ANNUAL REPORT 2011/2012

Verve Energy Annual Report 2011-12 | Contents

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Verve Energy

Verve Energy is the leading generator of electricity in Western Australia, contributing to the welfare of households and businesses by providing safe, reliable and competitive energy.

Verve Energy is recognised as a vibrant, innovative energy business through being commercially, socially and environmentally successful.

We own and operate an extensive and diverse portfolio of power stations and renewable energy systems.

Verve Energy's purpose is to profitably produce and market energy, while providing support to the electricity market.

Verve Energy Annual Report 2011-12 | Achievements

- 67% improvement in Recordable Injury Frequency Rate
- Dividend payment to State Government of $83.4m
- Forced outage factor kept to a low 2.46%
- Two renewable energy projects completed
- High efficiency gas turbines constructed
- Thermal efficiency improved to 32.1%
- Reduction in emissions to 7.5 million tonnes $C0_2e$

The year ended 30 June 2012 was challenging following last year's excellent results.

Chairman and Chief Executive Officer's Report

We have continued to develop many new projects while maintaining our existing plant in good order, and we have continued to make good ground in ensuring our long term fuel security. This year, the South West Interconnected System (SWIS), the market in which we operate, experienced subdued growth and total electricity production in the system was well down on forecasts. The Independent Market Operator has now forecast lower demand in the coming year, which has been attributed to a combination of factors including the effects of new domestic and commercial solar PV, higher electricity prices and delays in new loads entering the system.

Verve Energy recorded a net profit after tax (NPAT) for 2011/12 of $61.3 million (2011: $128.3 million) representing a reduction in profit of 52% on the previous year. This result was foreshadowed last year as the market in which Verve Energy operates continues to change. The reduction in our profitability was caused by increased production fuel costs and the early stage costs associated with some new projects.

While our electricity sales volumes dropped by 4% as a result of the introduction of new supply in the SWIS, our existing long term bilateral contracts give us some buffer from this lack of growth. The oversupply of base load plant in the SWIS and the projected lack of growth will mean our base load plant will continue to be cycled and operated inefficiently, increasing our exposure to higher fuel and maintenance costs.

Safety is our top priority and we continue to work hard in achieving our vision of keeping our workforce free from harm. While we still have work to do in regard to our safety systems, practices and culture, we are proud that we continue to show improvement in key statistics. Our All Recordable Injury Frequency Rate dropped from 13.7 to 4.5, a 67% improvement and our Lost Time Injury Frequency Rate also decreased from 2.5 to 1.0, a 60% reduction. We remain mindful that our vigilance must be constant.

We continue to make ground in ensuring the long term security of our fuel supplies and it was a significant achievement for Verve Energy to sign a long term gas supply agreement with the Gorgon Joint Venture Sellers in November 2011 for the supply of gas from the Gorgon Project which enters production later this decade. The establishment of a long term gas storage arrangement with APA Group in June 2011 places Verve Energy in an excellent competitive position for the long term.

This year was the busiest that Verve Energy has experienced in terms of new project activity with several exciting new developments either completed or underway.

We completed the Grasmere project which extended the existing Albany Wind Farm by six wind turbines. The renewal of our fossil-fuelled portfolio continued with the retirement of Kwinana A in October 2011 and the construction of two new high efficiency gas turbines (HEGTs) at Kwinana. The new HEGT technology will enable us to use our gas more efficiently in our role as a balancer in the SWIS, particularly as more intermittent renewable loads enter the market.

We are involved in three new joint ventures in partnership with the private sector delivering important electricity generation infrastructure for the SWIS. At this stage, the projects are expected to cost $422 million, but importantly, private equity and debt is funding up to 80% of this and therefore not drawing on State Government debt.

The Vinalco joint venture (50/50 between Verve Energy and Inalco) is currently refurbishing the Muja AB plant which will provide energy security and low cost mid-merit supply to the SWIS until commercially viable clean coal technologies are developed. The Greenough River Solar Farm (50/50 joint venture between Verve Energy and GE Energy Financial Services) is now substantially complete and has been supported by the State Government's Royalties for Regions program. The Mumbida Wind Farm (50/50 joint venture between Verve Energy and Infrastructure Capital Group) is currently under construction. These projects have substantial costs in the early stages of their development and to that extent they have contributed $35.8 million in losses to our result, up from $5.9 million last year.

Chairman and Chief Executive Officer's Report cont.

In conjunction with our new projects, we invested $77.7 million of sustaining capital on our existing plant in addition to maintenance expenditure of up to $156.3 million. This has been a contributor to our plant availability of 81.1%, an improvement on 76.5% from last year. Our forced outage factor was 2.46%, up from 2.3%, however this remains close to world's best practice.

With the introduction of the Carbon Tax from 1 July 2012 we engaged in an extensive carbon readiness program to ensure we comply with our obligations in the coming year. The tax will add about 20% ($223 million) to the cost of our generation, most of which Verve Energy is anticipating recovering from pass-through arrangements with customers.

Verve Energy continues to work on addressing its carbon intensity. In the short term Verve Energy is focusing on the staged introduction of renewable technology, while we maximise the operation of our existing low cost generating portfolio to ensure the supply of reliable low cost generation to the businesses and households within the SWIS.

The local communities of Kwinana, Collie and Albany, in which we operate our major facilities, are very important to us at Verve Energy. We support these communities through a number of excellent sponsorship, scholarships and grant programs which focus on youth education, youth training and the environment. One of our major successes is the Verve Energy Collie Community Fund, through which we have granted more than $40,000 to local projects in the past three years.

Managing Directory Shirley In't Veld departed Verve Energy at the conclusion of her five year contract on 30 April 2012. The Board thanked Shirley for her significant contribution, and welcomed Jason Waters to the role.

The 2011/12 year has been a very challenging yet rewarding year for Verve Energy and the progress and achievements we made will place us in a position to remain the largest and most successful supplier of electricity in the SWIS.

We would like to record our thanks and appreciation to our highly skilled and dedicated staff for their efforts during the year and we look forward to their continued loyalty and support.

David Eiszele
Chairman

Jason Waters
CEO

At Verve Energy our people make the difference.

We are working together to create a culture where safety comes first. We challenge ourselves with the goals we set. We respect the need to maintain a balance between work and family/social activities. We encourage and support our employees to make the best contribution they can to the success of our business.

Working with Us

At 30 June 2012, Verve Energy had 595 employees across five sites in a broad range of disciplines.

Verve Energy has Workforce Planning and Succession Planning processes that help us to identify and meet our capability requirements. In recognition of the challenges of an ageing workforce, Verve Energy invests in the future through apprenticeships, a graduate program and traineeships at our power stations. Through these initiatives we help to develop a pool of qualified people who are essential to the future success and growth of our business.

Employees are encouraged and supported to continue with professional development through comprehensive training and through our study assistance program. During 2011/12, 80 leaders completed the first stage of our Leadership Program designed to develop and maximise the potential of our leaders. We offer our people challenging work and, where it's desired and earned, career development and progression.

We aim to deal fairly, respectfully and honestly with our employees. In 2011 we undertook a significant reduction in the workforce at our Kwinana Power Station. This involved comprehensive discussions with employee workplace representatives and unions. It was pleasing that we were able to achieve the workforce reduction on an entirely voluntary basis.

We strive for a workplace culture where employees enjoy their work and take pride in what they do and achieve. Verve Energy values equal opportunity and workplace diversity. We are family friendly, providing a range of flexible work arrangements. We offer part-time work, job-share arrangements, flexible working hours, the ability to salary sacrifice for additional annual leave, and paid parental leave above the minimum standard. This is all supported by our Diversity Policy and Equal Opportunity Management Plan.

- 67% improvement in Recordable Injury Frequency Rate
- 60% reduction in Lost Time Injury Frequency Rate

Safety is a key value for our organisation. We are working towards achieving the highest possible standards in safety and health, and continuously monitor and improve our performance to achieve our goal of zero harm.

Our People and their Health and Safety

Led by the Board and Executive Team, we continued to focus on the development of a more sustainable approach to safety and health in the past financial year with the establishment of key Safety and Health initiatives. A major focus during the past 12 months has been the development of an improved incident reporting and recording database, along with drug and alcohol testing.

Additional resources have been added to our Safety and Health team to support Operations and to continue the drive for improved performance throughout the Safety and Health program.

Major Safety and Health initiatives undertaken during 2011/2012 include:

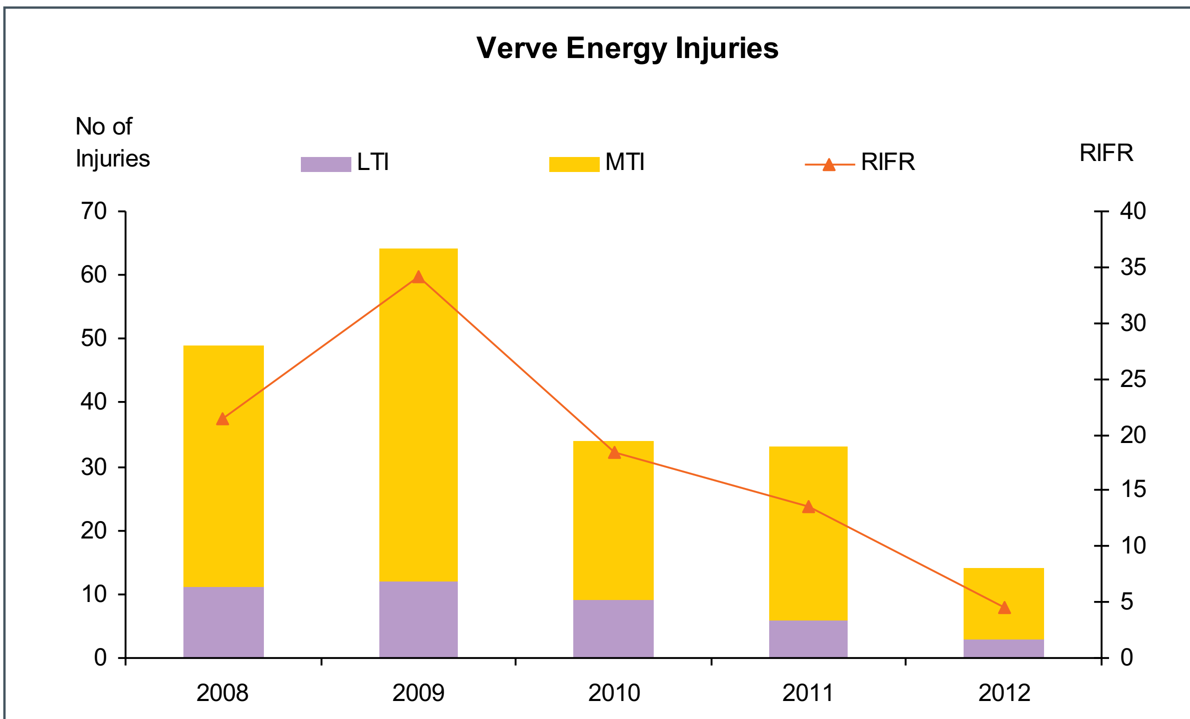
- Establishing Safety and Health Management Standards and the Safety and Health Management Plan;
- Developing a health education and promotion program;
- Increasing focus on Safety and Health communication;
- Developing 'Golden Safety Rules' (high risk behaviours that are prohibited);
- Planning and developing a fitness for work program; and
- Introducing an Occupational Hygiene Monitoring program.

The effect of our renewed focus on health and safety is demonstrated in the continued improvements in injury frequency and lost time injury frequency.

In the past year there has been steady progress and improvement with Injury Frequency Rates continuing to fall. We started the 2011/2012 year with a Recordable Injury Frequency Rate of 13.7 which by 30 June 2012 had fallen to 4.5, an impressive 67% improvement.

Our Lost Time Injury Frequency Rate has also improved significantly, from 2.5 at the beginning of the financial year to 1.0 at 30 June 2012, a 60% reduction. The performance observed during 2011/2012 confirms the ethos of continuous improvement established over recent years. We believe we can capitalise on this achievement and continue gaining improvements into the future.

Our People and their Health and Safety cont.



	2011-12	2010-11	2009-10
Number of employees	595	622	612
All Recordable Injury Frequency Rate	4.5	13.7	18.4

- EBIT $208.6 million
- NPAT $61.3 million
- $83.4 million dividend paid
- Net assets $677.8 million
- Net debt $845.0 million
- Revenue $1,338.9 million

Financial Performance

Verve Energy's financial results for 2011/2012 were lower than last year, mainly due to higher fuel costs, and the early stage costs of some of our new joint venture projects. Verve Energy recorded a Net Profit After Tax of $61.3 million on a total asset base of $2,496.9 million. Earnings Before Interest and Tax (EBIT) was $208.6 million, with revenue increasing by 4.0% over the previous year, to a total of $1,338.9 million. This is despite a decrease of 4.0% in electricity sales volume.

Verve Energy continued to face challenges managing its fuel costs as it utilised more expensive gas fired power plants to meet balancing and peak load obligations. This reflects the nature of load profile in the South West Interconnected System which has been exacerbated by a new, large intermittent renewable load in the market. In addition, the Corporation had an opportunity to receive gas under a swap arrangement which provided flexibility around managing the Corporation's current and future fuel requirements.

In addition to the higher fuel costs, Verve Energy incurred higher reserve capacity refunds due to delays on some of its projects. While direct costs increased, Verve Energy's other operating expenses reduced by 5.3% to $310.5m. Verve Energy's net debt decreased by $62.2 million for the year, while net assets increased to $677.8 million.

The Board recommends a dividend to the State of $39.8 million in 2012/13.

