Verve Energy Annual Report 2006

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Chairman’s Report

On behalf of the Board of Directors, I am pleased to present the first Verve Energy Annual Report. As Verve Energy was created on 1 April 2006, when Western Power separated into four businesses, this report will cover the period from 1 April until 30 June.

These first three months of operation have provided a mixed output:

- A poor financial performance with an operating loss and a debt to equity ratio of 120%;
- Plant availability of 79.5% that was typical of the past few years but below longer term average and industry peer group;
- Safety performance at 3.6 LTIFR was reasonable and in the top half of peer group;
- No interruption of power supply due to generation, with some commendable efforts at power stations to maintain supply.

The short-term financial outlook is not a lot better, with high oil prices and limited gas availability continuing.

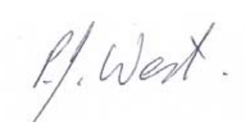
On the positive side:

- The distractions of operational and strategic thinking due to physical and organisational change in transition to the new entity are largely complete;
- There is a manifest willingness to confront the challenges and to create a successful, open, vibrant and integrated business;
- Initiatives to re-invest resources to the underlying causes of poor plant availability are being pursued enthusiastically;
- A new business model has been implemented and is being communicated within Verve Energy. This will better position the Corporation in the new energy market and enhance competitive focus;
- We are prepared for entry into the Wholesale Electricity Market (WEM) and we can make a meaningful contribution to the State while expanding a core business in energy trading.

Overall, Verve Energy is committed to the reform of the WA electricity industry and to work closely with Government regulatory agencies to achieve a smooth transition and an outcome that is in the best interest of the State.

I congratulate members of the Verve Energy team for the way in which they have established the business and for the progress being made toward being a successful participant in the new electricity market.

I thank my fellow Board members for their support and commitment and look forward to our continued growth.



PETER WEST
CHAIRMAN

Chief Executive's Report

The first three months of Verve Energy's operations have been challenging as we establish a new generating business.

As a dedicated generation business with focus on wholesale supply, we are working towards "One Team" to achieve our Vision of becoming a leading business in the evolving Western Australian energy market.

Our immediate objectives were to establish Verve Energy as a stand-alone business, including implementation of structure, governance, operational and support processes and the development of our corporate identity and purpose. We have built on our existing strengths and commenced development of new ones to meet the new challenges in a different environment with different rules.

We have set performance targets and operational priorities to improve plant availability and reliability of electricity supply - an area that requires significant improvement. Our review of maintenance practices with the assistance of a leading international generator has provided a blueprint for changes in plant operation and maintenance.

As a key participant in the development and establishment of the new electricity markets, Verve Energy is committed to electricity industry reform and to work closely with the Office of Energy, Independent Market Operator and the Economic Regulation Authority.

We are setting up our marketing and trading capabilities. As a participant in the Wholesale Electricity Market, our challenge is to become a competitive generator of electricity so that we can win business in the new market.

We are implementing culture change within the Corporation to develop a performance-driven commercially-oriented workforce. We are committed to building the Corporation's environmental credentials and renewable energy portfolio.

A review of business processes to deliver efficient and cost savings in our operations has commenced.

Verve Energy's financial performance was disappointing. The net loss after tax for the three months from 1 April to 30 June 2006 was $11.9 million.

This result was due to the high consumption of liquid fuels largely because of a combination of insufficient gas transportation capacity in the Dampier-Bunbury Natural Gas Pipeline and the unavailability of coal-burning plant during maintenance outages. The transportation issue is being addressed by the pipeline owners constructing new pipeline capacity, which will significantly reduce our liquids burn.

A capital works program budget of $101.2 million for 2006/07 focused mainly on improving the condition of our existing plant and investing in renewable energy development.

I would like to acknowledge the contribution made by the Verve Energy team during our first three months of business. There still is much to be done and I look forward to increasing our rate of progress to becoming a successful player in the new electricity market.

J E Lillywhite

JOHN E LILLYWHITE
CHIEF EXECUTIVE

Operations Review

Our company

Verve Energy was created on April 2006 when Western Power separated into four businesses. The separation was part of the State Government's reform of the electricity industry aimed at delivering lower long-term electricity prices to customers through the introduction of competition.

Owned by the State Government, Verve Energy has its own Board which reports to the Minister for Energy while the Chief Executive is responsible for the Corporation's day-to-day operations.

Verve Energy is a State asset with an equity level of $615 million and annual forecast revenue of approximately $1 billion.

