

The cover features a low-angle shot of a power plant with large green pipes and a yellow structure against a blue sky with clouds. Two workers in orange shirts and white hard hats are in the foreground, smiling. A green banner is overlaid on the image.

DELTA ELECTRICITY
2010 ANNUAL REPORT

**POWERFUL
RELIABLE
VITAL.**

Communication objectives

The Annual Report is a financial and compliance report prepared to meet the requirements prescribed by the Annual Reports (Statutory Bodies) Act 1984 and Regulation (2010). It takes into account exemptions granted in July 1997 and subsequently. It is available on CD and on the Delta Electricity website www.de.com.au.

The 2010 Sustainability Report will be prepared against the National Generator Forum standards derived from the Global Reporting Index and also in compliance with the Energy Supply Association of Australia reporting standards. This report will be completed by December 2010 and made available on our website www.de.com.au.

The National Electricity Market (NEM)

Australia's National Electricity Market (NEM) was established when Australia's electricity supply industry was restructured during the 1990s. Previously, government authorities in the states and territories were responsible for all aspects of electricity supply in their individual jurisdictions. The restructure included disaggregating the industry and deregulating electricity generation. The objectives were to improve cost and operational efficiency across the industry, to increase competition between businesses providing the same services in the electricity supply chain, to provide choice for electricity consumers and send appropriate market signals to new investors.

Institutions involved in the governance structure of the energy market are:

- the Australian Competition and Consumer Commission, responsible for competition law enforcement;
- the Australian Energy Market Commission, responsible for rule making, market review and market development;
- the Australian Energy Regulator, responsible for making regulatory decisions under the National Electricity Rules and ensuring industry compliance with the rules;
- the Australian Energy Market Operator, responsible for the operation of the wholesale market and technical operations of the overall power system; and
- the Ministerial Council on Energy, responsible for energy policy making and legislation.

CONTENTS

| | | | |
|------------|---|---------------|--|
| 04 | Letter to voting shareholders | | |
| 05 | Highlights | | |
| 06 | The year in review | | |
| 10 | Profile | | |
| 11 | Location | | |
| 12 | Key performance indicators | | |
| 13 | Review of operations | | |
| 13 | Water management | | |
| 14 | Environmental impacts management | | |
| 14 | Marketing | | |
| 14 | Community engagement | | |
| 16 | New developments | | |
| 19 | Research and development | | |
| 19 | Carbon capture and storage | | |
| 19 | Renewable energy | | |
| 19 | Research sponsorship | | |
| 20 | People | | |
| 22 | Governance | | |
| 30 | Financial statements 2010 | | |
| 142 | Index | | |
| | | Tables | |
| 12 | Table One | | Key performance indicators |
| 18 | Table Two | | Progress on new developments |
| 21 | Table Three | | Trends in the representation of EEO groups |
| 21 | Table Four | | Trends in the distribution of EEO groups |
| 23 | Table Five | | Director meetings |
| 25 | Table Six | | Executive committees |
| 26 | Table Seven | | Executive remuneration 2009/2010 |
| 26 | Table Eight | | Number of executive officers |
| 28 | Table Nine | | 2009 – 2010 overseas visits |

LETTER TO VOTING SHAREHOLDERS

The Hon. Eric Roozendaal, MLC

Treasurer, Minister for State and Regional Development, Special Minister of State
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

The Hon. Michael Daley, MP

Minister for Finance, Minister for Police
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Dear Shareholders,

It is with pleasure that the Board of Delta Electricity submits its Annual Report for the period of 1 July 2009 to 30 June 2010 as required under the Annual Reports (Statutory Bodies) Act 1984.

The Annual Report covers the activities of Delta Electricity for the year and contains the Statement of Accounts for the period ended 30 June 2010.

The Annual Report includes a letter of submission to the voting shareholders and was prepared in accordance with section 24A of the State Owned Corporations Act 1989 and the Annual Report (Statutory Bodies) Act 1984. It is being submitted for presentation to Parliament.

Yours faithfully,



Loftus Harris

Chairman



Greg Everett

Chief Executive

HIGHLIGHTS

Financial performance

- Profit before tax of \$78.4 million.

Safety

- Major safety improvement with successful implementation of a lockout isolation system.
- Retained National Safety Council of Australia Five Star rating.

People

- Sponsored seven traineeships and 23 first year apprenticeships, with a further 17 applicants offered a four-year apprenticeship opportunity.
- New skill acquisition and development programs to support future plant operations.

Plant performance

- Colongra Power Station formally opened and operating successfully from December 2009.
- High level of production recorded, with 21,999 GWh sent out.
- Vales Point Power Station set new records for the continuous operation of both units.
- Wallerawang Power Station achieved longest period of continuous operation in 10 years.

Plant improvements

- Mount Piper Power Station capacity upgrade to 2 x 700 MW units.
- New benchmark in reliable operations at all power stations resulted in a low rate of unplanned outages.
- Reliable operation of Wallerawang Power Station maintained with restricted access to good quality Fish River water supply.

Developments

- Granted project modification approval for an increase in the capacity of a combined cycle gas turbine plant planned for a site at Bamarang, near Nowra.
- Granted concept and project approval for the joint Delta Electricity and EnergyAustralia development application for two gas turbine facilities at a development site near Marulan.
- Granted concept approval for up to 2,000 MW of combined cycle gas turbine plant or coal-fired ultra-supercritical plant at a development site next to Mt Piper Power Station.
- Lodged a major project application with a preliminary environmental assessment for approval to establish new ash placement sites for Mt Piper Power Station.
- Lodged a major project application and preliminary environmental assessment for approval to rehabilitate Munmorah Power Station.

Sustainability and environmental management

- Achieved high CO₂ capture and purity rates with the pilot carbon capture plant at Munmorah.
- Vales Point water reclamation plant awarded an Energy Supply Association of Australia Sustainable Practice Framework Award in the category Industry Innovation/Best Practice Community Consultation and Stakeholder Support.
- Trialed the co-firing of biomass fuel with coal in a mill dedicated to biomass to reduce greenhouse emissions at Wallerawang Power Station.
- Established a planting trial near Forbes of Mallee as a biomass fuel crop.
- 213 million litre output of recycled water from the reverse osmosis plant at Vales Point which replaced the use of drinking quality water in generation.
- Doubled the capacity of a reverse osmosis plant at Mt Piper to produce six million litres of recycled water per day.
- \$28.3 million in funding secured from Federal Government, the NSW Government, and the Australian Coal Association for demonstration scale carbon capture and storage project.
- Held a national Symposium with the University of Sydney Chair of Sustainable Energy, to examine likely policy and technology challenges for the energy generation industry through to 2050.

A YEAR IN REVIEW

This year's corporate performance shows that Delta Electricity is a robust, dynamic and adaptable organisation. We have become the largest capacity generator in Australia, improved our safety record and won industry recognition for our innovative and sustainable stakeholder practices.

With the opening of Colongra Power Station in December, Delta Electricity became the largest capacity electricity generator in Australia. This significant achievement demonstrates our vision and the hard work of all Delta employees and our many partners.

The new Colongra Power Station

The \$500 million Colongra Power Station was opened in December 2009. Colongra is a 667 MW gas-fired, low emission power station that can be turned on almost immediately to respond to spikes in electricity demand. It produces 40% less greenhouse emissions than existing coal-powered stations.

Natural gas for Colongra is delivered by a uniquely designed pipeline that acts as a storage bottle, providing up to five hours of operation at full capacity if there is an interruption to gas supply. If an interruption lasts longer than five hours, the power station can generate electricity using diesel fuel.

Maintaining reliability

Delta had a high level of production this year, with 21,999 GWh sent out. This was achieved because of the high reliability rates of our plant, particularly Vales Point Power Station, which set new records for the continuous operation of both its units—from March 2009 to early October 2009—and Wallerawang Power Station, which achieved its longest period of continuous operation in 10 years despite restricted access to Fish River water supply.

