

Paul Sweeney,  
Insultech

o. What do your governance practices give to stakeholders?

## A. Confidence in our integrity and business dealings.



The Board of Directors of Delta Electricity guides and monitors the business and affairs of the Corporation on behalf of the shareholders by whom they are elected and to whom they are accountable.

The shareholders are the Hon. Michael Egan MLC, NSW Treasurer and the Hon. John Della Bosca MLC, Special Minister of State, each hold one share for and on behalf of the New South Wales Government.

The Energy Services Corporations Act 1995 and the State Owned Corporations Act 1989 (the "Act") are the principal Acts that govern the operation of Delta Electricity as a State Owned Corporation.

The Acts deal with Directors' accountability to the Government Shareholders of the Corporation. The Government, as the owner of the business, is relying on the Directors to ensure the commercial success of Delta and that accountability to the shareholders is maintained.

### Corporate Governance

The Board's focus on Corporate Governance issues this year included:

- Outsourcing of Internal Audit. Following the retirement of the General Manager/Internal Audit on 2 August 2002 Delta outsourced the internal function and appointed Deloitte Touché Tohmatsu for a period of two years commencing 1 July 2002.
- Reviewing the terms of reference of the:
  - Board Audit Committee,
  - Board Remuneration & Staff Committee,
  - Board Environment & Occupational & Safety Committee,
  - Board Finance Committee
- Reviewing the Application of the ASX Principles of Good Corporate

Governance to Delta Electricity.

- As a State Owned Corporation, Delta and the Board have no legal obligation to adopt or comply with the ASX Principles nevertheless the Board resolved to consider the ASX Principles and determine the extent to which Delta should adopt them.
- Documenting Risk Management Processes:
  - Delta has implemented the following risk management systems to document and report risks
    - KnowRisk – enterprise wide
    - Emsoft – environment
    - Nisoft – OH&S task based
  - Treasury Management Framework and Operational Risk policies were reviewed
  - Electricity Market Risk Management policies were reviewed
  - Activity risk assessment processes have been established in each Business Unit designed to ensure that employees conduct work based risk assessments before performing tasks
  - A new financial evaluation model implemented with the analysis of project risk being a key component of the evaluation process
  - Environment audits are conducted on a three year cycle
- Implementation of a Trade Practices Compliance training program for employees, specially developed and tailored for Delta has commenced with the full roll out to be completed in the 2003/04 year.
- Implementation of a revised Code of Conduct in February 2003.
- Completion of a Fraud and Corruption Risk Assessment in June 2003.
- Establishment of a Security Review Committee to co-ordinate security arrangements within Delta and liaise with external bodies.

## STRUCTURE AND COMPOSITION OF THE BOARD

To ensure the Board is sufficiently able to discharge its responsibilities, the nomination and selection of directors and the operation of the Board have been established through the Act and the Memorandum of Articles of Association of the State Owned Corporation.

### Composition of the Board

The Board of Delta Electricity is presently composed of the following members:

- the Chief Executive Officer
- one director appointed by the voting shareholders on the recommendation of a selection committee comprising:
  - (a) two persons nominated by the Portfolio Minister; and
  - (b) two persons nominated by the Labor Council of NSW, being persons selected by the committee from a panel of three persons nominated by the Labor Council; and
- at least two and not more than five other directors appointed by the Voting Shareholders, at their discretion.

The Board of Delta Electricity meets monthly or as required and follows meeting guidelines, set down to ensure all directors are made aware of, and have available to them all necessary information, to participate in an informed discussion of all agenda items. The directors in office at the date of this statement are:

### Non-Executive Directors

MR P DODD, CHAIRMAN AND DIRECTOR  
BCom, MCom, MSc, PhD, Dip Ed

Mr Dodd was first appointed 1 March 2000 and subsequently reappointed to 28 February 2006.

THE HONOURABLE B J UNSWORTH,  
DIRECTOR

Mr Unsworth was first appointed 1 March 1996 and subsequently reappointed for period ending 28 February 2006.

He is also a Director of TAB Limited and Tempo Services Limited and Chairman of the Board of the Ambulance Service of New South Wales and a former Premier.

MR WARWICK HILDER, DIRECTOR  
BA(Hons) (Syd), M Comm (NSW)

Mr Hilder was first appointed 29 November 1996 and subsequently reappointed for period ending 28 February 2005.

He is also involved in a diverse range of areas encompassing insurance, risk management, commercial services and financial markets operations as Chief Executive Local Government Financial Services Pty Limited, Company Secretary StateCover Mutual Limited, Chairman Compliance Committee V J Ryan Cash Management Trust and Director Sunlodge Pty Limited.

MR. WARREN PHILLIPS, DIRECTOR  
FCPA, FCIS, AIMM, MAICD, Dip Comm.

Mr Phillips was first appointed 1 March 2000 and subsequently reappointed for period ending 28 February 2004

He is currently Group Financial Officer, John Fairfax Holdings Limited. Mr Phillips has extensive Financial, Commercial and General Management experience gained in Australia, Asia, USA and Europe.