Financial Achievements

	2011-12	2010-11
Revenue ($m)	1,338.9	1287.3
EBIT ($m)	208.6	280.5
NPBT ($m)	103.2	185.1
Net borrowings (excluding finance leases) ($m)	657.0	718.4
Net assets ($m)	677.8	672.9

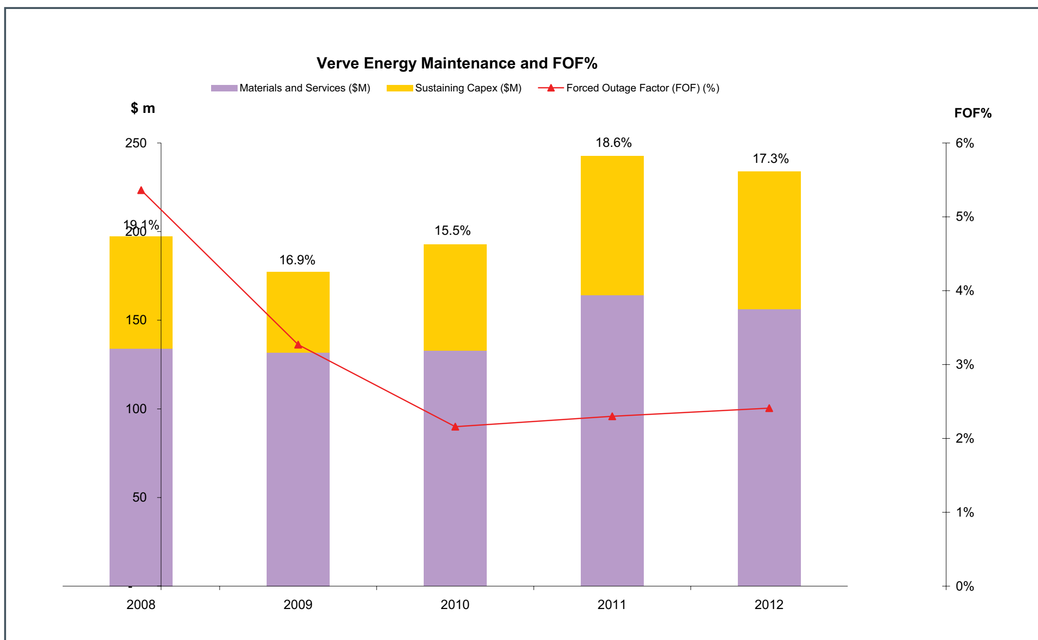
Verve Energy is the leading generator of electricity in Western Australia, providing safe, reliable and competitive energy.

Verve Energy's capability to operate a diverse range of plant using different fuels contributes to the reliability of supply within the South West Interconnected System (SWIS).

Our Operations

- $175.3 million invested in capital assets
- $156.3 million spend on maintenance for efficiency and reliability
- Generation of 8,834GWh
- Reduction in emissions to 7.5 million tonnes CO_2e
- Plant availability 81.1%
- Forced Outage Factor 2.46%

Our Operations cont.



Verve Energy enjoyed a strong operational performance due to the combination of sound planning, rigorous maintenance and the efforts of our capable and diligent staff.

At the centre of our sustained reliability and security of supply, was the continued implementation of our focussed asset management and plant maintenance regime.

Verve Energy's power stations contributed strongly to the 2011-12 summer period during which a new peak of 4,068MW was recorded on 21 January 2012.

Verve Energy spent $156.3 million on operational materials and services as part of our maintenance and outage program and invested another $175.3 million on capital assets, which takes the total expenditure on plant and equipment to $331.6 million. Of this expenditure, $76.8 million relates to the high efficiency gas turbines (HEGTs), with $20.8 million invested in renewable generation assets, and the balance spent predominantly on sustaining capital expenditure in conjunction with our maintenance programs.

Our productive partnership with leading international energy consultant RWE International ended this year, after the successful implementation of maintenance strategies to improve the performance of our plant. We negotiated licenses for access to RWE proprietary processes to enable us to continue to use these systems into the future. We will continue to use these effective tools to ensure maintenance processes are sustained for the ongoing benefit of our plant and in order to achieve the required reliability.

Two-shifting, or shutting down during periods of low overnight and weekend demand and then restarting as load increased, affected Muja Power Station during the year. In addition, Cockburn Power Station moved to a

low-load operating regime in April 2012 as part of the adjustments to power station work patterns to cope with changes to plant dispatch. The commissioning of new wind generation affects the operation of our power stations by increasing two-shifting of our large units, as wind intensity occurs mainly overnight.

Verve Energy marginally reduced its carbon intensity by retiring some ageing plant, improving efficiency of some older plant and investing in renewable energy. Verve Energy is also investing in carbon capture technologies and is a key industry partner in investigating carbon storage in the Lower Lesueur Basin.

We produced 88.1GWh of renewable energy compared to 87.4GWh the previous year. Renewable production will increase substantially next year as new renewable energy facilities, completed towards the end of the financial year, operate for the full year. Verve Energy completed the 14MW, six turbine extension to the Albany Wind Farm. Through joint ventures with private sector investors, Verve Energy substantially completed the 10MW Greenough River Solar Farm and started construction of the Mumbida Wind Farm which is due to be completed by mid-2013.

Kwinana A was retired in October 2011 and the two new 100MW HEGTs were constructed. At Muja Power Station, the refurbishment of four generating units making up Stages A and B, has been substantially completed. This refurbishment will provide transitional generating capacity until replacement low-carbon technology is available.

Our Operations cont.

Other initiatives included completion of a reverse osmosis desalination plant built in Collie to assure the long term supply of water for two of our major power stations, Collie and Muja, and a new hydrogen plant at Muja.

KEY FACTS	2011-12	2010-11
Supply of electricity (GWh)	10,763	11,233
Generated (GWh)	8,834	9,488
Used in works (GWh)	580	627
Electricity generation sent out (GWh)	8,254	8,861
Purchased (GWh)	2,509	2,372
Renewable energy generation wind (GWh)	88.1	87.4
Forced Outage Factor (FOF) (%)[1]	2.46	2.3
Plant availability (%)[2]	81.1	76.5
Capacity factor (%)[3]	32.9	35.2
Thermal efficiency (%)[4]	32.1	31.1
Total Greenhouse Gas Emissions (million tonnes CO_2-e)	7.5	8.0
Carbon Intensity (kgCO_2e/KWh electricity sent out)	0.909	0.902
Number of Environmental Incidents	4	3
Number of RECS (excl Nine Mile Wind Farm)	74,894	74,715

1. Forced Outage Factor: Measure of losses of generation due to forced outages.
2. Plant availability: Amount of time plant was available to operate during the year.
3. Capacity factor: Energy produced as a percentage of the energy the plant could have produced while available.
4. Thermal efficiency: Output as a percentage of energy input.

Our Assets

Generating plant	Fuel	Capacity (kW)	Acquired/ commissioned
Collie	Coal	340,000	1999
Cockburn	Gas	240,000	2003
Muja A and B	Coal/heavy fuel oil	240,000	1965 Retired April 2007, currently being refurbished.
Muja C	Coal/heavy fuel oil	400,000	1981
Muja D	Coal/heavy fuel oil	454,000	1985-86
Kwinana A	Coal/gas	240,000	Retired Oct 2011
Kwinana C	Coal/gas/fuel oil	400,000	1976-78
Kwinana gas turbine	Gas/distillate	21,000	1972
Mungarra gas turbines	Gas	112,000	1990-91
Pinjar gas turbines	Gas/distillate	586,000	1990-96
Worsley	Gas	60,000	2000
West Kalgoorlie gas turbine	Distillate	62,000	1984-90
Geraldton gas turbine	Gas/distillate	21,000	1973
HEGTs	Gas/distillate	200,000	2012
Albany – 12 turbines. Phase 1	Wind	22,000	2002
Grasmere (extension to Albany Wind Farm) – 6 turbines. Phase 2	Wind	14,000	2012
Bremer Bay – 1 turbine	Wind/diesel	600	2004
Coral Bay – 3 turbines	Wind/diesel	600	2007
Denham – 4 turbines	Wind/diesel	1000	1997, 1998, 2007
Esperance – 15 turbines	Wind	5625	1993 & 2002
Hopetoun - 2 turbines	Wind/diesel	1200	2004 & 2007
Kalbarri – 2 turbines	Wind	1600	2008

Map of our assets

Verve Energy sites

Coral Bay
Denham
Kalbarri
Geraldton
Mungarra
Greenough
West Kalgoorlie
Pinjar
PERTH
Cockburn
Kwinana
Kemerton
Collie
Muja
Esperance
Hopetoun
Bremer Bay
Albany

- South West Interconnected System (SWIS)
- Thermal Generating Station
- Wind Farm
- Gas Turbine Generating Station
- Solar (Photovoltaic) Generating Station

Verve Energy continues to provide approximately 60% of the generating capacity in the South West Interconnected System (SWIS) which covers the south west corner of the State, from Kalbarri in the north to Kalgoorlie and Albany, where the bulk of WA's load is located.

Our Market

Verve Energy sells the majority of its electricity through bilateral contracts held with SWIS electricity retailers. Currently, a large proportion of these bilateral contract sales are to Synergy under the Replacement Vesting Contract and major bilateral contracts awarded to Verve Energy under the displacement tender process that existed under the original Vesting Contract mechanism. The remainder of Verve Energy's electricity production is sold on the Wholesale Electricity Market (WEM) to market participants via Short Term Energy Market (STEM) and Balancing Market trades.

Given Verve Energy's role as the primary provider of balancing services on the SWIS, the combination of low overnight electricity demand, increased penetration of wind farm generation, and the current excess base load on the SWIS has resulted in Verve Energy operating its low cost base load portfolio in a sub-optimal manner with frequent starts and low capacity factors.

From July 2012, the Independent Market Operator introduced competitive balancing and load following ancillary service market operations to the WEM. This opens up the opportunity for Independent Power Producers to participate in the provision of these services, and allows Verve Energy to be more adequately compensated for providing such system support services than it has in the past. In the short term, Verve Energy expects to remain the main provider of load following and balancing services to the SWIS.

Verve Energy aims to maintain efficient and reliable operations while minimising any adverse effects on the environment.

Verve Energy continually takes steps towards reducing atmospheric emissions by installing efficient new generating plant. This is evidenced by a number of new projects including the construction of two HEGT units at Kwinana Power Station, construction of the Grasmere extension to Albany Wind Farm and the near completion of Greenough River Solar Farm. is the largest solar facility in Australia. Through another joint venture, work has started on the 22 turbine, 55MW Mumbida Wind Farm near Geraldton which is expected to commence operation by early-2013. Verve Energy also has a number of potential renewable projects at various stages of development.

Sustainable energy expansion

Our existing renewable energy portfolio, which includes wind farms, a solar photovoltaic farm and wind-diesel systems in remote locations, reduces the amount of greenhouse gases by over 100,000 tonnes of CO_2e a year compared to conventional systems. We have renewable energy facilities in Esperance, Hopetoun, Bremer Bay, Albany, Kalbarri, Denham, Coral Bay and near Geraldton.

During 2011/12, the Grasmere extension to the Albany Wind Farm was completed, taking the total number of turbines to 18 and the total capacity to 35.4MW. Now 80% of Albany's annual electricity needs come from clean, inexhaustible renewable energy. Through a 50/50 joint venture, the 10MW Greenough River Solar Farm, near Geraldton, will be constructed before the end of 2012. It comprises 150,000 thin film solar panels and

Environmental protection

Verve Energy recognises the value of the environment to the community and future generations. We continually work towards sustainable development and take a responsible approach to the production of electricity.

Highlights

- Recertification of Verve Energy's Environmental Management System (EMS) for Muja Power Station, Kwinana Power Station and Perth Office was achieved through the certifying authority Bureau Veritas. The audit found no major non-conformances, seven minor non-conformances and 22 observations which are being addressed.
- Internal and external audits of Verve Energy's Environmental Management System (EMS) confirm environmental management practices remain robust with no major non-conformances identified.

Environmental Management System (EMS)

Our EMS enables us to manage environmental risk to achieve continual improvement in environmental performance. It is built on the principles of ISO 14001:2004, an international standard.

The EMS is driven by an electronic system (EMISWeb) developed to record and facilitate activities undertaken to fulfil Verve Energy's due diligence requirements. We are currently assessing options for the revitalisation or replacement of EMISWeb to ensure we are well positioned to meet future environmental management requirements.

Environmental training courses continue to be provided to our people to develop and maintain the awareness and skills necessary to continually improve our environmental performance.

Sustainability Report cont.

Auditing for continuous improvement

Internal and external auditing is a key component of the continual improvement of Verve Energy's EMS. Internal EMS audits were completed for Muja, Kwinana and Perth Office from May to July 2012. Internal Legal and Other Requirements audits will be competed by the end of August 2012 for these sites and gas turbines.

The external audit identified seven minor non-compliances and 22 Opportunities for Improvement. A Corrective Action Plan to address the minor non-conformances was submitted to Bureau Veritas and accepted. The Opportunities for Improvement are actions that are being progressed so that they can be closed out.

Emissions reduction

To improve our environmental performance, Verve Energy has in place a three part strategy:

- To close selected coal-fired and less efficient gas-fired generating units and replace them with new technologies such as the high efficiency gas turbine units recently commissioned at Kwinana Power Station.
- To upgrade a range of units to improve their efficiency.
- To build renewable energy projects.

In accordance with the National Greenhouse and Energy Reporting Act, Verve Energy reports its annual greenhouse gas emissions, energy production and energy consumption. Details are provided at www.climatechange.gov.au/reporting.

In 2011/12, Verve Energy emissions were reduced to approximately seven and a half million tonnes of CO_2e, primarily due to reduced generation.

Details of other emissions, such as sulphur dioxide, oxides of nitrogen, particulates and metals are provided annually by Verve Energy to the National Pollutant Inventory (www.npi.gov.au).

Environmental incidents at lowest level

Throughout 2011/2012 the number of reportable environmental incidents remained low, reflecting the implementation of sound environmental practices. There were four environmental incidents that were required to be reported to the regulator during the year.

Two of the incidents involved licence exceedances of temperature differential in the cooling water discharge canal of Cockburn Power Station; one incident resulted from the overflow of a flyash swirlpit, resulting in a discharge to the cooling water discharge canal of Kwinana Power Station; and a discharge from fuel tank 8 at Kwinana Power Station resulting in a spillage of approximately 523,000L of diesel. Extensive works are currently underway to recover the diesel and remediate the contamination.

Community Partnerships

Verve Energy supports many worthwhile activities which contribute lasting value to the communities we serve.

Our partnership focus is primarily on the Collie and Kwinana-Rockingham areas where our major gas and coal-fired power stations are located.

The unique Verve Energy Collie Community Fund, which is driven by local community members, has granted more than $40,000 to local projects, groups and individuals since it was created three years ago.

- Educational scholarships for Collie Senior High School
- Engineering complex at Curtin University

Community-based

- The Eternal Flame in Geraldton
- Verve Energy Albany Port to Point Fun Run
- Albany Harbourside Concert Series
- Collie Aboriginal Centre

Sustainability Report cont.

Community-based initiatives, and those that have either an environment or youth education or training theme, are the heart of our partnership program. Some of the projects that received our support this year include:

Environment

- Kwinana Coast Care Dune Rehabilitation Program
- Town of Kwinana Adopt a Beach Program
- Fairbridge Village

Youth Education and Training

- Collie Youth Driver Training Program
- Educational scholarships for Kwinana's Gilmore College
- Clontarf Academy for Aboriginal boys at Gilmore College

Our workplace giving program, VEGAS, continues to grow with more than 110 employees donating to charity direct from their salary. The Royal Flying Doctor Service, Princess Margaret Hospital and WA Cancer Council are the main beneficiaries and each has received close to $45,000 over three years.

Twenty Verve Energy people took part in our Volunteer Leave scheme which allows employees one day of paid leave per year to undertake volunteer work. Although many people have volunteered their time to help not-for-profit organisations, this was the first time a group of employees had worked together.