We did not improve on last year's production record because Mt Piper Power Station underwent a major overhaul. The overhaul included work to upgrade its

two units to 700 MW capacity each, which was achieved by upgrading the turbines with new, more efficient blade designs

Innovative technologies

Since 2000, Delta has focused on designing, building and managing power stations that use renewable technologies or produce a lower volume of greenhouse gases. We believe innovation is the best way of improving our power generating efficiency, decreasing our CO₂ production and increasing our sustainability.

We are now generating electricity using gas, hydro and biomass technologies. We are actively developing carbon capture technologies and improvements to biomass generation. We are also sponsoring research into grid integration and energy storage associated with renewable energy technologies.

Research and development

Delta is currently investigating ways to replace up to 20% of the coal used to fuel Wallerawang Power Station with carbon neutral biomass. New sources of biomass are being considered, such as mallee, plantation forestry residue, clean timber waste and invasive native scrub. A trial is underway to grow mallee as a crop to be harvested after five years, and every two years subsequently, with plantings established on ten farms in Forbes in Western NSW.

We are also investigating biofuel processing as another way to increase our use of renewable fuels. We are evaluating torrefaction technologies that pre-dry biomass and therefore significantly reduce fuel-processing costs.

With the opening of Colongra Power Station, Delta Electricity became the largest capacity generator in Australia.



Andrew Town

The Delta-sponsored Chair in Sustainable Energy Development at the University of Sydney, held by Professor Tony Vassallo, is currently focusing research on renewable energy technologies, with emphasis on grid integration and energy storage. Professor Vassallo and Delta co-hosted a symposium that explored the policy and technology challenges facing the energy industry to 2050.

Sustainable water management

We continue to look for alternative sources of water for our power stations to reduce our reliance on water from rivers and local government supplies.

The reverse osmosis plant at Vales Point treats sewage waste to produce high quality recycled water for use in the demineralisation plant, greatly reducing the use of drinking quality water in energy generation at the power station. Additional water savings came from using salt water in the cooling systems.

A reverse osmosis plant recently installed at Mt Piper Power Station was upgraded to increase its output.

Another reverse osmosis plant is planned for installation at Wallerawang, to be operational in late 2010.

Risk management initiatives

Delta has continued to focus on our risk management processes. We identify significant risks to our strategic and operational objectives, evaluate the consequences, and have developed robust monitoring, control and reporting processes. By focusing on risk management, we avoid threats to our operations.

Organisational values

Delta has a strong set of organisational values. We promote these values with our staff, in our relations with the general community and with the indigenous community.

Delta has provided sponsorship and donations to a wide range of community activities this year. These include \$5,000 for NAIDOC Week activities held on the Central Coast. We also provided a \$2,000 sponsorship at the University of Newcastle Ourimbah campus for an undergraduate with an Aboriginal or Torres Strait Islander background. This year 50% of our new recruits were female. Twenty-three sponsored apprenticeships were offered in our regions. Seventeen were provided with a four-year apprenticeship opportunity. Three of these apprenticeships were offered to female applicants and two went to indigenous applicants.

Continuing safety records

Delta is committed to a zero injury workplace. Having the best possible safety record is one of our most important objectives. We have achieved an excellent safety result this year. Our lost time injury frequency rate reduced even further, in keeping with our continuously improving trend. There is also a further decline in the number of injuries and a reduced severity of these injuries.

Colongra Power Station was constructed employing more than 300 workers with more than 900,000 construction-hours. There was only one lost time injury.

Biomass Generation

In 2005 Delta Electricity and the NSW Sugar Milling Cooperative established a commercial joint venture to develop two biomass fuelled cogeneration power plants at the Condong and the Broadwater sugar mills in the Northern Rivers area of NSW. The co-generation plants, fuelled by sugar cane waste (bagasse), were planned to have operated throughout the year generating electricity for the sugar mills and the surrounding local communities.

Restricted fuel and lower Renewable Energy Certificate prices meant a reduction in the income stream for the joint venture. In April 2010 the Joint Venture appointed Deloitte to manage the orderly sale of the assets. Indicative bids were received on 30 July 2010 and in accordance with Australian Accounting Standards, Delta Electricity Australia Pty Ltd's share of joint venture were impaired to the value of \$50 million which represents the company's share of estimated sale proceeds.

Planning for the future

We continued to contribute to Australia's and the state's current generation capacity and efficiency as well as planning for future demand. We have been granted approvals for a joint development with EnergyAustralia for Marulan gas turbines. These approvals are for two gas turbine facilities at a site near TransGrid's Marulan high voltage switchyard.

A YEAR IN REVIEW CONTINUED

Approval was also granted to increase the Bamarang gas turbine combined cycle capacity to 450 MW.

Delta received concept approval for the Mt Piper Power Station extension project. The approval is for a 2,000 MW combined cycle gas turbine plant or coal-fired ultra-supercritical plant and the associated infrastructure adjacent to the Mt Piper Power Station.

A major project application and preliminary environmental assessment was submitted for the Mt Piper Power Station ash placement project. Approval is being sought for the use of new ash placement sites once the existing ash repository reaches capacity around 2015.

Stakeholder relations

Delta follows sustainable business practices by ensuring that our operations are understood and accepted by our stakeholders. We have been recognised by the industry for demonstrating best practice in community consultation. We seek to respond to our stakeholders' concerns and requirements wherever we can.

The Vales Point water reclamation plant won the inaugural Energy Supply Association of Australia Sustainable Practice Framework Award for demonstrating best practice in community consultation and for receiving support from a wide range of stakeholder groups.

Following concerns about noise on the Central Coast, we have permanently connected noise monitors into the control room at Vales Point and Munmorah. We are now able to identify and respond immediately to noise problems.

Policy development

Delta Electricity continues to be an active participant in the consultative process of energy policy and regulation development conducted by the energy market's regulatory authorities.

This year, Delta submitted the first of our greenhouse emission reports required under the Australian Government's National Greenhouse and Energy Reporting Act. The Department of Climate Change publishes all national greenhouse and energy data for large-scale greenhouse emitters and energy users, and this information is publicly available.

Energy Reform Program

The NSW Government announced its Energy Reform Strategy on 1 November 2008. The strategy proposes to:

- sell the retail arms of the three State-owned energy corporations (EnergyAustralia, Integral Energy and Country Energy);
- sell seven power station development sites around NSW;
- contract the electricity trading rights of the nine State-owned power stations to the private sector (the 'Gentrader model');
- maintain public ownership of existing power stations; and
- maintain public ownership of electricity transmission and distribution networks (the poles and wires).

Delta has supported the process with the development and provision of all relevant development project documents and Gentrader material which has been lodged progressively in the electronic vendor data room.

The Government is anticipating that transactions to be executed by the end of the 2010.

Farewell and thanks to Jim Henness

Jim Henness was appointed Acting Chief Executive of Delta in March 1996 and Chief Executive in July 1996. Jim came from Pacific Power where he had been involved in power station design, electrical demand forecasting and economic analysis as well as coal supply planning and contracting.

Delta Electricity owes much to Jim Henness. He has built the organisation into the largest generator in Australia during difficult and uncertain times. We thank him and wish him all the best for the future. Greg Everett commenced as Chief Executive on 17 July.

Acknowledgements

Our thanks to the executive team and all Delta staff for their contributions throughout 2009/2010. Your hard work has helped us to achieve some important goals and to take Delta to the forefront of the electricity generation industry in Australia. Thanks is due also to the Board which has shown important leadership throughout the year.

We have accomplished a great deal and have had a most successful year.



Loftus Harris
Chairman



Greg Everett
Chief Executive

This year's corporate performance shows that Delta Electricity is a robust, dynamic and adaptable organisation.



Asbjorn Nilsen (at front) and Robert Bender (in the back)

PROFILE

Delta Electricity is a state-owned electricity generation corporation. We produce electricity from several facilities using diverse energy sources such as coal, water and biomass materials.