MR I LANGDON, DIRECTOR  
B.Comm, MBA, Dip Ed, CA, AICA

Mr Langdon was first appointed 1 March 2000 and subsequently reappointed for period ending 28 February 2004

He is also Chairman of Dairy Farmers Group, Director of Rabo Bank Australia Ltd.

MS SANDRA MOAIT, DIRECTOR

Ms Moait was first appointed 18 September 2002.

Ms Moait is President of the Labor Council of NSW, a position she has held since 2000. In addition she is Board member and Chairperson of the Trades Hall Association; Vice-president of the Australian Council of Trade Unions (ACTU); Chairperson of the ACTU's overseas aid agency, Australian People for Health and Development Abroad (APHEDA).

Sandra is a registered nurse and was General Secretary of the NSW Nurses' Association from 1995 until 2002.

## BOARD OF DIRECTORS



Top (left to right):  
**Mr Peter Dodd (Chairman),**  
**Mr Jim Henness**  
**(Chief Executive),**  
**Hon. Barrie Unsworth,**  
**Mr Warwick Hilder.**

Bottom (left to right):  
**Mr Ian Langdon,**  
**Mr Warren Phillips,**  
**Ms Sandra Moait,**  
**Mr Peter McIlveen**  
**(Corporate Secretary).**

## GOVERNANCE

### Executive Director

MR J HENNESS – CHIEF EXECUTIVE OFFICER AND DIRECTOR

BSc, BE (Hons), MEngSc, MBA, FAICD

Mr Henness was appointed Executive Director 1 March 1996. He also holds the positions of Director, Electricity Supply Association of Australia and Member of Reliability Panel, established by the National Electricity Code Administrator.

### Meetings of the Board

In addition to the monthly Board meetings, the Board discusses matters from time to time through circulated papers or telephone conference.

Meetings are held either in the corporate office or at one of the power stations allowing the Board to see the operation of the business. The attendance of Directors at these meetings is shown below. Committees of the Board meet quarterly or as required.

The Board held a Strategic Review day in April 2003.

Responsibility for the preparation of papers, agenda and minutes rests with the Corporate Secretary.

### Remuneration of Board Members

The remuneration of each non-executive director is paid out of the funds of Delta Electricity and is determined by the Voting Shareholders. The Chief Executive is not entitled to any additional remuneration for being an executive director.

### Board Committees

To assist in its roles and responsibility the Board has established four committees to target specific areas of importance within the company. These committees operate under a charter approved by the Board to ensure that an effective internal control framework exists within the organisation.

These committees meet at least quarterly and report to the full Board. The Board committees and their charters are listed below.

#### BOARD REMUNERATION AND STAFF COMMITTEE

The terms of reference of the Board Remuneration and Staff Committee were reviewed in December 2002 with minor changes made.

The charter of the committee is to:

- examine remuneration and staff issues;
- enhance the independence and objectivity of Board decisions on sensitive commercial and personal issues related to Delta Electricity Executive Managers (being direct reports to the Chief Executive);
- enable the corporate and business

strategies, plans and remuneration strategy and policy to be effectively linked;

- ensure that the remuneration strategy, policy and practice complies with legal and taxation requirements, corporation reporting obligations, and overall corporation policy and direction.

The Committee comprises of at least three non-executive Directors nominated by the Board.

### Membership

Peter Dodd (Convenor), Warwick Hilder, Warren Phillips, Sandra Moait

#### BOARD AUDIT COMMITTEE

The terms of reference of the Board Audit Committee were reviewed in December 2002.

The purpose of the committee is to provide a forum for communications between the Board, senior management and both the internal and external auditors. It also ensures the integrity of the internal audit function and ensures that management practices and systems support the effective operation of Delta's risk management strategies and fraud control plan.

In reviewing the Terms of Reference the committee reviewed publications such as; Better Practice Guide – Audit Committees; 2nd edition, Institute of Internal Auditors; Several publications on audit committees by Deloitte Touche Tohmatsu; Ramsay Report – Independence of Australian Company Auditors and Institute of Internal Auditors – Response to the Ramsay Report.

The key changes to the terms of reference are:

- **Objectives.** The primary objectives of the Board Audit Committee are to:
- Assist the Board in discharging their responsibilities relating to:
  - financial reporting practice
  - business ethics, policies and practices
  - accounting policies
  - management and internal controls
- Duties and responsibilities amended to include section on Legal Compliance and Compliance with Delta's Code of Conduct and Values
- Meeting with external auditors – The Committee will meet at least once per year with the External and Internal Auditors without Executive members present as per the Better Practice guide.