Corporate Governance Standards

The Electricity Corporations Act 2005 established the Electricity Generation Corporation (trading as Verve Energy) as a statutory corporation. Section 61 requires Verve Energy to act in accordance with prudent commercial principles.

Verve Energy's Corporate Governance Framework sets out the systems and processes by which Verve Energy is directed and managed. It encourages the creation of value and provides accountability and control systems commensurate with the risk involved.

Statutory Information

Verve Energy therefore adopts recognised best practice, standards and guidelines for corporate governance as outlined in the Australian Securities Exchange Corporate Governance Council Principles and Recommendations as applicable to a Public Sector Enterprise, Australian Standards, and the Government of Western Australia Corporate Governance Guidelines for WA Public Sector Chief Executive Officers.

Our Code of Conduct and Integrity sets out minimum standards for appropriate ethical and professional behaviour for all employees.

Risk Management

Our Risk Management Policy and Risk Management Framework provide the formal base for Verve Energy's practices of assessing, monitoring and managing risks in a structured and systematic manner. These are consistent with AS/NZS ISO 31000:2009 Risk Management - Principles and Guidelines.

Risk management is a fundamental activity in Verve Energy, with risk management integrated into our major business processes. There is engagement at all levels within the organisation to minimise risks in all our activities.

Statutory Information

Risk profiling

A rolling risk profiling program ensures that the key activities and operations of Verve Energy's diverse portfolio are subject to risk assessment. The risk profiles provide an opportunity to not only identify and assess risks, but also to track the progress of agreed risk reduction strategies. Our Audit & Risk Manager monitored the progression of these tasks.

During the year:

- The Executive engaged in regular risk profiling sessions to ensure that risks facing the organisation are mitigated to an acceptable level, where practicable.
- The risk profiles of our major generating assets were reviewed on a regular basis.
- Major projects and significant commercial contracts were subject to detailed risk reviews.

Regular reports on risk management activities and risk profiles were presented throughout the year to the Board and the Audit & Risk Management Committee.

Continuous improvement

During the year, Verve Energy continued to implement its formal risk management strategy.

Key initiatives this year included:

- Twenty Risk Advocates have been appointed across the organisation to translate the organisational risk processes into each business unit's risk activities.
- A new Risk Management Integration Group, consisting of a representative from each business unit, was convened. This group provides guidance and support to the broader risk management function in integrating risk management, and facilitates the sharing of information about risks and risk management processes across Verve Energy.
- A number of training sessions were held, and a range of supporting documents developed, to provide guidance on effective risk management within Verve Energy. This included the launch of a dedicated Risk Management portal on our intranet.

State Records Act 2000

Verve Energy maintains and supports record keeping practices in its day to day business activities. All records are managed according to the requirements of the State Records Act 2000 and Verve Energy's approved record keeping plan (the Plan). Regular reviews are conducted of the corporate record keeping systems and practices to ensure their efficiency and effectiveness. New employees are provided with training at induction in the use of the record keeping system, the record keeping plan and their roles and responsibilities in regard to compliance with the Plan. The training programs are reviewed on an ongoing basis to ensure they reflect any new business requirements.

Statutory Information

Western Australian Electoral Act

In accordance with the requirements of Section 175ZE of the Western Australian Electoral Act 1907, the following information in respect to expenditures (excluding GST) incurred by, or on behalf of Verve Energy, from 1 July 2011 to 30 June 2012 is disclosed as follows:

Market research organisation	$0
Media advertising agencies	$35,241
Total expenditure	$35,241

Executive

Jason Waters	–	Chief Executive Officer (formerly General Manager Trading & Fuel, replaced Shirley In't Veld on 1 May 2012)
Ross Stidolph	–	Chief Operating Officer
Wally Borovac	–	Chief Financial Officer
Kurt Baker	–	General Manager Trading & Fuel (appointed in June 2012)
Tony Narvaez	–	General Manager Strategy & Business Development (until 15 June 2012)
Derek Noakes	–	General Manager Corporate Services
Rick Walker	–	General Manager Safety & Health

Key Personnel

Board

David Eiszele	–	Chairman
Harvey Collins	–	Director (Deputy Chairman)
Gaye McMath	–	Director
Keith Spence	–	Director
Duncan Clegg	–	Director
Shirley In't Veld	–	Managing Director (until 30 April 2012)

Glossary

CO_2e	Carbon dioxide equivalent
EBIT	Earnings Before Interest and Tax
EMS	Environmental Management System
FOF	Forced Outage Factor
GW	Gigawatt (1 million Kilowatts)
GWh	Gigawatt hour (1 million Kilowatt hours)
HEGT	High Efficiency Gas Turbine
KWh	Kilowatt hour
IMO	Independent Market Operator
LP	Low pressure
LTI	Lost Time Injury
MTI	Medical Treated Injury
MW	Megawatt (1000 kilowatts/ 1 million watts)
MWh	Megawatt Hour (1000 Kilowatt hours)
NPAT	Net Profit After Tax
NPBT	Net Profit Before Tax
REC	Renewable Energy Certificate
RIFR	Recordable Injury Frequency Rate
Solar PV	Solar photovoltaic
STEM	Short Term Energy Market
SWIS	South West Interconnected System
WEM	Wholesale Electricity Market

Verve Energy Annual Financial Report | 30 June 2012

Electricity Generation Corporation (Trading as Verve Energy)
ABN 586 738 30106

1. Directors

The Directors of Electricity Generation Corporation trading as Verve Energy ('the Corporation') at any time during or since the end of the financial year are:

Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
Mr David Russell Eiszele MBus, FAICD, FIE Chairperson Independent Non-Executive Director	71	Mr Eiszele was appointed as Non-Executive Director in February 2009. His current term expires in December 2012. Mr Eiszele was the former Chief Executive Officer of Western Power Corporation and accordingly has extensive knowledge of the power industry. Since leaving Western Power Corporation, he has been active in the private sector. He is a Non-Executive Director of Torrens Energy Limited.
Mr Harvey Russell Collins BBus, FCPA, FAICD Deputy Chairperson Independent Non-Executive Director	63	Mr Collins was appointed as a Non-Executive Director in April 2006. Mr Collins has served as a Non-Executive Director of Western Power Corporation and was also Interim Managing Director of Western Power Corporation for a short period. Mr Collins is Chairperson of Navitas Limited and Bank of Western Australia Ltd (Bankwest). He retired as a WA State Councillor of the Australian Institute of Company Directors in July 2011.
Mr Keith William Spence BSc (Hons) Independent Non-Executive Director	58	Mr Spence was appointed as Non-Executive Director in May 2009. His current term expires in March 2014. Mr Spence was formerly a senior executive with Woodside and Shell for 31 years and has considerable commercial and specialist experience in energy and engineering. Mr Spence also holds a number of directorships including Geodynamics Limited, Clough Limited and Skills Australia.
Ms Gaye Marie McMath BCom, MBA; AMP, FCPA, FAICD Independent Non-Executive Director	53	Ms McMath was appointed as Non-Executive Director in May 2009. Ms McMath is currently Executive Director Finance and Resources at the University of Western Australia where her responsibilities include financial services, human resources and facilities management. Prior to this she held senior management positions with BHP Billiton over a 23 year period. Ms McMath is a director of WA Treasury Corporation and Gold Corporation. She is a WA State Councillor of the Australian Institute of Company Directors.
Mr Duncan Paul Clegg PhD, BSc (Hons) MICE, MAICD Independent Non-Executive Director	58	Mr Clegg was appointed as Non-Executive Director in October 2011. Mr Clegg currently operates a business/project management consultancy. Prior to this he held senior management roles with Shell, Woodside and Coogee Resources.
Ms Shirley Eleanor In't Veld – resigned 30 April 2012 LLB (Hons) BCom Managing Director	57	Ms In't Veld's five-year contract concluded on 30 April 2012. Ms In't Veld previously held senior management positions in Alcoa of Australia, most recently as Vice President of Primary Business Development and Managing Director of Alcoa Australia Rolled Products, as well as senior positions with Western Mining Corporation and Bankwest.

2. Company secretary

Ms Stephanie Unwin; B Econ LLB holds the position of General Counsel and Company Secretary and was appointed in April 2008. Ms Unwin is a commercial lawyer with a corporate and resources background. Prior to joining Verve Energy, Ms Unwin was a partner of the boutique commercial resources practice Pullinger Readhead Stewart and subsequently a Principal of Maxim Litigation Consultants. Ms Unwin is also a Non-Executive Director of AlacerGold Corp and Integra Mining Limited.

3. Directors' meeting

The number of Directors' meetings (including meetings of Board committees) and number of meetings attended by each of the Directors of the Corporation during the financial year are:

Director	Board Meetings		Remuneration and Development Committee Meetings		Audit and Risk Management Committee Meetings	
	A(1)	B (1)	A	B	A	B
Mr David Russell Eiszele	10	11	3	3	-	-
Mr Harvey Russell Collins	10	11	-	-	5	5
Mr Keith William Spence	11	11	3	3	-	-
Ms Gaye Marie McMath	8	11	-	-	5	5
Mr Duncan Paul Clegg	8	8	-	-	3	3
Ms Shirley Eleanor In't Veld	9	9	2	2	3	4

A – Number of meetings attended

B – Number of meetings held during the time the Director was eligible to attend

(1) In addition to these, 3 Board meetings were held via circular resolution.

4. Corporate governance statement

This statement outlines the main corporate governance practices in place throughout the financial period, which comply with the ASX Corporate Governance Council Recommendations except for ASX Listing Rule continuous disclosure compliance requirements for a listed company.

4.1 Board of Directors

Role of the Board

The Board of Directors is the governing body of the Corporation and is responsible to the Minister for Energy ("the Minister") for the performance of the Corporation. Subject to the Electricity Corporations Act 2005 ("the Act"), the Board has the authority to perform the functions, determine policies and control the affairs of the Corporation.

In fulfilment of this role, the Board is responsible for the overall corporate governance of the Corporation including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing and removing the Chief Executive Officer, creating succession policies for senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal controls and management information systems.

The Board has delegated responsibility for operation and administration of the Corporation to the Chief Executive Officer and management. Responsibilities are delineated by formal authority delegations.

To assist in the execution of its responsibilities, the Board has established two committees, the Remuneration and Development Committee and the Audit and Risk Management Committee. These committees have written mandates and operating procedures. The Board has established a framework for the management of the Corporation including a system of internal control, a business risk management process and appropriate policies.

The full Board schedules 11 meetings each year, plus strategy meetings, meetings by circular resolution and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for the meetings is prepared in conjunction with the Chairperson, Chief Executive Officer and Company Secretary. The Chief Executive Officer's report which includes a financial report and a safety report is a standing agenda item. Submissions are circulated in advance. Executives are regularly invited to present at Board meetings and Directors have other opportunities, including visits to business operations, for contact with a wider group of employees and key stakeholders.

Director education

The Corporation provides induction material to educate new Directors about the nature of the business. Directors also have the opportunity to visit business operations and meet with management to gain a better understanding of the business.

Independent professional advice and access to Corporation information

Each Director has the right to access all relevant Corporation information and to the Corporation's executives and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified advisor at the Corporation's expense. The Director must consult with an independent advisor suitably qualified in the relevant field, and obtain the Chairperson's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Director is made available to all other members of the Board.

Composition of the Board

The names of the Directors of the Corporation in office at the date of this report are set out in Section 1 of this report. The composition of the Board is determined under the Act using the following principles:

- No less than four and no more than six Directors appointed by the Governor of Western Australia ("the Governor") on the nomination of the Minister for Energy ("the Minister").
- The Governor appoints the Chairperson and Deputy Chairperson. Appointments in each case are made on nomination by the Minister.
- The Chief Executive Officer may be a Director of the Corporation.
- Other than the Chief Executive Officer, a member of staff of the Corporation is not to be a Director of the Corporation.

4.2 Nomination of a Director

In making nominations for appointment to the Board of the Corporation, the Minister is to ensure that:

- Each nomination is made only after consultation with the Board; and
- Where a vacancy occurs, the Board may recommend a candidate to the Minister.

4.3 Remuneration and Development Committee

The Remuneration and Development Committee ("the RDC") is a committee of the Board established under Section 13 of the Act. The RDC reviews and makes recommendations to the Board on remuneration matters and policies applicable to staff of the Corporation.

The members of the RDC during the year were:

- Mr David Russell Eiszele – Non Executive Chairperson
- Mr Keith William Spence – Independent Non-Executive Director

The Board policy is that the RDC will comprise entirely independent Non- Executive Directors. Any person may be invited to RDC meetings, but not necessarily for the full duration of meetings. A standing invitation is issued to the Chief Executive Officer and General Manager Corporate Services.

The RDC meets at least three times a year unless otherwise required. The RDC met three times during the period and the RDC members' attendance record is disclosed in the table of Directors' meetings in section 3 of this report.

4.4 Remuneration report

4.4.1 Principles of compensation

The Minister determines the remuneration and allowances of a Non-Executive Director. In the case of the Chief Executive Officer, the Board fixes the remuneration with the concurrence of the Minister.

The Board, on recommendation of the Chief Executive Officer, approves compensation levels for executives. Remuneration for key executives of the Corporation is competitively set to attract and retain appropriately qualified and experienced executives, reward the achievement of key targets and strategic objectives, and achieve the broader outcome of creation of value for our owner.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes fringe benefit taxation charges related to employee benefits), as well as the Corporation's contributions to superannuation funds.

Performance-linked compensation

During the year, individual employment contracts with executives were modified by the removal of performance linked compensation. The fixed compensation component of each executive's salary was amended to reflect the forgone entitlements to performance linked compensation. The adjustment to fixed compensation was based on each employee's average performance linked payment over the last three years. The average adjustment to fixed entitlements for executives was 17.4% and 30.18% for the Managing Director.

In addition, the final performance linked compensation payment for the previous year to 30 June 2011 was paid in September 2011.

Service contracts

Contracts of employment for executive officers, excluding the Chief Executive Officer, the Chief Operating Officer, and the General Manager Safety and Health are unlimited in term but generally these contracts are capable of termination by the executive officers on four weeks' notice, and the Corporation retains the right to terminate the contract immediately by making payment equal to a maximum of 52 weeks pay in lieu of notice. The executive officers are also entitled to receive, on termination of employment, their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The Chief Executive Officer has a contract of employment with the Corporation that commenced on 1 May 2012. The contract specifies the duties and obligations to be fulfilled by the Chief Executive Officer and provides that the Board and Chief Executive Officer will, early in each financial year, consult and agree on the objectives for achievement during that year.

The Chief Executive Officer's contract of employment terminates on 30 April 2014. At any time prior to this date the contract can be terminated either by the Corporation providing 12 months notice, or the Chief Executive Officer providing six months notice.

