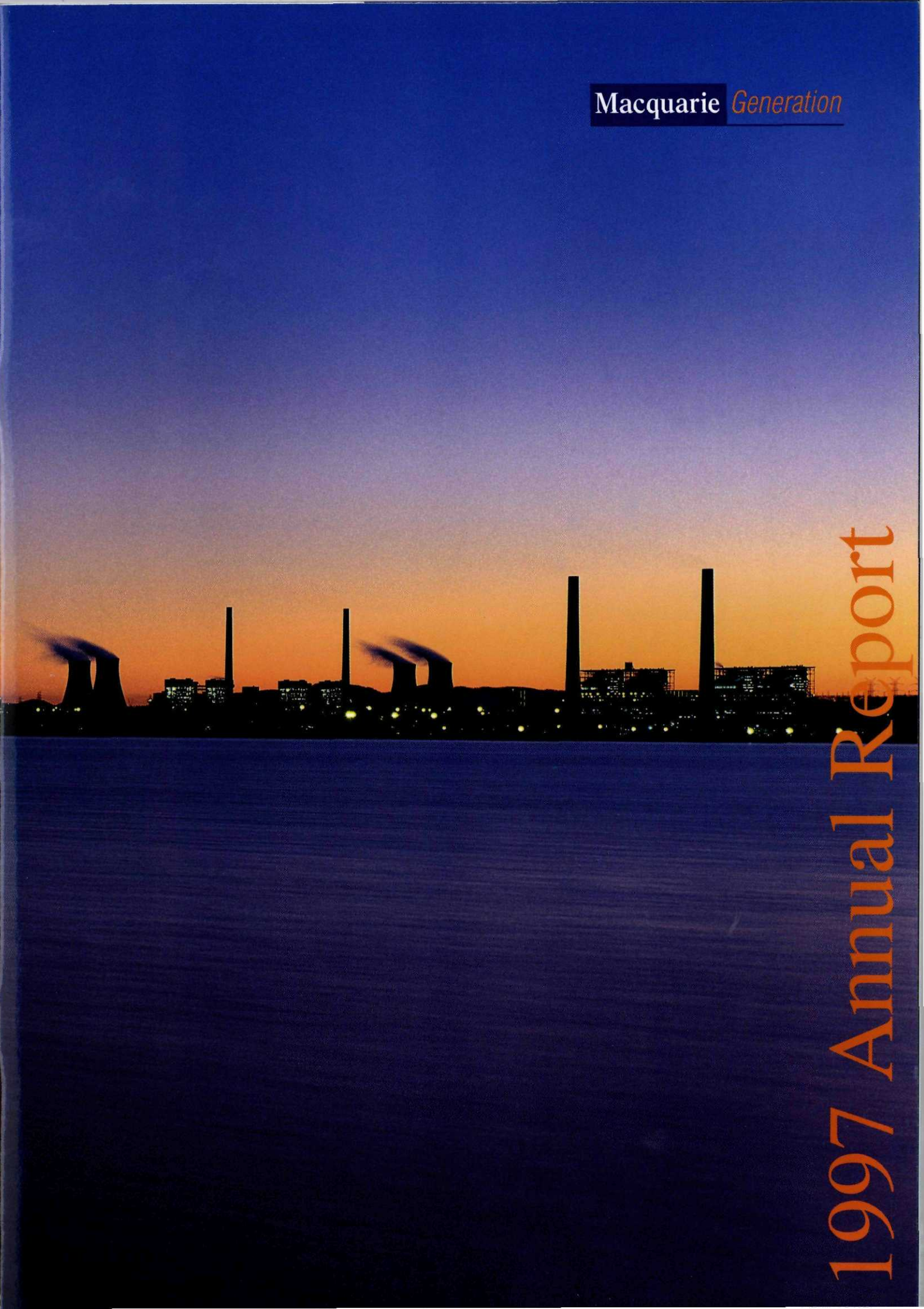


Macquarie *Generation*

# 1997 Annual Report





# 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



## **LETTER TO SHAREHOLDERS**

5 September 1997

Dear Shareholders

We have much pleasure in submitting the Macquarie Generation Annual Report including the Profit and Loss Statement and the Balance Sheet for the financial year ended 30 June 1997, 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. Varys'.

CHIEF EXECUTIVE AND  
MANAGING DIRECTOR

*Macquarie Generation was established on 1 March 1996 in line with reforms in the New South Wales electricity industry, which included the break-up of the State's electricity generating, transmission and distribution sectors. Macquarie Generation is a State Owned Corporation, with an independent Board of Directors.*

*In May 1997, the first stage of the National Electricity Market, for which these reforms were introduced, commenced and Macquarie Generation is the largest generator in that market.*

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# Our Aims and Achievements

Macquarie Generation's aim is to be the leading electricity generator in the competitive National Electricity Market.

Our corporate goals support this overall intent:

- **Customers:** To be the preferred supplier of electricity
- **Market:** To lead the market in the production and trading of bulk electricity
- **Company:** To assure our position as a low cost producer of electricity in New South Wales
- **Financial:** To create value for shareholders over the long term
- **Organisation:** To develop an organisation which recognises and exploits our strengths and capabilities and provides a safe and rewarding work environment
- **Culture and Values:** To develop within the corporation a strong service and safety culture, and within our people a focus on creating value in all activities of the company
- **Environment:** To protect the environment in which we operate now and in the future.

Macquarie Generation's primary role is to produce electricity efficiently and safely and at the most competitive price, for our customers, and in accordance with the requirements of our shareholders.

Macquarie Generation owns and operates two major coal-fired power stations. Bayswater and Liddell Power Stations are located in the Upper Hunter Valley of New South Wales. The Hunter Valley is well known for its plentiful supply of black coal, and our power stations source their fuel supplies from local mines.

The two power stations have a combined generating capacity of 4,640 MW, making Macquarie Generation the largest electricity generator in the competitive first stage of the National Electricity Market.

The first stage of the National Electricity Market started in May 1997, opening up competition by allowing transfer of energy between New South Wales and Victoria. The second stage of the market will commence when transmission interconnections to South Australia and Queensland have been built.

Our performance in the first stage of the market indicates that we are well positioned to continue to be a competitive force as the market further develops and opens to broader competition in the future.

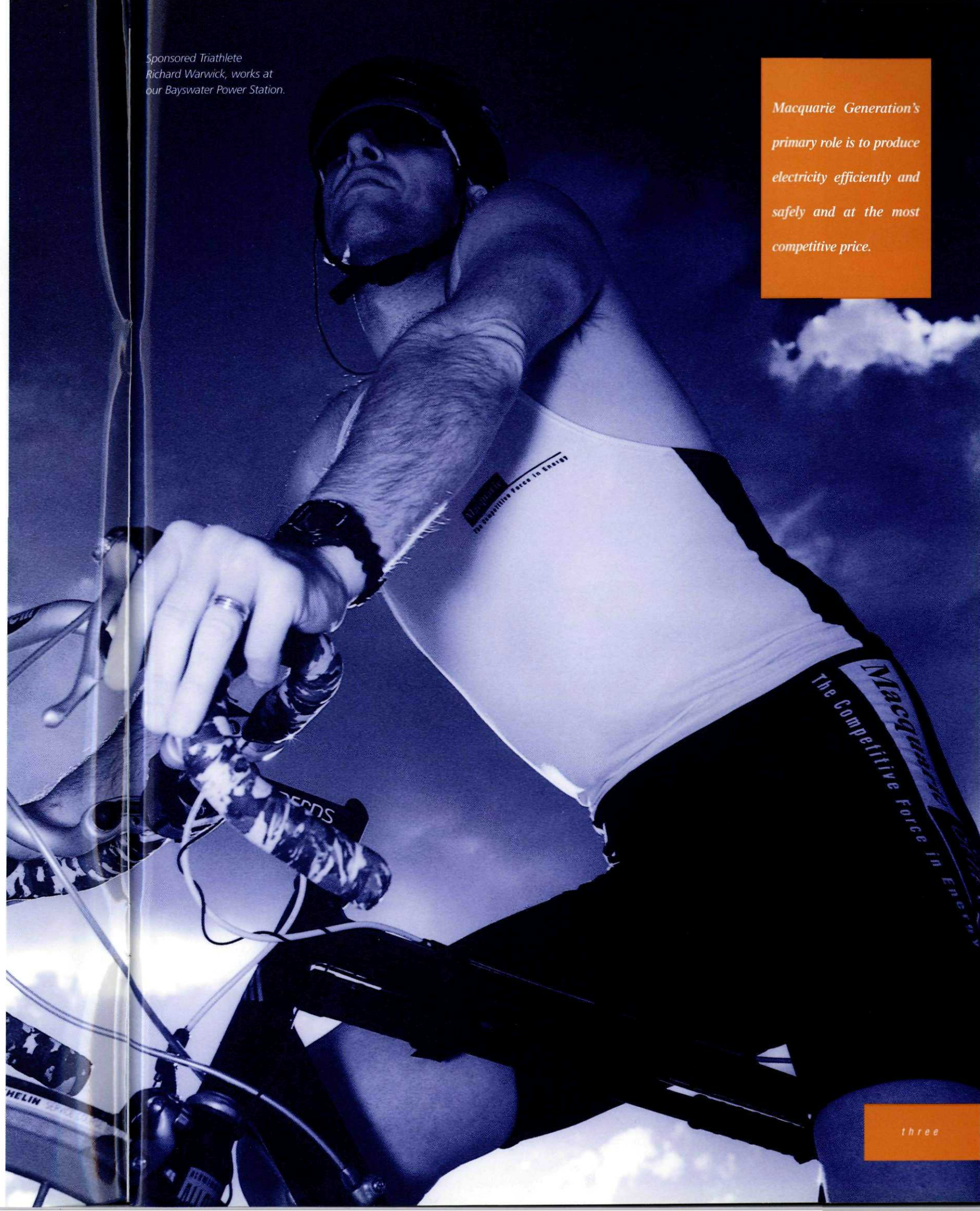
Macquarie Generation's share of the New South Wales market over the 12 month period was 40 per cent, and takes into account the transfer of energy between New South Wales and Victoria for the months of May and June.