TABLE NINE: DIRECTORS MEETINGS

	Directors Meetings									
	Regular Board Meetings		Board Remuneration & Staff Committee		Board Audit Committee		Board Environment, Occupational Health & Safety Committee		Board Finance Committee	
	A	B	A	B	A	B	A	B	A	B
Mr P Dodd	13	13	3	3						
Mr J Henness	13	13			2	2	4	4	5	5
Hon B Unsworth	13	13					4	4		
Mr W Hilder	13	13	3	2					5	5
Mr W Phillips	13	12	3	3	4	4			5	5
Mr I Langdon	13	13			4	4				
Ms S Moait	10	10	1	1	2	2	3	3		

Column A is the number of meetings held.  
Column B is the number of those meetings attended

The Terms of Reference of the Internal Audit Charter was revised simultaneously with the Board Committee terms of reference.

The Committee shall comprise of at least three members all of which will be independent non-executive members.

**Membership**

Ian Langdon (Convenor), Warren Phillips, Sandra Moait

**BOARD ENVIRONMENT & OCCUPATIONAL HEALTH & SAFETY COMMITTEE**

The terms of reference of the Board Environment & Occupational Health & Safety Committee were reviewed in November 2002.

The Charter of the Committee is to:

- review and approve environmental and occupational health and safety policies and management plans to implement these policies;
- review and approve environmental policy changes and recommend to the Board;
- review and approve the program of environmental audits and occupational health and safety audits;
- require reports from senior management of any significant incidents and review management’s response;
- evaluate the overall effectiveness of environmental and occupational health and safety policies and procedures through regular meetings with senior managers.

The Committee shall consist of three Directors nominated by the Board.

**Membership**

Hon. Barrie Unsworth (Convenor), Sandra Moait, Jim Henness.

**BOARD FINANCE COMMITTEE**

The terms of reference of the Board Finance Committee were reviewed in July 2002.

In reviewing the charter, the Committee was of the view that the document would be improved if the activities outlined under “Duties and Responsibilities” are separated into the four key areas of Finance, Insurance, Taxation and Treasury.

The charter of the committee is to:

- Oversee and appraise the quality of financial risk management conducted within Delta,

- Review the adequacy of Delta’s short and long-term finance and risk management strategies,
- Review strategic issues associated with the structure of organisational funding and sources and application of funds
- Review market trading policies
- Review annually, all insurance requirements and analysis areas where Delta is exposed to risk
- Review compliance with all relevant taxation legislation and to the optimisation of tax payment obligations,
- Review Treasury risk management policies and procedures and overall level of debt and debt management strategies

The Committee shall consist of three Directors nominated by the Board.

**Membership**

Warwick Hilder (Convenor), Warren Phillips, Jim Henness

**Board Responsibilities**

In acting on behalf of the shareholders the Board is accountable to the shareholders. Further responsibilities include identifying the expectations of the shareholders, along with other regulatory and ethical expectations. It also has responsibility for identifying areas of significant business risk; ensuring arrangements are in place to adequately manage such risk.

The responsibility for the operation and administration of the economic entity is delegated by the Board to the Chief Executive and the executive team. The Board is required to ensure that the Chief Executive and executive members are appropriately qualified and experienced to discharge the responsibilities placed upon them. Procedures to assess the performance of the Chief Executive and the executive team are in place.

The Board is also responsible for ensuring management’s objective and activities are aligned with the expectations and risks identified by the Board. Therefore, a number of procedures are in place for the achievement of these objectives.

These procedures include the following:

- Approval by the Board, of a strategic plan, which encompasses the organisation’s vision, mission and strategy statements, meet stakeholder’s needs and manages risk.

- Development of a Statement of Corporate Intent (SCI) which is a shareholder requirement outlining detailed organisational plans and performance levels.
- Development and approval of initiatives and strategies designed to ensure the continued growth and success of the organisation;
- Implementation of operating plans and budgets by management and Board and the monitoring of progress against budget. This includes establishing and monitoring key performance indicators (KPI’s) for all business processes;
- Scrutiny of environmental and occupational health and safety issues, audit outcomes, and financial concerns such as the review and approval of acquisitions and disposals of business and assets, approval of contracts and financial arrangements within defined perimeters and advise on liquidity, currency, interest rate and credit policies.

**MONITORING THE BOARD’S PERFORMANCE AND COMMUNICATION TO THE SHAREHOLDERS**

The SCI is the cornerstone document in Delta’s relationships with the shareholders and is intended to enhance accountability for performance and to provide the organisation with certainty as to the shareholders expectations.

Information is communicated to the shareholders through:

- The annual report;
- The half yearly report;
- The annual meeting and other meetings so called to obtain approval for Board action as appropriate.

**BOARD POLICIES AND PROCEDURES**

Throughout the year the Board has reviewed and approved a number of policies covering delegations of authorities, finance and treasury, marketing, occupational health and safety and the environment. Breaches of all policies are reported immediately to Delta’s Chief Executive and subsequently to the Board.

Key policies are also subject to audit by external expert financial consultants. Past reviews have shown the policies to be entirely appropriate with no major areas requiring attention.

## GOVERNANCE

### BOARD ACCESS TO OTHER RESOURCES AND INDEPENDENT INFORMATION

All Board members receive detailed monthly financial, marketing and treasury information. They regularly receive reports and presentations by respective executive managers. Directors also liaise with senior managers and seek additional information where necessary.