All contracts provide for no entitlement to termination payments in the event of termination for serious misconduct.

Non-Executive Directors

The Minister determines total compensation for all Non-Executive Directors. Directors' base fees are presently set at $53,750 per annum plus 9% superannuation. The Chairperson receives $103,555 per annum plus 9% superannuation. The Deputy Chairperson receives $69,875 per annum plus 9% superannuation. Non-Executive Directors do not receive performance related compensation. Directors' fees cover all main Board activities and membership of committees.

4.4.2 Directors' and Executive Officers' remuneration

Details of the nature and amount of each major element of remuneration of each director of the Corporation and each of the five named Corporation executives who receive the highest remuneration are:

		Salary & fees[1]	Short-term cash incentive	Non-monetary benefits	Super-annuation benefits	Accrued leave paid on termination	Total
		$	$	$	$	$	$
Non–Executive Directors							
Mr David Eiszele (Chairperson)	2012	103,555	-	-	9,320	-	112,875
	2011	103,555	-	-	9,320	-	112,875
Mr Harvey Collins (Deputy Chairperson)	2012	69,875	-	1,333	6,289	-	77,497
	2011	68,542	-	1,333	6,289	-	76,164
Mr Keith Spence	2012	53,750	-	-	4,838	-	58,588
	2011	53,750	-	-	4,838	-	58,588
Ms Gaye McMath	2012	53,750	-	820	4,838	-	59,408
	2011	53,750	-	-	4,838	-	58,588
Mr Duncan Clegg	2012	35,774	-	871	3,220	-	39,865
	2011	-	-	-	-	-	-
Executive Director							
Ms Shirley Eleanor In't Veld (Managing Director)	2012	462,344	-	1,179	52,779	37,146	553,448
	2011	387,138	135,000	1,333	47,067	-	570,538
Executives							
Mr Jason Waters[2] Chief Executive Officer)	2012	373,086	-	6,911	27,186	-	407,183
	2011	275,396	61,380	1,333	29,897	-	368,006
Mr Ross Stidolph (Chief Operating Officer)	2012	380,494	-	1,333	24,588	-	406,415
	2011	328,006	67,350	1,333	35,379	-	432,068
Mr Derek Noakes (General Manager Corporate Services)	2012	349,587	-	1,333	32,002	-	382,922
	2011	293,073	64,090	1,333	31,793	-	390,289
Mr Wally Borovac (Chief Financial Officer)	2012	349,466	-	1,024	31,653	-	382,143
	2011	269,675	60,760	1,127	28,766	-	360,328
Mr Tony Narvaez (General Manager Strategy & Business Development until 15 June 2012)	2012	364,803	-	1,077	27,502	92,545	485,927
	2011	275,338	61,380	-	29,820	-	366,538

Note:

1. Comprises salary and fees and salary sacrificed benefits (including superannuation), where applicable. For executives, performance linked compensation ceased effective 1 July 2011, and fixed remuneration was adjusted accordingly.
2. Comprises remuneration received both as Chief Executive Officer from 1 May 2012 and as General Manager Trading & Fuel prior to that date.

4.5 Audit and Risk Management Committee

The Audit and Risk Management Committee ("the ARMC") is a committee of the Board established under Section 13 of the Act. The purpose of the ARMC is to assist the Board to fulfil its corporate governance and oversight responsibilities relating to the reporting of financial information, internal control, compliance, risk management process and system, and audit.

The ARMC has a documented charter, approved by the Board. All members must be Non-Executive Directors with a majority being independent. The Chairperson may not be the Chairperson of the Board. The ARMC is responsible for ensuring the establishment and maintenance of a framework of internal control and compliance with appropriate ethical standards.

The members of the ARMC during the year were:

- Mr Harvey Russell Collins (Chairperson) – Independent Non-Executive Director
- Ms Gaye Marie McMath – Independent Non-Executive Director
- Mr Duncan Paul Clegg – Independent Non-Executive Director

The ARMC is authorised to investigate any activity within its terms of reference. The ARMC recommends to the Corporation appropriate actions emanating from these investigations. The ARMC has unrestricted access to staff, records, external or internal auditors, risk assessment and assurance and senior management as appropriate. The ARMC is also authorised to obtain outside legal or other independent professional advice from appropriate external advisors if it considers this necessary. The ARMC meets from time to time with these external advisers without management being present.

The internal and external auditors, the Chief Executive Officer, Chief Financial Officer, General Manager Corporate Services, Manager Audit & Risk and other staff are invited to ARMC meetings at its discretion. The ARMC met 5 times during the year and the ARMC members' attendance record is disclosed in the table of Directors' meetings under Section 3 of this report.

The Chief Executive Officer and the Chief Financial Officer declared in writing to the Board that the financial records of the Corporation for the financial period have been properly maintained, and that the Corporation's financial statements for the financial year ended 30 June 2012 comply with Accounting Standards and present a true and fair view of the Corporation's financial condition and operational results. This statement is required annually.

4.6 Risk management

Oversight of the Risk Management Framework

Assisted by the ARMC, the Board oversees the establishment, implementation and maintenance of the Risk Management Framework and monitors its effectiveness. Management has established and implemented the Risk Management Framework for assessing, monitoring and managing risks, in a structured and systematic manner, consistent with AS/NZS31000:2009 Risk Management – Principles and Guidelines.

The Risk Management Framework is designed to encourage and support the development of an appropriately risk aware culture within the business and to assist the Corporation to realise the benefits that will accrue from a conscious, structured and dynamic approach to the management of risk.

The Risk Management Policy sets out the objectives of, outcomes from, and principles of risk management within the Corporation. Risk management is integrated into the major business processes.

All managers are responsible and accountable for identifying, evaluating and managing the risks within their area of business.

Risk profile

The Board, through the ARMC, receives a regular report on the status of significant risks and implementation strategies to mitigate those risks.

The ARMC provides governance oversight on risk management processes, and also guidance and support to the Manager Audit and Risk in the implementation of, and application of, the Risk Management Framework.

Quality of employees

Sound recruitment and selection processes are followed to ensure that new employees meet quality standards. Corporation policies set appropriate employee behaviours that must be followed. Formal performance appraisals are conducted annually with most employees. Training and development needs are combined into these performance appraisals and individual development plans. A succession plan is also in place to ensure that the Corporation is prepared in the event that vacancies occur in key positions.

Financial reporting

The Chief Executive Officer and the Chief Financial Officer have declared in writing to the Board that the Corporation's financial reports are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

Monthly actual results are reported against budgets approved by the Directors, and revised forecasts for the year are prepared during the year.

Environmental regulation

The Corporation's operations are subject to significant environmental regulation under both Commonwealth and State legislation.

The Corporation is committed to achieving a high standard of environmental performance. To this end it has established an Environmental Management System ("the EMS") built upon the principles of ISO 14001, and the International EMS Standard. The EMS provides a structured process to assess and manage environmental risks, and it is designed to continually improve environmental performance and fulfil the Corporation's due diligence requirements. The Corporation's Environmental Policy is the cornerstone of the EMS.

To enable it to meet its responsibilities, the Corporation has established a regular internal reporting process as part of its EMS. On a quarterly basis the executive team and Board of Directors receive a report on environmental performance that includes results of environmental audits and incidents. Compliance with licence requirements and environmental legislation was met during the year.

Further information on the Corporation's performance is given in the Operations Review.

Internal audit

The internal audit function also assists the Board to discharge its fiduciary and corporate governance responsibilities. It reports on functional matters directly to the Chairperson of the ARMC.

With respect to risk management, it assists the organisation in identifying and evaluating significant exposure to risks, and contributing to the improvement of risk management and control systems by testing the quality and integrity of controls mitigating the risks. The ARMC is responsible for approving the annual internal audit program and reviewing the internal audit function performance.

Conflict of interest

Directors must keep the Corporation advised, on an ongoing basis, of any interest that could potentially conflict with the Corporation. The Board has developed procedures for Directors to disclose potential conflicts of interest and related interests. Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

4.7 Ethical standards

Code of Conduct and Integrity

Pursuant to Section 31 of the Act, the Corporation has prepared and issued a code of conduct setting out minimum standards of conduct and integrity that are to be observed by all employees including Board members. The code of conduct has been developed to ensure the Corporation manages its employees in a prudent and equitable manner. In summary, the code of conduct requires that all Corporation employees obey all applicable laws, regulations, rules and other instructions, uphold the Corporation's values and follow all lawful directions. It is available to all staff on the Corporation's intranet and is also included in inductions for new employees. Everyone in the Corporation is expected to uphold these behaviours and standards.

Leaders within the Corporation are expected to model and uphold the behaviours and standards outlined in the code of conduct and to also ensure that their staff are accountable. Fair Treatment Advisors and Public Interest Disclosure ("PID") Officers are in place for employees to contact regarding any workplace issues. The Fair Treatment System was promoted again to all employees during the year. Compliance with the code of conduct is assessed via employee feedback through formal surveys, exit interviews, and grievances or breaches reported via the Fair Treatment System or through the PID Officers. During the year, one formal complaint was reported through the Fair Treatment System.

4.8 Communication with owner

One of the Corporation's key stakeholders is the Minister, representing the Corporation's only owner, the Government of the day. A formal protocol has been developed to ensure the most comprehensive levels of governance apply to communications with the Minister and his Office. The protocol specifically reflects the particular relationship that exists between a corporatised Government Trading Enterprise and the Government.

5. Principal activities

The principal activities of the Corporation during the course of the year were to:

- Generate, purchase or otherwise acquire, and supply electricity from various sources of energy including renewable sources.
- Acquire, transport and supply gas and steam.
- Acquire, develop, operate and supply energy efficient technologies.
- Provide ancillary services.
- Provide Regional Power Corporation consultative and advisory services in relation to electricity generation and on their behalf operate and maintain electricity generation plant or equipment.
- Undertake, maintain and operate any works, system, facilities, apparatus or equipment required for the above.

Objectives

As the largest electricity supplier in Western Australia, Verve Energy seeks to meet the expectations of its stakeholders, including customers, suppliers, staff, and the Government as owner, regulator and policy maker.

Our vision is to grow Verve Energy, through asset renewal and investment, into a secure, stable and high performing generation business. To achieve this vision, we are focusing on optimising our performance through the following strategies:

- Safety – provide a safe place to work by maintaining the highest standards of safety.
- Reliability – continue the reliable and efficient generation of electricity.
- People – attract and retain staff who are aligned with and capable of delivering Verve Energy's desired vision, objectives and culture; with safety as the overarching core value.
- Operations - have an efficient, diversified, emission efficient, market-appropriate portfolio; and a secure, diverse and well price contracted fuel position.
- Environment – improve Verve Energy's environmental performance and work towards a long term goal of reducing the carbon footprint and being socially responsible.
- Financial - achieve economic profits through continuous efficiency improvements and to ensure Verve Energy has the ability to fund its renewal and growth aspirations.
- Trading – participate in competitive energy markets and achieve commercial results.
- Reputation and communication – maintain constructive and productive relationships with all stakeholders.

6. Dividends

On 3 November 2011, the Corporation received the Minister's approval in accordance with section 126(3)(b) of the Act to pay a final dividend equal to 65% of its net profit after tax for the year ended 30 June 2011. The dividend payment of $83,400,000 was made on 29 December 2011.

7. Ministerial order and direction

In addition to those disclosed in section 6, the Corporation received a Ministerial Direction on 13 April 2012. Under the Ministerial Direction, the Corporation was directed to:

- Reduce its operation expenditure by $63 million over financial years 2012 to 2015 to comply with the State Government's 5% Efficiency Dividend target; and
- Amend its Strategic Development Plan to reflect the above.

8. Events after the reporting period

Under the Clean Energy Act 2011, the carbon pricing mechanism became effective from 1 July 2012.

The Corporation engaged in a comprehensive carbon readiness programme to ensure it would be compliant with the Clean Energy Act 2011 at its commencement on the 1 July 2012. The programme identified the major risks associated with the new legislation and then proceeded to ensure those risks were addressed. Major risks dealt with under the programme involved counterparty risk associated with both sales and purchases of various energy products; accurate measurement of carbon emissions; compliance with the reporting obligations and assessing the impact of the carbon pricing mechanism on the Corporation's future financial performance. Based on the fixed price of $23 per tonne for the year ending 30 June 2013, the Corporation forecast its cost will increase by more than $230 million. The Corporation is confident it will recover the majority of its carbon cost to its customers.

Post balance date, the Corporation entered into a conditional and in principle sole funding arrangement to provide additional capital for one of its joint ventures. In return for this funding, its proportion of future income entitlements will increase. Under the in principle agreement, the other joint venture party will have the opportunity to reinstate its future income rights by the payment of its share of the additional funding plus interest. This funding is conditional on approval from the Minister.

Other than those disclosed above, there are no significant events after the reporting period.

9. Likely developments

The Corporation will continue to review its generation portfolio in order to improve efficiency and reduce carbon intensity. Further details of the likely developments are included in the Corporation's Statement of Corporate Intent 2012-2013.

10. Indemnification of Directors and Officers

During the reporting period, a Directors' and Officers' Liability Insurance Policy was taken out at a premium cost of $77,145 to ensure that the Directors and Officers have adequate coverage. The policy indemnifies Directors and Officers of the Corporation from losses arising from a claim or claims made against them jointly or severally during the period of insurance by reason of any wrongful act (as defined in the policy) in their capacity as a Director or Officer of the Corporation.

The Corporation has entered into Deeds of Indemnity with each Director to indemnify the Director in relation to certain liabilities incurred whilst a Director of Verve Energy and has agreed to insure the Director against certain risks the Director is exposed to whilst on the Board of Verve Energy.

11. Non-audit services

During the reporting period the contractor to the Corporation's external auditor did not perform any other services for the Corporation in addition to their statutory duties.

12. Rounding off

The Corporation has rounded off amounts in the financial report and Directors' report to the nearest thousand dollars unless otherwise stated.

This report is made with a resolution of the Directors:

DAVID EISZELE
CHAIRMAN

HARVEY COLLINS
DIRECTOR

Dated at Perth this 30th day of August 2012

Statement of comprehensive income

FOR THE REPORTING PERIOD ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Income			
Revenue	5	1,338,850	1,287,284
Other income	6	13,979	16,770
Total income		**1,352,829**	**1,304,054**
Expenses			
Fuel and electricity purchases		(696,502)	(569,704)
Raw materials and services used		(156,770)	(163,976)
Employee expenses		(105,866)	(115,362)
Impairment loss on non-current assets	9	(14,466)	-
Depreciation and amortisation		(122,729)	(126,010)
Other expenses		(47,899)	(48,506)
Total expenses		**(1,144,232)**	**(1,023,558)**
Result from Operating Activities		**208,597**	**280,496**
Finance income		9,725	9,036
Finance expenses		(89,281)	(98,545)
Net finance expense	7	**(79,556)**	**(89,509)**
Share of loss of joint venture entities	19	(25,819)	(5,876)
Profit before income tax	9	**103,222**	**185,111**
Income tax expense	10	(41,957)	(56,819)
Profit for the financial year		**61,265**	**128,292**
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		(2,101)	(12,079)
Net change in fair value of cash flow hedges transferred to profit or loss		1,487	867
Net change in fair value of cash flow hedges transferred to property, plant and equipment		3,286	10,645
Share of other comprehensive income of joint venture entities		(8,691)	-
Income tax effect on other comprehensive income		(802)	171
Other comprehensive income for the year, net of income tax		**(6,821)**	**(396)**
Total comprehensive income for the financial year		**54,444**	**127,896**

The statement of comprehensive income is to be read in conjunction with the notes of the financial statements.