Most of our electricity is generated at five power stations in New South Wales. These are Mount Piper and Wallerawang near Lithgow and Vales Point, Munmorah and Colongra on the Central Coast.

The capacity of Delta's coal-fired plant is 4,320 MW which provides some 12% of electricity for the market covering all states and territories except Western Australia and the Northern Territory. The low emission gas-fired Colongra Power Station has four gas turbines, each with 167 MW capacity. Colongra can start up quickly to meet demand, which can climb quickly and peak on very hot and very cold nights and days.

The remainder of Delta's electricity production is from renewable energy sources such as mini-hydro generators and biomass.

Delta Electricity operates under the Energy Services Corporations Act 1995 and the State Owned Corporations Act 1989. The organisation was formed on 1 March 1996 as part of the NSW Government's restructuring of the State's electricity industry. This restructuring was in response to large scale changes in generation, transmission and supply of electricity in eastern Australia following the Federal Government's program of competition reform.

Delta's principal functions are to:

- establish, maintain and operate facilities for the generation of electricity and other forms of energy; and
- supply electricity and other forms of energy.

Guiding Delta in carrying out these functions are the following principal objectives:

1. to be a successful business and, to this end, to:
 - (a) operate at least as efficiently as any other comparable business;
 - (b) to maximise the net worth of the State's investment in Delta; and
 - (c) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates;
2. to protect the environment by conducting its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the Protection of the Environment Administration Act 1991;
3. to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates;
4. to operate efficient, safe and reliable facilities for the generation of electricity;
5. to be an efficient and responsible supplier of electricity; and
6. to be a successful participant in the wholesale market for electricity.

Subsidiaries

Delta Electricity has two wholly owned subsidiaries. Mid-West Primary Pty. Ltd. is part of a joint venture with the other two NSW State owned generators, Macquarie Generation and Eraring Energy, involved in the development of a new coal mining resource.

Delta Electricity Australia Pty. Ltd. is in a joint venture with the NSW Sugar Milling Co-Operative for the operation of two renewable energy plants on the north coast of NSW.

Vision

Generating performance through innovation.

Mission

To generate electricity safely, reliably and competitively while respecting our workmates, our customers, our community and the environment.

LOCATION



| Location | Unit Size | Total Units | Capacity |
|------------------------------|-----------|-------------|-----------------|
| Gas | | | |
| Colongra | 167 MW | 4 | 667 MW |
| | | | 667 MW |
| Coal | | | |
| Mt Piper | 700 MW | 2 | 1,400 MW |
| Vales Point | 660 MW | 2 | 1,320 MW |
| Wallerawang | 500 MW | 2 | 1,000 MW |
| Munmorah | 300 MW | 2 | 600 MW |
| | | | 4,320 MW |
| Hydro | | | |
| Mt Piper | 350 kW | 1 | 350 kW |
| Chichester Dam | 110 kW | 1 | 110 kW |
| Dungog Water Treatment Plant | 110 kW | 1 | 110 kW |
| | | | 570 kW |
| Biomass | | | |
| Condong | 30 MW | 1 | 30 MW |
| Broadwater | 30 MW | 1 | 30 MW |
| | 8 MW | 1 | 38 MW |
| | | | 68 MW |

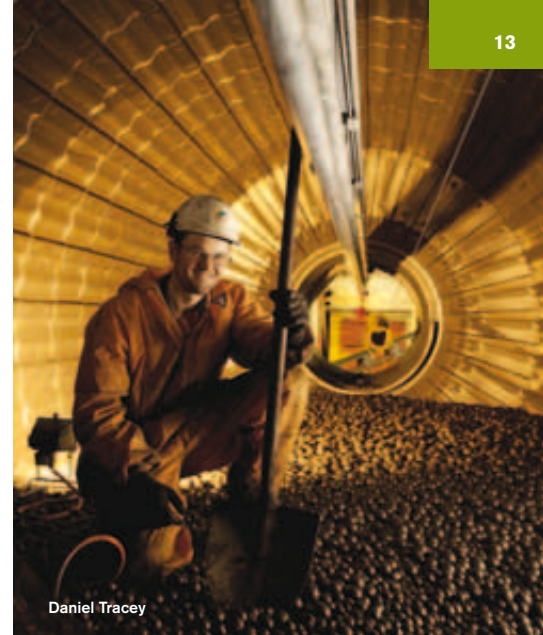
KEY PERFORMANCE INDICATORS

Table One: Key Performance Indicators

| | Unit | 09/10 | 08/09 | 07/08* | 06/07 | 05/06 |
|----------------------------------|----------------|---------|---------|---------|--------|--------|
| Financial Statistics | | | | | | |
| Total sales revenue | \$m | 1,042.5 | 983.1 | 1,008.4 | 874.1 | 839.4 |
| Earnings before interest and tax | \$m | 189.7 | 146.4 | 212.1 | 244.9 | 282.6 |
| Net profit before tax | \$m | 78.4 | 100.7 | 169.3 | 201.0 | 234.7 |
| Net profit after tax | \$m | 55.8 | 75.3 | 113.7 | 139.9 | 164.5 |
| Total debt | \$m | 1358.4 | 1,302.4 | 776.2 | 660.3 | 583.0 |
| Total equity | \$m | 906.6 | 999.6 | 897.0 | 215.6 | 730.0 |
| Return on assets (EBIT/assets) | % | 5.9 | 4.5 | 7.7 | 7.6 | 13.2 |
| Return on equity (NPAT/equity) | % | 6.2 | 7.5 | 12.7 | 64.9 | 22.5 |
| Gearing (Debt/Debt + equity) | % | 60 | 56.6 | 46.4 | 75.4 | 44.4 |
| Interest cover (EBIT/Interest) | times | 1.7 | 3.2 | 4.9 | 5.6 | 5.9 |
| Debt:equity (debt/equity) | % | 149.8 | 130.4 | 86.5 | 306.2 | 79.9 |
| Current Ratio (CA/CL) | % | 1.3 | 0.7 | 0.4 | 0.4 | 0.5 |
| Operational Statistics | | | | | | |
| Production | GWh | 21,999 | 23,746 | 24,054 | 21,952 | 21,948 |
| Equivalent forced outage factor | % | 2.2 | 2.4 | 7.1 | 9.0 | 3.9 |
| Availability | % | 92 | 86.8 | 77.3 | 75.5 | 86.5 |
| Thermal efficiency | % | 34.6 | 34.6 | 35.0 | 35.2 | 35.0 |
| Coal stockpile levels | \$m | 93.4 | 81.8 | 69.8 | 61.5 | 41.4 |
| Employee Statistics | | | | | | |
| GWh/employee | | 30.6 | 32.1 | 33.1 | 30.8 | 30.8 |
| Staff numbers | | 719 | 741 | 726 | 713 | 713 |
| Training days/employee | days/employee | 5.1 | 6.4 | 5.8 | 7.1 | 6.0 |
| Sick leave days/employee | days/employee | 10.8 | 12.0 | 10.8 | 9.4 | 8.0 |
| Safety frequency rate | frequency rate | 4.1 | 4.8 | 4.9 | 5.6 | 7.0 |
| Environmental Statistics | | | | | | |
| Licence breaches | number | 0 | 1 | 2 | 2 | 1 |

* Updated to reflect a change in accounting policy for the treatment of actuarial gains and losses associated with deficit benefit superannuation schemes.

REVIEW OF OPERATIONS



Daniel Tracey

Production

Vales Point set new records for the continuous operation of both its units - from March 2009 to early October 2009 - as well as new annual records in availability and energy generation levels. This performance was made possible by capital investment in the plant over previous years and a continuing focus on effective operations and maintenance practices.

Some problems at Vales Point arose during the year, with the premature failure of the fabric filter bags resulting in some visible emissions, but the cause of the failure was resolved successfully with the supplier and stack emissions have returned to normal with virtually no visible emissions.

