Accordingly, the Board has endorsed an Environmental Policy and operational guidelines. Performance is reported and monitored at Board meetings.

Sound environmental performance is also the responsibility of all employees. This is achieved by effective planning and management, establishment of goals and targets and awareness training programs.

Specific programs and practices which prevent pollution and minimise environmental impact are in place. These ensure efficient use of energy and resources, and proper waste management.



Community

Macquarie Generation is committed to being a responsible corporate citizen. In addition to ensuring our operations have minimal adverse impact on the local community, we look for opportunities to support the local and wider communities. Programs which support and work in conjunction with schools and other educational, research and service organisations continue. For example, participation in work experience programs, clerical traineeships, TAFE Awards for outstanding academic achievement by students, and school project support. The child care centre in Muswellbrook continues to provide child care facilities for our employees, with a dedicated number of places made available to the community.

Our Apprentice Training Program has indentured apprentices undertaking training in mechanical and electrical trades and boilermaking.

We encourage the community to visit the power stations. An Environmental Walk has been developed at Bayswater Power Station and has proved to be a popular addition to the Visitors' Centre. From the walk, visitors are able to observe marsupials and water birds.

Profit and Loss Statement

For the four month period ended 30 June, 1996

	Notes	\$'000 1996
Operating Revenue	2	310,611
Operating Profit	3	50,550
Income Tax Equivalent	5	18,198
Operating Profit after Income Tax		32,352
Profit on Extraordinary Items	4	-
Income Tax Equivalent applicable to Profit on Extraordinary Items		-
Profit on Extraordinary Items after Income Tax		-
Operating Profit and Extraordinary Items after Income Tax		32,352
Retained Earnings at Commencement		-
Total Available for Appropriation		32,352
Dividend to State Government	6	24,770
Amounts Transferred to Reserves		-
Retained Earnings at the End of the Period		7,582

The accompanying notes form an integral part of these financial statements.

Balance Sheet

As at 30 June, 1996

	Notes	\$'000 1996
Current Assets		
Cash	7	5,929
Receivables	8	178,402
Investments	9	92,235
Inventories	10	87,772
Others	11	7,492
Total Current Assets		371,830
Non-Current Assets		
Receivables	8	1,737
Investments	9	-
Property, Plant and Equipment	12	2,144,236
Other	11	-
Total Non-Current Assets		2,145,973
Total Assets		2,517,803
Current Liabilities		
Creditors and Borrowings	13	321,663
Provisions	14	46,674
Other	15	-
Total Current Liabilities		368,337
Non-Current Liabilities		
Creditors and Borrowings	13	1,171,004
Provisions	14	19,647
Other	15	30,000
Total Non-Current Liabilities		1,220,651
Total Liabilities		1,588,988
Net Assets		928,815
Capital and Retained Earnings		
Capital	1(b)	921,233
Retained Earnings		7,582
Total Capital & Retained Earnings		928,815

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

For the four month period ended 30 June, 1996

	Notes	\$'000 1996
Cash Flows from Operating Activities		
Cash Received in the Course of Operations		163,755
Cash Paid in the Course of Operations		(140,873)
Interest Received		487
Interest Paid		(24,367)
Income Tax Paid		(3,375)
Net Cash Flows from Operating Activities	16	(4,373)
Cash Flows from Investing Activities		
Loan Repayments Received		30
Payments for Property, Plant and Equipment		(17,507)
Payments for Investments		(61)
Proceeds from Sale of Property, Plant and Equipment		76
Net Cash Flows from Investing Activities		(17,462)
Cash Flows from Financing Activities		
Repayment of Borrowings		-
Proceeds from Borrowings		-
Dividend Paid		-
Net Cash Flows from Financing Activities		-
Net Decrease in Cash Held		(21,835)
Cash transferred from Pacific Power at commencement		90,014
Cash at the end of the Financial Period	16	68,179

The accompanying notes form an integral part of these financial statements.

Notes to and forming part of the Financial Statements

For the four month period ended 30 June, 1996

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the accounts of Macquarie Generation are stated to assist in a general understanding of these financial statements. These policies have been consistently applied except as otherwise indicated.

The financial statements are a general purpose financial report prepared as required by the State Owned Corporations Act 1989, in accordance with the provisions of Part 3 of the Public Finance and Audit Act 1983, Australian Accounting Standards and Urgent Issues Group Consensus Views.

(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 of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Long lived infrastructure assets are reviewed annually to determine whether they are stated at amounts in excess of their estimated recoverable amounts. Where the carrying amount of a class of non-current assets exceeds their recoverable amount, the class of assets is written down to the lower value.

