Delta Electricity

AUDIT OPINION

The audits of the financial reports of Delta Electricity and its controlled entity for the year ended 30 June 2007 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

PERFORMANCE INFORMATION

Delta Electricity provided the following information regarding its performance:

Year ended 30 June	Actual				Target*
	2004	2005	2006	2007	2007
Generation of electricity					
- gigawatt hours sent out	21,308	21,740	21,948	***21,952***	***23,265***
Plant availability					
- total all stations (%)	92.9	87.0	86.5	***75.5***	***86.4***
Thermal efficiency					
- total all stations (%)	35.5	35.4	35.0	***35.2***	***35.5***
Earnings before interest and tax ($m)	177.3	208.5	282.6	***244.9***	***197.9***
Return on equity (%) (a)	9.3	17.7	22.5	***64.9***	***13.9***
Return on assets (%) (b)	9.4	11.0	13.2	***7.6***	***8.5***
Interest cover (times)	2.7	3.8	5.9	***5.6***	***4.6***
Debt to equity (%)	80.3	95.9	79.9	***306.2***	***80.6***
Total distributions to government ($m)	111.0	169.6	201.9	***174.7***	***154.9***
Capital expenditure ($m)	24.8	47.6	97.4	***150.4***	***144.4***

* Target agreed with shareholder Ministers in the Statement of Corporate Intent.
(a) profit after tax divided by equity.
(b) earnings before interest and tax divided by total assets.

Plant availability measures the total time generating units were either in service or able to be placed in service over a given period. Delta Electricity's plant availability for 2006-07 was under target due to a number of unrelated plant issues including a transformer failure at Vales Point and turbine issues at Mt Piper and Wallerawang.

Thermal efficiency is a measure of the overall fuel conversion efficiency for the electricity generation process. The level achieved by Delta Electricity's power stations is at or near best practice standards for plant type and age.

Return on equity, and debt to equity both increased due to a reduction in equity. The decrease in equity was largely due to unfavourable market value movements in electricity hedging contracts. Delta, like other generators, enters into hedge contracts with retailers for a portion of expected power generation to give certainty to revenue. This strategy protects revenue streams from power generation in times of falling spot prices, but limits revenue opportunities in times of increasing spot prices. The spot price of electricity increased from $37.24 MWh for the year ended 30 June 2006 to $58.72 MWh for the year ended 30 June 2007. The higher prices reflected supply constraints and demand requirements; refer to the 'Overview of the Electricity Industry' for further details. The high prices for electricity at year end resulted in a significant increase in the value of electricity hedge contract liabilities and a corresponding reduction in equity.

Since year end, drought conditions have eased and supply into the market has improved. The resulting decrease in wholesale electricity prices has resulted in an improved equity balance.

Distributions to government comprised a dividend of $114 million and a taxation equivalent of $61.1 million.

OTHER INFORMATION

Major Projects

Colongra Gas Turbine Facility

Delta Electricity is constructing a 667 MW gas turbine power station adjacent to its existing Munmorah power station. The new station will operate as a peaking plant supplying electricity at short notice during times of high demand. The plant is scheduled for completion in the second half of 2009.

Joint Venture Co-generation Plants

In 2002 Delta Electricity, through its subsidiary company, entered into a joint development to design, construct and operate two electricity co-generation plants. These plants will burn sugar cane waste to produce electricity. This joint venture is in the construction phase and the plants are expected to be commissioned by mid 2008.

FINANCIAL INFORMATION

Abridged Consolidated Income Statement

Year ended 30 June	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
TOTAL REVENUE	***919,526***	888,224	***919,271***	887,465
PROFIT BEFORE FINANCE COSTS, DEPRECIATION AND TAX	***325,122***	350,296	***325,160***	349,445
Finance costs	***(43,916)***	(47,820)	***(43,916)***	(47,820)
Depreciation	***(80,218)***	(67,728)	***(80,218)***	(67,728)
PROFIT BEFORE TAX	***200,988***	234,748	***201,026***	233,897
Income tax equivalent expense	***(61,095)***	(70,257)	***(61,107)***	(70,002)
PROFIT AFTER TAX	***139,893***	164,491	***139,919***	163,895
Dividend provided	***113,619***	131,638	***113,619***	131,638

Total revenue included $874 million in electricity sales compared to $839 million in the previous year. Sales revenue is net of a $42.4 million payment to the Electricity Tariff Equalisation Fund. Despite an increase in revenue, profit decreased due to higher operating costs, some of which were due to the impact of the drought and increased depreciation.

Abridged Consolidated Balance Sheet

At 30 June	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current assets	***612,580***	212,431	***612,110***	211,490
Non-current assets	***2,608,997***	1,935,982	***2,537,186***	1,895,717
TOTAL ASSETS	***3,221,577***	2,148,413	***3,149,296***	2,107,207
Current liabilities	***1,460,717***	433,878	***1,456,912***	429,957
Non-current liabilities	***1,545,224***	984,571	***1,475,544***	944,577
TOTAL LIABILITIES	***3,005,941***	1,418,449	***2,932,456***	1,374,534
NET ASSETS	***215,636***	729,964	***216,840***	732,673

Current assets increased mainly due to a $385 million increase in receivables. This largely represented unsettled electricity sales made to the National Electricity Market Management Company during June 2007.

Non-current assets increased mainly due to a $275 million revaluation and additions of $148 million to property, plant and equipment.

Total liabilities increased mainly as a result of a $1.0 billion increase in the market value of electricity hedge contract derivatives. This increase was also the main reason for the decrease in net assets.

ENTITY ACTIVITIES

See the 'Overview of the Electricity Industry' section earlier in this report for general industry comment.

Delta Electricity was constituted in March 1996 as an electricity generator under the *Energy Services Corporations Act 1995* and as a statutory State owned corporation under the *State Owned Corporations Act 1989*. The voting shareholders are the Treasurer and the Minister for Finance.

Delta Electricity operates the Mount Piper, Vales Point, Wallerawang and Munmorah coal-fired power stations, and three mini hydro generators. It provides around 12 per cent of electricity to the National Electricity Market.

For more information on Delta Electricity, refer to www.de.com.au.

CONTROLLED ENTITY

Year ended 30 June	Delta Electricity Australia Pty Ltd	
	2007 $'000	2006 $'000
Revenue	***255***	946
Expenses	***(293)***	(95)
Income tax revenue/(expense)	***12***	(255)
(Loss)/profit after tax	***(26)***	596
Total assets	***89,898***	48,602
Total liabilities	***91,102***	51,310
Net liabilities (at 30 June)	***(1,204)***	(2,708)

Total assets increased mainly due to additions associated with the construction of the co-generation joint venture plant. Total liabilities increased largely due to $10.2 million in advances from Delta Electricity and $29.0 million in bank loans required to fund construction activities.

The company is dependent on the support of Delta Electricity during its establishment and construction phase. It will commence earning revenue from operations on completion of generation plant construction.