The Vales Point water reclamation plant installed in 2008 won the inaugural Energy Supply Association of Australia Sustainable Practice Framework Award. This was the Industry Innovation Award for demonstrating best practice in community consultation and for receiving support from a wide range of stakeholder groups.

During the year, a generator transformer weighing 242 tonnes was delivered to Vales Point Power Station to replace another transformer which will become a spare. This was a major logistical exercise, with the transformer travelling from Brisbane to Vales Point via Goondiwindi, Moree and Muswellbrook.

Munmorah was in operation during the 2009 summer period to provide energy supply and emissions for the carbon capture pilot research plant. Munmorah continued to provide portfolio backup for plant outages and to take advantage of several market opportunities which arose.

The new Colongra gas-fired power station operated as planned, coming into service for short periods of time when electricity demand and prices were higher. Colongra achieves full load in 20 minutes and has black start capability to enable it to re-energise the grid should it be required.

In the Western Region, Mt Piper underwent a major overhaul, including work to upgrade its capacity to a total of 1400 MW. The increase in capacity was achieved primarily through replacing the last row of turbine blades with a new, higher efficiency design.

Plant performance at Wallerawang was excellent, with Unit 7 operating reliably during the 2009 winter, following a major overhaul. Over the Christmas period, with both low demand and the option of bringing Colongra into operation, both Wallerawang units were taken out of service to conserve water in the drought-declared Fish River water supply system.

Water management

Delta Electricity's Coxs River storages have remained at around 40% of capacity over the year. Unfortunately, due to below average rain, the Fish River supply which Delta sources from Oberon Dam continued to remain at approximately 10% capacity for the 2009/2010 period. As a result Delta's supply from this resource was restricted to 32% of the maximum allocation.

A reverse osmosis plant was installed at Mt Piper in June 2009 to treat salinity in the Coxs River caused by prolonged drought. The plant was upgraded to increase its output to 6 ML per day to enable continued operation of Mt Piper using the Coxs River as its primary supply. In addition, Delta committed to a reverse osmosis plant for Wallerawang, to be operational in late 2010.

The major proportion of Delta Electricity's allocation of the Fish River Scheme water supply continues to be directed to Wallerawang Power Station. State Water sourcing water from the Duckmaloi River provided an additional supply for Wallerawang, resulting in a decrease of Delta's use of water from the diminished Oberon Dam.

Vales Point set new records for the continuous operation of both its units - from March 2009 to early October 2009 - as well as new annual records in availability and energy generation levels.

REVIEW OF OPERATIONS CONTINUED

In June 2009, the Blue Mountains Conservation Society lodged a summons in the Land and Environment Court NSW seeking various declarations and orders against Delta Electricity in regard to water quality in the Coxs River. The court case initially focused on seeking orders to cap costs of the action. Delta is vigorously defending the claims made.

On the Central Coast, the total output in 2009/2010 from the reverse osmosis plant at Vales Point was just over 213 ML. This volume of recycled water replaced the use of drinking quality water in the demineralisation plant, which requires a high level of purity to operate reliably. Additional water savings of around 230 ML a year continue with the use of saltwater in the cooling systems and the fitting of water saving devices to taps, toilets and showerheads.

Environmental impacts management

Delta is committed to complying with all statutory requirements set out in the relevant legislation, regulations and licences issued by a number of government authorities. These cover the range of activities related to electricity generation. Delta also sets stringent organisational targets including targets to reduce fuel and water use and manage air and water emissions.

This year, Delta submitted its first greenhouse emission report as required under the Australian Government's National Greenhouse and Energy Reporting Act. The Department of Climate Change publishes all national greenhouse and energy data for large scale greenhouse emitters and energy users, and this information is publicly available.

Delta continues to maintain its environmental ISO 14001 accreditation. The ISO 14001 international standard outlines best practice processes to manage environmental impact. Delta is proud to note that there were no reportable environmental incidents for the period 2009/10.

Delta fully complies with the NSW Government's Waste Reduction and Purchasing Policy, known as WRAPP, and its Corporate Sustainability Policy through its Corporate and Operational Standards. These standards outline processes that ensure the reduction of waste generated at Delta Electricity facilities. Responsibilities and accountabilities are documented, which ensures that all operations are in accordance with the appropriate legislation, licences and policies.

Our WRAPP Plan applies to all employees and contractors employed at Delta facilities and sets out requirements for the management of waste and the purchase of materials at those facilities. Delta Electricity has implemented innovative solutions to manage the various waste streams generated at its facilities and details can be found in the annual Sustainability Report.

Marketing

Prices in the National Electricity Market remained under pressure during the 2009/2010 financial year due to very low market growth and the commissioning of new generating plant. The market was characterised by extended periods of low prices punctuated by short periods of extreme volatility. Generation from wind farms continues to increase and has caused periods of very low prices when high generation coincides with low overnight demand for electricity.

Forward contract prices have remained steady but well down on the highs reached in 2007, when prices were driven by concerns about the impact of drought on the market. Contract trading in the near term has increased markedly, with the expectation that a carbon trading scheme is unlikely to commence until 2013.

Delta Electricity continued to be an active participant in the consultative process of energy policy and regulation development conducted by the energy market's regulatory authorities.

Community and stakeholder engagement

As part of its commitment to sustainable business practices, Delta aims to ensure that its operations are understood and accepted by its stakeholders. Delta adopts the definition of stakeholders used by the Global Reporting Initiative, which aims to encourage excellence in sustainability reporting, that is, stakeholders are "individuals or groups who affect – or are affected by – an organisation's activities".

Stakeholders are therefore predominantly those residents and others located close to our operating power stations, as well as Local Government representatives, local business lobby groups, community organisations and schools in the regions. Institutional stakeholders include the two voting shareholding Ministers of the New South Wales Government as well as the local mayors and council members, and Members of Parliament representing constituents in the regions where we operate. Delta's suppliers of goods and services and staff are also considered stakeholders.



Luke Coleman, Tim Waddell and Chris Guigni

Communication channels and other management processes are in place to ensure that timely, easy to understand information is made available to help permanent and contracted staff do their job safely and well. Internal communications with effective feedback mechanisms are an ongoing focus for improvement within Delta Electricity.

Environmental groups are also keenly interested in the operations of the energy industry, and while Delta operates within its environmental licence conditions and fulfils its reporting obligations, local environment groups have brought a new level of scrutiny to our operations.

Delta has a standing community consultation process in place, with senior managers meeting every three months with the Community Access Regional Environment Forum on the Central Coast and a consultative group in the Western region. Representatives are residents in the towns located near our power stations and are often active in local community groups such as precinct committees, Landcare, progress associations and the Tidy Towns movement. In this way, they can act as a two-way conduit of information and community views. On occasion, issues are raised which require a change to operations to improve outcomes for the community.

For example, on the Central Coast, following concerns about noise, new monitors were permanently connected

into the control room at Vales Point and Munmorah power stations. This ensures operators become aware of untoward noise immediately and can address the problem promptly, and prevent disturbing the local community.

Delta periodically conducts stakeholder research to gain insight into the broader community's knowledge, understanding and interest in our business. A research study is planned for the latter part of 2010. The findings of these studies inform, amongst other things, planning for local community engagement.

Delta provides up to \$200,000 per annum in each region, through sponsorship and donations, to a range of community activities. These include grants to assist Local Councils to build and maintain good quality parks and other amenities, sponsorship for local chambers of commerce to support local business development, charities and for community celebrations, as well as funding for schools to recognise and encourage their high performing students and develop new sporting programs. Other recipients include, amongst others, the Rural Fire Service, Police Local Area Commands, Landcare groups, Surf Life Saving clubs, youth and children's services and people with disabilities.

Throughout the year, Delta senior managers and staff participate in local events and engage in informal dialogue with local important stakeholders.

Staff are encouraged to donate to charities throughout the year through Delta's payroll giving program. Many of these donations are matched dollar for dollar. During 2009/2010, around \$21,000 in total was donated by staff.