Recoverable amounts are determined by discounting expected relevant net cash flows to their present value. Adjustments to the operating cash flows are made to reflect estimated tax payments, variations in working capital and expected future capital expenditure requirements.

Property, plant and equipment, other than freehold land, are depreciated over their estimated useful lives using the straight line method.

Investments in short term securities are stated at purchase price, while fixed interest investments are revalued using market interest rates prevailing at balance date. Associated hedging instruments are treated in the same manner as the underlying investment.

(b) Opening Balances

Macquarie Generation commenced operations on 1 March, 1996. Assets, rights and liabilities that comprise or relate to the respective generation system, as stated in the Energy Services Corporations Act, 1995, and as identified in the Ministerial Order dated 1 March, 1996, were transferred from Pacific Power to Macquarie Generation on that date. These assets, rights and liabilities have been taken up in the books of Macquarie Generation in accordance with the Order, at the values as stated in the books of Pacific Power at the date of transfer, except for total debt which has been taken up at market value.

Notes to and forming part of the Financial Statements

1. Summary of Significant Accounting Policies (continued)

The emerging competitive energy market has created inherent uncertainty in the valuation of system assets in the electricity generation sector. These uncertainties relate to future cash flows and leveraged risk factors adopted in the independent valuation of the corporation's non-current system assets commissioned by the New South Wales Treasury.

The Board have considered the valuation and the impact of the emerging national electricity market in the determination of non-current asset values for these accounts.

(c) Derivative Financial Instruments

Derivative financial instruments, principally interest rate swap contracts, are entered into to manage financial risks.

In accordance with the accounting policy adopted for the underlying debt instruments, all gains and losses incurred in the use of these derivative instruments are recognised in the profit and loss statement in the year in which they occur.

At the date of transfer from Pacific Power, interest rate swap agreements in force included an unrealised accounting loss of \$5,833,100. This amount has been included in the accounts as recoverable from Pacific Power at 30 June, 1996.

(d) Discount on Loans

Discount on loans is in the nature of an additional cost of borrowing which is amortised over the term of the loans, the amount applicable to each year being included in the Profit and Loss Statement as part of Macquarie Generation's financing charges for that year. The amount appearing in the Balance Sheet is net of amortisation.

(e) Inventory Valuation

Inventories of Stores and Materials are stated at weighted average cost, which is automatically updated upon receipt of new items and separately determined for each location. Coal and Oil Stocks are valued at the weighted average cost per tonne/litre.

(f) Sale of Assets

Proceeds from the sale of Property, Plant and Equipment are included in Operating Revenue. The depreciated value of such assets is included in operating expenditure.

(g) Taxation

Income Tax equivalents are payable, under the State Owned Corporations Act, 1989, to the NSW Office of State Revenue. For the current period, the NSW Office of State Revenue have determined that Macquarie Generation's Income Tax equivalent liability will be payable on a Taxable Income based entirely on Accounting Profit. Therefore, no permanent or timing differences have arisen.

Notes to and forming part of the Financial Statements

1. Summary of Significant Accounting Policies (continued)

(h) Foreign Currency Translation

Transactions denominated in a foreign currency are converted to Australian dollars at the exchange rate at the date of the transaction. Foreign 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.

All other exchange gains and losses relating to hedge transactions are brought to account in the Profit and Loss Statement in the same period as the exchange differences on the items covered by the hedge transactions. Costs of such contracts are amortised over the life of the hedge contract.

(i) Provision for Self Insurance

Macquarie Generation has external insurance but carries a significant excess on most of its policies. Accordingly an internal insurance provision has been created to recognise this self retained risk. The liabilities are determined by specialist internal insurance staff and whenever necessary in conjunction with independent insurance advisors and loss adjusters.

The adequacy of the provision is subject to periodical external actuarial assessment.

(j) Provision for Major Periodic Maintenance

Macquarie Generation provides for major periodic maintenance due to its materiality and the fact that it is cyclical in nature and is part of a planned program of maintenance covering several years. The annual charge, which is brought to account in determining the profit for the period, recognises the loss in service potential of the asset group, which has to be restored to a pre-determined level periodically by maintenance work to ensure that the expected useful life of assets is achieved.

The provision for major periodic maintenance is shown as a deduction from the carrying value of the class of assets to which it relates in addition to, and separately from, accumulated depreciation.

(k) Segment Reporting

Macquarie Generation operates predominantly in one industry segment, that being the generation of electricity, and within one geographical sector, Australia.