Statement of financial position

FOR THE REPORTING PERIOD ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Assets			
Cash and cash equivalents	11	125,246	143,104
Trade and other receivables	12	176,398	148,991
Prepayments		24,943	7,599
Lease receivable	13	2,663	2,542
Inventories	14	128,348	129,612
Derivative financial instruments	15	75	73
Investment	16	166	166
Total current assets		**457,839**	**432,087**
Lease receivable	13	7,554	10,218
Property, plant and equipment	17	2,023,442	1,744,880
Intangible assets	18	771	1,720
Investments in joint venture entities	19	7,310	5,746
Deferred tax assets	21	-	4,129
Total non-current assets		**2,039,077**	**1,766,693**
Total assets		**2,496,916**	**2,198,780**
Liabilities			
Trade and other payables	22	177,998	224,471
Interest-bearing loans and borrowings	23	144,196	185,141
Employee benefits	24	35,935	37,061
Provisions	25	3,139	22,064
Derivative financial instruments	15	1,535	4,443
Total current liabilities		**362,803**	**473,180**
Interest-bearing loans and borrowings	23	826,005	865,201
Employee benefits	24	31,508	25,008
Provisions	25	557,555	160,605
Derivative financial instruments	15	2,605	1,841
Deferred tax liabilities	21	38,630	-
Total non-current liabilities		**1,456,303**	**1,052,655**
Total liabilities		**1,819,106**	**1,525,835**
Net assets		**677,810**	**672,945**
Equity			
Contributed equity	26	916,263	882,442
Reserves	26	(10,840)	(4,019)
Accumulated losses	26	(227,613)	(205,478)
Total equity		**677,810**	**672,945**

The statement of financial position is to be read in conjunction with the notes to the financial statements.

Statement of changes in equity

FOR THE REPORTING PERIOD ENDED 30 JUNE 2012

	Contributed equity $'000	Hedging reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2010	716,934	(3,623)	(270,361)	442,950
Transactions with the owner				
Contribution by the owner	165,508	-	-	165,508
Dividend payment	-	-	(63,409)	(63,409)
Comprehensive incomefor the year				
Profit	-	-	128,292	128,292
Other comprehensive income				
Effective portion of changes in fair value of cash flow hedges	-	(12,079)	-	(12,079)
Net change in fair value of cash flow hedges transferred to profit or loss	-	867	-	867
Net change in fair value of cash flow hedges transferred to property, plant and equipment	-	10,645	-	10,645
Income tax effect on items of other comprehensive income	-	171	-	171
Total other comprehensive income	-	(396)	-	(396)
Total comprehensive income for the year	-	(396)	128,292	127,896
Balance at 30 June 2011	**882,442**	**(4,019)**	**(205,478)**	**672,945**
Balance at 1 July 2011	**882,442**	**(4,019)**	**(205,478)**	**672,945**
Transactions with the owner				
Contribution by the owner	33,821	-	-	33,821
Dividend payment	-	-	(83,400)	(83,400)
Comprehensive income for the year				
Profit	-	-	61,265	61,265
Other comprehensive income				
Effective portion of changes in fair value of cash flow hedges	-	(2,101)	-	(2,101)
Net change in fair value of cash flow hedges transferred to profit or loss	-	1,487	-	1,487
Net change in fair value of cash flow hedges transferred to property, plant and equipment	-	3,286	-	3,286
Share of other comprehensive income of joint venture entities		(8,691)		(8,691)
Income tax effect on other comprehensive income	-	(802)	-	(802)
Total other comprehensive income	-	(6,821)	-	(6,821)
Total comprehensive income for the year		(6,821)	61,265	54,444
Balance at 30 June 2011	**916,263**	**(10,840)**	**(227,613)**	**677,810**

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Statement of cash flows

FOR THE REPORTING PERIOD ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Cash receipts from customers		1,319,597	1,279,978
Cash paid to suppliers and employees		(920,725)	(823,459)
Dividend paid		(83,400)	(63,409)
Interest received		9,090	12,912
Interest paid		(82,025)	(94,020)
Net cash from operating activities	11	**242,537**	**312,002**
Cash flows from investing activities			
Investments in Joint Ventures		(36,491)	(5,622)
Payment for property, plant and equipment		(177,967)	(200,198)
Proceeds from disposal of assets		383	176
Net cash used in investing activities		**(214,075)**	**(205,644)**
Cash flows from financing activities			
Proceeds from borrowing		124,999	59,000
Repayment of borrowing		(205,140)	(291,532)
Contribution by the owner		33,821	165,508
Net cash used in financing activities		**(46,320)**	**(67,024)**
Net increase in cash and cash equivalents		(17,858)	39,334
Cash and cash equivalents at beginning of reporting period		143,104	103,770
Cash and cash equivalents at end of reporting period	11	**125,246**	**143,104**

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

1 Reporting Entity

Electricity Generation Corporation trading as Verve Energy ('the Corporation') is a Corporation incorporated under the Electricity Corporation Act 2005 ("the Act") and domiciled in Australia. The financial report of the Corporation for the financial year ended 30 June 2012 comprises the Corporation and the Corporation's interest in associates and joint ventures.

The Corporation is primarily involved in generation and supply of electricity, trading of energy, supply of gas and steam and provision of ancillary services as well as consultative and advising services.

2 Basis of preparation

(a) Statement of compliance

The financial statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Electricity Corporation Act 2005 ("the Act"). The Act is specifically aligned and cross referenced to the Corporations Act 2001.

The financial statements were approved by the Board of Directors on 30th August 2012.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- investment is measured at fair value
- defined benefit obligations are measured at the present value of future benefits that employees have earned in the current and prior periods, less the fair value of any plan assets

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Corporation's functional currency. In preparing the financial statements, all financial information presented in Australian dollars has been rounded off to the nearest thousand dollars unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 15 - Derivative financial instruments
- Note 17 and 3(d) – Property, plant and equipment
- Note 24 - Employee benefits
- Note 25 - Provisions
- Note 27 - Financial instruments

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Joint ventures

Joint ventures are those contractual arrangements whereby the economic activities undertaken are subject to joint control of the Corporation.

(i) Jointly controlled entities

Investments in jointly controlled entities, including partnerships, are accounted for using the equity method and are initially recognised at cost.

The financial statements include the Corporation's share of profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Corporation, from the date that joint control commences until the date that joint control ceases.

When the Corporation's share of losses exceeds the carrying amount of its investments in a jointly controlled entity, the carrying amount of the investments is reduced to zero, and the recognition of future losses is discontinued except to the extent the Corporation has an obligation or has made payments on behalf of the investee.

(ii) Jointly controlled operations and assets

The interest of the Corporation in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(iii) Transactions eliminated on equity accounting

Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Corporation's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the jointly controlled entities or, if not consumed or sold by the jointly controlled entity, when the Corporation's investments in such entities are disposed of.

(b) Foreign currency transactions

Transactions in foreign currencies are translated into the Corporation's functional currency, Australian dollars, at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated into the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss and are reported on a net basis.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, investment in equity securities, trade and other payables and interest bearing loans and borrowings.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Corporation's contractual rights to the cash flows from the financial assets expire or if the Corporation transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date. That is, the date that the Corporation commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Corporation's obligations specified in the contract expire or are discharged or cancelled.

The Corporation's investment in equity securities is classified as available-for-sale financial assets. Subsequent to initial recognition, the available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in a separate

component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Cash and cash equivalents comprise cash at bank and call deposits.

Trade and other receivables are stated at their amortised cost using the effective interest method less impairment losses (see accounting policy 3(g)).

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms.

Financial guarantee contracts are recognised as financial liabilities at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less any accumulated amortisation where appropriate.

Interest bearing loans and borrowings are stated at their amortised cost using the effective interest method.

Accounting for finance income and expenses is discussed in note 3(l).

(ii) Derivative financial instruments

The Corporation holds derivative financial instruments to hedge its foreign currency, commodity and interest rate risk exposures. The Corporation also enters into electricity derivatives in accordance with its electricity trading policy. The component of a contract which meets the definition of an embedded derivative is separated from the host contract and accounted for separately if:

- the economic characteristics and risks of the host contract and the embedded derivative are not closely related; and
- the host contract is not accounted for at fair value

Embedded electricity derivatives are the contract-for-difference component of some electricity trading contracts which the Corporation has entered into.

Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

The Corporation designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges). The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months.

On entering into a hedge relationship, the Corporation determines whether hedge accounting is applied. Where hedge accounting applies, the Corporation formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other

cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Other derivatives

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in the fair value are recognised immediately in profit or loss (fair value through profit or loss: FVTPL).

Separable embedded derivative

Changes in the fair value of separable embedded derivatives are recognised in profit or loss immediately.

(d) Property, plant and equipment

(i) Recognition and measurement

Capital items of property, plant and equipment are initially recognised at cost and subsequently measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment as at 1 April 2006, when the Corporation was incorporated, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, and any other costs, directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation of a asset starts when it is available for use; that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Buildings	10 – 40 years
Plant and equipment	2 – 45 years
Leased plant	25 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(e) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Corporation are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset **to which it relates.**

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative

periods are as follow:

Computer software	2 – 3 years
Exclusive rights	2 –14 years

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

(g) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

The carrying amount of the Corporation's non-financial assets, other than inventories and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at the end of each reporting period.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and asset groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. The Corporation uses the depreciable replacement costs as value in use for the purpose of assessing for impairment. The net present value of future cash flows is used as a cross-check whereby the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

(h) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined

contribution superannuation funds are recognised as an expense in profit or loss when they are due.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Corporation's net obligation in respect of defined benefit superannuation funds is calculated separately for each fund by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any fund assets is deducted.

The discount rate is the yield at the end of the reporting period on government bonds that have maturity dates approximating to the terms of the Corporation's obligations. The calculation is performed by a qualified actuary.

When the benefits of a fund are increased, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

Where the calculation results in a benefit to the Corporation, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the fund or reductions in future contributions to the fund. Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or increased) or negative (where existing benefits are reduced).

The Corporation recognises all actuarial gains and losses arising from defined benefit plans in employee expenses in profit or loss.

(iii) Long service leave

The Corporation's net obligation in respect of long service leave is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

(iv) Termination benefits

Termination benefits are recognised as an expense when the Corporation is committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Corporation has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(v) Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided up to the end of the reporting period and are calculated at undiscounted amounts based on remuneration wages and salary rates that the Corporation expects to pay.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(i) Provisions

A provision is recognised if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Decommissioning cost

In accordance with the Corporation's published environmental policy and applicable legal requirements, a provision for site restoration is recognised when the construction of a power station or other asset on the land is completed.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the

end of the reporting period, based on current legal requirements and technology. The present value is recalculated at the end of each reporting period with key assumptions such as future restoration costs, discount rate and consumer price index reviewed and updated at the same time.

The amount of the provision for future restoration costs is capitalised into the cost of related assets and is depreciated in accordance with the policy set out in note 3(d). The unwinding of the effect of discounting on the provision is recognised as a finance expense.

(j) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. It is measured at the fair value of the consideration received, or to be received, net of the amount of goods and services tax.

(i) Sales of electricity

Sales of electricity comprise revenue earned from the provision of electricity products and is recognised when the electricity is provided.

(ii) Other energy sales

Other energy sales comprise revenue earned from fuels, steam sales, renewable energy certificates, spinning reserve and other related goods and services. Other energy sales are recognised when the significant risks and rewards of ownership have been transferred to the customers.

(iii) Contributions received

Contributions received from developers/customers toward the construction of infrastructure are recognised as revenue to the extent of the works completed.

(iv) Contract works

Revenue is recognised by reference to the stage of completion. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(v) Government grants

An unconditional government grant is recognised as revenue when the grant becomes receivable.

(k) Leases

At inception of an arrangement, the Corporation determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Corporation the right to control the use of the underlying asset.

Lessor

Leases are classified as finance leases if the Corporation as the lessor transfers substantially all risks and rewards incidental to the ownership of the underlying assets. Upon commencement of the lease, the underlying assets are derecognised and lease receivables are recognised at the present value of the minimum lease payments. The lease receivables are subsequently carried at amortised cost.

Lessee

Leases in terms of which the Corporation as the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon the commencement of the lease term, a finance lease is recognised as an asset and a liability measured at an amount equal to the lower of the fair value of the underlying asset and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and no lease assets are recognised on the Corporation's statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense and spread over the lease term.

(l) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised in profit or loss as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings and unwinding of the discount on provisions. Interest expense is recognised in profit or loss as it accrues, using the effective interest method.

(m) Income tax

The Corporation operates under the National Taxation Equivalent Regime (NTER) environment. While tax equivalent payments will continue to be remitted to State Treasury, the Corporation's tax is subject to Australian Taxation Office (ATO) administration. The calculation of the liability in respect of income tax is governed by the Income Tax Administration Acts and the NTER guidelines as agreed by the State Government.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(n) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(o) Borrowing costs

The Corporation capitalises borrowing costs with respect to property, plant and equipment and intangibles that are qualifying assets. Other borrowing costs are expensed.