Community consultation is an important part of the development approval process, and when Delta is seeking approval to build new infrastructure or when our ongoing operations may be modified and have an impact on the community, a community consultative plan is developed and implemented. The communications, such as advertisements, newsletters and media releases, are designed to provide information to interested parties about the proposal, the approval process and how they can find out more information or contribute their views.

In the 2009/2010 financial year, community consultation was undertaken as part of seeking development approval for the following proposals:

- extension of Mt Piper Power Station;
- four new ash placement sites proposed for Mt Piper Power Station;
- a modification to the existing Bamarang approval so that a 330 kV connection could be linked into the existing TransGrid network.

Delta is proud to note that there were no reportable environmental incidents for the period 2009/10.

NEW DEVELOPMENTS

Colongra Power Station

The Colongra gas-fired power station was officially opened on 21 December 2009, positioning Delta Electricity as the largest capacity electricity generator in Australia. The low emission facility was completed on time and under budget. It has delivered a start-up reliability factor of 98.5%, well above the anticipated 95%.

Bamarang Gas Turbines

Project approval was secured in 2007 for an open cycle plant of approximately 300 MW capacity and, in 2008, for a combined cycle plant of approximately 400 MW capacity to be located at Bamarang, near Nowra. The facility's associated infrastructure, a 132 kV transmission connection line, gas supply infrastructure and a water pipeline has also been approved.

A modification to the existing approval was granted in 2010 to increase the combined cycle gas turbine plant capacity to approximately 450 MW.

To address possible limitations of the approved 132 kV transmission connection for the project, Delta sought a modification to the existing approval so that a 330 kV connection could be linked into the existing TransGrid network. Delta secured an option for approximately 60% of this 330 kV connection route in 2010.

Marulan Gas Turbines

In October 2009, the Minister for Planning granted concept and project approval for the joint Delta Electricity and EnergyAustralia development application for two gas turbine facilities at a site near TransGrid's Marulan high voltage switchyard.

The concept approval identified a number of consent conditions, including a designated corridor for the gas pipeline and other parameters for the shared infrastructure between the two sites. Project approval for the gas turbine facility proposed by Delta Electricity included consent for two development options. Option one consists of a peaking plant with two open cycle gas turbines. The second option is for either converting the open cycle turbines to a combined cycle facility, or building it from the outset as a combined cycle plant.

EnergyAustralia's proposed gas turbine plant is located at an adjacent site and consists of two open cycle gas turbines for peaking operation.

A Connection Investigation Services Agreement was executed with TransGrid for conducting the high voltage connection technical studies, with the work concluded in June 2010.

Mt Piper Power Station extension

Delta received concept approval from the Minister for Planning for the proposed Mt Piper Power Station extension project on 12 January 2010. This followed lodgement of Delta's major project application under Part 3A of the Environmental Planning and Assessment Act in June 2009 and submission of its environmental assessment in September 2009 for public exhibition.

The concept approval provides for up to 2,000 MW of combined cycle gas turbine plant or coal-fired ultra-supercritical plant, and associated infrastructure, on a site immediately adjacent to Delta's Mt Piper Power Station about 17 km north-west of Lithgow in the Central West region of NSW. Both the gas and coal-fired options for the Mt Piper extension project will use

air-cooled condensers to minimise water usage and both will be designed to include provision for future carbon capture and storage when this technology becomes commercially available.

The process of the sale of the Mt Piper extension project site has commenced as part of the New South Wales Government's Energy Reform strategy. The purchaser of the site will be responsible for submitting a project plan to the Department of Planning for approval of the actual gas or coal-fired option being pursued before any construction can commence.

Munmorah Power Station rehabilitation

Following extensive studies on the condition and performance of Munmorah Power Station Units 3 and 4, a comprehensive work scope has been prepared for implementation under the proposed Munmorah rehabilitation project.

The objectives of the project are to return the two units to their original unit capacity of 350 MW, to improve their efficiency and reliability and to extend their operating life by 20 years. These objectives will be achieved through the replacement of aged components with those of current and improved design, including major turbine cylinders, boiler pressure parts and auxiliaries and control systems. Provision will be made for gas and coal firing of the boilers and for future carbon capture and storage.

Project approval is being sought under Part 3A of the Environmental Planning and Assessment Act. A major project application with the preliminary environmental assessment was lodged with the Department of Planning in June 2009. The project was declared Critical Infrastructure in July 2009.

The \$500 million Colongra Power Station was opened in December 2009. Colongra is a 667 MW gas-fired, low emission power station that can be turned on almost immediately to respond to spikes in electricity demand.



NEW DEVELOPMENTS CONTINUED

An environmental assessment for the project was placed on public display in October/ November. Delta responded to the submissions received in December 2009. Draft consent conditions were issued by the Department of Planning, but as at 30 June, were yet to be finalised. Project approval is anticipated before the end of 2010.

Energy Reform – sale of development sites

In preparation for the sale of the development sites of the Bamarang and Marulan gas turbines project and the Mt Piper Extension and Munmorah Rehabilitation project, all relevant project documents and associated reports were identified and exported to a vendor data room.

Mt Piper Power Station ash project

A major project application and preliminary environmental assessment was submitted for the Mt Piper Power Station ash placement project under Part 3A of the Environmental Planning and Assessment Act in September 2009. The project seeks approval for the establishment of new ash placement sites for Mt Piper Power Station once the existing ash repository reaches capacity around 2015. The Director General's requirements for the environmental assessment were received in November 2009.

Concept plan approval is being sought for four sites known as Lamberts North, Lamberts South, Neubecks Creek and Ivanhoe No. 4. Project approval is also being sought for Lamberts North and Lamberts South to enable continuing dry ash placement from about 2015 adjacent to the existing ash repository. These two sites are part of the Lamberts Gully open cut coal mine void. It is intended that dry

conditioned ash be placed in the void and progressively capped and revegetated with native flora. Should the proposed Mt Piper extension project proceed as a coal-fired power station, then it is intended that ash from it would also be placed in the new ash sites. This will also entail seeking project approval for Neubecks Creek and Ivanhoe No 4 to secure additional ash placement capacity.

The environmental assessment for the ash placement project will be lodged in September 2010 and placed on public exhibition. It is anticipated that planning approval will be granted before the end of 2010.

Table Two: Progress on New Developments

| Project | Description | Status as at 30 June 2010 |
|---|---|--|
| Colongra gas turbine peaking plant | Four 167 gas turbines. | Completed and officially opened in December 2009. |
| Bamarang gas turbine stage 2 | Approximately 450 MW of combined cycle gas plant. | Modification to original development consent received. |
| Marulan gas turbine - in two stages | Either a 250–350MW open cycle or a 400–450 MW combined cycle, or construction in two stages converting open cycle to close as needed. | Development consent received. |
| Extension of Mt Piper Power Station | 2,000 MW of capacity fuelled by either gas or coal. | Concept approval received. |
| Refurbishment of Munmorah Power Station | 700 MW of capacity fuelled by either gas or coal. | Environmental assessment submitted for approval. |

RESEARCH AND DEVELOPMENT

Delta's research and development activities are a key element in its strategy to deliver a more sustainable energy supply. The following activities were undertaken in 2009/2010 as part of the strategy.

Carbon capture and storage

Delta continued its program to develop carbon capture and storage technology as an emission abatement option for its fossil fuel-fired power stations. In conjunction with CSIRO, the post-combustion carbon capture pilot plant experimental program at Munmorah Power Station achieved some significant milestones. The technology exceeded its targets for capture rate, carbon dioxide purity and sulphur removal. The program is expected to be completed at Munmorah in August 2010. Data from the program will be used to inform the selection of technology for a large scale demonstration carbon capture and storage plant.

The establishment of a demonstration scale carbon capture facility took a significant step forward this year with a Funding Agreement for \$28.3 million to finance the development stage of a 100,000 tonne per year demonstration plant finalised in February 2010. The funding is being provided by the Federal Government, the NSW Government and the Australian Coal Association.