Our plant availability for the 12 month period exceeded 94 per cent for both power stations.

Macquarie Generation has total assets exceeding \$2 billion. Our operating profit for the 1996-1997 financial year was \$173.8 million. At 30 June 1997, Macquarie Generation had 799 employees.

Sponsored Triathlete  
Richard Warwick, works at  
our Bayswater Power Station.

Macquarie Generation's  
primary role is to produce  
electricity efficiently and  
safely and at the most  
competitive price.







# Chairman's Report



I have pleasure in presenting the 1997 Annual Report for Macquarie Generation.

Results for the year to 30 June 1997 are very sound, reflecting the growing commercial focus adopted by the corporation following its establishment in March 1996. That focus was a critical factor in successfully meeting the competitive challenges introduced by the State and National Electricity Markets.

To ensure our competitive position and achieve sound financial performance we have reviewed business strategies and ensured that planned capital expenditure will deliver demonstrable benefits. Nevertheless, our power stations continue to be most efficient; producing electricity cleanly and effectively.

In 1996-1997 the corporation supplied 40 per cent of New South Wales electricity. Strong competition led to an unexpectedly large fall in prices, particularly in the second half of the year. New contracts at lower prices are progressively replacing the vesting contracts which provided a crucial part of income. On present trends future revenue can be expected to reduce as vesting contracts expire. It is important that all states maintain vesting for the same duration to ensure a level playing field in the near future.

We believe our competitive position is very strong but we acknowledge that cheaply available brown coal fuel in Victoria will lead to a net power flow into New South Wales for some years until the supply and demand balance tightens.

The possibility of continued low electricity prices has forced us to examine all controllable costs, the largest of these being fuel. The corporation will actively pursue all means to reduce fuel and other discretionary costs.

Our workforce remains the key to our continued commercial success, and I congratulate everyone associated with Macquarie Generation for their efforts and especially their improvements in safety. They have assisted with considerable change over the year. However, further changes are needed if we are to achieve the corporation's goals for the future.

I also wish to acknowledge our Board members who have made a significant contribution as a strong team throughout this critical, full first year of operation.

*E. Rees.*

**Evan Rees**  
Chairman

*"...reflecting the  
growing commercial  
focus adopted by the  
corporation."*

#### Board of Directors

Front Row L-R: Evan Rees, Grant Every-Burns,  
Back Row L-R: Graham Stanford, Anna Buduls,  
Robert Webster, James Watt and John Cahill.





Mobile Plant Operator  
Barry Thrift, Bayswater.

# Chief Executive's Report

This has been a year of significant achievement for Macquarie Generation. The corporation, which was only four months old at the beginning of the reporting period, moved rapidly to establish its systems and expertise in the State Electricity Market, paving the way for profitable operation in the first stage of the National Electricity Market.

In our first full year of operation since establishment, I am pleased to report a strong operating profit result of \$173.8 million. This was achieved by substantial cost reductions principally from power station operations and financing charges. Despite reduced revenue from falling electricity prices the corporation also reduced its debt by \$387 million and enhanced profit by effective trading in electricity.

On 1 October 1996 the 50 largest customers in New South Wales were given a choice of electricity supplier and by July, this year, some 4,000 customers representing 40 per cent of the available State market had become contestable. The market has been fiercely competitive with electricity prices falling consequently. In May 1997 the National Electricity Market took a major step forward with the introduction of direct competition between New South Wales and Victoria.

Macquarie Generation has taken a leading position in the market by focusing on customer needs with responsive and efficient service. We have established a highly skilled marketing team to address customer needs and new business opportunities, a critical issue as the competitive market develops and opens to the whole of south eastern Australia. Our business strategy is designed to respond to the competitive forces of the market and at the same time maximise the value of our assets.

The power stations have operated more flexibly than was required in the past and with very high levels of availability and reliability. At the same time our safety performance has improved dramatically with the accident rate across the corporation being cut by 50 per cent as a result of systematic and cooperative effort by management and all employees. It is pleasing to note that Bayswater Power Station has been accident free for more than 250 days.

Earlier this year the Government called for expressions of interest to develop the extensive Mt Arthur North coal deposits which are in near proximity to the power stations. This announcement coincided with our preparations to invite tenders for future short and long term coal supplies with the aim of significantly reducing the cost of fuel which is our largest expense. The review of our current and future supplies provides us with a window of opportunity for creative arrangements with coal suppliers. Macquarie Generation's cost of fuel will have to fall year on year to maintain its competitive position, but we believe such reductions are sustainable with increasing mining efficiency.

The excellent environmental performance of Bayswater and Liddell continues, supported by a comprehensive Environmental Policy and continued training programs for our employees. We have formally indicated our preparedness to participate in the Commonwealth Government's "Greenhouse Challenge" initiative.

Business improvements have been taking place across the organisation in preparation for and response to the market. Power station loading is more variable and maintenance more innovative than before. When prices have not met the costs of production, the corporation has improved its commercial position by withdrawing surplus capacity. We will continue to search for ways to improve profitability.

The recent announcement by the New South Wales Government to explore the option of privatisation of the State's electricity industry has introduced a further dimension of potential change for us to take into consideration and manage.

I take the opportunity to thank the people of Macquarie Generation for their cooperation, professionalism and commitment shown to the tasks they faced during the year. By these efforts, the corporation has achieved a great deal. We are all conscious, however, of the further changes yet to be managed to ensure our continued success in the increasingly competitive market environment.

Grant Every-Burns  
Managing Director and Chief Executive



*"Our business strategy is designed to respond to the competitive forces of the market and at the same time maximise the value of our assets."*



# Bayswater Power Station

## Bayswater Power Station

<b>Manager</b>	John Neely
<b>Location</b>	Upper Hunter Valley, New South Wales, Australia
<b>Capacity</b>	2,640 MW <i>From 4 x 660 MW Units</i> <i>Comprising four single furnace boiler units and four turbo-generators</i>
<b>Coal Consumption</b>	Approximately 7 million tonnes per year
<b>Commissioned</b>	1985 - 1986

## OPERATIONS REVIEW

Bayswater achieved an energy production of 17,337 GWh sent out for the year. This was achieved by a plant equivalent availability factor of 93.7 per cent, an equivalent forced outage rate of 0.27 per cent and a station trip rate of 0.22 per 1000 hours. This is a commendable result for the station's operation for the year. Total coal consumption for the year was 7.6 million tonnes.

Unit 3 will exceed its previous maximum service period of 255 days in early July, which stood at 243 days at 30 June 1997. All indications are sound for its continued consecutive operation with the challenge for the unit's operators to surpass the station's standing record for continuous service of 318 days held by Unit 4.

Following the implementation of the Ravensworth Ash Disposal project in early 1996, the station deposited 1.6 million tonnes of ash into a disused open cut mine void. A portion of the area is now being capped in preparation for top-dressing, seeding and planting.