As part of moves to deregulate the power industry, the Government imposed a ceiling on Verve Energy's capacity to encourage others to build generating plants. Verve Energy's installed generating capacity has been capped at 3000MW. By retiring old plant over the next three years, we will achieve that limit.

Our achievements

- Increased generating capacity of Collie Power Station
- Kemerton Power Station began operating on gas
- Agreement reached with NW Shelf Gas for additional gas supply for Worsley cogeneration unit
- Operational success of the Integrated Wood Processing pilot plant (IWP)
- Development of biomass co-firing at Muja Power Station
- Development of Coral Bay wind-diesel system
- Further work on the projects to install two wind turbines at Kalbarri and additional wind turbines at Hopetoun and Denham
- Rottnest Island wind-diesel power system completed

Corporate results

Performance indicators	1 April –30 June
Revenue ($)	258.1
EBIT ($)	3.2
Supply of electricity (GWh)	3070.1
Electricity generation sent out (GWh)	2902.6
Renewable energy generation	17.2
Corporate reputation index	3.7
Thermal efficiency (%)	31.5
Plant availability (%)	79.5
Forced outage factor	5.3
Lost Time Injury Frequency Rate	3.6
Medical Time Injury Frequency Rate	25.7

Our values, vision and mission

Safety is our overarching value and a priority in all aspects of our business. It concerns our employees, our contractors and the public. Our other core business values are integrity, leadership, achievement, quality relationships and commitment.

Verve Energy's vision is to create a leading business in the evolving Western Australian energy market.

Our mission is to achieve our vision by embracing our new environment, maximising our value by matching our generating portfolio to market opportunities, and driving improvements in service and cost through opportunities to renew and innovate while providing a safe and rewarding workplace.

Organisational structure
John Lillywhite - Chief Executive
Karl Matacz - Chief Financial Officer
Mark Hands - General Counsel
Greg Denton - General Manager Trading & Sustainable Energy
Barrie Brandt - General Manager Fuel
Ken Bowron - General Manager Assets
Fred Sibenaler - General Manager Production
Derek Noakes - General Manager Human Resources
Peter Winner – Manager Corporate Relations

Our business

Verve Energy competes with privately owned energy companies to provide electricity supply to WA's business and residential customers.

Verve Energy owns and operates power stations in the South West Interconnected System (SWIS), which extends from Kalbarri in the north, east to Kalgoorlie, and south to Albany.

Our power stations in the SWIS have an installed generating capacity of 3480MW of electricity.

We own and operate four major power stations – Kwinana, Cockburn, Pinjar and Muja, while a fifth at Collie is owned by us, and operated and maintained by Transfield BRW Services (TBRW).

Verve Energy's smaller power stations are situated at Mungarra, West Kalgoorlie, Tiwest Kwinana and Geraldton, and our joint venture power station is at Worsley near Collie. The privately owned and operated Kemerton Peaking Power Station has been available to Verve Energy since November 2005.

Our portfolio includes wind farms at Albany and Esperance; wind-diesel plants in the isolated towns of Bremer Bay, Hopetoun, Denham and Exmouth; biomass plants at Narrogin and near Collie; and solar facilities at Kalbarri and Rockingham.

What makes Verve Energy distinct from our competitors is the variety of fuels - coal, gas and liquids (oil or distillate) - used in our power stations and our diverse portfolio of sustainable energy sources.

Verve Energy has about 56 per cent of electricity generation capacity in Western Australia with the remaining 44 per cent owned by private industry.

Payments by Verve Energy to the State Government are equivalent to dividends, local government rates and charges and Commonwealth income tax.

Fuel accounts for around 50% of the cost of generating electricity for Verve Energy. Verve Energy has a long term coal supply contract with Wesfarmers Premier Coal and a contract with Griffin Coal expiring in 2010. Most of Verve Energy's gas requirements are met from the North West Shelf under a long-term arrangement with the North West Shelf Joint Venture.

Verve Energy has a 15-year gas transportation agreement with the owners of the Dampier-Bunbury Natural Gas Pipeline (DBNGP) for our gas-fired power stations.

Our people
We have 570 staff at five sites.

We recognise the importance of developing our workforce for the successful operation of our power stations and therefore offer apprenticeships, traineeships and a graduate development program. We currently have 27 apprentices, eight trainees and eight graduates working with us.

The community
Verve Energy is committed to building strong relationships with the communities in which we operate.

