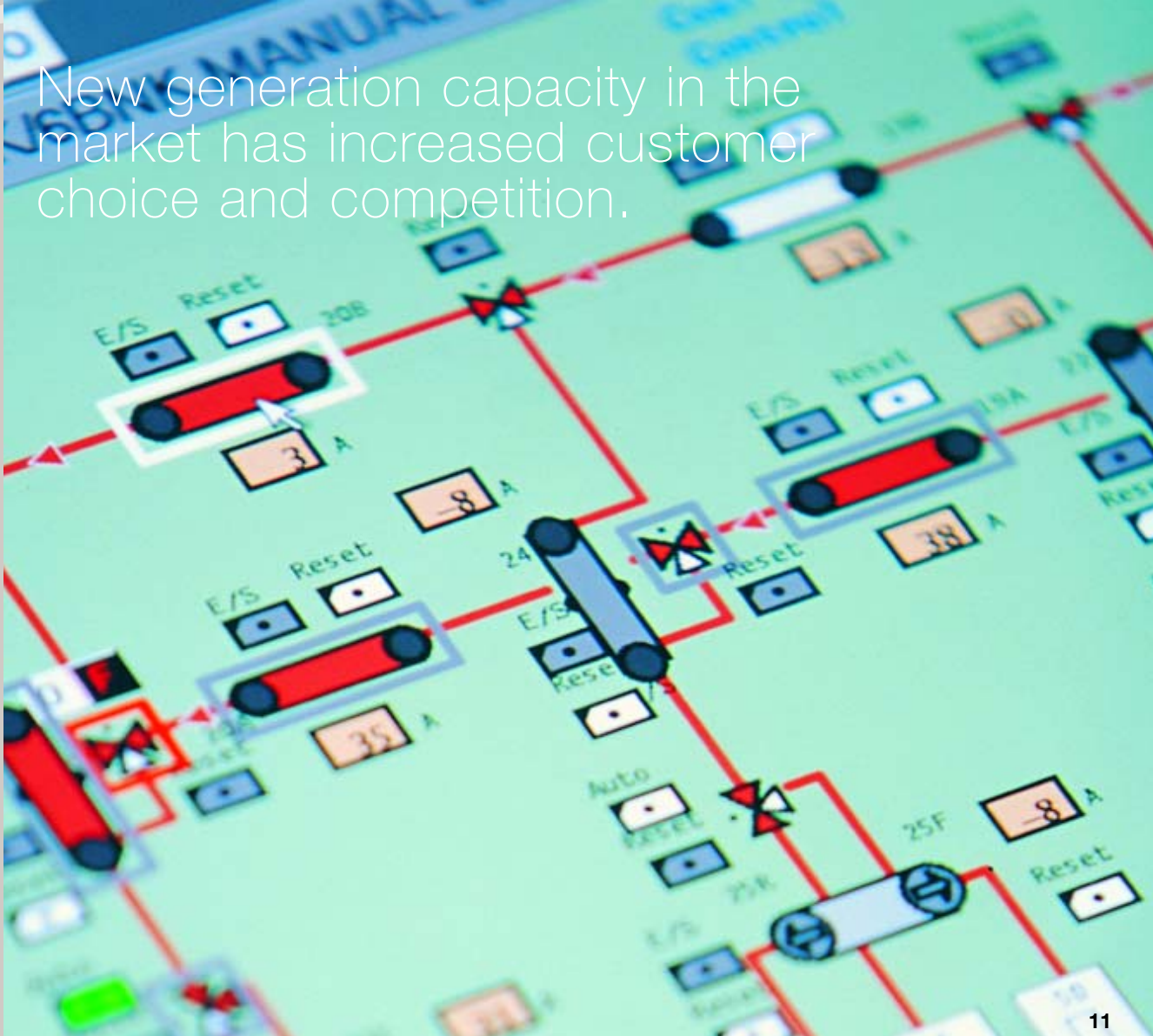


BUSINESS

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



FOCAL POINT: OPERATIONS

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

PETER GRAY
Production Manager

BUSINESS

Marketing

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

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

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

FCAS

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

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

Generation Capacity

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

Regulation

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

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



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

Systems and Process

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

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

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

Kurri Kurri Aluminium Smelter

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

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

Looking Forward

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

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

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

Production

Operational Performance

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



BUSINESS

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

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

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

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

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

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

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

Operational Initiatives

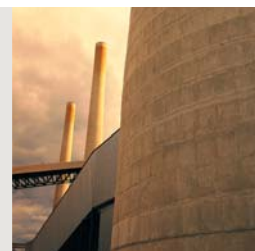
In a planned ten-week outage commencing September 2001, Vales Point Unit 6 control systems were replaced with a distributed control system that has a screen based operator interface. The unit was returned to service ahead of program and, following a period of tuning and testing in service, has delivered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

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

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

Environmental Initiatives

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



INNOVATION

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

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

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

Community Programs

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

Maintenance

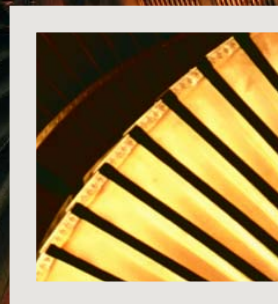
Delta's maintenance group continued to provide the majority of power station maintenance requirements performing corrective and preventive maintenance in each of Delta's power stations. The group is also involved in project management and execution of Delta's outage and non-outage projects and its skill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

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

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

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

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



BUSINESS

Information Technology

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

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

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

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

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

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

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

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