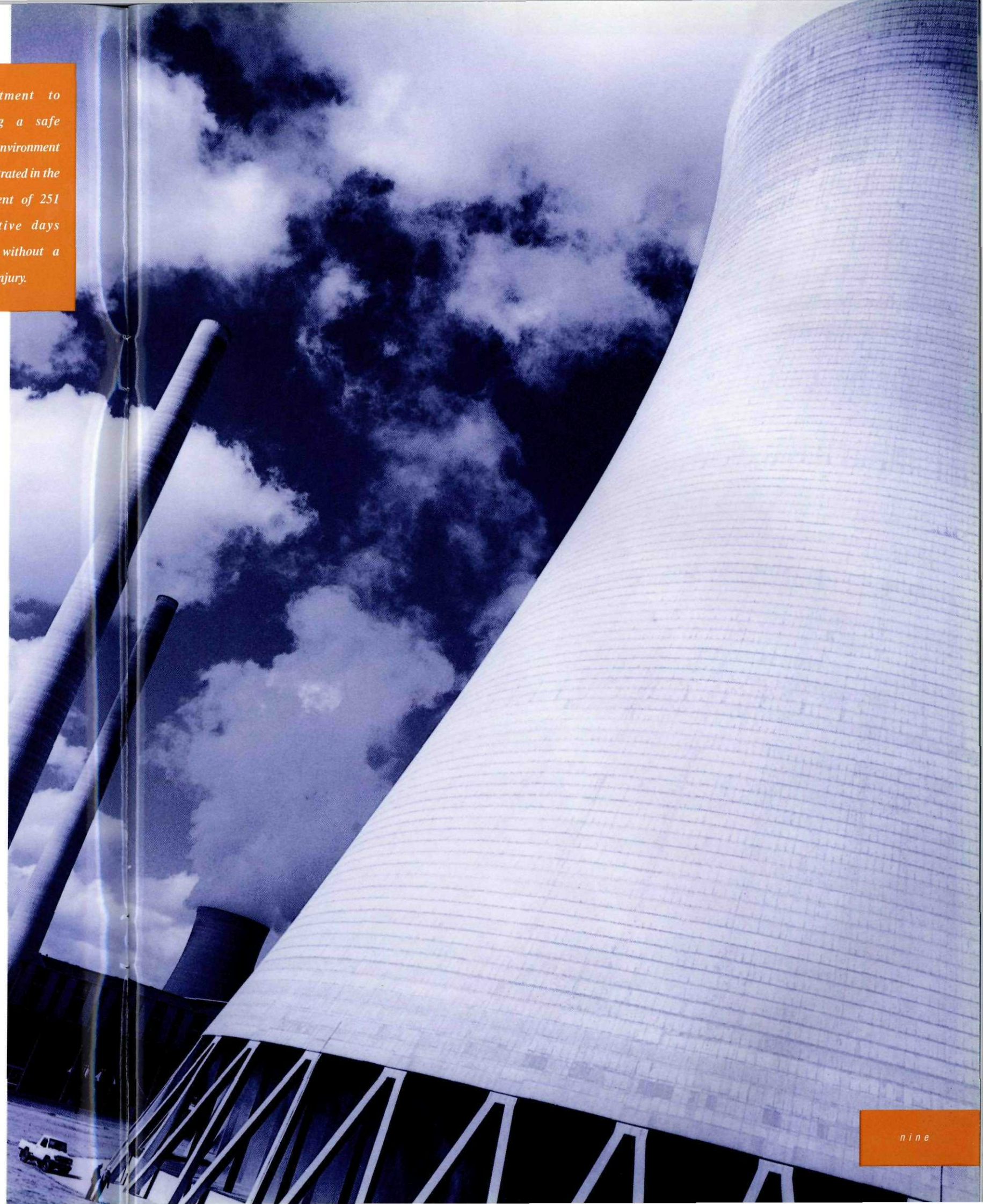
The station's commitment to providing a safe working environment is demonstrated in the achievement of 251 consecutive days recorded without a lost time injury. This record is continuing and for the first time, includes all people working on the Bayswater Power Station site.

In a recent audit under the National Safety Council of Australia 5 Star Safety Program, Bayswater Power Station achieved a highly commendable 4 Star rating.

As in previous years, Bayswater continues to encourage achievement by young people in the local community. This year, a group of students from St Catherine's College, Singleton, undertook a workplace problem solving project. They examined the cleaning process of the fabric filter plant and made recommendations to optimise cleaning in relation to operations. The exercise was conducted under the E-Team Program, administered by the Australian Quality Council.

*...commitment to providing a safe working environment is demonstrated in the achievement of 251 consecutive days recorded without a lost time injury.*

Bayswater	12 Month Average Actual	Corporate Target
Equivalent Availability Factor	93.70	91.14
Forced Outage Rate	0.27	1.00





*The station  
has reduced its  
lost time injury  
frequency rate  
from 34 to 20...*

# Liddell Power Station

## Liddell Power Station

Manager	John Marcheff
Location	Upper Hunter Valley, New South Wales, Australia
Capacity	2,000 MW From 4 x 500 MW Units Comprising four boilers and four turbo-generators
Coal Consumption	Approximately 5.5 million tonnes per year
Commissioned	1971 - 1973

## OPERATIONS REVIEW

Following the commencement of the National Electricity Market, Liddell continues to make a significant contribution to Macquarie Generation meeting its business objectives.

In the existing competitive market, generator over-capacity varies between 20 per cent and 40 per cent in excess of system requirements, including reserves. Specifically, Liddell's production capacity provides Macquarie Generation with a significant natural hedge against adverse pool prices.

As Macquarie Generation manages the corporation's position in the market, it has maximised production output on a portfolio basis between Bayswater and Liddell. In so doing, maintenance and outage schedules can be coordinated, thereby minimising exposures to pool prices during maintenance programs.

Liddell achieved a record plant availability of 96.1 per cent, an indication of the success of the station's plant life extension program carried out over recent years. During the year, the rewind of No.1 Generator was completed, thus ensuring its reliable operation well into the next century.

As part of the station's waste minimisation and management policy, markets have been established for furnace ash and fly ash cenospheres produced during the combustion process. For example, furnace ash is currently being used on major roadwork upgrades in the area, resulting in improvements to the New England Highway; the major roadway linking Sydney and Brisbane. Research is continuing to find suitable markets for the remaining fly ash material.

Liddell introduced the National Safety Council of Australia 5 Star Safety Program and is anticipating a favourable result from the first grading audit to be conducted later this year. The station has reduced its lost time injury frequency rate from 34 to 20 during 1996-1997.

Liddell	12 Month Average Actual	Corporate Target
Equivalent Availability Factor	96.16	94.80
Forced Outage Rate	2.46	5.00

Professional Officer  
Soliman Soliman of Liddell.



# Trading Sales Marketing

## TRADING, SALES AND MARKETING

Electricity supply industry and market reforms introduced by the New South Wales Government in March 1996 progressed substantially during 1996-1997, major milestones being;

- extension of wholesale market trading to include trading between the New South Wales and Victorian pools, as a first stage in the introduction of a National Electricity Market
- introduction of competition in retail supply of electricity.

Both the wholesale and retail markets have been fiercely contested with the result that prices have fallen below industry sustainable levels. The current market outlook is that these conditions may only improve modestly in the near term. The impact on Macquarie Generation, in the short to medium term, is expected to be reduced returns on sales as vesting contract volumes are replaced by lower priced bilateral contracts.

### Wholesale Market Trading

Wholesale market operations involves trading in two related markets. These are the physical spot market in which generators compete to produce the electricity supplied to the pool, and the electricity derivatives market where financial contracts are traded as part of the pool participants risk management strategies.

#### Physical Market

The physical spot market clears at a price determined by the quantities and prices offered by generators. Spot market prices have been quite volatile and have varied in 1996-1997 from a high of \$113/MWh to a low of zero and averaged \$22/MWh.

Macquarie Generation's share of sales to the New South Wales pool was 40 per cent.

#### Financial Contracts Market

Bilateral financial contracts are used by generators and retailers to manage risks associated with trading in the pool. The contracts themselves can create exposure to financial risks which must also be managed.

A proportion of Macquarie Generation's sales was secured for 1996-1997 under financial contracts vested between the corporation and the New South Wales and ACT electricity retailers. The volumes covered by these contracts were reduced substantially over the year, in line with phasing in of contestability in the retail market.

The opening up of contestability, resulted in an increase in number of electricity retail licence holders, from 7 to 22, which created the challenge of servicing and satisfying the needs of these electricity retailers. A high emphasis has also been given to development and implementation of policies and systems for managing risks associated with trading in the financial contracts market.