(l) Comparative Figures

Macquarie Generation was established on 1 March, 1996, and is presenting its first set of financial statements for the period ending 30 June, 1996. There are no prior period comparative figures.

Notes to and forming part of the Financial Statements

	\$'000
	1996
2. Operating Revenue	
Sales Revenue	303,023
Other Revenue	
Interest Revenue	2,115
Proceeds from Sale of Property, Plant and Equipment	76
Overfunded Superannuation Reserve brought to Account	2,832
Reimbursement of Community Service Obligations	2,447
Miscellaneous Sources	118
	310,611

3. Operating Profit

Operating Profit before Income Tax has been determined after:

Crediting as Income

Interest	2,115
Profit on sale of Non-Current Assets	15
Net gain on Foreign Currency Transactions	-
Reimbursement of Community Service Obligations	2,447

Charging as Expense

Depreciation of	
Buildings	2,412
Plant and Equipment	23,440
Motor Vehicles	103
Provision for	
Annual Leave	1,699
Long Service Leave	76
Major Periodic Maintenance	3,000
Self Insurance	10,250
Doubtful Debts	-
Bad debts written off during the period	-
Contributions to employee superannuation plans	1,527
Research and Development expense	-
Net loss on foreign currency transactions	-
Interest	40,639
Finance charges relating to finance leases	-
Rental expense on operating leases	-
Loss on sale of non-current assets	-
Directors' Remuneration	101
Auditors' Remuneration	75
Loss on Revaluation of Freehold Land and Buildings	4,246

Notes to and forming part of the Financial Statements

4. Extraordinary Items

There were no extraordinary items during the period.

5. Income Tax Equivalent

The amount of income tax attributable to the financial year is the same as the amount *prima facie* payable on the operating profit and profit on extraordinary items. This is in accordance with the Treasury direction given in a letter dated 15 February, 1996.

6. Dividend

The Board has recommended a dividend payment of \$24,770,000 to the State Government. This will be paid during the course of the 1996/97 year and is represented by the balance of the provision at 30 June, 1996.

7. Cash

	\$'000
	1996
Cash at Bank - Current Account	5,906
Advance Accounts	20
Cash on Hand	3
	5,929

8. Receivables

Current

Trade Debtors	142,093
Miscellaneous Debtors	36,309
	178,402
Deduct Provision for Doubtful Debts	-
	178,402

Non-Current

Long Term Debtors (secured)	1,737
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Long Term Debtors represents loans advanced to employees to assist in the purchase of housing in the Hunter Region and are secured by mortgages over the subject properties.

9. Investments

Current - listed

Commonwealth Government Bonds (at market value)	27,123
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Current - unlisted

Interest Bearing Deposits (at cost)	62,250
Interest Bearing Term Deposits (at cost)	2,862
	65,112
	92,235

Notes to and forming part of the Financial Statements

9. Investments (continued)

Market values have been calculated by application of the Reserve Bank Bond formula, using the market redemption yields of the relevant securities prevailing at balance date.

10. Inventories

	\$'000
	1996
Stores and Materials (at cost)	40,874
Coal Stocks (at cost)	45,853
Oil Stocks (at cost)	1,045
	87,772

11. Other Assets

Current

Prepayments	7,492
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12. Property, Plant and Equipment

Buildings

Power Stations	
At Acquisition Cost	165,585
Less Accumulated Depreciation	2,318
	163,267

Other Buildings

At Acquisition Cost	1,118
Less Accumulated Depreciation	13
	1,105

At Independent Valuation *	1,600
Less Accumulated Depreciation	-
	1,600

Total Buildings

165,972

Land

Non-Infrastructure (at Acquisition Cost)	16
Non-Infrastructure (at Independent Valuation *)	1,000
Infrastructure (at Acquisition Cost)	3,144

Total Land

4,160

Notes to and forming part of the Financial Statements

12. Property, Plant and Equipment (continued)

Plant and Equipment	\$'000
	1996
Power Stations	
At Acquisition Cost	1,978,431
Less Accumulated Depreciation	22,932
	1,955,499
Less Provision for Major Periodic Maintenance	3,000
	1,952,499
Other Miscellaneous Plant and Office Equipment	
At Acquisition Cost	19,635
Less Accumulated Depreciation	506
	19,129
Total Plant and Equipment	1,971,628
Motor Vehicles	
At Acquisition Cost	2,579
Less Accumulated Depreciation	103
	2,476
Total Motor Vehicles	2,476
Total Depreciated Value of Property, Plant and Equipment	2,144,236

* Land and Buildings at Independent Valuation:

Valuations of freehold land and buildings are based on the estimated net rental income of the property in an open market. The revaluation was carried out on 22 July, 1996 by Harold L Johns, Fellow and Accredited Valuer of the Real Estate Institute of NSW and John Surtees, FAIV, FAILA.