An exploratory drilling program was completed at Munmorah and Vales Point power stations. The drilling is part of a state-wide program being undertaken by Industry and Investment NSW to assess the potential for geological storage of carbon dioxide. The drilling indicated a low probability of geological storage potential on the Central Coast, with drilling activities now underway in north-western NSW.

Research programs to investigate ways of minimising water and energy consumption for post-combustion carbon capture technologies are progressing, with early indications of promising reductions.

Renewable energy

Investigations are being undertaken to significantly increase the quantity of energy from renewable sources by improved biofuel processing, and expanding the source of sustainable biomass fuel supplies to include energy crops. Delta commenced a Eucalyptus Mallee trial, which planted 200,000 seedlings across ten farm properties in the Forbes region of NSW. This trial aims to demonstrate the farming model, to prove the propagation and planting productivity and survival rates, and to stimulate interest from farmers in the concept. The first phase of on-site trials at the 1,000 MW Wallerawang power station, aimed at increasing its capacity to use renewable fuels, has been successfully completed. This process achieved "proof of concept" status for transport logistics, storage, handling, processing and combustion. The next phase of site trials is intended to develop the engineering design aspects in order to prove the targeted 20% displacement of coal and take the project to a technically "ready to go" status.

Delta is also collaborating with Crucible Carbon to host a demonstration scale torrefaction facility at its Vales Point Power station. The torrefaction demonstration facility, for which Crucible Carbon has received Commonwealth Government funding, is an efficient method of drying biomass to produce a very dry, brittle material which can significantly reduce fuel and processing costs.



Jenny Wittingslow, Linda Anderson and Jenny James

Research sponsorship

Delta also supports research that will provide long-term benefits for the operation and maintenance of its existing generation fleet through membership of the Electric Power Research Institute, the Welding Technology Institute of Australia and the Co-operative Research Centre for Integrated Engineering Asset Management. It is also supporting the Co-operative Research Centre for By-product Utilisation as part of a broader ash utilisation strategy.

The Delta-sponsored Chair in Sustainable Energy Development at the University of Sydney hosted a very successful symposium in March 2010 that explored likely policy and technology challenges for the energy industry through to 2050. The Chair, held by Professor Tony Vassallo, is investigating renewable energy technologies, their development and grid integration, including energy storage. Delta believes successful development and integration of storage technologies are essential to achieve reliable, base-load, renewable generation.

PEOPLE

Safety

Delta is committed to a zero injury workplace and to ensuring we can give our staff/contractors a high level of confidence in the safety of working on plant.

A new safety lockout system was introduced in 2009. This requires that a series of locks be applied by each person involved in an isolation point. Previously, it was a red warning tag.

Recognising the critical importance of leadership in the management of safety, members of the Executive team have undertaken safety activities when visiting each of the power stations.

Delta's behaviour-based safety system, known as D-ZIP, is well embedded into our corporate culture. D-ZIP creates the opportunity to observe safe workplace behaviours and to have a conversation about why those behaviours should be maintained and emulated. A refresher package has been developed to ensure that the behavioural principles are reinforced, with planned roll-out throughout late 2010 and into 2011.

Following the trend of past years, the lost time injury frequency rate reduced. A detailed analysis of all injuries has shown a further slight decline in the number of injuries reported and a reduction in the severity of injuries being sustained.

Health and safety auditing has been undertaken covering all parts of the business. The audit schedule has been developed to address high risk areas of the business including fire risk management, the Occupational Health and Safety management system, contractor compliance and a gap analysis as part of the National Audit Tool for Self Insurers.

As in previous years, new employees have joined the organisation. To ensure they understand and engage with our strong safety culture, new starter programs and site inductions are conducted.

Skills for the future

Twenty-three sponsored apprenticeships were offered in the Western and Central Coast regions in 2009/2010 and, of these, 17 were provided with a four-year apprenticeship opportunity.

Delta is committed to improving employment and community outcomes for the indigenous community and dedicated two apprenticeship positions to applicants from an Aboriginal or Torres Strait Islander background. This year, Delta was successful in recruiting two indigenous apprentices, and both were offered an indentured four-year apprenticeship.

Three female applicants were provided with an indentured four-year apprenticeship.

Delta also sponsored seven traineeships, four of which were Rigger traineeships and three Administration traineeships.

Equal Employment Opportunity

As an organisation, Delta fully supports the principles of Equal Employment Opportunity and the targets set by the NSW Government. However, the electricity generation industry is faced with particular challenges in meeting these targets, such as the relatively low rates of staff turnover and the higher number of men attracted to the trades and engineering professions.

Table Three details the representation of nominated groups in Delta while Table Four shows trends in distribution, with comparisons to the NSW Government's Equal Employment Opportunity targets.

Taking into account the issues highlighted previously, we have implemented a range of initiatives to address these issues.

The pursuit of Equal Employment Opportunity principles remains a fundamental work practice within Delta. Through staff induction and ongoing training, these principles are reinforced with staff, and all policies and standards governing work are reviewed to ensure alignment to these principles. As noted before, while Delta supports and aligns itself with the Equal Employment Opportunity principles and targets set down by the NSW Government, low staff turnover limits our ability to satisfy these targets.

Multicultural Policies and Services Program

Delta has limited Multicultural Policies and Services Program responsibilities as we do not provide direct services to the community. However, we recognise the importance and benefits of cultural diversity to the community in general and in our organisation.

Delta's Multicultural Policies and Services Program includes objectives and targets relating to social justice, community harmony and cultural opportunities

Affirmative action for the indigenous community

Delta is committed to improving employment for the Australian regional indigenous community. To this end, two first-year apprenticeship positions are identified each year as available to a person from Aboriginal and/or Torres Strait Island background. In the 2009/2010 period Delta was successful in recruiting two indigenous apprentices and both have been offered an indentured four-year apprenticeship.



Phil Bray



Peter Wormald and Emma Mansy

In addition, Delta has also provided financial support to the indigenous community, with a \$5,000 sponsorship of an event celebrating indigenous community achievements through NAIDOC on the Central Coast. Delta has also provided a \$2,000 sponsorship through the University of Newcastle for an undergraduate with an Aboriginal or Torres Strait Island background studying on the Ourimbah campus.

Employing women

Of new employees engaged by Delta in 2009/2010, 50% were female. A four-year indentured apprenticeship opportunity was offered to three female applicants.

Supporting people with a disability

Delta is committed to ensuring that equal opportunities exist for people with disabilities, enabling their maximum participation and contribution in the workforce. Our Disability Plan addresses three key result areas - employment, access and communication/reporting.

Strategies for 2010/2011

- Delta's proposed Multicultural Policies and Services Program forward plan will ensure the continuation of merit based recruitment practices and that work arrangements are sensitive to and accommodate cultural and religious differences as appropriate.
- Ongoing apprenticeship opportunities will continue to be identified for people from an indigenous background.
- At least one traineeship opportunity is to be offered to a person with a disability.