(p) New accounting standards and interpretations not yet adopted

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2012, but have

not been applied in preparing this financial report:

- Revised AASB 9 Financial Instruments and AASB 2009-11 and AASB 2010-7 Amendments to Australian Accounting Standards Arising from AASB 9 address the classification and measurement of financial assets. The standards are not mandatory until 1 January 2013 but are available for early adoption. Adoption of AASB 9, AASB 2009-11 and AASB 2010-7 is unlikely to have a significant impact on the Corporation's financial statements.
- AASB 10 Consolidated Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards establish a new control model which is broader than the one under AASB 127 Consolidated and Separate Financial Statements. These standards are not mandatory until 1 January 2013. It is unlikely that the new standards will have significant impact on Verve Energy's financial statements.
- AASB 11 Joint Arrangements replaces AASB 131 Interests in joint ventures. The new standard uses the concept in AASB 10 to define joint control and removes option to account for jointly controlled entities using proportionate consolidation. It is not mandatory until 1 January 2013 and is unlikely to have any significant impact on Verve Energy's financial statements given all jointly controlled entities are equity accounted for currently.
- AASB 13 Fair Value Management and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 establish a single source of guidance for determining the fair value of assets and liabilities. It also expands disclosure requirements for assets and liabilities carried at fair values. These standards are not mandatory until 1 January 2013. Verve Energy is yet to analyse the impact of adopting these standards.
- AASB 119 Employee Benefits and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 revise the method of calculating the return on the assets under a defined benefit plan. It also changes the definition of short-term employee benefits. These standards are not mandatory until 1 January 2013. Verve Energy is yet to analyse the impact of adopting these standards.
- The following accounting standards will only impact on disclosure and/or presentation of the Corporation's financial statements:
  - o AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements establish a different financial reporting framework consisting of two tiers of general purpose financial statements with reference to the extent of disclosure requirements
  - o AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income requires items of other comprehensive income be grouped on the basis of whether or not they might be reclassified subsequently to profit or loss
  - o AASB 12 Disclosure of Interests in Other Entities includes all disclosures relating to interests in subsidiaries, joint arrangements, associates and structured entities

4 Determination of fair values

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Investment in equity securities

An investment in equity securities is classified as an available-for-sale financial asset and its fair value is determined by reference to its quoted market bid price as at the end of the reporting period without any deduction for transaction costs.

(ii) Derivatives

Generally, the fair values of derivatives in active markets are based on quoted market prices at the end of the reporting period. Where the entity enters into derivatives that are not traded in active markets (for example, over-the-counter derivatives), fair values are determined by using valuation techniques consistent with established valuation methodology and general market practice applicable to each instrument/market.

The fair value of forward exchange contracts is derived by discounting the difference between the market quoted forward price and the contractual forward price. Alternatively it is calculated as the difference between the discounted contractual forward price and the current spot rate.

For interest rate swaps and embedded interest rate swaps, market prices (or, dealer quotes) are used to calculate the present value of the estimated future cash flows.

The fair value of the embedded electricity derivative is determined by reference to forward price estimates based on the Corporation's internal contracts and other market estimates.

The fair value of commodity swaps and embedded commodity derivatives are estimated using the present value of the estimated future cash flows using available forward market prices. Where commodity derivative instruments used by the entity are not regularly traded and have no observable forward market prices, dealer quotes are utilised.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period. Where other pricing models are used, inputs are based on market related data at the end of the reporting period.

(iii) Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is considered to reflect the fair value.

(iv) Interest bearing loans and borrowings

Fair value is calculated based on the present value of expected future principal and interest cash flows, discounted at the market interest rate at the end of the reporting period.

(v) Financial guarantee liabilities

For financial guarantee liabilities, the fair value at initial recognition is the higher of following:

- the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee; and
- the estimated exposure under the guarantee which is based on outstanding exposure of the debt instrument and the historical default rates of comparable companies rated by Standard & Poors.

(vi) Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements.

5 Revenue

	2012 $'000	2011 $'000
Energy sale - electricity	1,197,700	1,154,732
Energy sale - others	135,367	123,930
Contract works	5,772	3,439
Government grants	11	5,183
	1,338,850	1,287,284

6 Other income

	2012 $'000	2011 $'000
Insurance recovery	4,223	1,564
Gain on disposal of non-current assets	-	4,313
Development fees on projects	2,535	7,246
Miscellaneous income	7,221	3,647
	13,979	16,770

7 Net finance expense

	2012 $'000	2011 $'000
Interest income	9,725	9,036
Finance lease interest expense	(28,343)	(28,456)
Interest and finance charges on loans and borrowings	(51,050)	(59,853)
Unwinding of discount on provision – decommissioning cost	(8,401)	(9,074)
Gain / (Loss) on interest rate swaps	(287)	170
Foreign exchange gain/(loss)	(1,200)	(1,037)
Loss on interest rate swaps – embedded derivative	-	(295)
	(79,556)	(89,509)

8 Auditor's remuneration

	2012 $'000	2011 $'000
Audit of financial statements	198	190

9 Profit before income tax

	2012 $'000	2011 $'000
Profit before tax includes the following specific expenses:		
Impairment loss on non-current assets		
Work under construction (note 17)	(4,466)	-
Investments in joint venture entity (note 19)	(10,000)	-
Impairment loss on non-current assets	(14,466)	-
Impairment loss on trade receivables	-	(6,441)
(Write down)/ Write back of inventories – fuels	(837)	3,170
Operating lease expense	(3,538)	(2,194)
Contribution to defined contribution superannuation plans	(15,344)	(8,194)

10 Income tax expense

	2012 $'000	2011 $'000
Current tax expense		
Current year	-	-
Deferred tax expense		
Origination and reversal of temporary differences	(7,023)	7,928
Tax loss utilised	(34,934)	(64,747)
Total income tax expense in profit or loss	(41,957)	(56,819)
Reconciliation between income tax expense and profit before income tax		
Profit before income tax	103,222	185,111
Income tax using the domestic Corporation tax rate of 30%	(30,967)	(55,533)
Effect of:		
Exempt / (non-deductible) items	12	131
(Over)/Under provided tax benefit in respect of prior year	(255)	346
Deductible temporary differences not recognised*	(10,747)	(1,763)
Income tax expense	(41,957)	(56,819)

* The tax effect of impairment losses of $10,000,000 in relation to the Corporation's investment in joint venture entities (refer note 9 above) and the Corporation's share of losses of joint venture entities amounting to $25,819,000 (2011: $5,876,000) were not recognised as there was not probable that in the foreseeable future sufficient profit would be generated to utilise such losses. As at the reporting date, total unrecognised deductible temporary differences amounted to $41,695,000 (2011: $5,876,000).

11 Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank and on hand	4,889	1,160
Call deposits	120,357	141,944
	125,246	143,104
Reconciliation of cash flows from operating activities		
Cash flows from operating activities		
Profit for the period	61,265	128,292
Adjustments for:		
Impairment loss on trade receivables	-	6,441
Share of losses of Joint Ventures	25,819	5,876
Impairment loss on non-current assets	14,466	-
(Write-back)/write-down of inventories	837	(2,491)
(Gain)/Loss on disposal of property, plant and equipment	305	(4,313)
Depreciation and amortisation	122,729	126,010
Unwinding of discount on decommissioning provision	8,401	9,074
	233,822	268,889
Changes in trade and other receivables	(29,311)	(20,295)
Changes in inventories	427	18,810
Changes in derivative financial instruments and investment	528	(626)
Changes in deferred tax assets and liabilities	41,957	56,819
Changes in trade and other payables	(26,708)	(15,646)
Changes in provisions and others	21,822	4,051
Net cash from operating activities	242,537	312,002

12 Trade and other receivables

	2012 $'000	2011 $'000
Trade receivables (net of impairment)	166,644	132,734
Other receivables	3,195	1,002
Deposits	6,559	15,255
	176,398	148,991

The Corporation's exposure to credit risks and impairment losses related to trade receivables is disclosed in note 27.

13 Lease receivable

The lease receivable is to be received as follows:

	2012			2011		
	Gross investments	Unearned interest income	Principal	Gross investments	Unearned interest income	Principal
	$'000	$'000	$'000	$'000	$'000	$'000
Less than one year	3,790	1,127	2,663	3,997	1,455	2,542
Between one and five years	8,844	1,290	7,554	12,635	2,417	10,218
	12,634	2,417	10,217	16,632	3,872	12,760

The lease relates to a licensing arrangement entered into during the previous reporting period whereby the Corporation grants a licence to a customer to operate one of its electricity generating plants. The Corporation concluded that this licensing arrangement contains a lease which was classified as a finance lease. The Corporation's exposure to credit risks and impairment losses related to the lease receivable is disclosed in note 27.

14 Inventories

	2012	2011
	$'000	$'000
Fuels	81,623	87,373
Raw materials	46,725	42,239
	128,348	129,612

Fuels amounting to $20,714,000 (2011: $21,551,000) were carried at fair value less costs to sell.

15 Derivative financial instruments

	2012	2011
	$'000	$'000
Current assets		
Forward exchange contracts - cash flow hedge	6	8
Forward exchange contracts - Fair Value Through Profit or Loss	4	-
Interest rate swaps - embedded	65	65
	75	73
Current Liability		
Forward exchange contracts - cash flow hedge	469	3,909
Electricity derivatives - embedded	1,066	534
	1,535	4,443
Non-current Liability		
Forward exchange contracts - cash flow hedge	588	1,252
Interest rate swaps - cash flow hedge	2,017	589
	2,605	1,841

The Corporation is party to derivative financial instruments in the normal course of business solely to hedge exposure to fluctuations in interest rates, foreign exchange rates and commodity prices in accordance with the Corporation's financial risk management policies, which do not permit any speculative trading.

(a) Interest rate swap

The Corporation has entered into interest rate swap contracts to hedge against interest rate movements. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income. Where the Corporation considers an interest rate swap to be an ineffective hedge the gain or loss from remeasuring the derivative at fair value is recognised in profit or loss.

(b) Forward exchange contracts – cash flow hedge

The Corporation has entered into forward exchange contracts to hedge against exchange rate movements. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income.

(c) Embedded derivatives

Where the Corporation has contractual arrangements that have the same characteristics as stand-alone derivatives which are not closely related to the host contract, such arrangements are treated as embedded derivatives.

Embedded electricity derivatives are the contract-for-difference component of some electricity trading contracts the Corporation has entered into.

Embedded interest rate swaps are the component of a power purchase agreement which is exposed to interest rate movements.

Embedded derivatives are separated from their host contract and accounted for at fair value. The change in fair value is recognised immediately in profit or loss.

16 Investment

	2012 $'000	2011 $'000
Listed equity security available for sale	166	166

17 Property, plant and equipment

	Land	Building	Plant & equipment	Works under construction	Leased plant	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At cost						
Balance at 1 July 2010	5,539	136,678	1,690,331	189,122	186,535	2,208,205
Additions	951	448	-	200,383	-	201,782
Transfers	-	-	41,480	(43,604)	-	(2,124)
Disposals/write-off	(2)	(807)	(21,717)	-	-	(22,526)
Decommissioning adjustment	-	-	(947)	-	-	(947)
Balance at 30 June 2011	6,488	136,319	1,709,147	345,901	186,535	2,384,390
Balance at 1 July 2011	6,488	136,319	1,709,147	345,901	186,535	2,384,390
Additions	-	-	-	175,306	-	175,306
Transfers	-	7,410	57,809	(65,264)	-	(45)
Disposals/write-off	-	-	(1,030)	(4,466)	-	(5,496)
Decommissioning adjustment	-	-	228,331	-	-	228,331
Balance at 30 June 2012	6,488	143,729	1,994,257	451,477	186,535	2,782,486
Depreciation and impairment losses						
Balance at 1 July 2010	-	(31,971)	(464,263)	-	(32,249)	(528,483)
Depreciation charge for the year	-	(7,524)	(109,284)	-	(7,589)	(124,397)
Disposals/write-off	-	474	12,896	-	-	13,370
Balance at 30 June 2011	-	(39,021)	(560,651)	-	(39,838)	(639,510)
Balance at 1 July 2011	-	(39,021)	(560,651)	-	(39,838)	(639,510)
Depreciation charge for the year	-	(7,424)	(106,725)	-	(7,586)	(121,735)
Disposals/write-off	-	-	342	-	-	342
Decommissioning adjustment	-	-	1,859	-	-	1,859
Balance at 30 June 2012	-	(46,445)	(665,175)	-	(47,424)	(759,044)
Carrying amount						
At 30 June 2010	5,539	104,707	1,226,068	189,122	154,286	1,679,722
At 30 June 2011	6,488	97,298	1,148,496	345,901	146,697	1,744,880
At 30 June 2012	6,488	97,284	1,329,082	451,477	139,111	2,023,442

(a) Leased plant

The Corporation has applied Interpretation 4 Determining whether an Arrangement contains a Lease, which was effective 1 January 2006, and has determined that a Power Purchase Agreement the Corporation has with its supplier contains a lease arrangement. The lease has been recognised as a finance lease in accordance with AASB 117 Leases.

(b) Transfers

There are transfers of $45,000 (2011: $2,124,000) from works under construction to Intangible assets in 2012 (note 18).

18 Intangible assets

	Computer software $'000	Exclusive rights $'000	Total $'000
At cost			
Balance at 1 July 2010	3,705	537	4,242
Transfers from works under construction (refer note 17)	2,124	-	2,124
Balance at 30 June 2011	5,829	537	6,366
Balance at 1 July 2011	5,829	537	6,366
Transfers from works under construction (refer note 17)	45	-	45
Balance at 30 June 2012	5,874	537	6,411
Amortisation			
Balance at 1 July 2010	(2,796)	(237)	(3,033)
Amortisation for the year	(1,557)	(56)	(1,613)
Balance at 30 June 2011	(4,353)	(293)	(4,646)
Balance at 1 July 2011	(4,353)	(293)	(4,646)
Amortisation for the year	(940)	(54)	(994)
Balance at 30 June 2012	(5,293)	(347)	(5,640)
Carrying amount			
At 30 June 2010	909	300	1,209
At 30 June 2010	1,476	244	1,720
At 30 June 2012	581	190	771

19 Investments in joint venture entities

	2012 $'000	2011 $'000
Cost of investments	48,113	11,622
Impairment loss*	(10,000)	-
Share of loss recognised in previous reporting period	(5,876)	-
Share of loss recognised in profit or loss for current reporting period (see below)	(16,236)	(5,876)
Share of loss recognised in equity for current reporting period	(8,691)	-
	7,310	5,746

* The carrying value of investments, after deducting the share of losses, is compared with the recoverable value and any excess is recognised as impairment loss in profit or loss. One of the Corporation's joint ventures involves renewable technology which would not have been commercially viable without the Government's financial assistance. The Government assistance was provided in the form of an investment which will not be recovered through normal commercial activity and is impaired to the extent of that Government financial assistance.

	2012 $'000	2011 $'000
Share of loss of joint venture entities recognised in profit or loss is as the follows		
Applied to investments in joint venture entities (see above)	16,236	5,876
Applied to other provision - share of loss in joint ventures (refer note 25)	9,653	-
	25,819	5,876

Investments in joint venture entities are as follows:

	Country of incorporation	Reporting date	Ownership interest	
			2012	2011
Vinalco Energy Pty Ltd[1]	Australia	30 June	50%	50%
Mumbida Wind Farm Holdings Pty Ltd[2]	Australia	30 June	50%	50%
South West Solar Development Holdings Pty Ltd[3]	Australia	30 June	50%	-
Wind Energy Corporation Pty Ltd[4]	Australia	30 June	-	50%

Summary financial information for equity-accounted joint venture entities, not adjusted for the percentage of ownership held by the Corporation:

	2012 $'000	2011 $'000
Current assets	45,714	15,544
Non-current assets	254,173	77,846
Current liabilities	(29,041)	(10,830)
Non-current liabilities	(292,215)	(96,789)
Income	1,165	167
Expenses	(36,911)	(17,220)
Profit/(loss)	(35,746)	(17,053)

1. Vinalco Energy Pty Ltd was formed in August 2010 to refurbish and subsequently operate the Muja AB plant.
2. Mumbida Wind Farm Holdings Pty Ltd and its subsidiary, Mumbida Wind Farm Pty Ltd (the Mumbida Group) were incorporated in November 2010.
3. South West Solar Development Holdings Pty Ltd and its subsidiary, Greenough River Solar Farm Pty Ltd (the Solar Group) were incorporated in August 2011.
4. Dormant through last year and was deregistered in August 2011.