### CONFLICTS OF INTEREST OF DIRECTORS

Where a director declares a material personal interest in any matter being considered by the Board the director does not receive Board papers on the particular matters and is not present when the matter is discussed. Directors are required to keep the Board advised of any interest that could possibly conflict with those of the company. Board minutes document all disclosures.

### THE ELECTRICITY MARKET

The electricity market is complex and an organisation within the industry needs special and carefully drafted policies so that it can not only respond quickly to market requests but also ensure that contracts are approved at an appropriate level.

The sale (offering) of physical electricity into the National Electricity (Wholesale) Market is governed by:

- National Electricity Law and Regulations; and
- National Electricity Code.

The hedging and trading of electricity-based financial risk-management instruments in the 'over-the-counter' or exchange-traded markets are governed by:

- Public Authorities (Financial Arrangements) Act 1993;
- Corporations Act; and
- Exempt Futures Market Declaration.

### EXECUTIVE MANAGEMENT

Executive Committees oversee the implementation of Board approved strategic and operational decisions and the day to day operation of the business. Executive committees meet monthly. The charters and membership of the Executive committees is as follows:

#### Executive Management Committee

The charter of the committee is to:

- monitor corporate business performance;
- implement remedial action where necessary;
- develop quality strategy and review implementation;
- review progress in implementing business plan proposals;
- provide a forum for raising initiatives and disseminating strategic information.

#### Executive Environmental Committee

The charter of the committee is to:

- set and review environmental policy;
- receive and review environmental audits;
- investigate environmental incidents and public complaints; and develop major new environmental initiatives.

#### Executive Audit Committee

The charter of the committee is to:

- determine that adequate systems of internal control are in operation safeguarding assets from loss;
- review that all operations and activities and related policies and procedures are in accordance with statutory requirements;
- review that opportunities for improvement in internal control systems are identified and recommended for implementation to assist managers to continuously improve operations.

The Committee undertakes the objectives of the charter by the following methods:

- review and recommend an appropriate internal audit charter and, as required, proposals for periodic updating of the approved charter;
- review the Annual Audit Plan;
- review reports on the results of internal audits;
- review that appropriate action is taken in respect of all audit reports; and

- review of matters affecting the audit

#### Executive Occupational Health & Safety Committee

The charter of the committee is to:

- establish health and safety policies and procedures;
- review accident frequency and duration rates;
- review occupational health, safety and fire audits of sites;
- make determinations on health and safety matters submitted by occupational health and safety committees;
- review accident investigations and recommendations;
- review and monitor outstanding health, safety and fire items of sites;
- approve recommendations from sub committees; and
- provide direction to sub committees and approve any recommendations emanating from those committees.

#### Executive Information Technology Strategy Committee

The charter of the committee is to:

- ensure that information technology and communications is applied in a consistent and cost – effective manner within Delta Electricity with the objective of maximising the benefit of information technology to the organisation; and
- review, approve and prioritise information technology projects and establish the strategic plan for information technology.

TABLE TEN: EXECUTIVE COMMITTEE MEMBERSHIP

Name & Title	A	B	C	D	E	F
Mr J Henness Chief Executive	X	X	X	X	X	X
Mr P McIlveen Corporate Secretary	X		X		X	
Mr R Street Chief Financial Officer	X		X		X	
Mr S Saladine General Manager Western	X	X	X	X	X	X
Mr R Hall General Manager Central Coast	X	X	X	X	X	X
Mr D Hogg Chief Information Officer	X		X		X	
Mr T Baker General Manager Marketing	X		X		X	
Mr R Ward General Manager Business Development	X		X		X	
Mr G Everett General Manager Strategy	X	X			X	
Mr P Blume General Manager Human Resources	X			X	X	X
Mr G Sharrock Acting General Manager/Delta Maintenance	X	X	X	X	X	X
Mr N Taylor Occupational Health & Safety Manager				X		
Mr G Deans Manager Environment		X				
Mr N DiFalco Environment Manager Western		X				
Mr J Leotta Deloitte Touche T Tohmatsu			X			
Mr S Addison Deloitte Touche T Tohmatsu			X			

(A) Executive Management Committee  
 (B) Executive Environment Committee  
 (C) Executive Audit Committee  
 (D) Executive Occupational Health & Safety Committee  
 (E) Executive Information Technology Strategy Committee  
 (F) Executive Human Resources

### Executive Management Team

#### JIM HENNESS

BSc, BE(Hons), MEngSc, MBA, FAICD

Jim Henness was appointed Acting Chief Executive March 1996 and Chief Executive July 1996. Jim's experience in the power industry has provided him with the technical and managerial credentials for the position. His background includes work for Pacific Power in power station design and electrical demand forecasting and economic analysis. He was responsible for Pacific Power's coal supply planning and contracting from the early 1980s. Jim is responsible for the overall management of Delta and for strategically positioning the organisation in the National Electricity Market.