### Retail Market Trading

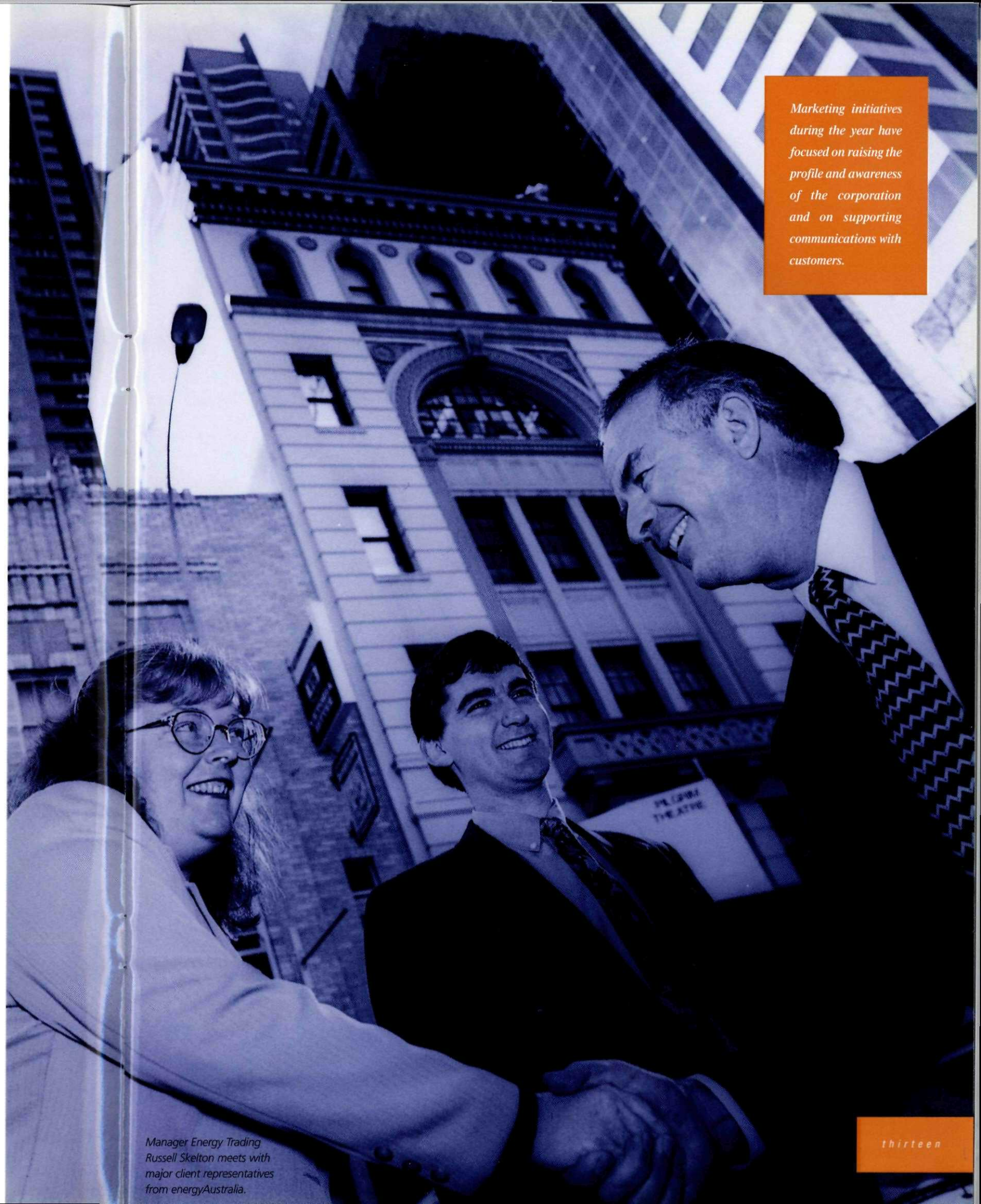
Competition in the retail market commenced in October 1996, when around 50 of the largest users of electricity became contestable.

Macquarie Generation was granted a retail licence in New South Wales in March 1997. It has however only had a minor direct involvement in this so far fiercely competitive market where sales are being made at prices below wholesale levels.

### Marketing

Marketing initiatives during the year have focused on raising the profile and awareness of the corporation and on supporting communications with customers.

*Marketing initiatives during the year have focused on raising the profile and awareness of the corporation and on supporting communications with customers.*



Manager Energy Trading  
Russell Skelton meets with  
major client representatives  
from energyAustralia.





Scott McKinnon observes  
Tony Moss, Gavin Morris and  
Wayne Long during fire team practice.

# Human Resources

Macquarie Generation people have achieved a great deal over the past 12 months, resulting from the increasingly competitive marketplace and a number of reorganisations associated with the settling process within the corporation following its establishment in March 1996.

Through the preparedness of people to adapt to new working arrangements and take on new skills, the corporation has been able to maintain competitiveness in the marketplace.

A consultative workplace committee was formed to provide a forum to address an Award. A consent Award for the corporation was subsequently agreed to in November 1996. Review discussions have now commenced for a new Award, to progress workplace reforms in relation to such matters as flexible working arrangements, conditions of employment and performance pay.

Improvements have continued to be achieved in employee safety. Workplace Occupational Health and Safety Committees have established programs that provide for regular inspections of workplaces, under the National Safety Council of Australia 5 Star Safety Program. This has resulted in a common safety management system which will provide a consistent audit and reporting process. The safety performance targets set in the Award and by the Executive Safety Committee have been achieved and continue to show steady improvement.

The Equal Employment Opportunity (EEO) Program provides information and support for EEO target groups, and ensures that workplace change incorporates EEO principles to improve opportunities for all employees. A Diversity and Equity Management Plan has been developed. With limited recruitment programs envisioned, the focus of the plan is for the retention and development of the EEO target groups.

The corporation's Women's Contact Network, which links with the Premier's Department Spokeswomen's Program, had an active year. Employees have participated in the activities of the program, which provides networking and learning opportunities with participating organisations. A highlight for the corporation's women was celebration of International Women's Day with a meeting addressed by the ABC's Rural Woman of the Year 1995, Ms Beverlee Adams.

The skills and knowledge of employees need to be continually improved to increase the capability of the corporation to deliver the highest standard of performance and services to meet the needs of our customers. Consequently, training and development of our people remains fundamental to the corporation's success and employees have participated in internal and external training programs during the reporting period, ranging from skills based to professional programs.

Our commitment to training is further evidenced by other specific programs. Four employees have continued academic studies under a Scholarship Program. One of those scholars, Warren White, graduated with honours in Mechanical Engineering during the reporting year. Six apprentices were recruited in the early part of the year, with indentures signed confirming their training program in May 1997. Six trainees under the Australian Traineeship Program commenced in February 1997, and will undertake a range of administrative training programs until February 1998.

Our Employee Involvement Program has continued to promote new ideas that bring about improvements in plant performance. Outstanding suggestions adopted and rewarded during the year, include: a portable gas leak detector, unit run-up improvement and shaker rack repair technique. This program is one example of how productivity improvement and employee satisfaction is being achieved at Macquarie Generation.

*Through the preparedness of people to adapt to new working arrangements and take on new skills, the corporation has been able to maintain competitiveness in the marketplace.*





# Environment Community

## ENVIRONMENTAL MANAGEMENT

Macquarie Generation accepts responsibility for environmental protection as an essential part of its business, and has implemented a far-reaching Environmental Policy and Plan. The key objectives of the policy and plan are to comply with all applicable environmental laws in a commercially effective way and, at the same time, be consistent with community expectations.

Relating what our operations are and how we manage the environmental considerations to the broader community is a key objective in our Environmental Management Program. Educational programs are underway, together with regular communications with local media and organisations to ensure clear messages and understanding are achieved.

Macquarie Generation has declared its intention to take part in the Commonwealth Government initiative "Greenhouse Challenge" and is developing the corporation's Cooperative Agreement supporting greenhouse gas abatement under this program.

Specific programs and practices which prevent pollution and minimise environmental impact are in place. The programs for air and water quality and land management are regularly reviewed to ensure objectives are being met.

Our current programs and practices ensure the efficient use of energy and resources combined with proper waste management programs.

## COMMUNITY

While the demands of the competitive electricity market and adjusting our resources to meet those demands has been our priority, we have taken the time to participate in events and to support our local communities.