No provision has been made for any taxes on capital gains which could arise in the event of a sale of revalued non-current assets for the amounts at which they are stated in the financial statements as it is not expected that any such liability will crystallise.

13. Creditors and Borrowings

Current (Unsecured)

Accounts Payable	65,122
Accrued Interest	38,374
Borrowings*	218,167
	321,663

Non-Current (Unsecured)

Retentions	136
Borrowings*	1,170,868
	1,171,004

Discount on Loans issued by New South Wales Treasury Corporation amounted to \$671,578,550.

Notes to and forming part of the Financial Statements

13. Creditors and Borrowings (continued)

*Maturity Analysis

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

	\$'000 1996
Up to one year	218,167
Over one and up to two years	169,062
Over two and up to five years	539,184
Over five years	462,622
Total	1,389,035

Foreign Currency Exposure

At balance date Macquarie Generation had no foreign currency debt.

14. Provisions

Current

Income Tax		14,823
Insurance		2,600
Dividend		24,770
Employees' Accumulated Entitlements	*	4,481
		46,674

Non-Current

Employees' Accumulated Entitlements	*	12,747
Insurance		6,900
Deferred Income Tax		-
		19,647

* The aggregate components of Employees' Accumulated Entitlements are as follows:

Annual Leave (i)	6,414
Long Service Leave (ii)	10,814
	17,228

The above liabilities are fully provided. The portion of employee entitlements which is expected to be paid within twelve months of balance date has been categorised as a current liability, and has been determined by reference to prior period payments, adjusted for CPI increases.

- (i) Annual Leave is accrued at nominal amounts, including oncosts, calculated on the basis of current wage and salary rates and represents leave accrued by employees but untaken at balance date.
- (ii) Long Service Leave which is not expected to be paid within twelve months of balance date, is accrued in respect of all employees at the present values of future amounts expected to be paid based on actuarial assessment. Associated oncosts are included.

Notes to and forming part of the Financial Statements

15. Other Liabilities

	\$'000
	1996
Non-Current	
Security Deposit	30,000

16. Cash Flow Information

For the purposes of the statement of cash flows, cash includes cash on hand and on deposit, net of outstanding bank overdrafts. It also includes investments as part of the daily cash management function.

Reconciliation of Cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:

Cash	5,929
Other Deposits	62,250
Balance as per Statement of Cash Flows	68,179

Reconciliation of net cash flows from operating activities to operating profit after income tax

Operating profit after income tax	32,352
Depreciation	25,955
Increase in net interest accrued	14,723
Net (profit) on sale of non-current assets	(15)
Amounts credited to provisions against assets	3,000
Assets written off	9
Devaluation of Land and Buildings	4,246
Increase in income taxes payable	14,823
Increase in net deferred taxes payable	-
Changes in assets and liabilities	
(Increase) in trade and other debtors	(144,025)
Decrease in inventories and trading investments	8,649
(Increase) in prepayments	(7,492)
Increase in trade and other creditors, employee entitlements and other provisions	43,402
Net cash (outflows) from operating activities	(4,373)

Non-cash financing and investing activities

At the date of commencement, assets and liabilities necessary for the establishment of Macquarie Generation were transferred from Pacific Power at values as recorded in the books of Pacific Power as at 29 February, 1996.

Notes to and forming part of the Financial Statements

16. Cash Flows Information (continued)

Financing Arrangements

	\$'000
Facilities Available	1996
Bank Overdraft	2,000
NSW Treasury Corporation Loans	1,389,035
Total Available	1,391,035

Facilities Utilised

Bank Overdraft	-
NSW Treasury Corporation Loans	1,389,035
Total Utilised	1,389,035

Macquarie Generation, with the exception of overdraft facilities, is required to borrow all new money through the NSW Treasury Corporation.

Net Cash Flows

The following items have been presented on a net cash basis in the statement of cash flows

- (i) borrowings and repayment of debt
- (ii) purchases and sales of investments

17. Contingent Liabilities

Details of estimated maximum amounts of contingent liabilities (for which no provisions are included in the financial statements) at balance date were:

Nil

18. Capital Expenditure Commitments

Total capital expenditure contracted for at balance date but not provided for in the financial statements:

Payable no later than one year	4,845
Payable later than one, not later than two years	480
Payable later than two, not later than five years	40
Payable later than five years	-
	5,365

These commitments relate in the main to power station equipment.