#### PETER MCILVEEN

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Peter McIlveen was appointed Corporate Secretary in March 1996. Prior to his appointment he held a number of senior management positions in Pacific Power, the last being Manager Government Relations. Peter is responsible for the administrative and legislative requirements of the Board, Corporate Governance issues, Internal Audit, legal, security, document management, transport and public affairs.

#### STEPHEN SALADINE

BE (Hons)

Steve Saladine was appointed General Manager Western in April 2000. Steve joined Delta with wide experience gained most recently from managing a large engineering contracting business and senior management and engineering positions with several generation businesses in NSW and Victoria. Steve has direct responsibility for the management of Mt Piper and Wallerawang power stations and associated infrastructure. Steve is also a member of the Management Board for the Co-operative Research Centre for Sustainable Use of Coal, the Greater Lithgow Business Advisory Board, and is President of Lithgow Chamber of Commerce and Industry.

#### ROHAN HALL

BSc, BE (Hons), FAICD

Rohan Hall was appointed General Manager/Central Coast in May 2003 with responsibility for the operation and maintenance of Vales Point and Munmorah Power Stations. His previous appointment was as General Manager/Delta Maintenance, a position he held for four years. Prior to that he held the positions of Production Manager and Engineering Manager in the Central Coast region.

#### RICHARD STREET

B.Ec ACA

Richard Street was appointed Chief Financial Officer in January 2000. Richard worked in private practice before joining Rio Tinto as Business Services Manager for Southern Copper Ltd at Port Kembla. He transferred to Kembla Coal & Coke in 1994 and to Rio Tinto Coal in 1997 as Chief Financial Officer to assist in a major restructure of Rio's NSW coal assets in the Hunter Valley. The Finance Group is responsible for all accounting related activities including financial and management accounting, treasury functions, taxation, financial systems administration, payments administration, and commercial services in the areas of procurement and payroll administration

#### RODNEY WARD

B.Eng (Hons), MBA, FAICD, ASA

Appointed General Manager Business Development in January 2003, Rodney brings to the position direct experience in the national electricity market and a background in power station operations, energy policy, treasury and project finance. Joining Delta in 1997, as General Manager/Marketing, Rodney was responsible for the market operations of Delta's portfolio of generation. Prior to Delta, Rodney represented the Victorian Government's interest in the development of National Electricity Market. He is presently responsible for new business development projects, biomass fuel purchasing, greenhouse emission trading issues, project evaluation and business cost performance review.

#### GREG EVERETT

B.Comm., MBA, GAICD

Greg Everett has been General Manager/Strategy since November 1996, with a period as General Manager/Central Coast during 2002. He is currently responsible for strategic planning, fuel purchasing, corporate environmental governance and long term electricity pricing. He is also a Director of Sunshine Electricity, Delta's joint venture with the NSW Sugar Milling Co-operative. Greg has been with Delta since its inception and has a long association with the commercial operation of NSW's power stations.

## GOVERNANCE

DAVID HOGG  
BE UNSW., GAICD

David Hogg was appointed Chief Information Officer in October 1996, having previously held a range of positions in the Information Systems Group of Pacific Power since 1988. Prior to 1988 David was involved in civil engineering design and construction within Pacific Power. The Information Technology and Communications Group manage the delivery of IT services to Delta through a range of outsourcing contracts. The Group is also responsible for the formulation of IT and communications strategy, policy and standards.

PAUL BLUME  
BEc, Dip. Labour Relations Law, Grad. Cert. Marketing, GAICD

Paul Blume has been with Delta Electricity since its beginning, prior to

which he worked in senior roles in the electricity supply industry including human resources, marketing and as manager of two electricity technology advisory centres. The Human Resources Group is responsible for Delta's strategic direction in employee and related matters and for providing support in the delivery of these strategies. The Group also has functional responsibilities including in the areas of industrial relations, worker's compensation and human resources systems administration.

TIM BAKER  
BSc, BEng(Hons), MBA, GAICD

Appointed General Manager/Marketing at the end of 2002. Prior to this Tim co-ordinated the physical market operation of Delta's four power stations and has extensive background in system control, power station operation and interconnection trading within Pacific Power. As General Manager/Marketing Tim is responsible for the sales revenue and the development of physical market and hedge strategies to optimise the profitability of the corporation. These activities include sales, plant co-ordination, bidding and trading functions and management of regulatory issues.

GLENN SHARROCK  
BSc, Grad. Cert. of Management

Currently acting as General Manager/Delta Maintenance since

May 2003 providing maintenance support to Production Business Units at the four Delta sites and external customers. Glenn had previously held senior production and environment positions where he was responsible for the operations and maintenance of Vales Point and Munmorah Power Stations including the development and management of environmental management systems, regulatory compliance, and community liaison.

## EXECUTIVE MANAGEMENT



Top (left to right):  
**Jim Hennesch** (Chief Executive),  
**Peter McIlveen**,  
**Stephen Saladine**,  
**Rohan Hall**,  
**Richard Street**,  
**Rodney Ward**.