In June, we conducted our first corporate reputation survey, after just three months of operation as Verve Energy. Our corporate reputation index score for 2006 was 43%.

Review of financial performance

As Verve Energy was established under the Electricity Corporations Act 2005 as a body corporate and commenced operation from 1 April 2006 no comparative financial performance is provided. The company's opening balance sheet was established by way of a Transfer Order made by the Minister for Energy and published in the Government Gazette on 31 March 2006. It is the basis by which Western Power Corporation's assets, rights and liabilities were allocated to the company.

Verve Energy recorded an operating loss of $16 million for the three months ended 30 June 2006. Our results at a glance:

Revenue:	$258 million
EBITDA:	$34 million
EBITDA Margin:	13%
EBIT:	$3 million
Operating Cash Flow:	($26 million)

Sales to Synergy contributed about 83% of total sales and are priced on the Vesting Contract agreement established as part of the disaggregation process. Demand for energy over the period met expectation, however the EBITDA margin for the period was substantially affected by plant availability and gas curtailments leading to higher than expected liquid fuel and electricity purchases. Total expenditure excluding interest and income tax was $254.9 million.

Net operating cash flow outflow for the period of $26 million is due to the timing of payments from Synergy. In the first three months of operation only two monthly sales payments were due and payable. Net cash used in investing activities of $36 million was primarily to fund the Muja Power Station uprate and replacement of control and instrumentation systems. As a result, total debt has increased by $66.6 million from the opening position on 1 April, 2006.

Production

In preparation for the new competitive WA electricity market, Verve Energy is optimising fuel arrangements; increasing plant efficiency; and reviewing its maintenance strategy.

Benefits of new fuel arrangements

We have negotiated new, long term arrangements for our major fuel inputs of gas and coal. The new arrangements are more suited to the emerging competitive electricity market.

In developments related to gas, Verve Energy has executed arrangements with:

- The North West Shelf Gas Sellers and Origin Energy for deliveries of gas to the Verve Energy and Origin Energy owned gas-fired cogeneration plant at the Worsley Alumina Refinery near Collie; and
- Australian Pipeline Trust (APT) for the storage of gas at APT's Mondarra underground gas storage facility and for transportation of gas in APT's Parmelia gas pipeline.

During the quarter, Verve Energy's consumption of liquid fuels was high, largely as a result of a combination of inadequate gas transportation capacity in the Dampier to Bunbury Natural Gas Pipeline and coal-burning plant unavailability. The capacity of the pipeline is currently being expanded as a result of long term transportation agreements entered into in 2004. Some additional firm transportation capacity has been available since early in 2006, with a further capacity increment due later in 2006 following completion of the current expansion program.

Power station upgrades

Collie Power Station

We spent $6.75 million to increase Collie Power Station's generating capacity by 10MW to 340MW.

Muja Power Station

Planning is progressing on a two-stage upgrade program at Muja Power Station scheduled for 2007 and 2008. This upgrade will secure the future of Muja as the number one coal-fired power station in WA.

Maintenance review
A review of the maintenance practices on Verve Energy's major generating units is underway. The review by RWE npower, a major player in the UK power generation industry, is considering whether the current maintenance regime will deliver a portfolio of generating plant suitable for the evolving market.

Generation facts and figures

Generating plant	Fuel	Capacity (kW)	Acquired/ commissioned	Energy generated (GWh) 1 April – 30 June, 2006
Collie	Coal	330,000	1999	1946.2
Cockburn	Gas	240,000	2003	1199.8
Muja A&B	Coal/heavy fuel oil	240,000	1965	1227.8
Muja C	Coal/heavy fuel oil	400,000	1987	1879.0
Muja D	Coal/heavy fuel oil	400,000	1985-86	2673.0
Kwinana A & C	Coal/gas/fuel oil	640,000	1970-78	1759.5
Kwinana B	Gas/fuel oil	240,000	1970-73	349.1
Kwinana gas turbine	Gas/distillate	21,000	1972	0
Mungarra gas turbines	Gas	112,000	1990-91	260.0
Pinjar gas turbines	Gas/distillate	586,000	1990-96	571.7
Worsley	Gas	60,000	2000	432.1
Tiwest gas turbine	Gas	36,000	1999	135.5
Regional gas turbines	Gas/distillate	83,000	1973/1984	5.3
Albany wind farm	Wind	22,000	2002	58.9
Esperance	Wind	5625	1993 & 2002	16.4
Hopetoun (wind only)	Wind	600	2004	0.8
Bremer Bay	Wind	600	2004	2.8
Electricity generation				
Generated - GWh				3095.6
Sent out - GWh				2902.6
Used in works - GWh				193.0
Purchased - GWh				167.5
Portfolio thermal efficiency sent out - %				31.5
Fuel consumption for generation - TJ				33,142

Electricity reform and trading
Verve Energy is working closely with the Independent Market Operator and other Market Participants in the development of market systems and market trials for the Wholesale Electricity Market.