19. Lease Commitments

There were no Finance Leases or Operating Leases at balance date.

Notes to and forming part of the Financial Statements

20. Additional Financial Instruments Disclosures

Macquarie Generation has identified the following areas where there is an exposure to price risk, and where derivative instruments are used to manage that risk.

(a) Interest Rate Exposure

Macquarie Generation 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 Macquarie Generation. It is Macquarie Generation policy to manage interest rate risk with the assistance of interest rate swaps, forward rate agreements and interest rate futures and options. These products are also used to assist in the management of Macquarie Generation's financial assets, with positions being marked-to-market and any gain or loss brought to account.

All derivatives are managed in accordance with Board policies including total value and credit risk and can only be used for hedging exposures. The market value of interest rate derivative contracts outstanding at balance date is as follows:

	\$'000 Market Value
Interest Rate Swaps	
- in domestic currency	11,146
Forward Rate Agreements	
- in domestic currency	-
Interest Rate Futures Transactions	
- Bond futures	-
- Bill futures	-
- Interest Rate Options	-

(b) Foreign Exchange Exposure

A foreign currency exposure may arise as a result of certain supplier contracts which provide for payments to be made in foreign currencies. A hedging policy requires exposures exceeding \$250,000, to be fully hedged through the use of forward foreign exchange contracts. Gains and losses on revaluation are brought to account at balance date. Outstanding position as at 30 June, 1996 is outlined below.

Hedged Foreign Exchange Exposure Under Supplier Contracts.

	1996 \$'000	% of Total Exposure Hedged
Currency Forwards	Nil	Nil

Exposure Management and Credit Risk Management Policy

An annual evaluation is undertaken by Macquarie Generation of the policies and procedures implemented for the use of risk management whereby the effectiveness of the instruments used is assessed. Credit exposure limits are also reviewed using the assessments of Standard & Poor's and Moody's Investors Service. Derivative exposures are accounted for separately from the underlying exposures, and dealing and credit limits are determined on the basis of gross exposures.

Notes to and forming part of the Financial Statements

21. Events Occurring after Balance Date

There have been no events occurring after balance date, and prior to completion of these financial statements, that have significantly or may significantly affect the operations of Macquarie Generation, the results of those operations or the state of affairs of Macquarie Generation in subsequent financial years.

22. Superannuation

Macquarie Generation contributes to three superannuation schemes, the State Superannuation Fund, State Authorities Superannuation Scheme and the State Authorities Non Contributory Superannuation Scheme. Employees contribute to the schemes at various percentages of their wages and salaries. Macquarie Generation contributes to the schemes at rates as advised by the Superannuation Administration Authority.

Contributions to the schemes are expensed when paid or payable and reduce the superannuation liability. These payments are held in Investment Reserve Accounts by the Superannuation Administration Authority. The Investment Reserve Accounts are invested by the Superannuation Administration Authority and the resultant investment income or deficit adds to the balance of these accounts.

At balance date any unfunded superannuation liability is recognised as a liability in the balance sheet. Similarly, the amount of any overfunded position is brought to account as revenue and recognised as an asset in the balance sheet in the form of prepaid superannuation contributions.

The unfunded liability and prepaid contributions included in the balance sheet as at 30 June, 1996 are composed of:

	SASS (i)	SANCS (ii)	SSF (iii)	Total
	\$'000	\$'000	\$'000	\$'000
Gross Liability Assessed by Actuaries as at 30 June, 1996	12,021	4,569	31,706	48,296
Less: Investment Reserve Account Balance	13,537	5,885	31,629	51,051
Unfunded Liability/ (Prepaid Contributions)	(1,516)	(1,316)	77	(2,755)

(i) SASS - State Authorities Superannuation Scheme

(ii) SANCS - State Authorities Non-Contributory Superannuation Scheme

(iii) SSF - State Superannuation Fund

Notes to and forming part of the Financial Statements

22. Superannuation (continued)

The actuarial reviews of Macquarie Generation's superannuation liabilities are summarised as follows:

	State Superannuation Fund	State Authorities Superannuation Schemes
Reviewed by	NSW Government Actuary	NSW Government Actuary
Last Review	June, 1996	June, 1996
Liability Operative Date	30 June, 1996	30 June, 1996
Last Triennial Review	30 June, 1994	30 June, 1994
Actuarial Assumptions:		
Investment Return		
1995/96	9.0%	9.0%
1996/97	9.0%	9.0%
Thereafter	8.0%	8.0%
Salary Growth Rate		
1995/96	5.0%	5.0%
1996/97	3.0%	3.0%
Thereafter	6.0%	6.0%
Consumer Price Index		
1995/96	3.5%	3.5%
1996/97	4.0%	4.0%
Thereafter	4.5%	4.5%