20 Interest in joint venture operation

The Corporation has a 50% interest in an unincorporated joint venture operation, South West Cogeneration joint venture, a 120 MW cogeneration facility on the site of the Worsley Alumina Refinery in the South West of Western Australia. The output of the facility, thermal energy and electricity, is sold to Worsley Alumina Refinery and other energy customers. Within the terms of the joint venture agreement a pre-emptive right exists in regard to the disposal of either party's interest.

21 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables	-	57	-	-	-	57
Lease receivable	321	-	-	(3,828)	321	(3,828)
Inventories	-	734	(23,747)	-	(23,747)	734
Derivative financial instruments	1,220	1,864	-	-	1,220	1,864
Investment	236	236	-	-	236	236
Property, plant and equipment	-	-	(179,663)	(187,978)	(179,663)	(187,978)
Intangibles	314	420	-	-	314	420
Trade and other payables	221	475	-	-	221	475
Finance lease liability	56,395	56,659	-	-	56,395	56,659
Employee benefits	20,233	18,621	-	-	20,233	18,621
Provisions	60,652	56,747	-	-	60,652	56,747
Tax loss carry-forwards	25,188	60,122	-	-	25,188	60,122
Net tax assets / (liabilities)	**164,780**	**195,935**	**(203,410)**	**(191,806)**	**(38,630)**	**4,129**

Movement in temporary differences during the year:

	Balance 30 June 2010	Recognised in Profit or loss	Recognised in Other comprehensive income	Balance 30 June 2011	Recognised in Profit or loss	Recognised in Other comprehensive income	Balance 30 June 2012
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables	6,806	(6,749)	-	57	(57)	-	-
Lease receivable	-	(3,828)	-	(3,828)	4,149	-	321
Inventories	530	204	-	734	(24,481)	-	(23,747)
Derivative financial instruments	1,375	318	171	1,864	158	(802)	1,220
Investment	218	18	-	236	-	-	236
Property, plant and equipment	(201,657)	13,679	-	(187,978)	8,315	-	(179,663)
Intangibles	402	18	-	420	(106)	-	314
Trade and other payables	1,552	(1,077)	-	475	(254)	-	221
Finance lease liability	56,853	(194)	-	56,659	(264)	-	56,395
Employee Benefits	15,528	3,093	-	18,621	1,612	-	20,233
Provisions	54,301	2,446	-	56,747	3,905	-	60,652
Tax loss carry-forwards	124,869	(64,747)	-	60,122	(34,934)	-	25,188
Net tax assets / (liabilities)	**60,777**	**(56,819)**	**171**	**4,129**	**(41,957)**	**(802)**	**(38,630)**

22 Trade and other payables

	2012 $'000	2011 $'000
Trade payables and accrued operating expense	156,567	171,131
Financial guarantee liability	6,000	6,000
Other payables	2,747	4,731
Deferred income	2,800	31,584
Interest accrued	9,884	11,025
	177,998	224,471

e financial guarantee liability relates to the guarantee in relation to borrowings by one of the Corporation's joint venture entities whereby the Corporation has undertaken to repay any outstanding amounts of such borrowings in an event of default by the borrower.

23 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Corporation's interest-bearing loans and borrowings. For more information about the Corporation's exposure to interest rate and foreign currency risk, see note 27 – Financial instruments.

	2012 $'000	2011 $'000
Current liabilities		
Finance lease liabilities	1,167	880
Unsecured loans and borrowings	143,029	184,261
	144,196	185,141
Non-current liabilities		
Finance lease liabilities	186,816	187,983
Unsecured loans and borrowings	639,189	677,218
	826,005	865,201
Financing arrangements		
Unsecured funding facility at reporting period		
Total facilities available	1,400,000	1,400,000
Facilities utilised at reporting period	(782,218)	(861,479)
Facilities not utilised at reporting period	617,782	538,521

Unsecured funding facility

The Corporation has in place several borrowing facilities with the Western Australian Treasury Corporation. As at the reporting date, the loans and borrowings bear interest at rates in the range of 3.74% to 7.15%.

Finance lease liabilities

Finance lease liabilities of the Corporation are payable as follows:

	2012			2011		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	$'000	$'000	$'000	$'000	$'000	$'000
Less than one year	29,358	28,191	1,167	29,223	28,343	880
Between one and five years	119,136	110,110	9,026	118,453	111,312	7,141
More than five years	417,761	239,971	177,790	447,802	266,960	180,842
	566,255	378,272	187,983	595,478	406,615	188,863

The lease relates to a power purchase arrangement which is not the legal form of a lease, however the Corporation concluded that the arrangement contains a lease of the equipment, because fulfilment of the arrangement is economically dependent on the use of the equipment and it is unlikely that any parties other than the Corporation will receive more than an insignificant part of the output. The lease was classified as a finance lease. The Corporation could not reliably estimate the relative fair value of the lease element and other elements of the required payments. Therefore at the inception of the lease the Corporation recognised an asset and a liability at an amount equal to the estimated fair value of the equipment (note 17). The imputed finance expense on the liability was determined based on the effective interest rate of the lease liability.

24 Employee benefits

	2012	2011
	$'000	$'000
Current liabilities		
Salaries and wages accrued	7,132	7,026
Liability for long service leave	15,474	16,301
Liability for annual leave	13,329	13,734
	35,935	37,061
Non-current liabilities		
Recognised liability for defined benefit obligations	29,930	23,495
Liability for long service leave	1,578	1,513
	31,508	25,008

Above current liabilities are expected to be settled within one year while the non-current liabilities are expected to be settled after one year except for the liability for long service leave:

Expected to be settled within one year	4,967	5,243
Expected to be settled after one year	12,085	12,571
	17,052	17,814

Liability for defined benefit obligations

Some of the Corporation's former and current employees are members of two defined benefit superannuation funds (Pension Scheme and Gold State Super) that provide defined benefit amounts for employees upon retirement. There are no plan assets and the Corporation is expected to meet the cost of the retirement benefit obligations as they fall due.

The liability for defined benefit obligations is reviewed and recalculated by the Government Employees Superannuation Board (GESB) at the end of each reporting period.

	2012 $'000	2011 $'000
Defined benefit obligations		
Amount at the end of reporting period		
Net liabilities	29,930	23,495
Changes in the present value of the defined benefit obligations are as follows:		
Defined benefit obligations opening balance	23,495	22,200
Interest cost	1,201	1,181
Actuarial (gain)/loss	8,194	1,145
Service cost	50	79
Benefits paid	(3,010)	(1,110)
Defined benefit obligations ending balance	29,930	23,495
Amount recognised in profit or loss:		
Interest cost	1,201	1,181
Actuarial (gain)/loss	8,194	1,145
Service cost	50	79
Recognised in profit or loss as employee expenses	9,445	2,405

Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages):

	2012	2011
Discount rate at 30 June	2.84%	5.28%
Expected salary increases	5.50%	4.50%
Expected pension increase rate	2.50%	2.50%

Information for the current reporting period and previous four annual reporting periods:

	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Present value of defined benefit obligation	29,930	23,495	22,200	18,624	16,433
Experience adjustment arising on the plan obligation - (gain)/loss	161	631	3,630	897	(1,346)

25 Provisions

	2012 $'000	2011 $'000
Provisions - current		
Decommissioning provision	3,139	22,064
	3,139	22,064
Provisions – non current		
Decommissioning provision	421,926	160,605
Gas agreement	126,046	-
Share of losses in joint venture	9,583	-
	557,555	160,605
Total provisions	560,694	182,669
Decommissioning provision		
Beginning balance	182,669	174,552
Provisions used during the period	-	-
Unwinding of discount on provisions	8,401	9,074
Changes in assumptions recognised in profit or loss	3,805	(10)
Changes in assumptions recognised in property, plant and equipment (refer note 17)	230,190	(947)
Balance at the end of reporting period	425,065	182,669

Decommissioning costs

The Corporation estimates the future removal cost of generating facilities at the completion of the construction of the assets. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating costs, future removal technologies in determining removal cost, and asset specific discount rates to determine the present value of these cash flows. Such assumptions are reviewed and updated at least once a year at the end of each reporting period.

During this year, the Corporation also engaged an independent expert to estimate the future decommissioning costs. The mid point of the estimate range, which represents the probability weighted average of the possible scenarios, estimated by the expert, was adopted as the basis for calculating the provision.

Taking into consideration the actual costs incurred for the most recent decommissioning activities, the estimated costs for decommissioning have increased significantly compared to the estimates made in the previous reporting period. This, in combination with changes in other assumptions such as discount rate, has resulted in significant increase in the decommissioning provisions.

Because of the long-term nature of the liability, there is significant estimation risk around the estimated decommissioning costs that will be incurred. The Corporation has assumed the sites will be restored using the technology and materials that are available currently.

	Gas agreement[1]	Share of loss in joint venture[2]
Other provision	**$'000**	**$'000**
Balance as at 1 July 2011	-	-
Amount recognised in profit or loss	126,046	9,583
Balance as at 30 June 2012	126,046	9,583
Current	-	-
Non-current	126,046	9,583
Balance at the end of reporting period	126,046	9,583

1 During this year the Corporation entered into a long term agreement under which the Corporation receives gas from the counterparty and is obliged to return such gas in the future. The ending balance represents the value of the obligation of returning such gas. The gas agreement was entered into for the purpose of providing flexibility in managing the Corporations fuel requirements, thereby enhancing energy security.

2 The Corporation's share of losses of a joint venture entity is in excess to the carrying amount of the investment. Accordingly, the investment has been written down to nil through share of losses (refer note 19) and the excess losses are recognised as a provision due to the fact a financial guarantee was provided in relation to the joint venture (refer note 22).

The following assumptions were used for calculating the provisions.

	2012	2011
Discount rate	3.04%	5.22%
Inflation rate	2.31% - 3.11%	2.19% - 3.5%

26 Contributed equity and reserves

Contributed equity

The initial contribution by the owner, the state government of Western Australia, was made up of Western Power Corporation's assets, after deducting the liabilities that were transferred from Western Power Corporation to the Corporation on 1 April 2006.

During the current year, the Corporation received cash contributions from the owner in relation to the high efficiency gas turbine project.

Hedging reserve

The hedging reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Dividend

On 29 December 2011, the Corporation paid a final dividend amounting to $83,400,000 (2011: $63,409,000 paid on 29 June 2011) in relation to the year ended 30 June 2011.

27 Financial instruments

The Corporation has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Corporation's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk.

Overview

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Management Committee ("ARMC"), which is responsible for monitoring the effectiveness of risk management policies and processes. The ARMC reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Corporation to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect the changes in market conditions and the Corporation's activities. The Corporation through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The ARMC oversees how management monitors compliance with the Corporation's risk management policies and procedures and reviews the risk management framework in relation to the risks faced by the Corporation. The ARMC is assisted in its governance oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ARMC.

Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's cash and cash equivalents, receivables from customers and derivative instruments.

Trade, lease and other receivables

The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Corporation's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

The Corporation has established a credit policy under which each new customer is analysed individually for creditworthiness before the Corporation's standard payment and delivery terms and conditions are offered. The Corporation review includes external ratings, when available. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Board; these limits are reviewed annually. Customers that fail to meet the Corporation's benchmark creditworthiness may transact with the Corporation only on a prepayment basis or with a security in an acceptable form. The Corporation then regularly reviews the credit worthiness of its counterparties, unless they are a Government Trading Entity, which under its incorporating legislation carries implicit financial support from its owner.

Approximately 70% (2011: 68%) of the Corporation's revenue is attributable to sales transactions with a fellow Government Trading Entity and therefore such sales are not considered to be subject to any material credit risk.

The Corporation has established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. This allowance is a specific loss component that relates to individually significant exposures.

Investments and derivative financial assets

Investments are allowed only in liquid securities and only with counterparties that have a credit rating in accordance with the Corporation's policy. Management does not expect any counterparty to fail to meet its obligations. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments in the balance sheet, less any collateral held as security. Other than the embedded derivatives, the Corporation only transacts in derivative financial instruments with financial institutions with an A credit rating (Standard and Poors or its equivalent from other rating agencies) or better.

Financial guarantee

Credit risk also arises in relation to the financial guarantee granted by the Corporation (note 22)

Exposure to credit risk

The carrying amount of the Corporation's financial assets represents the maximum credit exposure in respect of recognised financial assets.

The Corporation's maximum exposure to credit risk in respect of recognised financial assets at the reporting date was:

	2012 $'000	2011 $'000
Cash and cash equivalents	125,246	143,104
Trade receivables (net of impairment)	166,644	132,734
Other receivables	3,195	1,002
Deposits	6,559	15,255
Lease receivable	10,217	12,760
Derivative financial assets	75	73
Available-for-sale financial assets	166	166
	312,102	305,094

In addition to the above, the Corporation also has credit exposure arising from the financial guarantee granted in relation to a joint venture entity (refer to note 22). The maximum credit exposure in relation to the financial guarantee is equal to the outstanding borrowings by the joint venture which amounted to $146,984,000 as at the reporting date (2011: $62,098,000).

The Corporation's most significant customer, Synergy, accounts for $74,979,000 of the trade receivables carrying amount at 30 June 2012 (2011: $84,300,000).

The ageing of the Corporation's trade receivables at the reporting date was:

	2012		2011	
	Gross $'000	Allowance for impairment $'000	Gross $'000	Allowance for impairment $'000
Not past due#	165,113	-	126,815	-
Past due 0-30 days*	861	-	2,963	-
Past due 31-90 days*	442	-	2,847	-
More than 90 days*	228	-	298	(189)
	166,644	-	132,923	(189)

Includes receivables of $38,136,000 (2011: $8,192,000), of which the credit term was amended for such amount plus interest to be repaid over 36 instalments starting from January 2013.

* Out of these balances, $60,000 (2011, $5,810,000) were covered by collateral in the form of bank guarantees and cash deposits held by the Corporation. As at the end of the reporting period, the Corporation held collateral of $31,473,000 (2011: $25,733,000) in the form of bank guarantees and cash deposits.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2012 $'000	2011 $'000
Beginning balance	(189)	(22,688)
Impairment loss recognised	-	(6,441)
Impairment loss utilised	189	28,940
Ending balance	-	(189)

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

The following are the contractual maturities of derivative financial assets and all financial liabilities, including estimated interest payments and excluding the impact of netting agreements. This table also indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur.