Verve Energy welcomes the opportunity to trade electricity with energy retailers and large customers.

Safety and health
Safety is Verve Energy's first and most important value. In everything we do, we first consider the safety of our people, contractors and the public.

With 570 people working for us in power stations in country towns and in offices in the city, we continually strive to improve the quality of working life and business performance, reduce the risks of illness and injury and boost the wellbeing of our people.

Our Safety and Health Policy sets out how everyone working for Verve Energy accepts a personal responsibility to provide a safe and healthy workplace for themselves and their fellow employees. Our Fit for Work policy, through a focus on physical mental and emotional health, reflects the corporation's commitment to the health and safety of our people.

Safety performance

Our safety performance is reflected in our Lost Time Injuries Frequency Rate (LTIFR) and Medical Treatment Injury Frequency Rate (MTIFR). Our LTIFR for 1 April-30 June was 3.6 and our MTIFR was 25.7.

Sustainable energy

Verve Energy is a leader in the development of renewable energy generation using wind and bio-energy technologies.

Integrated Wood Processing Plant (IWP)

Excellent results were achieved during the operation of the Narrogin Integrated Wood Processing (IWP) pilot plant.

Activated carbon was produced for the first time in May, the last of the four processes to be successfully carried out at the plant. The other products, produced at the plant from mallee trees, are renewable electricity, eucalyptus oil and charcoal.

With this phase of demonstration now completed, the Narrogin IWP plant is in 'care and maintenance' mode while we analyse results.

Biomass co-firing at Muja Power Station

We are developing a biomass co-firing operation at Muja Power Station, near Collie, in partnership with WA pallet maker Pinetec Ltd.

In the two-way operation, Pinetec is buying 2.5MW of electricity, for its sawmill and pallet making facility and steam for kiln drying, from Verve Energy. Verve Energy will buy 78,000 tonnes of sawmill residue - sawdust, bark and chips - a year to mix with coal to fire the power station.

Development of new wind-diesel systems

Through our business brand Diesel and Wind Systems (D&WS), we continue to operate existing wind-diesel systems and are developing a number of new projects in regional WA.

Design work continued for a new wind-diesel power system, for Horizon Power, at **Coral Bay;** two wind turbines and a specially developed control system at **Kalbarri**; and an additional wind turbine in each of the towns of **Hopetoun** and **Denham.**

Another research project is looking at ways in which the wind-diesel system at **Bremer Bay** could be reconnected to the main grid to provide residents with improved reliability.

D&WS's expertise was utilised to upgrade the **Rottnest Island** power station to allow significantly more wind energy to be used and for excess wind to provide power to the water desalination plant.

The environment

Verve Energy takes its environmental responsibilities seriously. We recognise the value of the environment to the community and future generations and we work towards sustainable development by the responsible production of electricity. Our Environmental Policy can be found on our website.

Our environmental performance is tracked annually utilising a number of performance indicators. Our main environmental performance indicators are our greenhouse response and renewable energy use. Measuring performance against targets is an integral element of Verve Energy's continuous improvement process.

Reducing the Greenhouse Effect

Verve Energy is committed to reducing the impact of atmospheric emissions on the environment by the responsible use of resources. And we are committed to continuing our development of renewable energy generation.

In the period from 1 April to 30 June, Verve Energy generated enough renewable energy from our renewable energy generators including Albany, Denham, Esperance, Hopetoun and Exmouth wind farms to create over 16,000 Renewable Energy Certificates (RECs). We also created over 5000 RECS from Muja Power Station using waste wood products from the nearby Pinetec pallet making facility.

Atmospheric emissions
Verve Energy's emission details are provided annually to the National Pollutant Inventory (NPI). This information can be accessed via http://www.npi.gov.au. The following tables provide information on the main atmospheric emissions from our major power stations.