Bottom (left to right):  
**Greg Everett**,  
**David Hogg**,  
**Paul Blume**,  
**Tim Baker**,  
**Glenn Sharrock**.

## MANAGING RISKS

Delta operates in an environment where corporate governance and risk management culture are central to all activities. Risk management is based on the standard AS/AZS 4360: 1999 Risk Management.

Delta has in place procedures that are structured to provide its employees with policy, direction and framework for identification, assessment and reporting risk. The framework allows team leaders, plant owners and managers through to executive members to create and review risks in their own area of responsibility. Delta's prime objective is to establish risk management awareness supported by processes which become a natural part of work at all levels of the organisation. Bulletins and risk review requests are issued monthly.

Delta's risk management application 'Knowrisk' is well established (implemented October 2001) and provides Delta with an intuitive enterprise wide system to manage, monitor and report on all aspects of risk. The application architecture provides a hierarchical structure for the identification, recording, assessment, escalation and reporting risks. Risks are reviewed monthly at Business Unit and Executive Committee level and at least quarterly at Board level.

## Environment

Environmental Audits are conducted on a three year cycle covering facilities and process, environmental management, compliance and due diligence. Delta has a system to document actions and to ensure audit recommendations are implemented. In addition, all sites are certified (June 2002) to ISO 14001 Environmental Management standard. This standard requires continuous re-assessment and reduction of all environmental risks.

## Occupational Health and Safety

Occupational Health and Safety activity based risk assessment processes have been established in each business unit designed to ensure that employees conduct work based risk assessment before performing tasks.

## Finance and Treasury Operations

Delta has Treasury Management Framework and Operational Risk Policies, reviewed by the Board each year. These policies establish effective internal controls and reporting systems for the management of treasury risks. Treasury operations are reported to the Board and Executive on a monthly basis.

## Market Operations

Delta is Electricity Market Risk Management Policies, reviewed by the Board each year, supports procedures to address risks associated with market operations.

Delta has implemented the following risk management systems to document and report risks:

- Knowrisk – enterprise wide
- Emsoft – environment
- Nisoft – OH&S

Each of these management systems identify, monitor, assess and manage risk. This methodology of risk management is based on the standard AS/AZS 4360: 1999 Risk Management.

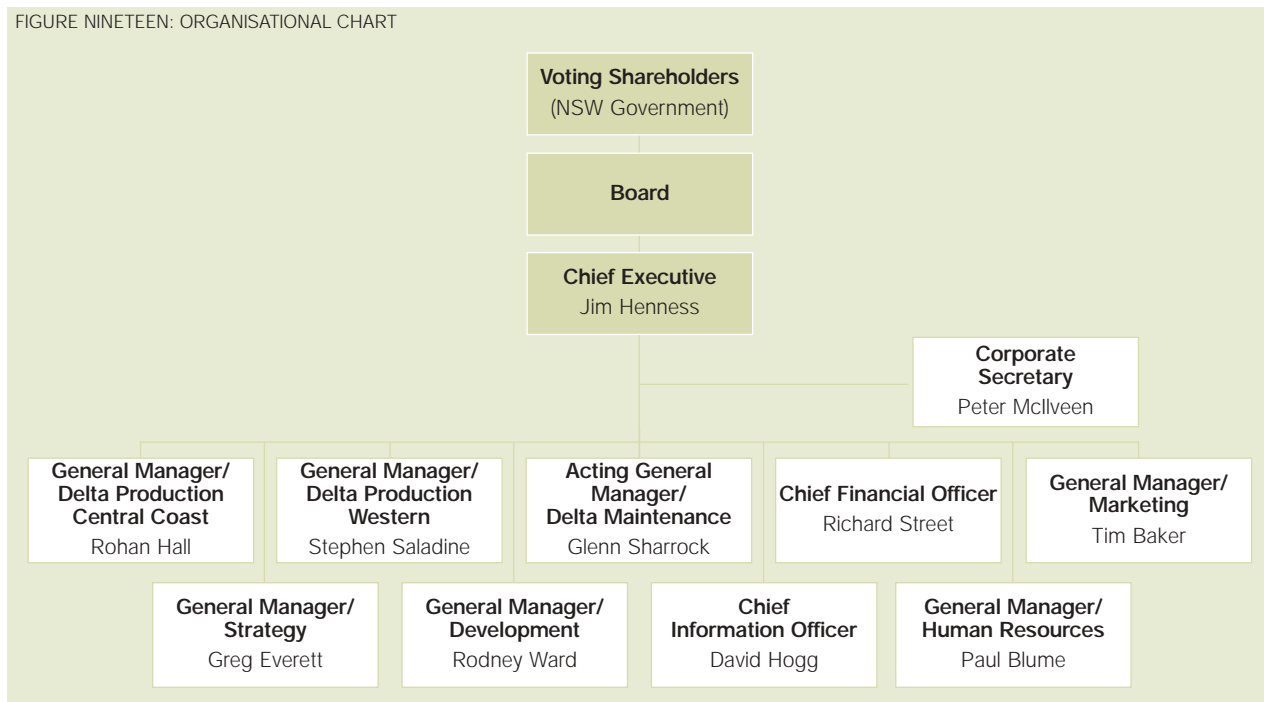
## Framework for monitoring risks

Delta, its Directors and management are subject to a number of regulatory controls in relation to the functions of the organisation. The manner in which those functions are to be carried out and the responsibilities on individual Directors, is set out by legislation and the Memorandum and Articles of Association.