30 June 2012	Carrying amount $'000	Contractual cash flows $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	5+ years $'000
Derivative financial assets							
Forward exchange contract – cashflow hedge							
Inflow	6	132	132	-	-	-	-
Outflow	-	(126)	(126)	-	-	-	-
	6	6	6	-	-	-	-
Derivative financial liabilities							
Forward exchange contract – cashflow hedge							
Inflow	-	16,255	4,776	375	841	513	9,750
Outflow	(1,057)	(19,001)	(5,173)	(503)	(1,134)	(738)	(11,453)
Interest rate swaps – cashflow hedge	(2,017)	(2,766)	(221)	(287)	(602)	(1,605)	(51)
Electricity derivatives – Embedded	(1,066)	(1,188)	(164)	(152)	(216)	(364)	(292)
	(4,140)	(6,700)	(782)	(567)	(1,111)	(2,194)	(2,046)
Non-derivative financial liabilities							
Finance lease	(187,983)	(566,255)	(14,658)	(14,700)	(29,528)	(89,608)	(417,761)
Interest-bearing loans and borrowings	(782,218)	(944,615)	(69,064)	(122,053)	(196,909)	(389,705)	(166,884)
Trade and other payables	(156,300)	(156,300)	(156,300)	-	-	-	-
Financial guarantee liability	(6,000)	(146,984)	(146,984)	-	-	-	-
	(1,132,501)	(1,814,154)	(387,006)	(136,753)	(226,437)	(479,313)	(584,645)
Total	(1,136,635)	(1,820,848)	(387,782)	(137,320)	(227,548)	(481,507)	(586,691)

30 June 2011	Carrying amount $'000	Contractual cash flows $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	5+ years $'000
Derivative financial assets							
Forward exchange contract – cashflow hedge							
Inflow	8	2,057	2,057	-	-	-	-
Outflow	-	(2,048)	(2,048)	-	-	-	-
	8	9	9	-	-	-	-
Derivative financial liabilities							
Forward exchange contract – cashflow hedge							
Inflow	-	25,166	21,364	1,421	1,105	1,276	-
Outflow	(5,161)	(30,471)	(25,562)	(1,743)	(1,474)	(1,692)	-
Interest rate swaps – cashflow hedge	(589)	(687)	(108)	(114)	(213)	(291)	39
Electricity derivatives – Embedded	(534)	(699)	22	(20)	(85)	(287)	(329)
	(6,284)	(6,691)	(4,284)	(456)	(667)	(994)	(290)
Non-derivative financial liabilities							
Finance lease	(188,863)	(595,479)	(14,596)	(14,627)	(58,886)	(89,608)	(417,762)
Interest-bearing loans and borrowings	(861,479)	(1,044,320)	(79,525)	(153,116)	(146,794)	(406,435)	(258,450)
Trade and other payables	(186,887)	(186,887)	(186,887)	-	-	-	-
Financial guarantee liability	(6,000)	(62,098)	(62,098)	-	-	-	-
	(1,243,229)	(1,888,784)	(343,106)	(167,743)	(205,680)	(496,043)	(676,212)
Total	(1,249,505)	(1,895,466)	(347,381)	(168,199)	(206,347)	(497,037)	(676,502)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Corporation enters into derivatives in order to manage market risks. All such transactions are carried out within the guidelines set by the Treasury Management Committee (management committee). Generally the Corporation seeks to apply hedge accounting in order to manage volatility in profit or loss.

Interest rate risk

The Corporation's policy is to limit its exposure to changes in interest rates on borrowings to certain percentages in accordance with the duration of the borrowing. This is achieved by largely borrowing at fixed interest rate and entering into interest rate swaps.

Profile

At the reporting date the interest rate profile of the Corporation's interest-bearing financial instruments was:

	Carrying amount	
	2012	**2011**
	$'000	**$'000**
Fixed rate instruments		
Financial assets	119,523	156,149
Financial liabilities	(950,201)	(1,030,342)
	(830,678)	(874,193)
Variable rate instruments		
Financial assets	22,499	14,970
Financial liabilities	(22,017)	(20,589)
	482	(5,619)

Fair value sensitivity analysis for fixed rate instruments

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Corporation does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date will not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) profit or loss and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

		-100 basis points		+100 basis points	
	Carrying amount	Profit	Other Compre-hensive Income	Profit	Other Compre-hensive Income
	$'000	$'000	$'000	$'000	$'000
2012					
Cash and cash equivalents	22,499	(225)	-	225	-
Interest rate swaps	(2,017)	-	(803)	-	769
Unsecured loans and borrowings	(20,000)	200	-	(200)	-
Interest rate swaps - embedded	65	1	-	(1)	-
2011					
Cash and cash equivalents	14,970	(144)	-	144	-
Interest rate swaps	(589)	-	(1,062)	-	998
Unsecured loans and borrowings	(20,000)	200	-	(200)	-
Interest rate swaps - embedded	65	1	-	(1)	-

Currency risk

Profile

The Corporation is exposed to foreign currency risk mainly on purchases that are denominated in a currency other than the Australian dollar. The currencies giving rise to this risk are primarily Euro, US Dollar, Pound Sterling, and the Japanese Yen.

Where necessary, the forward exchange contracts are rolled over at maturity.

At any point in time, the Corporation hedges 100% of its estimated foreign currency exposure in respect of purchases forecasted to take place within 2 years. The Corporation uses forward exchange contracts to hedge its foreign currency risk. The Corporation classifies such forward exchange contracts as cash flow hedges and states them at fair value.

Exposure to currency risk

The Corporation's exposure to foreign currency risk at end of the reporting period was as follows, based on notional amounts:

30 June 2012 (AUD'000s)	USD	EURO	GBP	JPY
Estimated forecast purchases	(14,774)	(1,477)	(1,333)	
Forward exchange contracts	14,774	1,477	1,333	
Net exposure	-	-	-	-
30 June 2011 (AUD'000s)				
Estimated forecast purchases	(8,382)	(18,295)	-	(77)
Forward exchange contracts	8,382	18,295	-	77
Net exposure	-	-	-	-

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
USD	1.0320	0.9903	1.0240	1.0729
EURO	0.7716	0.7253	0.8088	0.7404
GBP	0.6515	0.6220	0.6519	0.6668
JPY	81.15	82.15	81.72	86.27

Sensitivity analysis

A 10 percent strengthening/weakening of the Australian dollar against the following currencies at 30 June would have increased / (decreased) profit or loss and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	-10%		+10%	
	Profit	Other Comprehensive Income	Profit	Other Comprehensive Income
	$'000	$'000	$'000	$'000
2012				
USD	132	1,454	(108)	(1,190)
GBP	-	133	-	(133)
EUR	1	146	(1)	(146)
JPY	-	-	-	-
2011				
USD	13	925	10	(757)
GBP	-	-	-	-
EUR	-	1,821	-	(1,821)
JPY	10	9	(9)	(7)

Other market price risk

Profile

The Corporation enters into commodity swap contracts to economically hedge its exposure on commodity price risk arising from its expected purchase of fuel. Commodity risk also arises from an embedded commodity derivative.

The Corporation is also exposed to equity price risk on its investment in equity securities.

Sensitivity analysis

A change of 10% in the market price of commodity/equity would have increased / (decreased) profit or loss and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and foreign exchange rates, remain constant. The analysis is performed on the same basis as for 2011.

		-10%		+10%	
	Carrying amount	Profit	Other Comprehensive Income	Profit	Other Comprehensive Income
	$'000	$'000	$'000	$'000	$'000
2012					
Investment	166	(17)	-	17	-
Embedded electricity derivative	(1,066)	791	-	(791)	-
2011					
Investment	166	(17)	-	17	-
Embedded electricity derivative	(534)	717	-	(717)	-

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Corporation's operations.

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. The responsibility is supported by the development of overall Corporation standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

Fair values

Fair values versus carrying amounts

Other than disclosed below, the carrying values of the financial assets and liabilities approximate the fair values as at 30 June 2012:

		2012		2011	
		Carrying amount	Fair value	Carrying amount	Fair value
	Note	$'000	$'000	$'000	$'000
Unsecured loans and borrowings	23	782,218	831,923	861,479	879,580

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the Western Australian Treasury Corporation yield curve at the end of the reporting period plus an adequate credit spread, and were as follows:

	2012	2011
Derivative financial instruments	3.44% - 3.50%	4.75% - 5.18%
Interest-bearing loans and borrowings	3.50% - 3.73%	4.75% - 5.64%

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by reference to the degree to which the fair value is observable. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs from the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2012				
Investment	166	-	-	166
Forward exchange contracts	-	(1,047)	-	(1,047)
Interest rate swaps	-	(2,017)	-	(2,017)
Interest rate swaps – embedded		65	-	65
Electricity derivatives – embedded	-	-	(1,066)	(1,066)

	Level 1	Level 2	Level 3	Total
2011	$'000	$'000	$'000	$'000
Investment	166	-	-	166
Forward exchange contracts	-	(5,153)	-	(5,153)
Interest rate swaps	-	(589)	-	(589)
Interest rate swaps – embedded	-	65	-	65
Electricity derivatives – embedded	-	-	(534)	(534)

A loss of $532,000 on embedded electricity derivatives was recognised in profit and loss for the year ended 30 June 2012 (2011: $639,000 loss).

The impact on the fair value of embedded electricity derivatives as a result of changes in the unobservable inputs (internally projected forward electricity price) is shown in the sensitivity analysis under "other market price risk".

28 Operating leases

	2012 $'000	2011 $'000
Leases as lessee		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	1,811	1,095
Between one and five years	3,685	4,805
More than five years	-	-
	5,496	5,900

29 Capital and other commitments

	2012 $'000	2011 $'000
Committed capital expenditures are payable as follows:		
Less than one year	68,348	118,375
Between one and five years	310	449
	68,658	118,824
Committed operating expenditures (excluding operating leases stated in note 28) are payable as follows:		
Less than one year	21,391	29,572
Between one and five years	21,210	10,712
	42,601	40,284

30 Contingencies

The Corporation provides for the restoration of its power station sites including any environmental rehabilitation as required by various environmental regulations (and as disclosed in note 25). Based on management's best estimates and assumptions, the Corporation has made adequate provision to cover these anticipated restoration costs. However many of these costs will be incurred at some time in the future and as such the provisions will be subject to changes due to significant estimation risk surrounding such estimates and assumptions. In addition there may be residual environmental obligations on sites which have been declared rehabilitated, and to the extent that these may arise, represent contingent liabilities to the Corporation. Management does not have any means of quantifying this residual exposure.

The Corporation operates a portfolio of thermal power stations of varying ages. Many of these power stations utilised asbestos for its insulation and fire resistant qualities prior to the market becoming aware of the dangers of asbestos. The Corporation has a current asbestos management process in place and addresses these risks on an ongoing basis. However, diseases which emanate from asbestos, such as asbestosis may take many years to develop. As such the Corporation may have a liability to those workers and other contractors who came in contact with asbestos at one of its power stations in the past. Whilst there is workers' compensation insurance and in some cases public liability insurance which covers the workers and contractors, not all of this liability is insured. As such the Corporation has a contingent liability for undiagnosed illnesses which may arise from exposure to asbestos at one of its sites. The quantum of this contingent liability is extremely uncertain and cannot be quantified with any accuracy.

The Corporation has granted a financial guarantee in relation to a joint venture entity and has recognised the fair value of the financial guarantee liability in note 22. The maximum exposure arising from this guarantee is disclosed in "Exposure to credit risk" section of note 27.

On 30 June 2012, there was a discharge from a fuel tank at the Kwinana Power Station, which resulted in a spillage of approximately 523 kilolitres of diesel. The final amount of expenditure required to recover the diesel and to remediate the contamination in future years might be different to the amount that was recorded in the financial statements for the current reporting period.

31 Events after the Reporting Period

Under the Clean Energy Act 2011, the carbon pricing mechanism became effective from 1 July 2012.

The Corporation has been actively preparing to ensure compliance with the Clean Energy Act 2011 including assessing, communicating and reporting the impact of the carbon pricing mechanism on the Corporation's financial performance.

Based on the fixed price of $23 per ton for the year of 2013, the Corporation forecast its cost will increase by more than $230 million. The Corporation is confident it will be able to pass through most of its carbon cost to its customers.

Post balance date, the Corporation entered into a conditional and in principle sole funding arrangement to provide additional capital for one of its joint ventures. In return for this funding, its proportion of future income entitlements will increase. Under the in principle agreement, the other joint venture party will have the opportunity to reinstate its future income rights by the payment of its share of the additional funding plus interest. This funding is conditional on approval from the Minister.

Other than those disclosed above, there are no significant events after the reporting period.

Directors' declaration

FOR THE REPORTING PERIOD ENDED 30 JUNE 2012

1 In the opinion of the Directors of Electricity Generation Corporation Trading as Verve Energy ('the Corporation'):

(a)the financial statements and notes are in accordance with the Electricity Corporations Act 2005, including:

(i) giving a true and fair view of the financial position of the Corporation as at 30 June 2012 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

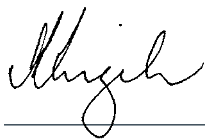
(ii)complying with Australian Accounting Standards (including the Australian Accounting Interpretations), and the Electricity Corporations Act 2005; and

(b)there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

2 The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2012 pursuant to the Electricity Corporations Act 2005.

Dated at Perth this 30 of August 2012

Signed in accordance with a resolution of the Directors:



DAVID EISZELE
CHAIRMAN

HARVEY COLLINS
DIRECTOR

Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

ELECTRICITY GENERATION CORPORATION (TRADING AS VERVE ENERGY)

I have audited the financial report of the Electricity Generation Corporation. The financial report comprises the Statement of Financial Position as at 30 June 2012, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, Notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

Directors' Responsibility for the Financial Report

The directors of the Electricity Generation Corporation are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Electricity Corporations Act 2005, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the Electricity Corporations Act 2005, my responsibility is to express an opinion on the financial report based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and Australian Auditing Standards, and other relevant ethical requirements.

Opinion

In my opinion, the financial report of the Electricity Generation Corporation is in accordance with schedule 4 of the Electricity Corporations Act 2005, including:

(a) giving a true and fair view of the Corporation's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Matters Relating to the Electronic Publication of the Audited Financial Report
This auditor's report relates to the financial report of the Electricity Generation Corporation for the year ended 30 June 2012 included on the Corporation's website. The Corporation's directors and management are responsible for the integrity of the Corporation's website. I have not been engaged to report on the integrity of the Corporation's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

COLIN MURPHY
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
31 August 2012