23. Exemptions

The financial statements have been prepared in accordance with the requirements of Part 3 of the Public Finance and Audit Act 1983 and the Public Finance and Audit (General) Regulation 1995, except that the following exemptions have been granted by the Treasurer to allow disclosure for the electricity industry on a basis broadly consistent with the Corporations Law:

- (i) Exemption from preparing manufacturing and trading statements and approval to prepare a Profit and Loss Statement in lieu of an Income and Expenditure Statement;
- (ii) Exemption from reporting in the financial statements a separate description and amount for all material items of income and expense on a program or activity basis;
- (iii) Exemption from preparing in the financial statements a description and amounts relating to consulting services.

Notes to and forming part of the Financial Statements

Statement by Directors

Pursuant to Section 41 of the Public Finance and Audit Act, 1983, we state that:

1. The accompanying Financial Statements exhibit a true and fair view of the financial position of Macquarie Generation as at 30 June, 1996, and transactions for the four months ended 30 June, 1996.
2. The accompanying Financial Statements have been prepared in accordance with the Public Finance and Audit Act 1983, the State Owned Corporations Act 1989, Public Finance and Audit (General) Regulation 1995, applicable Accounting Standards and other mandatory professional reporting requirements.
3. We are not aware of any circumstances which would render any particulars included in these statements to be misleading or inaccurate.



H E Rees

Chairman

11 October, 1996.



G V Every-Burns

Chief Executive

11 October, 1996.



BOX 12 GPO
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT MACQUARIE GENERATION

To Members of the New South Wales Parliament and Members of the Board of Macquarie Generation

Scope

I have audited the accounts of Macquarie Generation for the period ended 30 June 1996. The preparation and presentation of the financial report consisting of the accompanying balance sheet, profit and loss statement and statement of cash flows, together with the notes thereto, and the information contained therein, is the responsibility of the Board of the Corporation. My responsibility is to express an opinion on these statements to Members of the New South Wales Parliament and Members of the Board based on my audit as required by section 24A of the *State Owned Corporations Act 1989* and sections 34 and 41C(1) of the *Public Finance and Audit Act 1983*.

My audit has been conducted in accordance with statutory requirements and Australian Auditing Standards to provide reasonable assurance as to 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 as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements so as to present a view which is consistent with my understanding of Macquarie Generation's financial position, the results of its operations and its cash flows.

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

Audit Opinion

In my opinion, the financial report of Macquarie Generation complies with statutory requirements and presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the financial position of Macquarie Generation as at 30 June 1996 and the results of its operations and its cash flows for the period then ended.

Inherent Uncertainty Regarding Valuation of System Assets

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 1(b) to the financial statements, it is disclosed that uncertainty currently exists concerning valuation of system assets. Until more discernible market conditions apply, the quantum of the financial effect of adjustments, if any, to the values is unclear.

A.C. HARRIS

SYDNEY
11 October 1996

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statutory information

Charter & Legislation

Macquarie Generation is a statutory state owned corporation, in accordance with the State Owned Corporations Act 1989 and was constituted on 1 March 1996, by the Energy Services Corporations Act 1995 as an electricity generator.

Ministerial directions received by the Corporation during the four months of operation to 30 June 1996 made under Clause 3, Schedule 5 of the Energy Services Corporations Act 1995, are listed below:

- 1 Energy Services Corporations (Transfer of Pacific Power's Assets) Order 1996, commencing 2 March 1996. This Order relates to the transfer of staff, assets, rights and liabilities to Macquarie Generation from Pacific Power and sets out terms and conditions for this transfer. This Order was signed by the Acting Minister for Energy on 1 March 1996.
- 2 Energy Services Corporations (Amendment of Transfer of Pacific Power Assets) Order 1996, commencing 22 March 1996.
- 3 Energy Services Corporation (Further Transfer of Pacific Power Staff) Order 1996, commencing 28 June 1996. This Order was signed by the Treasurer.

Aims & Objectives

The core business of Macquarie Generation is the production, marketing and sale of bulk electricity. Macquarie Generation provides low cost reliable electricity to the New South Wales competitive wholesale market. A national market is scheduled to commence during the 1996/97 year.

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

Our objectives are to :

- be a successful business;
- maximise shareholders wealth;
- have regard to the interests of the local community;
- protect the environment;
- operate efficient, safe and reliable electricity generation facilities ; and
- be successful in the wholesale market for electricity.