Business risks determined as part of the Risk Management Plan review are monitored and assessed as part of Delta's business planning and performance management system. These include:

- a) the Board's, Chief Executive's and Business Group Managers' performance agreements and performance reporting;
- b) the Board Audit Committee, Board Environment, Occupational Health & Safety Committee, Board Remuneration and Staff Committee and Board Finance Committee,

FIGURE NINETEEN: ORGANISATIONAL CHART



## GOVERNANCE

- c) the Chief Executive's and Business Group Managers' monthly business reviews;
- d) executive committees of environment, occupational health & safety; business review; information systems and internal audit.
- e) management systems including financial management information system reporting, business planning and performance management and environmental management.
- f) monthly Board reports on Delta's performance; and
- g) established policies for the management of risks associated with marketing operations;
- h) financial risks associated with Treasury operations, managed by a combination of outsourcing methods to NSW Treasury Corporation (TCorp) of treasury services and meetings. Treasury operations are reported to the Board and Executive on a monthly basis.
- i) Review of business activities and Delta's control environment by the Internal Audit Director of Deloitte Touche Tohmatsu.

### Financial asset and liability management

Financial asset and liability management is in accordance with Board approved Treasury management policies. These policies cover areas of credit risk, liquidity risk, interest-rate risk management, foreign exchange risk, commodity risk, investment management and permitted instruments. These policies are under regular review. To manage cash flows effectively, Delta maintains a detailed cash flow model. Funds surplus to short-term requirements are invested to maximise interest returns. These funds are recalled on an as-required basis

from investments to meet ongoing commitments.

### Plant asset management

Market based asset management recognises that asset management contributes to electricity generation by the:

- cost of engineering;
- plant being ready when needed – our measure is 'availability'; and
- plant staying in service when needed – our measure is 'reliability'.

### Fraud Prevention

Delta Electricity is committed to high standards of ethics. There is a strong commitment by Delta's Board and Executive Managers to ensure that fraud prevention maintains a strong strategic focus.

The Fraud Prevention Committee is responsible for the development and continual review of Delta's Fraud Prevention Strategy, and to ensure that adequate controls are in place to reduce the possibility of fraudulent or corrupt conduct.

The Fraud Prevention Committee reports to the Executive Audit Committee which reports to the Board Audit Committee.

In June 2003 Deloitte Touche Tohmatsu commenced a Fraud and Corruption Risk Assessment and during June conducted three workshops at each location within Delta.

In performing the review a number of activities were undertaken:

- key policies and guidelines were identified and reviewed
- audit reports were reviewed
- discussions and interviews were held with management and key personnel, and
- Fraud Risk Assessment workshops were conducted.

The results of the Risk assessment were presented to the Executive Committee in July 2003 and the overall residual fraud and corruption risk to Delta Electricity was rated as generally "medium" to "low".

The Fraud Prevention Strategy for 2003/2004 will incorporate the findings from the fraud risk assessment.

### Code of Conduct

Delta's Code of Conduct was reviewed in August 2002 and updated to reflect trends that have developed in corporate

obligations and best practice, generally.

In developing the new Code that reflects the general values of those who work for Delta, and ensures it gained wide acceptance, a series of meetings were held which included focus groups throughout the organisation, the Fraud Prevention Committee and the Executive Committee.

The new Code was circulated to those who participated in the focus groups and Committees before submitting to the Board. The Code was also reviewed and endorsed by the Independent Commission Against Corruption.

The Code has increased in content to cover contemporary areas of concern. Whilst there are minor changes in some sections of the code, the major changes included:

- Our Responsibilities – each sub-heading was on the expectations of a high level of ethical behaviour
- Hospitality Gifts and Benefits – the information within this topic was expanded to ensure clarity and the processes to be undertaken by employees
- A topic of significance was Drugs and Alcohol where the requirements included in the Code reflected recently released policies. The Code states that there is a zero tolerance policy in place.

The Code establishes standards of acceptable behaviour and makes references to the relevant policies and procedures and the means by which staff can report incidents or issues.

### Freedom of Information

Delta Electricity received one Freedom of Information request which was completed within 21 days. Access was granted in part as some of the information requested was considered commercial-in-confidence within the meaning of the Freedom of Information Act 1989.

Delta Electricity's compliance with the Freedom of Information Act did not raise any major issues during the reporting period, nor did the compliance with the Act have any prominent impact on Delta Electricity's activities.

### Executive Remuneration

The following payments were made to senior contract employees at the end of the 2002/2003 financial year.

The 2002/03 performance payments were made up of the following components, with a weighting towards the Balanced Scorecards.

