Macquarie Generation

AUDIT OPINION

The audits of Macquarie Generation and its controlled entity financial reports for the year ended 30 June 2009 resulted in unqualified Independent Auditor's Reports.

The Independent Auditor's Report for Macquarie Generation included a 'significant uncertainty' paragraph regarding the effect of the Federal Government's proposed Carbon Pollution Reduction Scheme.

Impact of the Carbon Pollution Reduction Scheme

Macquarie Generation supports the carrying value of its power stations using a valuation model based on estimated discounted cash flows. The cash flows are subject to significant uncertainties arising from the Federal Government's proposed Carbon Pollution Reduction Scheme (Scheme). Macquarie Generation did not take into account the impact of the Scheme on its valuation due to the uncertainty of the final terms and the timing of implementation of the legislation.

KEY ISSUES

Restructure of Electricity Industry

The Government is proposing to contract Macquarie Generation's electricity trading rights to the private sector and to sell two of Macquarie Generation's development sites. See the 'Electricity Industry Overview' section appearing earlier in this report for details on the sale and Government's final policy position on its 'Energy Reform Strategy' announced in September 2009.

Major Projects

Macquarie Generation is undertaking a range of developments aimed at meeting the increasing need for power, environmental improvements and the exploration of renewable energy options.

Water Treatment Plan Upgrade

Macquarie Generation recently invested over $50.0 million to upgrade water capture and treatment facilities at Bayswater Power Station. The upgrade will increase the capture of water from the Hunter River and improve efficiency of water use and quality in Lake Liddell because of improved technology.

Liddell Turbine Upgrade

Macquarie Generation recently completed a $100 million technology upgrade of Liddell Power Station to provide additional capacity and significantly reduce greenhouse gas emissions. All the generating turbines were replaced, improving efficiency of the power station by approximately three per cent.

Tomago Gas-Fired Power Station

Macquarie Generation currently has approval for the construction of a gas-fired power station at Tomago, north of Newcastle, in three phases. The first two phases include two open cycle gas turbines with a capacity of 250 megawatts each to assist in meeting short run peaks in demand for electricity. The third phase will use combined cycle technology to capture heat generated by the two open cycle gas turbines powering an additional steam-driven unit, for a total output of 790 megawatts.

PERFORMANCE INFORMATION

Operational Performance

Year ended 30 June	2009	2008	2007	2006
Generation of electricity (gigawatt hours sent out)				
Bayswater	***15,864***	15,430	14,310	16,540
Liddell	***11,135***	10,851	10,825	10,057
Total	***26,999***	26,281	25,135	26,597
Plant availability				
Bayswater (%)	***92.3***	91.5	89.8	90.1
Liddell (%)	***79.4***	78.9	85.5	76.9
Thermal efficiency				
Bayswater (%)	***35.2***	35.4	34.9	35.8
Liddell (%)	***32.5***	33.2	33.2	32.6
Equivalent forced outages (%)	***6.3***	5.4	4.9	5.1

Macquarie Generation has a policy of not disclosing operational performance targets. Accordingly, these have not been included in the above table.

Plant availability measures the total time generating units were either in service or able to be placed in service over a given period.

Thermal efficiency is a performance measure of the percentage of energy contained in the coal used in electricity production. New South Wales government owned coal fired power stations outperform reported worldwide averages for thermal efficiency.

Macquarie Generation's market share of the National Electricity Market was 13 per cent in June 2009 (13 per cent in June 2008).

Financial Performance

Year ended 30 June	Target*	Actual	
	2009	2009	2008
Earnings before interest and tax ($'m)	***274.3***	***156.8***	660.1
Return on equity (%)	***12.5***	***6.2***	34.2
Return on assets (%)	***6.5***	***3.8***	14.8
Interest cover (times)	***5.8***	***4.0***	15.0
Debt to equity (%)	***43.5***	***43.6***	45.6
Total distributions to government ($'m)	***218.0***	***185.5***	454.4
Capital expenditure ($'m)	***106.0***	***80.0***	83.0

* Targets agreed with shareholder Ministers in the Statement of Corporate Intent.