In all aspects of its business the people of Macquarie Generation are expected to conduct themselves in a responsible manner, honestly and with integrity.

Exemptions from Reporting Provisions

The Annual Report has been prepared in accordance with the requirements of the Annual Reports (Statutory Bodies) Act 1984 and the Annual Reports (Statutory Bodies) Regulation 1995 except that a number of exemptions have been granted by the Treasurer to allow disclosure for the electricity industry on a basis broadly consistent with the Corporations Law. The following table details the exemptions granted to Macquarie Generation.

Reference	Requirements
s7(1)(a)(iii)ARSBA/Schedule 1 ARSBR	Budgets
s9(1)(d) ARSBA/Schedule 1 ARSBR	Management & Structure (in part)
s9(1)(f) ARSBA/Schedule 1 ARSBR	Legal Change
Schedule 1 ARSBR	Funds Granted to Non-Govt Community Organisations
Schedule 1 ARSBR	Management & Activities (in part)
Schedule 1 ARSBR	Research & Development
Schedule 1 ARSBR	Land Disposal
Schedule 1 ARSBR	Time for Payment of Accounts
Schedule 1 ARSBR	Report on Risk Management & Insurance Activities
Schedule 1 ARSBR/PM 91-2	Disclosure of Controlled Entities (in part)
clause 12 ARSBR/TC G1991/5	Investment Management Performance
clause 13 ARSBR/TC G1991/5	Liability Management Performance
s7(1)(a)(ia) ARSBA	Financial Statements of Controlled Entities

ARSBA	- Annual Reports (Statutory Bodies) Act 1984
ARSBR	- Annual Reports (Statutory Bodies) Regulation 1995
PM	- Premier's Memorandum
TC	- Treasury Circular

Board Meetings

The number of Board meetings (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors during the four months ended 30 June 1996 were:

	Board Meetings		Board Audit Committee Meetings	
	Number of Meetings Attended	Number of Meetings Held (1)	Number of Meetings Attended	Number of Meetings Held (1)
Mr Evan Rees	6	6		
Mr Grant Every-Burns (2)	6	6	1	1
Ms Anna Buduls	6	6		
Mr John Cahill	-	1		
Mr Graham Stanford	4	6	1	1
Mr James Watt	6	6	1	1
The Hon Robert Webster	4	6		

1. Reflects the number of meetings held during the time the Director was a member of the Board or the Committee.
2. Although not a member of the Board Audit Committee, Mr Every-Burns attended all meetings of that Committee by invitation.

Consultant Fees

Consultants expenditure for the period 1 March 1996 to 30 June 1996

	No. of Consultancies	Amount Incurred
Total Under \$30,000	3	\$41,637.50
Total Exceeding \$30,000	-	-
Total Consultancies	3	\$41,637.50

Consumer Response/Freedom of Information

There were no consumer complaints or Freedom of Information applications received by the Corporation during the period 1 March 1996 to 30 June 1996.

Controlled Entities

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

Cost of Annual Report

Macquarie Generation's first Annual Report is the principal marketing and promotional publication developed and, as well, provides statutory disclosure material.

A total of 3000 copies have been printed at an estimated cost of \$12.44 per copy.

Equal Employment Opportunity

Macquarie Generation is committed to valuing and effectively using the skills and experience of all our employees, and to building a workforce which has the best possible people to achieve our business objectives. With the development of an Equal Employment Opportunity Plan in the near future, actions to address the needs of specific target groups, including those covered by the Anti-Discrimination Act and the Disability Services Act will be outlined. Under the direction of the Chief Executive, as the Director of Affirmative Action, an employee survey is planned. The data will provide a current employee profile from which the EEO Plan and actions will be based.

In the four month operating period:

- A Women's Contact Officer Network was established and links with the State Government's Spokeswomen's Programme.
- Establishment of an Aboriginal and Torres Strait Islander Employees Network commenced.
- Involvement in the Muswellbrook Child Care Facility continued.
- Awareness training programs have been planned for presentation early in the 1996/97 year.

Overseas Visits

There were no overseas visits undertaken by officers of the Corporation during the four months operation to 30 June 1996.

Promotion

An information sheet was produced in-house to inform the public, customers and suppliers of Macquarie Generation's corporate structure and governance. Production of power station and marketing brochures is underway.