Table Three:
Trends in the Representation
of EEO Groups¹

% of total staff²

| Equal Employment Opportunity group | Whole of government benchmark or target | 2006-2010 | | | | |
|---|---|-----------|------|------|------|------|
| | | 2010 | 2009 | 2008 | 2007 | 2006 |
| Women | 50% | 10% | 10% | 9% | 8% | 7% |
| Aboriginal people or Torres Strait Islanders | 2.6% | 1.0% | 0.9% | 0.7% | 0.6% | 0.6% |
| People whose language first spoken as a child was not English | 19% | 6% | 6% | 6% | 5% | 5% |
| People with a disability | 12% | 6% | 6% | 7% | 8% | 8% |
| People with a disability requiring a work-related adjustment | 7% | 2.5% | 2.7% | 3% | 3.4% | 3.4% |

Table Four:
Trends in the Distribution
of EEO Groups^{3, 4}

distribution index³

| Equal Employment Opportunity group | Whole of government benchmark or target | 2006-2010 | | | | |
|---|---|-----------|------|------|------|------|
| | | 2010 | 2009 | 2008 | 2007 | 2006 |
| Women | 100 | 94 | 91 | 93 | 93 | 98 |
| Aboriginal people or Torres Strait Islanders | 100 | n/a | n/a | n/a | n/a | n/a |
| People whose language first spoken as a child was not English | 100 | 110 | 109 | 106 | 109 | 113 |
| People with a disability | 100 | 102 | 100 | 99 | 101 | 102 |
| People with a disability requiring a work-related adjustment | 100 | n/a | n/a | n/a | 93 | 95 |

Notes:

1. Staff numbers are as at 30 June 2010.
2. Excludes casual staff.
3. A distribution index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO groups tend to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases, the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The distribution index is automatically calculated by the software provided by the Officer of the Director of Equal Opportunity in Public Employment (ODEOPE).
4. The distribution index is not calculated where EEO group or non-EEO group numbers are less than 20.

GOVERNANCE



Greg Everett

Warren Phillips

The structure and composition of the Board

Appointment of Directors to the Board is governed by the State Owned Corporations Act 1989 and the Constitution. The Board of Delta Electricity is composed as follows:

- 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 Unions NSW, being persons selected by the committee from a panel of three persons nominated by Unions NSW
- at least two and not more than five other directors appointed by the voting shareholders, at their discretion.

The Directors in office as at 30 June 2010 are:

Mr Peter Young,
AM BSc, MBA
(refer to note 1)
Chairman and Director

Mr Young was first appointed on 1 June 2004 and subsequently reappointed for a period ending 31 May 2013.

Mr Warren Phillips,
FCPA, FCIS, DipCom
Director

Mr Phillips was first appointed on 1 March 2000 and subsequently reappointed for a period ending 31 August 2012.

Ms Sandra Moait
Director

Ms Moait was first appointed 18 September 2002 and subsequently reappointed for period ending 31 August 2010.

Mr Michael Knight,
AO
Director

Mr Knight was appointed on 20 March 2006 and subsequently reappointed for a period ending 19 September 2012.

Mr Paul Forward,
BCom, MCom, MSc
Director

Mr Forward was appointed on 20 March 2006 and subsequently reappointed for a period ending 19 September 2012.

Mr Loftus Harris,
BA, FAICD
Director

Mr Harris was appointed on 1 October 2007 for a period ending 30 September 2010.

Mr Jim Hennes,
BSc, BE (Hons), MEngSc,
MBA, FAICD

(refer to note 2)
Chief Executive and Director

Mr Hennes was appointed Chief Executive and Executive Director on 1 March 1996.

Note 1:

Mr Peter Young resigned as a Director of Delta Electricity on 11 August 2010.

Note 2:

Mr James Hennes retired on 17 July 2010. Mr Greg Everett was appointed as Chief Executive effective 17 July 2010.

Meetings of the Board

The Board of Delta Electricity meets monthly or as required and follows meeting guidelines set down to ensure that all Directors are made aware of, and have available to them, all necessary information to participate in an informed discussion of all agenda items. Meetings are held either in the corporate office or at one of Delta's 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.



Sandra Moait

Michael Knight



Paul Forward

Loftus Harris

Table Five: Director Meetings

| | Board Meetings | | Board Remuneration and Staff Committee | | Board Audit and Finance Committee | | Board Environment, Occupational Health and Safety Committee | |
|--------------------------|----------------|----|--|---|-----------------------------------|---|---|---|
| | A | B | A | B | A | B | A | B |
| Mr P Young | 11 | 11 | 5 | 5 | | | | |
| Mr W Phillips | 11 | 11 | | | 6 | 6 | | |
| Ms S Moait | 11 | 10 | 5 | 4 | | | 3 | 3 |
| Mr M Knight ¹ | 10 | 10 | | | 5 | 5 | | |
| Mr P Forward | 11 | 11 | | | 6 | 6 | 3 | 3 |
| Mr L Harris | 11 | 11 | 5 | 5 | | | | |
| Mr J Henness | 11 | 10 | | | | | 3 | 3 |

Column A is the number of meetings that a Director was entitled to attend. Column B is the number of those meetings attended.

Note: 1,

Advice on the reappointment of Mr Knight for a period of three years from 20 September 2009 was received from Treasury on 20 October 2009, five days after the October 2009 Board and Board Audit and Finance Committee meetings. While the reappointment of Mr Knight confirms a continuity of Board membership since September 2006, it is considered that reporting of attendance at Board and Board Audit and Finance Committee meetings should show that Mr Knight was not eligible to attend the October 2009 meetings.

Board committees

The three Board committees in place at the end of the year were:

- Board Audit and Finance Committee;
- Board Environment, Occupational Health and Safety Committee; and
- Board Remuneration and Staff Committee.

The terms of reference for each Board committee were reviewed and approved by the Board in May 2010. The Board committees and their functions are listed below.

Board Audit and Finance Committee

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 that management practices and systems support the effective operation of Delta's risk management strategies, business continuity and fraud control plan. The committee further reviews the adequacy of Delta's short and long-term finance and risk management strategies.

Membership

Warren Phillips (Convenor), Michael Knight and Paul Forward.

Board Environment, Occupational Health and Safety Committee

The primary objective of the committee is to assist the Board in discharging its responsibilities relating to compliance with environmental and occupational health and safety policies and legislation.

Membership

Sandra Moait (Convenor), Paul Forward and Jim Henness.

GOVERNANCE CONTINUED

Board Remuneration and Staff Committee

The primary objectives of the committee are to:

- provide advice to the Board on remuneration and associated issues;
- enhance the independence and objectivity of Board decisions on sensitive commercial and personal issues related to the executive managers of the corporation;
- enable corporate business strategies and plans and remuneration strategy and policy to be effectively linked;
- review processes and controls relating to Delta's remuneration strategy, policy and practices in relation to legal and taxation requirements, corporation reporting obligations and overall corporation policy and direction.

Membership

Peter Young (Convenor), Sandra Moait and Loftus Harris.

Managing risks

Delta Electricity's Risk Management Plan conforms to the Australian Standard AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines. The plan is structured to provide Delta Electricity and its employees with policy direction and a framework for identification, assessment and reporting of risk. Control mitigation measures are reviewed on an annual basis for validity and effectiveness.

Delta Electricity's corporate risk management software supports a hierarchical framework which allows employees to identify, register, assess and monitor risks and effectiveness of controls. Key risks (operational and strategic) are reviewed and reported monthly at business unit level and reported quarterly to Delta Electricity's Board.

Delta Electricity's highest ranked risk is the impact of new legislation to manage carbon emissions and provide incentives for renewable energy. The exposure to this risk is difficult to quantify until the relevant legislation has been debated and passed by Parliament.

As part of Delta Electricity's annual insurance renewal program, reviews and valuations of risk exposures are undertaken. Presentations are made to insurance providers that assess risk exposures, risk management practices and progress in implementing recommendations of annual loss prevention surveys conducted at power station sites. Delta Electricity is cooperatively engaged with its insurance providers to reduce risk exposures for key operating plant and equipment.

Business continuity risks have been identified and we have developed action plans designed to return the business to normal operations in an effective and efficient manner.

Delta Electricity has a Corporate Governance and Legal Compliance Plan to ensure full compliance with the obligations required to be fulfilled by the organisation and its officers under all relevant legislation. The organisation's corporate compliance management software supports the oversight of the discharge of all legal, regulatory and compliance obligations.

The Board of Delta Electricity has established the Board Audit and Finance Committee to assist in fulfilling responsibilities in relation to the accounting, auditing and reporting practices of Delta Electricity. The Board Audit and Finance Committee oversees the internal audit function and liaises with the Auditor-General regarding external auditing matters.

The internal audit function within Delta Electricity provides an independent assessment of the control environment for the mitigation of risks. From this assessment, improved approaches for effective risk management and governance arrangements are implemented.