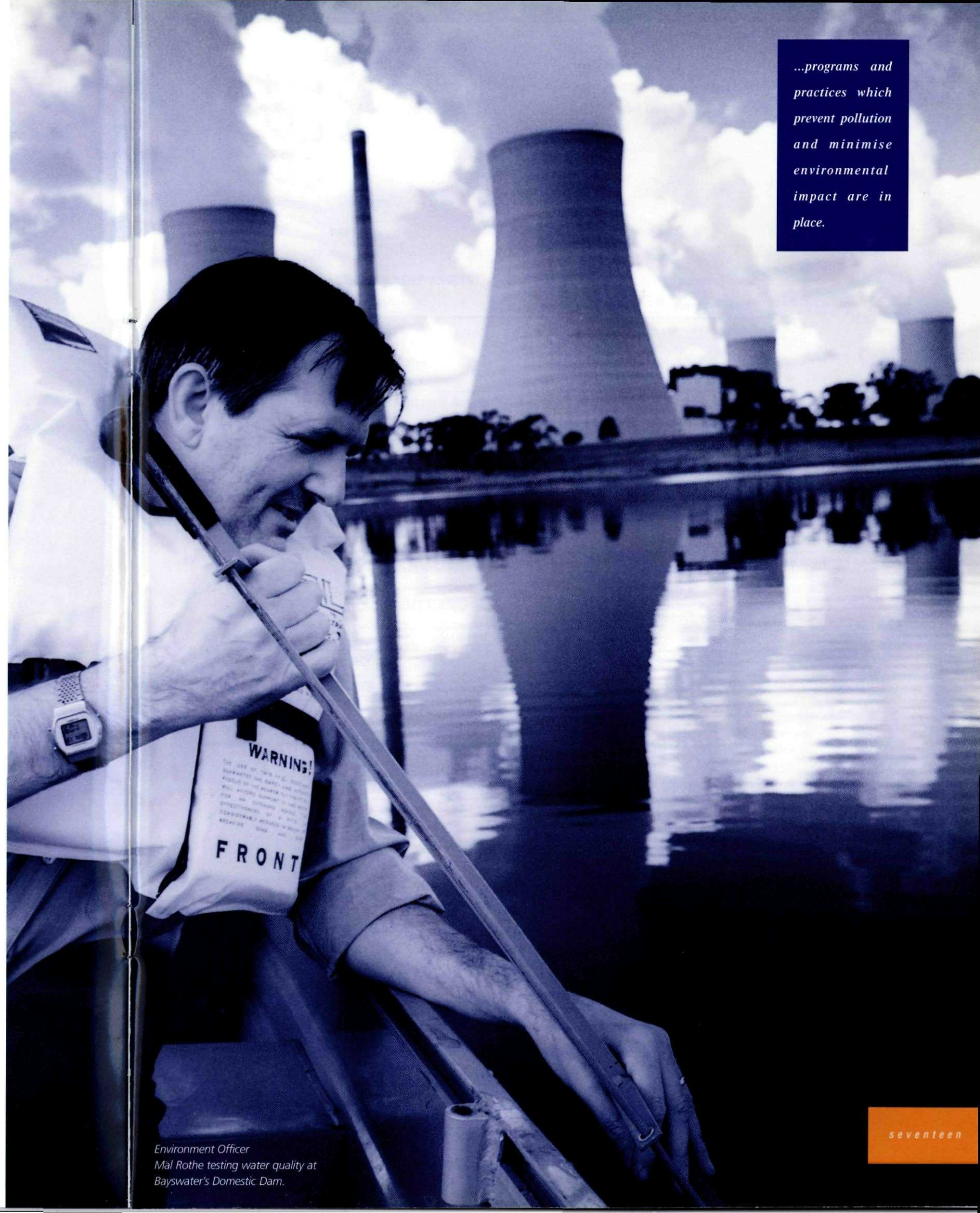
Macquarie Generation proudly sponsored the 1997 Newcastle Regional Show Art and Photography Exhibition. This combined exhibition attracted over a thousand exhibitors. The photography exhibition attracts international exhibitors. The art exhibition is limited to Hunter region artists. This provided us with an opportunity to nurture the talent within our local community. Two pieces were judged equal first in the fine art section of the exhibition. These works are now displayed in our power stations, for the enjoyment of employees and visitors.

As hosts of the 1996 Mining and Energy Exhibition, which attracted well over a thousand visitors over three days in September, we were able to showcase Bayswater Power Station as a leader in electricity production, promote the new corporate name, and explain the emerging competitive energy market to a broad public and many representatives of the mining and energy sectors.

In addition, we have supported the Singleton High School Marching Blues in their quest to participate in international performances and the Muswellbrook Charity Drive to benefit Camp Quality. Together with contributions from employees, the corporation supported the Salvation Army Christmas Appeal and the Australian Red Cross. We have continued a tradition of support to schools and TAFE colleges towards prizes for outstanding achievement in academic work, personal development and citizenship.

The Visitors Centre at Bayswater Power Station continued to attract a steady flow of visitors. The centre attracts tourists, and features amongst the diversity of industries which now contribute to the wealth of the Upper Hunter Valley. Visitors to the station are encouraged to wander along our 'Environmental Walk' or take advantage of the picnic and barbecue facilities provided.

*...programs and practices which prevent pollution and minimise environmental impact are in place.*



Environment Officer  
Mal Rothe testing water quality at  
Bayswater's Domestic Dam.



# Profit Loss

## Profit and Loss Statement

For the Year Ended 30 June 1997

		1997	1996
	Notes	\$'000	\$'000
Sales Revenue		848,907	303,023
Other Revenue	2	17,510	7,588
Operating Revenue		866,417	310,611
Operations and Services		517,518	193,467
Depreciation		80,008	25,955
Finance Charges		95,074	40,639
Operating Expenditure	3	692,600	260,061
Operating Profit		173,817	50,550
Income Tax Equivalent	4	62,591	18,198
Operating Profit after Income Tax		111,226	32,352
Retained Earnings at the beginning of the Financial Year		7,582	-
Adjustment resulting from a Change in Accounting Policy	1(k)	9,710	-
Total Available for Appropriation		128,518	32,352
Dividend to State Government	5	125,000	24,770
Retained Earnings at the end of the Financial Year		<b>3,518</b>	<b>7,582</b>

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



# Balance Sheet

## Balance Sheet

As at 30 June 1997

	Notes	1997 \$'000	1996 \$'000
<b>CURRENT ASSETS</b>			
Cash	6	763	5,929
Receivables	7	70,594	178,402
Investments	8	12,186	92,235
Inventories	9	73,488	87,772
Other	11	11,995	7,492
<b>Total Current Assets</b>		<b>169,026</b>	<b>371,830</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	7	1,539	1,737
Property, Plant and Equipment	10	2,077,407	2,144,236
Other	11	11,862	-
<b>Total Non-Current Assets</b>		<b>2,090,808</b>	<b>2,145,973</b>
<b>TOTAL ASSETS</b>		<b>2,259,834</b>	<b>2,517,803</b>
<b>CURRENT LIABILITIES</b>			
Creditors and Borrowings	12	242,800	321,663
Provisions	13	142,593	46,674
Other	14	175	-
<b>Total Current Liabilities</b>		<b>385,568</b>	<b>368,337</b>
<b>NON-CURRENT LIABILITIES</b>			
Creditors and Borrowings	12	842,999	1,171,004
Provisions	13	76,558	19,647
Other	14	30,000	30,000
<b>Total Non-Current Liabilities</b>		<b>949,557</b>	<b>1,220,651</b>
<b>TOTAL LIABILITIES</b>		<b>1,335,125</b>	<b>1,588,988</b>
<b>NET ASSETS</b>		<b>924,709</b>	<b>928,815</b>
<b>CAPITAL AND RETAINED EARNINGS</b>			
Capital	15	921,191	921,233
Retained Earnings		3,518	7,582
<b>TOTAL CAPITAL AND RETAINED EARNINGS</b>		<b>924,709</b>	<b>928,815</b>

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



# Cash Flows

## Statement of Cash Flows

For the Year Ended 30 June 1997

	Notes	1997 \$'000	1996 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received in the Course of Operations		958,440	163,755
Cash Paid in the Course of Operations		(491,489)	(140,873)
Interest Received		3,767	487
Interest Paid		(104,955)	(24,367)
Income Tax Paid		(29,673)	(3,375)
<b>Net Cash Flows from Operating Activities</b>	<b>16</b>	<b>336,090</b>	<b>(4,373)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Loan Repayments Received		216	30
Payments for Property, Plant and Equipment		(12,966)	(17,507)
Sales and (Purchases) of Investments		29,254	(61)
Proceeds from Sale of Property, Plant and Equipment		2,668	76
<b>Net Cash Flows from Investing Activities</b>		<b>19,172</b>	<b>(17,462)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Borrowings and (Repayment) of Debt		(386,453)	-
Dividend Paid		(24,770)	-
<b>Net Cash Flows from Financing Activities</b>		<b>(411,223)</b>	<b>-</b>
<b>NET DECREASE IN CASH HELD</b>		<b>(55,961)</b>	<b>(21,835)</b>
<b>Cash at the Beginning of the Financial Year</b>		<b>68,179</b>	<b>90,014</b>
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	<b>16</b>	<b>12,218</b>	<b>68,179</b>

The accompanying notes form an integral part of these financial statements



# Financial Statements

## Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 1997

### 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. The principles of accrual accounting have been applied in the preparation of these financial statements.

#### (b) Valuation of Assets

Assets, which were transferred from Pacific Power to Macquarie Generation upon commencement of operations on 1 March 1996, were taken up at the values stated in the books of Pacific Power prior to transfer. These values are shown as 'cost' in the financial statements of Macquarie Generation.

The carrying amounts of non-current 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.

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 as at 1 March 1996 of the corporation's non-current system assets commissioned by the New South Wales Treasury.