Senior Executive Service

Chief Executive and Senior Executive Officers' Profile as at 30 June 1996

CES/SES Equivalent Level	No of Positions
5 (Chief Executive, Mr Grant Every-Burns)	1
4	2
2	2
1	3

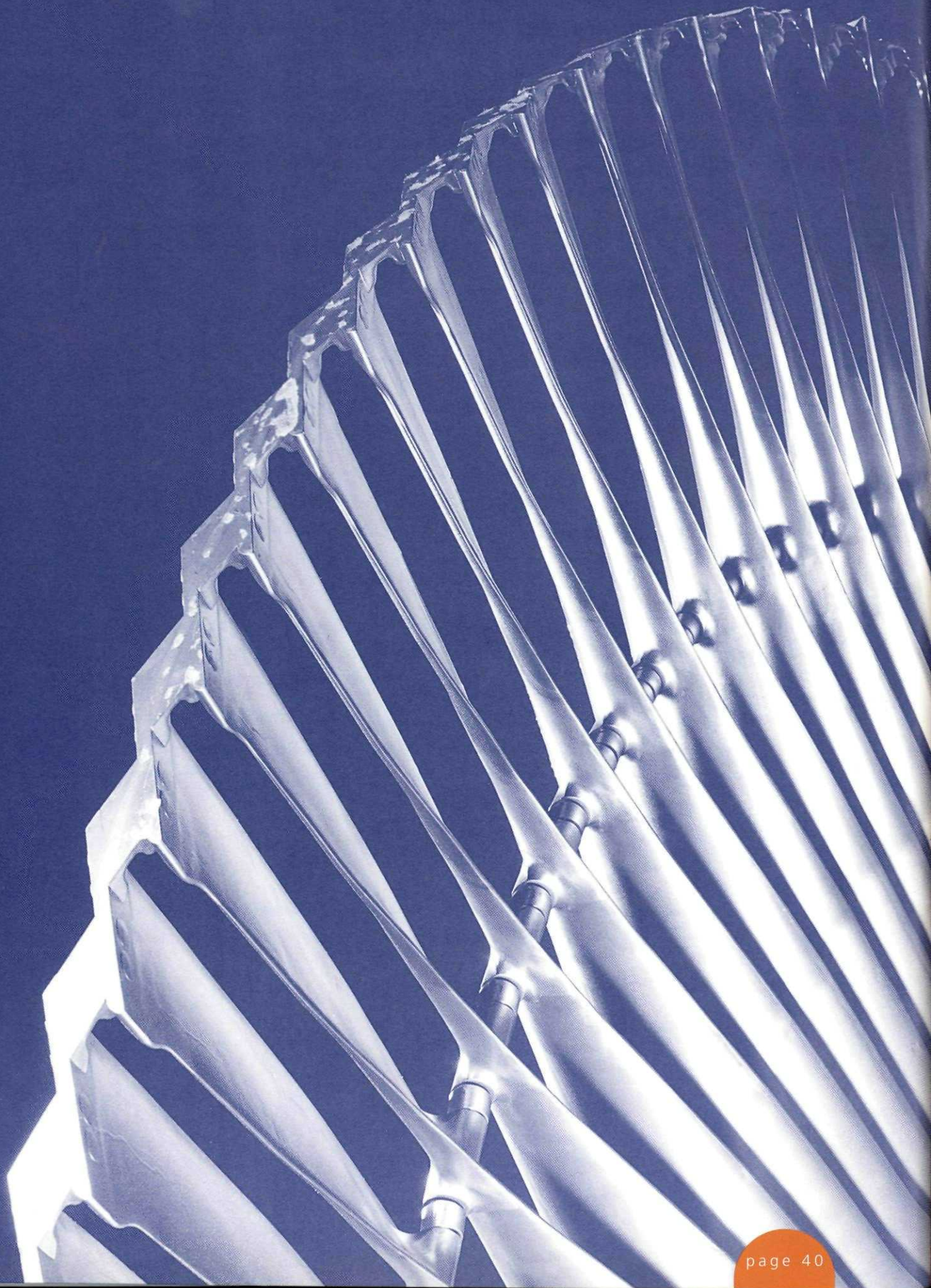
The number of CES/SES positions filled by women in the four months to 30 June 1996: nil.

Staff Numbers

Classifications	30/6/96
Executive	7
Engineering Officer	111
Professional Officer	63
Administrative Officer	94
Trainee	4
Apprentice	56
Operator	176
Tradesperson	122
Power Worker	193
Total	826

There has been no exceptional movement of salaries, wages and allowances of material effect during four months operation to June 1996.

designed & produced in Newcastle, NSW



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Administration
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Security and Operations
24 hours 7 days/week

Macquarie *Generation*