Each year, an internal audit plan is prepared by internal audit and submitted to the Board Audit and Finance Committee for approval. The plan is based on a risk assessment of Delta's business operations and discussion with management.

The ensuing internal audit reviews confirm compliance with and assess the efficiency, economy and effectiveness of management policies, practices and controls. Following each review, a detailed report is prepared which provides an overall rating, audit findings, recommendations and action items to be implemented.

All audit reports are submitted to the Board Audit and Finance Committee so as to ensure the Committee is fully aware of internal audit activities in Delta Electricity, audit results and remedial action undertaken in regard to matters raised in audit reports.



Greg Hilliard and Emily Foley



Amanda Bendeviski

Executive management team

Jim Henness, BSc, BE (Hons), MEngSc, MBA, FAICD
Chief Executive (Retired on 17 July 2010.)

John Bund, BEc (Hons)
General Manager/Human Resources

Anthony Callan, BEng, MBA
General Manager/Marketing

Greg Everett, BCom, MBA, GAICD
General Manager/Strategy
(Appointed Chief Executive, effective 17 July 2010)

David Hogg, BE, GAICD
General Manager/Planning and Environment

Chris Horner, BE (Mech), Marine Eng. Cert, CP Eng, GAICD
General Manager/Delta Maintenance

Ray Madden, BA (Hons), MBus, GradDipAppCorpGov, GAICD, ACIS
Corporate Secretary

Stephen Saladine, BE (Hons)
General Manager/Production

Glenn Sharrock, BSc, GCofM, GAICD
General Manager/Central Coast

Richard Street, BEc, CA, MBA, GAICD
Chief Financial Officer

Rodney Ward, BEng (Hons), MBA, FAICD, CPA, FFTP
General Manager/Development

Executive committees oversee the implementation of strategic and operational decisions approved by the Board and the day-to-day operation of the business. Table Five lists those committees and their membership.

Table Six: Executive Committee

| Name | Title | A | B | C | D | E | F | G | H | I |
|------------------|---|---|---|---|---|---|---|---|---|---|
| Mr J Henness | Chief Executive | X | X | X | X | X | X | X | X | X |
| Mr J Bund | General Manager/Human Resources | X | | X | X | | X | | | |
| Mr A Callan | General Manager/Marketing | X | | X | | X | | X | X | |
| Mr G Everett | General Manager/Strategy | X | X | X | | X | | X | X | X |
| Mr D Hogg | General Manager/Planning and Environment | X | | X | | X | | X | | |
| Mr C Horner | General Manager/Delta Maintenance | X | | X | X | X | X | | | |
| Mr R Madden | Corporate Secretary | X | | X | | X | | | | |
| Mr S Saladine | General Manager/Production | X | X | X | X | X | X | X | X | X |
| Mr G Sharrock | General Manager/Central Coast Operations | X | X | X | X | | X | X | X | X |
| Mr R Street | Chief Financial Officer | X | | X | | X | X | X | X | X |
| Mr R Ward | General Manager/Development | X | | X | | | | | X | X |
| Mr B Corderoy | Manager, Environment | | X | | | | | | | |
| Mr J Della Bosca | Occupational Health and Safety Manager | | | | | X | | | | |
| Ms C Bower | Deloitte Touche Tohmatsu (Internal Auditor) | | | X | | | | | | |

(A) Executive Management Committee
(B) Executive Environment Committee
(C) Executive Audit Committee
(D) Executive Occupational Health and Safety Committee

(E) Executive Information Technology Strategy Committee
(F) Executive Human Resources Committee
(G) Market Strategy Steering Committee

(H) Development Projects Steering Committee
(I) Executive Project Evaluation Committee

GOVERNANCE

CONTINUED

Table Seven: Executive remuneration 2009/2010

| Name and period of time in position | Position held as at 30 June 2010 | Fixed remuneration | Total performance-related payment | Individual performance criteria |
|-------------------------------------|----------------------------------|--------------------|-----------------------------------|--|
| Jim Hennessey All of year | Chief Executive | \$515,227 | \$133,013 | Assessment of performance by the Board against corporate performance indicators, including Delta's profit and plant performance and maintenance of effective external relationships. |
| Greg Everett All of year | General Manager/ Strategy | \$323,121 | \$84,268 | Contracted coal purchases and assessment against other agreed performance targets. |
| Stephen Saladine All of year | General Manager/ Production | \$300,887 | \$79,976 | Business unit financial management and plant performance and assessment against other agreed performance targets. |
| Richard Street All of year | Chief Financial Officer | \$284,905 | \$71,755 | Management of financial projects and of the financial and management accounting function and assessment against other agreed performance targets. |
| Rodney Ward All of year | General Manager/ Development | \$272,737 | \$57,972 | Implementation and management of development projects and assessment against other agreed performance targets. |
| Anthony Callan All of Year | General Manager Marketing | \$258,750 | \$54,242 | Development and management of the marketing strategy to ensure optimal mix of contract and spot exposure and assessment against other agreed performance targets. |

Table Eight: Number of Executive Officers

| Number of executive officers | Total | Women |
|---|-------|-------|
| Number of executive officers with remuneration equal to or exceeding equivalent of Senior Executive Service Level 1 as at 30 June 2010. | 35 | 0 |
| Number of executive officers with remuneration equal to or exceeding equivalent of Senior Executive Service Level 1 as at 30 June 2009. | 36 | 0 |



Mark Nixon

Performance and numbers of Executive Officers

The performance payments listed in Table Six were made shortly after the end of the 2009/2010 financial year. They were accrued into that year's accounts.

The 2009/2010 performance payments were made up of the following components.

A payment based on one or more of the following:

- the outcome of performance against a Delta overall balanced scorecard;
- the outcome of performance against business-unit-specific balanced scorecards;
- an individual performance payment based on:
 - individual performance (see criteria in table); and
 - individual management and leadership performance.

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 1984, Regulations and Treasury and Premier's memoranda. The following information is provided in accordance with these requirements

Exemption from the reporting provisions

Approval was given by the New South Wales Treasury under delegation from the then 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 reporting requirements:

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

Exemptions from 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 and included:

Consultants

The total amount spent on consultants is required to be disclosed, along with a summary of the main purposes of engagements. In 2009/2010, expenditure on consultants totalled \$4.87 million. The main purposes of these engagements were for environmental assessment services, feasibility studies, finance, accounting and management services.

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

Delta is exempt from preparing manufacturing and trading statements, but required to prepare a summarised operating statement.

Overseas visits

Overseas visits with main purposes highlighted are set out in Table Nine.

GOVERNANCE

CONTINUED

Table Nine: 2009 – 2010 Overseas Visits

| Name | Date of travel | Purpose of travel |
|---------------|-----------------------------|--|
| James Henness | 2 July 2009 – 21 July 2009 | Copenhagen, Zurich, Brussels, Berlin, London To visit post-combustion capture plants. |
| Peter Young | 2 July 2009 – 21 July 2009 | Copenhagen, Zurich, Brussels, Berlin, London To visit post-combustion capture plants |
| Chris Horner | 12 July 2009 – 18 July 2009 | The Netherlands – to visit Amer Power station as part of a feasibility study of biomass co-firing at Wallerawang Power Station |
| Wayne Hill | 12 July 2009 – 18 July 2009 | The Netherlands – to visit Amer Power station as part of a feasibility study of biomass co-firing at Wallerawang Power Station |

Freedom of Information


No direct applications for information were received under the terms of the Freedom of Information Act 1989 in 2009/2010.

One application for information was made to Delta by a third party that had received a request for information.

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 impact on Delta activities.

Cost of Annual Report

The cost of producing this Annual Report was \$15,000.



Delta is committed to a zero injury workplace and to ensuring we can give our staff/contractors a high level of confidence in the safety of working on plant.



Gary Beecroft, Mark Barwick and Darren McLennan (seated)