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

#### (c) Depreciation of Property, Plant and Equipment

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

#### (d) Investments

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.

#### (e) Risk Management

Policies and procedures have been established to provide effective control over treasury and trading risks by the use of hedges and derivative transactions in order to maintain a position which is risk averse.

#### (f) Liability Management

New South Wales Treasury Corporation has been engaged to manage the treasury risk of Macquarie Generation in accordance with both approved Board policies and the Treasury Management Guidelines issued by New South Wales Treasury.



## Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 1997

### 1. Summary of Significant Accounting Policies (continued)

#### (f) Liability Management (continued)

New South Wales Treasury Corporation enters into derivative financial instruments, principally interest rate swap contracts, interest rate futures contracts and forward foreign exchange contracts, to manage financial risks on behalf of Macquarie Generation.

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 are realised.

#### (g) Discount on Borrowings

Discount on borrowings is in the nature of an additional cost of borrowing which is amortised over the term of the borrowings, 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.

#### (h) Inventory Valuation

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

#### (i) 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.

#### (j) Community Service Obligations

Community Service Obligations are amounts incurred by Macquarie Generation in the form of rebates and subsidies to certain customers in accordance with New South Wales State Government policy decisions and are included in Operating Expenditure.

New South Wales Treasury has undertaken to reimburse Macquarie Generation for the full amount of Community Service Obligations incurred and this is included in Other Revenue.

#### (k) Taxation

Macquarie Generation is exempt from liability for Commonwealth Income Tax. However, under the State Owned Corporations Act, 1989, Income Tax Equivalents are payable to the NSW Office of State Revenue.

#### Change in Accounting Policy

In the previous financial period, Income Tax Equivalent liability was calculated as 36 per cent of Accounting Profit, in accordance with a determination of the NSW Office of State Revenue. Therefore, no permanent or timing differences were recognised at 30 June 1996. From 1 July 1996, in order to comply with Australian Accounting Standard AAS3, Income Tax Equivalents have been brought to account using the liability method of tax effect accounting.

A net adjustment of \$9,710,371 was made to Retained Earnings at the beginning of the year to recognise the Future Income Tax Benefits established upon the initial application of this standard. This change in accounting policy has resulted in a net increase of \$45,248,162 to the Future Tax Liability.

#### (l) 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.



## Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 1997

### 1. Summary of Significant Accounting Policies (continued)

#### (l) Foreign Currency Translation (continued)

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

#### (m) Leased Equipment

At balance date, Macquarie Generation was in the process of replacing its fleet of fully owned vehicles with vehicles under operating leases. Profits and losses on disposal of owned motor vehicles are brought to account in determining the profit for the period. Lease expenditure is expensed as incurred.

#### (n) 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 advisers and loss adjusters. The balance of the provision is adjusted to include all known liabilities at balance date.

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

#### (o) Provision for Major Periodic Maintenance

##### Change in accounting policy

The previous policy of providing for major periodic maintenance has been discontinued during the current financial year as the Directors are of the opinion that the cyclical variation from year to year in this type of expenditure is insufficient to justify the maintenance of the provision. The balance of the provision (\$3,000,000 at 30 June 1996) has been reversed with a corresponding reduction in maintenance expenses for the year.

#### (p) Provision for Redundancies

The Board has resolved to reduce the staffing levels of the organisation under a program of Voluntary Redundancies. Under the program, redundancy payments will be determined with reference to each employee's length of service with Macquarie Generation and Pacific Power.

#### (q) Segment Reporting

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

#### (r) Rounding of Amounts

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

#### (s) Comparative Figures

Macquarie Generation was established on 1 March 1996, and the financial statements for the period ending 30 June 1996 were the inaugural financial statements for the entity. As such the comparative figures shown for 1996 are for four months only. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.



## Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 1997

	1997	1996
	\$'000	\$'000
<b>2. Other Revenue</b>		
Interest Revenue	2,069	2,115
Overfunded Superannuation Reserve Brought to Account	8,816	2,832
Reimbursement of Community Service Obligations	2,891	2,447
Net Gain on Foreign Currency Transactions	462	-
Proceeds from Sale of Property, Plant and Equipment	2,668	76
Miscellaneous Sources	604	118
	<b>17,510</b>	<b>7,588</b>
<b>3. Operating Expenditure</b>		
Depreciation of		
Buildings	7,246	2,412
Plant and Equipment	72,762	23,543
Amounts Credited to Provisions for		
Annual Leave	5,152	1,699
Long Service Leave	5,370	76
Consent Award Bonus Payments to Employees	93	-
Voluntary Redundancies	6,000	-
Major Periodic Maintenance	(3,000)	3,000
Self Insurance	7,886	10,250
Doubtful Debts	-	-
Bad Debts Written Off During the Period	3	-
Contributions to Employee Superannuation Plans	4,421	1,527
Interest and Related Financing Charges	95,074	40,639
Rental Expense of Operating Leases	127	-
Depreciated Value of Property, Plant and Equipment Sold	2,498	61
Directors' Remuneration	315	101
Auditors' Remuneration	132	75
Consultants' Fees	813	85
Community Service Obligations	2,891	2,447
Loss on Revaluation of Freehold Land and Buildings	-	4,246
Other Operations and Services	484,817	169,900
	<b>692,600</b>	<b>260,061</b>



## Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 1997

	1997	1996
	\$'000	\$'000

**4. Income Tax Equivalent**

Income tax on operating profit differs from the amount prima facie payable on that profit as follows:

<b>Prima facie income tax on the operating profit at 36%</b>	<b>62,574</b>	<b>18,198</b>
Tax effect of permanent differences which <i>Reduce tax payable due to:</i>		
Non-assessable revenue	15	-
<i>Increase tax payable due to non-deductible:</i>		
Superannuation contributions	17	-
Entertaining expenses	13	-
Sundry Items	2	-
	32	-
<b>Prima facie tax adjusted for permanent differences</b>	<b>62,591</b>	<b>18,198</b>
<i>Comprising</i>		
Current taxation paid or provided	17,343	18,198
Deferred income tax provision	47,389	-
Future income tax benefit	(2,141)	-
	62,591	18,198

**5. Dividend**

In accordance with the share dividends scheme determined by the voting shareholders, and as required by the Energy Services Corporations Act 1995, the Board has declared a dividend payment of \$125,000,000 (1996 \$24,770,000) payable to the State Government. This will be paid during the course of the 1997-1998 year and is represented by the balance of the provision at 30 June 1997.

**6. Cash**

Cash at Bank - Current Account	740	5,906
Advance Accounts	20	20
Cash on Hand	3	3
	763	5,929

**7. Receivables****Current**

Trade Debtors	70,372	142,093
Miscellaneous Debtors	222	36,309
	70,594	178,402
Deduct Provision for Doubtful Debts	-	-
	70,594	178,402

**Non-Current**

Long Term Debtors (secured)	1,539	1,737
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Long Term Debtors represent loans advanced to employees to assist in the purchase of housing in the Hunter region and are secured by mortgages over the subject properties.



## Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 1997

	1997	1996
	\$'000	\$'000
<b>8. Investments</b>		
<b>Current - listed</b>		
Commonwealth Government Bonds (at market value)	-	27,123
<b>Current - unlisted</b>		
At Call Deposits (at cost)	11,455	62,250
Futures Deposits (at cost)	731	-
Term Deposits (at cost)	-	2,862
	12,186	65,112
	12,186	92,235

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.

**9. Inventories**

Stores and Materials (at cost)	39,183	40,874
Coal Stocks (at cost)	33,223	45,853
Oil Stocks (at cost)	1,082	1,045
	73,488	87,772

**10. Property, Plant and Equipment****Buildings**

Power Stations:		
At Cost	167,041	165,585
Less Accumulated Depreciation	9,461	2,318
	157,580	163,267
Other Buildings:		
At Cost	1,912	1,118
Less Accumulated Depreciation	52	13
	1,860	1,105
At Independent Valuation — 1996	1,600	1,600
Less Accumulated Depreciation	64	-
	1,536	1,600
<b>Total Buildings</b>	<b>160,976</b>	<b>165,972</b>
<b>Land</b>		
Non-Infrastructure (at cost)	16	16
Non-Infrastructure (at Independent Valuation — 1996)	1,000	1,000
Infrastructure (at cost)	3,144	3,144
<b>Total Land</b>	<b>4,160</b>	<b>4,160</b>



## Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 1997

	1997	1996
	\$'000	\$'000
<b>10. Property, Plant and Equipment (continued)</b>		
<b>Plant and Equipment</b>		
Power Stations:		
At Cost	1,996,796	1,988,616
Less Accumulated Depreciation	94,392	23,062
	1,902,404	1,965,554
Less Provision for Major Periodic Maintenance	-	3,000
	1,902,404	1,962,554
Other Plant and Equipment:		
At Cost	11,512	12,029
Less Accumulated Depreciation	1,645	479
	9,867	11,550
<b>Total Plant and Equipment</b>	<b>1,912,271</b>	<b>1,974,104</b>
<b>Total Depreciated Value of Property, Plant and Equipment</b>	<b>2,077,407</b>	<b>2,144,236</b>

**Independent Valuations**

Valuations of freehold land and buildings are based on the estimated net rental income of the property in an open market. 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.