- The result for a Delta overall Balanced Scorecard.
- The results for their respective Business Unit Balanced Scorecard.
- Individual performance components which were based on their:
  - Individual Performance and Development Agreement (see criteria in table)
  - Individual Management and Leadership Performance

TABLE ELEVEN: EXECUTIVE REMUNERATION					
Name (Time in position)	Position as at 30 June 2003	Total Remuneration Package for Period	Total 2002/03 Performance Payment	Individual Performance Criteria	
Jim Henness (All of year)	Chief Executive	\$353,466	\$60,000	Assessment of performance by the Board against corporate performance indicators including Delta's profit and plant performance and maintenance of effective external relationships.	
Rod Ward (*From 1.1.03)	GM/ Development	\$209,873	\$42,700	Management of projects and assessment against other performance agreement targets.	
Richard Street (All of year)	Chief Financial Officer	\$208,752	\$46,400	Management of financial projects and of the financial and management accounting function and assessment against other performance agreement targets.	
Greg Everett (*From 1.1.03)	GM/ Strategy	\$205,357	\$51,100	Contracted coal purchases and assessment against other performance agreement targets (including performance in role of GM/ Central Coast).	
Steve Saladine (All of year)	GM/ Western Production	\$205,250	\$50,400	Business Unit financial management, plant performance and assessment against other performance agreement targets.	
Tim Baker (All of year)	General Manager/ Marketing	\$194,986	\$47,500	Implementation of strategic marketing initiatives and assessment against other performance agreement targets.	
* From 1 July 2002 to 31 December 2002, Greg Everett carried out the role of GM/Central Coast and Rod Ward carried out the duties of GM/Strategy and Development.					
TABLE TWELVE: NUMBER OF EXECUTIVE OFFICERS				Total	Women
Number of executive officers with remuneration equal to or exceeding equivalent of SES Level 1 2002/2003				29	1
Number of executive officers with remuneration equal to or exceeding equivalent of SES Level 1 2001/2002				30	1

## GOVERNANCE

### ANNUAL REPORTING COMPLIANCE

Delta is required to report on a range of matters which are covered by various Acts, including the Annual Reports (Statutory Bodies) Act, Regulations and Treasury and Premier's memoranda.

The following information is provided in accordance with these requirements.

#### Consultants

Expenditure on consultants totalled \$122,000. The main purpose of the engagements related to strategic advice on asset valuation, pricing and business services.

#### Cost of Annual Report

Delta Electricity has for several years produced an Annual Report and an Environment Report. To save on total reporting costs, the two reports have been combined into one which has increased the content in the Annual Report. Additionally, extra financial information for Delta Electricity and the initial accounts of Delta Electricity Australia Pty Limited has required an additional 16 pages over last year's Report. 1200 copies of the Report were produced at a cost of \$57 each.

### Exemption from the Reporting Provisions

Approval was given by the New South Wales Treasury under delegation from the Treasurer, the Hon. Michael Egan MLC, to exempt Delta Electricity for the year ended 30 June 1997 and subsequent financial years from the following financial requirements:

- Budgets
- Research and Development
- Land Disposal
- Payment of Accounts
- Time for Payment of Accounts
- Investment Management Performance
- Liability Management Performance

Exemptions for the following annual reporting requirements were approved subject to the condition that comments and information relating to these items are disclosed in summarised form:

- Summary Review of Operations
- Management and Activities
- Consumer Response
- Report on Risk Management and Insurance Activities

Other exemptions were approved subject to specific conditions:

#### HUMAN RESOURCES

Overseas visits with main purposes highlighted, are required to be disclosed.

#### CONSULTANTS

Total amount spent on consultants is to be disclosed along with a summary of the main purposes of the engagements.

#### DISCLOSURE OF CONTROLLED ENTITIES

Names of the controlled entities are to be disclosed along with a summarised disclosure of the controlled entities' objectives, operations and activities and measures of performance.

#### FINANCIAL STATEMENTS OF CONTROLLED ENTITIES

Exempt from preparing manufacturing and trading statements but required to prepare a summarised operating statement.

### Overseas Visits

During the year the following officer went overseas:

Name: Rohan Hall

Date: 26 September to 27 October

Destination: United Kingdom

Purpose: Attend leadership development program at the London Business School.

### Promotion

The following publications are available.

#### Information for the Public:

1996 Annual Report

1997 Annual Report

1998 Annual Report

1999 Annual Report

2000 Annual Report

2001 Annual Report

1996-1999 Environment Report

2000 Environment Review

2001 Environment Report

Central Coast Operations

Introducing Delta Electricity

Discovery of Electricity

Electricity Generation

Electricity in New South Wales

Energy Expo

Power from Coal

Selenium Facts

The History of Delta Electricity

Western Operations

Sunshine Energy –

Cogeneration Project

Delta Central Coast

Community Newsletter

#### Information for Delta Electricity Staff

Code of Conduct

Deltanet

Employee Assistance Services

Family Care Link

Into the Future

Disability Plan 2002-2004