Most of the financial ratios were below prior year because of an adverse movement of $427 million in financial instruments valuation. The adverse movement was mainly caused by a fall in value of an electricity contract linked to the price of aluminium, which fell in 2008-09 and an increase in the electricity forward price curve.

Distributions to government decreased by $269 million (59 per cent) this year. Dividends decreased by $120 million while income tax decreased by $150 million.

OTHER INFORMATION

Coal Supply

Coal prices have increased significantly in recent years with the continued demand for Australia's coal for export. This has resulted in increased risks for securing adequate supplies of coal and managing the cost of these supplies.

Macquarie Generation has locked in a significant proportion of its coal supply contracts for the next ten years and it is examining options to manage future supply.

The three New South Wales State owned generators including Macquarie Generation have undertaken a joint venture to develop a new domestic coal resource. The joint venture, Cobbora Coal, will further improve coal supply from 2014.

FINANCIAL INFORMATION

Abridged Income Statements

	Consolidated		Parent	
Year ended 30 June	**2009 $'000**	**2008 $'000**	**2009 $'000**	**2008 $'000**
TOTAL REVENUE	***1,217,232***	1,162,402	***1,217,232***	1,162,402
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	***332,137***	814,371	***332,137***	814,371
Borrowing costs	***51,832***	62,557	***51,832***	62,557
Depreciation	***161,305***	111,663	***161,305***	111,663
PROFIT BEFORE TAX	***119,000***	640,151	***119,000***	640,151
Income tax equivalent expense	***35,270***	191,707	***35,503***	191,707
PROFIT AFTER TAX	***82,867***	448,444	***82,867***	448,444
Dividend provided	***150,000***	270,000	***150,000***	270,000

Profit after tax decreased by $366 million compared to the previous year mainly due to a fall in value of an electricity contract linked to the price of aluminium, which fell in 2008-09 and an increase in the electricity forward price curve. Increased depreciation charges followed a revaluation of assets at the end of 2007-08.

Abridged Balance Sheets

At 30 June	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets	***524,253***	750,965	***522,924***	750,965
Non-current assets	***3,594,569***	3,699,109	***3,596,069***	3,699,109
TOTAL ASSETS	***4,118,822***	4,450,074	***4,188,993***	4,450,074
Current liabilities	***458,198***	856,465	***457,749***	856,465
Non-current liabilities	***1,775,497***	1,793,764	***1,775,497***	1,793,764
TOTAL LIABILITIES	***2,233,695***	2,650,299	***2,233,246***	2,650,229
NET ASSETS	***1,885,747***	1,799,845	***1,885,747***	1,799,845

Current assets decreased by $228 million, largely due to the adverse movement in financial instruments valuation.

CORPORATION ACTIVITIES

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

Macquarie Generation operates the Bayswater and Liddell coal-fired power stations in the Upper Hunter Valley.

Macquarie Generation 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.

For further information on Macquarie Generation, refer to www.macgen.com.au.

CONTROLLED ENTITY

Midwest Development Corporation Pty Limited

Period ended 30 June	2009 $'000
Revenue	***1***
Expenses	***854***
Income tax benefit	***233***
Loss after tax	***620***
Total assets	***21,671***
Total liabilities	***22,291***
Net liabilities (at 30 June)	***620***

Total assets are mainly comprised of $21.1 million in advances made from Midwest Development Corporation Pty Limited to the joint venture. Total liabilities include $21.6 million received from Macquarie Generation as interest free advances.

Corporate Activities

Midwest Development Corporation Pty Limited was incorporated on 13 August 2008 under the *Corporations Act 2001* as a special purpose venture to participate in the Cobbora Project.

Cobbora Joint Venture

Macquarie Generation and Midwest Development Corporation Pty Limited have approval from the New South Wales Treasurer under the *Public Authorities (Financial Arrangements) Act 1987* to participate in the Cobbora Joint Venture. The Cobbora Project is an Unincorporated Joint Venture between the special purpose subsidiaries of the New South Wales State Owned Electricity Generators to source, develop and operate a coal resource in New South Wales.