**11. Other Assets****Current**

Prepayments	11,995	7,492
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**Non-Current**

Future Income Tax Benefits	11,862	-
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**12. Creditors and Borrowings****Current (Unsecured)**

Accounts Payable	54,675	65,122
Accrued Interest	28,495	38,374
Borrowings	159,630	218,167
	242,800	321,663

**Non-Current (Unsecured)**

Retentions	47	136
Borrowings	842,952	1,170,868
	842,999	1,171,004



## Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 1997

	1997	1996
	\$'000	\$'000

**12. Creditors and Borrowings (continued)****Maturity Analysis**

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

Up to one year	159,630	218,167
Over one and up to two years	-	169,062
Over two and up to five years	527,609	539,184
Over five years	315,343	462,622
<b>Total</b>	<b>1,002,582</b>	<b>1,389,035</b>

**13. Provisions****Current**

Income Tax	2,493	14,823
Insurance	1,286	2,600
Dividend	125,000	24,770
Employees' Accumulated Entitlements *	7,721	4,481
Consent Award Bonus Payments to Employees	93	-
Voluntary Redundancies	6,000	-
	<b>142,593</b>	<b>46,674</b>

**Non-Current**

Employees' Accumulated Entitlements *	15,095	12,747
Insurance	14,074	6,900
Deferred Income Tax	47,389	-
	<b>76,558</b>	<b>19,647</b>

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

Annual Leave (i)	7,181	6,414
Long Service Leave (ii)	15,635	10,814
	<b>22,816</b>	<b>17,228</b>

The above liabilities are fully provided. The portion of employee entitlements 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 on costs, 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 is accrued in respect of all employees, at the present values of expected future payments, based on actuarial assessment. Associated on costs are included.



**Notes to and Forming Part of the Financial Statements**

For the Year Ended 30 June 1997

	1997	1996
	\$'000	\$'000
<b>14. Other Liabilities</b>		
<b>Current</b>		
Amounts Received in Advance	175	-
<b>Non-Current</b>		
Security Deposit	30,000	30,000

**15. Capital**

Macquarie Generation commenced operations on 1 March 1996. Assets, rights and liabilities comprising the generation system were transferred from Pacific Power to Macquarie Generation in accordance with the Energy Services Corporations Act, 1995, and the related Ministerial Order. These assets, rights and liabilities were taken up at the values stated in the books of Pacific Power, except for total debt which was taken up at market value.

The transfer process has continued into the current financial period and has resulted in some minor changes to Capital.

Net Assets Transferred at Commencement	921,233	921,233
Adjustments to Net Assets Transferred	(42)	-
	921,191	921,233

**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.

**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	763	5,929
Other Deposits	11,455	62,250
Balance as per Statement of Cash Flows	12,218	68,179



**Notes to and Forming Part of the Financial Statements**

For the Year Ended 30 June 1997

	1997	1996
	\$'000	\$'000
<b>16. Cash Flow Information (continued)</b>		
<b>Reconciliation of net cash flows from operating activities to operating profit after income tax</b>		
Operating profit after income tax	111,226	32,352
Depreciation	80,008	25,955
Increase (decrease) in net interest accruals	(8,182)	14,723
Net profit on sale of non-current assets	(170)	(15)
Amounts (debited) credited to provisions against assets	(3,000)	3,000
Assets written off	288	9
Devaluation of Land and Buildings	-	4,246
Increase (decrease) in income taxes payable	(12,330)	14,823
Increase in net deferred taxes payable	45,237	-
Changes in assets and liabilities		
Decrease (increase) in trade and other debtors	106,050	(144,025)
Decrease in inventories	14,284	8,649
Increase in prepayments	(4,502)	(7,492)
Increase in trade and other creditors, employee entitlements and other provisions	7,181	43,402
Net cash inflows (outflows) from operating activities	336,090	(4,373)

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

Bank Overdraft	2,000	2,000
NSW Treasury Corporation Loans	1,002,580	1,389,035
NSW Treasury Corporation Come and Go Facility	390,000	-
Total Available	1,394,580	1,391,035

**Facilities Utilised**

Bank Overdraft	-	-
NSW Treasury Corporation Loans	1,002,580	1,389,035
NSW Treasury Corporation Come and Go Facility	2	-
Total Utilised	1,002,582	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) sales and purchases of investments



**Notes to and Forming Part of the Financial Statements**

For the Year Ended 30 June 1997

	1997	1996
	\$'000	\$'000

**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 Nil

**18. Capital Expenditure Commitments**

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

Payable not later than one year	4,420	4,845
Payable later than one, not later than two years	2,680	480
Payable later than two, not later than five years	740	40
Payable later than five years	-	-
	7,840	5,365

These commitments relate in the main to power station equipment

**19. Lease Commitments**

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

Payable not later than one year	288	-
Payable later than one, not later than two years	91	-
Payable later than two, not later than five years	-	-
Payable later than five years	-	-
Representing Cancellable Operating Leases	379	-

**20. 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.



## Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 1997

### 21. 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 finance 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 through New South Wales Treasury Corporation in accordance with Board policies including total value and credit risk and can only be used for hedging exposures. The market value of interest rate derivative contracts outstanding at balance date are as follows:

	1997 \$'000	1996 \$'000
	Market Value	Market Value
Interest Rate Swaps		
- in domestic currency	-	11,146
Interest Rate Futures Transactions		
- Bond futures	206,300	-
- Bill futures	452,000	-

#### (b) Foreign Exchange Exposure

Foreign currency exposure exists as a result of certain supplier contracts that provide for payments to be made in foreign currencies. Macquarie Generation 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 on a basis consistent with the underlying foreign physical asset or liability. Outstanding position as at 30 June 1997 is outlined below and has resulted in unrealised gains of \$183,556 (1996 Nil).

Hedged Foreign Exchange Exposure Under Supplier Contracts

	1997 \$A' 000	1996 \$A' 000	1997 % of Total Exposure Hedged	1996
<b>Currency Forwards</b>				
United States Dollars	1,609	Nil	100%	Nil
Great Britain Pound	1,073	Nil	100%	Nil
Japanese Yen	1,985	Nil	100%	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. Derivative exposures are accounted for separately from the underlying exposures, and dealing and credit limits are determined on the basis of gross exposures except where netting agreements are in place.



## Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 1997

### 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 or subtracts from 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 1997 are composed of:

	SASS (i) \$'000	SANCS (ii) \$'000	SSF (iii) \$'000	Total \$'000
<b>1997</b>				
Gross Liability Assessed by Actuaries as at 30 June 1997	13,885	5,276	36,620	55,781
Less: Investment Reserve Account Balance	17,572	7,446	42,411	67,429
Unfunded Liability/(Prepaid Contributions)	(3,687)	(2,170)	(5,791)	(11,648)
<b>1996</b>				
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

For the Year Ended 30 June 1997

### 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 1997	June 1997
Liability Operative Date	30 June 1997	30 June 1997
Last Triennial Review	30 June 1994	30 June 1994

#### Actuarial Assumptions:

Investment Return		
1996-1997	9.0%	9.0%
1997-1998	7.0%	7.0%
1998-1999	7.0%	7.0%
1999-2000	7.0%	7.0%
Thereafter	7.0%	7.0%
Salary Growth Rate		
1996-1997	3.0%	3.0%
1997-1998	3.7%	3.7%
1998-1999	4.0%	4.0%
1999-2000	4.5%	4.5%
Thereafter	5.0%	5.0%
Consumer Price Index		
1996-1997	4.0%	4.0%
1997-1998	2.1%	2.1%
1998-1999	2.5%	2.5%
1999-2000	3.0%	3.0%
Thereafter	3.5%	3.5%



**Notes to and Forming Part of the Financial Statements**

For the Year Ended 30 June 1997

**23. Directors' Interests**

No Director has received or become entitled to receive, during or since the financial year, a benefit as a result of a contract made by Macquarie Generation with a Director, an entity of which a Director is a member or an entity in which a Director has a substantial financial interest, other than:

- a) in respect of a contract for the supply of materials from Commonwealth Steel Pty Limited a controlled entity of ANI Corporation Limited of which Mr Evan Rees was a Director until 15 July 1996;
- b) consulting fees paid to the National Safety Council of Australia Limited of which Mr Grant Every-Burns is a Director;
- c) membership and transaction fees paid to Austraclear Limited of which Mr James Watt is a Director.

**24. 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:

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



## 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 1997, and transactions for the year ended 30 June 1997.
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.



HE Rees  
Chairman

5 September 1997



GV Every-Burns  
Chief Executive and Managing Director





BOX 12 GPO  
SYDNEY NSW 2001

## INDEPENDENT AUDIT REPORT MACQUARIE GENERATION

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

### Scope

I have audited the accounts of Macquarie Generation for the year ended 30 June 1997. 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 the financial report to Members of the New South Wales Parliament and Members of Macquarie Generation 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 1997 and the results of its operations and its cash flows for the year 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 handwritten signature in black ink, appearing to read 'A. C. Harris'.

A. C. HARRIS

SYDNEY  
5 September 1997



# Statutory Information

## Statutory Information

### 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/clause 6 and 7 ARSBR	Budgets
s9(1)(e) ARSBA/Schedule 1 ARSBR	Summary Review of Operations (in part)
Schedule 1 ARSBR	Management & Activities (in part)
Schedule 1 ARSBR	Research & Development
Schedule 1 ARSBR	Human Resources (in part)
Schedule 1 ARSBR	Consultants (in part)
Schedule 1 ARSBR	Land Disposal
Schedule 1 ARSBR	Consumer Response (in part)
Schedule 1 ARSBR	Time for Payment of Accounts
Schedule 1 ARSBR	Report on Risk Management & Insurance Activities (in part)
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



## 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.

On 19 March 1997 the Minister for Energy approved the granting of a New South Wales retail supplier licence to Macquarie Generation, in accordance with Section 33 and Clause 4 and 6 of Schedule 2 of the Electricity Supply Act 1995.

Ministerial directions received by the Corporation under Clause 3, Schedule 5 of the Energy Services Corporation 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 Corporation (Amendment of Transfer of Pacific Power's Assets) Order 1996, commencing 22 March 1996. This Order was signed by the Treasurer.
3. Energy Services Corporation (Further Transfer of Pacific Power Staff) Order 1996, commencing 28 June 1996. This Order was signed by the Treasurer.
4. Energy Services Corporation (Second Amendment of Transfer of Pacific Power's Assets) Order 1997, commencing 22 January 1997 and deemed to have taken effect on 2 March 1996. This Order was signed by the Treasurer.

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

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

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



## Statutory Information

### Corporate Governance

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

Board Committees and management reporting structures include:

1. Board/Chief Executive performance agreements and performance reporting
2. Board Audit Committee
3. Board Remuneration and Human Resources Committee
4. Chief Executive's Monthly Business Reviews
5. Executive Committees including:
  - Energy Trading
  - Environment
  - Safety
  - Budget Review
  - Information Technology
6. Management Systems including:
  - Business Planning and Performance Management
  - Environmental Management
  - Energy Trading
  - Financial Management
  - Maintenance Management

### 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:

#### Term of Appointment

Mr Evan Rees FIE Aust CPMetallurgy Chairman and Non-Executive Director	1 March 1996 to 29 February 2000
Mr Grant Every-Burns BEng(Hon) MAICD Chief Executive and Managing Director	1 March 1996 to 31 August 1999
Ms Anna Buduls BA MCom Non-Executive Director	1 March 1996 to 28 February 1999
Mr John Cahill Non-Executive Director	3 May 1996 to 28 February 1998
Mr Graham Stanford FCA MAICD Non-Executive Director	1 March 1996 to 28 February 1998
Mr James Watt FAICD BSc(For) BA MF Non-Executive Director	1 March 1996 to 28 February 1999
The Hon Robert Webster AFAIM Non-Executive Director	1 March 1996 to 29 February 2000



## Statutory Information

### Directors' Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and the number of meetings attended by each of the Directors during the financial year ended 30 June 1997 were:

	Board Meetings		Board Audit Committee Meetings		Board Remuneration And Human Resources Committee Meetings	
	Number of Meetings Held (1)	Number of Meetings Attended	Number of Meetings Held (1)	Number of Meetings Attended	Number of Meetings Held (1)	Number of Meetings Attended
Mr Evan Rees (3)	13	12	-	1	2	2
Mr Grant Every-Burns (2), (4)	13	13	-	7	-	2
Ms Anna Buduls (3)	13	13	-	1	2	2
Mr John Cahill	13	11	-	-	-	-
Mr Graham Stanford	13	13	8	8	-	-
Mr James Watt	13	13	8	8	-	-
The Hon Robert Webster	13	11	-	-	2	1

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 seven meetings of that Committee by invitation.
3. Although not a member of the Board Audit Committee, Mr Rees and Ms Buduls attended one meeting of that Committee by invitation.
4. Although not a member of the Board Remuneration and Human Resources Committee Mr Every-Burns attended all meetings of that Committee by invitation.



## Statutory Information

## Senior Management Team

Title	Name & Qualification	Executive Committee Representation (1)
Chief Executive and Managing Director	Mr Grant Every-Burns BE(Hons)	1,2,4,5,6
Chief Financial Officer (7)	Mr David Ipkendanz BEc DipEd FCPA	1,3,4,6
Company Secretary	Ms Kathy Calokerinos BCom	2
Manager Bayswater (7)	Mr John Neely BSc(Eng)	1,2,3,5,6
Manager Liddell (7)	Mr John Marcheff BE	1,2,3,5,6
Manager Human Resources (7)	Mr Jim Eckford BEc	1,5
Manager Energy Trading (7)	Mr Russell Skelton BE	1,3,4
Manager Fuel & Environment (7)	Mr Steve Ireland BE BLegS	1,2
Manager Commercial Services	Mr Richard Outridge ACIS	3
Production Manager/Liddell	Mr Wayne Winterbine BE	5
Production Manager/Bayswater	Mr Peter Sewell BSc(Eng) MEMgt	-

## Notes:

1. Reflects membership of Executive Committee
2. Executive Environment Committee
3. Executive Information Technology Governance Committee
4. Executive Trading Committee
5. Executive Safety Committee
6. Executive Budget Review Committee
7. Direct report to the Chief Executive



## Statutory Information

### Annual Report Costs

Macquarie Generation's second Annual Report is the principal marketing and promotional publication developed and, as well, provides statutory disclosure material. A total of 3,000 copies have been printed at an estimated cost of \$18.40 per copy.

### Chief and Senior Executive Officers

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

### Consultants

Consultants expenditure for the period 1 July 1996 to 30 June 1997 totalled \$813,000. The main purposes for engagements were in the areas of business planning, strategic advice and energy trading arrangements.

### 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.

### 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. During the reporting year Macquarie Generation developed its 1997-1998 Diversity and Equity Management Plan which outlines actions to address the needs of specific target groups, including those covered by the Anti-Discrimination Act and the Disability Services Act. Under the direction of the Chief Executive, as the Director of Affirmative Action, an employee survey is planned.

### *In the 12 month operating period:*

The Corporation's Women's Contact Officer Network continued its activities.

The Aboriginal and Torres Strait Islander Employees Network met once.

Involvement in the Muswellbrook Child Care Facility continued.

Awareness training programs have been held and further presentations are planned for the 1997-1998 year.



## Statutory Information

### Funds Granted to Non Government Community Organisations

Macquarie Generation donations and sponsorships during the reporting year to Hunter region community organisations totalled \$16,800.

### Overseas Visits

Name	Title	Country	Purpose
E Rees	Chairman	United Kingdom	To visit energy market participants in Europe for the purpose of examining outcomes in a more mature electricity market.
G Every-Burns	Chief Executive	and Germany	
D Ipkendanz	Chief Financial Officer	United Kingdom only	
S Ireland	Manager/Fuel & Environment	United States	To examine the United States coal supply experience with a deregulated power industry.
N Saunders	Fuel Supplies Officer		
D Ipkendanz	Chief Financial Officer	United States	To attend "Pricing, Hedging, Trading and Risk Management of Electricity Derivatives" Training Course organised by RISK (USA).
R Skelton	Manager/Energy Trading		

### Promotion

A variety of communication vehicles have been produced to inform the public, customers and suppliers during the reporting year as follows:

- Annual Report
- Brochure "About Macquarie Generation"
- Brochure "The Competitive Force in Energy"
- Fact Sheet Board of Directors
- Fact Sheet Executive Team
- Environment Policy
- Internet Website address is: <http://www.macgen.com.au>

### Social Programs

Macquarie Generation carries out community service obligations in the form of rebates and subsidies to certain customers in accordance with New South Wales Government policy decisions. New South Wales Treasury has undertaken to reimburse Macquarie Generation for the full amount of community service obligations incurred with respect to:

- i NorthPower Electricity Subsidy
- ii Targeted Industrial Development Incentive Scheme



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**Macquarie** *Generation*

1997 Annual Report