SULFUR DIOXIDE EMISSIONS (Kgs emitted per MWh of electricity sent out)

	1/4/06 to 30/6/06
Collie	5.7
Muja	6.3
Kwinana	2.9
Pinjar Gas Turbine	0.0
Mungarra Gas Turbine	0.0
Cockburn	0.0

NITROGEN OXIDES EMISSIONS (Kgs emitted per MWh of electricity sent out)

	1/4/06 to 30/6/06
Collie	3.5
Muja	4.3
Kwinana	3.2
Pinjar Gas Turbine	2.0
Mungarra Gas Turbine	1.9
Cockburn	0.3

PARTICULATE (COAL ONLY) EMISSIONS (Kgs emitted per MWh of electricity sent out)

	1/4/06 to 30/6/06
Collie	0.15
Muja	9.2
Kwinana	0.1

Greenhouse Response
Verve Energy's sent out a total of 2,902.6 GWh of electricity in the period April to June 2006. Direct greenhouse gas emissions associated with the electricity generated by Verve Energy amounted to 2.72 million tonnes of carbon dioxide equivalent (CO2e).

Renewable energy generation has led to the offset of an estimated 0.016 million tonnes of CO2e in the period April to June 2006. A further emissions offset of 2,800 tonnes of CO2e is estimated to have been absorbed by Verve Energy's tree plantation activities in the period April to June 2006.

Performance Indicator	1/4/06-30/6/06
Carbon Intensity (kgCO2e/kWh electricity sent out)	0.93

Environmental due diligence
Verve Energy is bound to, and complies with, the stringent state and federal environmental regulation and licensing requirements of our operational sites.

Environmental due diligence in Verve Energy is provided by a corporate Environmental Management System (EMS) which built on the principles of ISO 14001, the international EMS standard. EMS is driven by an intranet-based documentation and management tool (EMISWeb) to facilitate the process of environmental governance and management in the corporation.

Environmental incidents
Three significant incidents were recorded on Verve Energy's environmental management data system EMISWeb from 1 April to 30 June, none of which caused serious environmental impact.

Facts and figures

State Records Act 2000

Verve Energy maintains and supports quality recordkeeping 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 Recordkeeping Plan. Regular reviews are conducted of the corporate recordkeeping systems and practices to ensure their efficiency and effectiveness. New employees and contractors are provided with information on the recordkeeping systems both at induction and at compulsory training in the use of the system. The training programs are reviewed on an ongoing basis to ensure they reflect any new business requirements.

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 during from 1 April to 30 June 2006 is disclosed as follows:
Market research organisations: $9462 - Synovate.
Media advertising agencies: $42,121 - TMP Worldwide.
Total expenditure: $51,583

Glossary

CO2	Carbon Dioxide.
CO2e	Carbon Dioxide equivalent: the amount of carbon dioxide that has the same global warming effect as a mixture of greenhouse gases.
DBNGP	Dampier-Bunbury Natural Gas Pipeline
EMS	Environmental Management System.
EMISWeb	Electronic environmental management information system.
GW	Gigawatt. A measure of electrical power. Equivalent to one million kilowatts.
GWh	Gigawatt-hour. One GWh = 1000 MWh or one million kilowatt-hours.
ISO 14001	International Standards Organisation 14001. The international standard for environmental management systems.
kV	Kilovolt. One kV = 1000 volts. A volt is the unit of potential of electric pressure.
kW	Kilowatt. One kW = 1000 watts. A watt is the rate at which electrical energy is produced or used.
kWh	Kilowatt-hour.The standard unit of energy, equivalent to the consumption rate of one kilowatt for one hour. Commonly used as the 'unit' of electrical energy.
MVA	Megavolts-ampere. The product of the voltage rating (kV) and the current rating (kA).Used to represent the rating of electrical equipment such as transformers.
MW	Megawatt. One MW = 1000 kW or one million watts.
MWh	Megawatt-hour. One MWh = 1000 kWh.
NOX	Nitrogen Oxides. A term used for a mixture of nitrogen oxides.
SO2	Sulfur Dioxide
SWIS	South West Interconnected System
TJ	Terajoule. One TJ = one million, million joules, or 1012 joules. Used to indicate the energy content of gas.

Financial Review

30 June 2006

Electricity Generation Corporation (trading as Verve Energy)

Financial Review

Contents

Directors' report

For the three months period ended 30 June 2006

The Directors present their report and the financial report of Verve Energy ('the Corporation') for the three months ended 30 June 2006 and the auditor's report thereon.

Directors' report

For the three months period ended 30 June 2006

1. Directors

The Directors of the Corporation at any time during or since the end of the financial period are:

Name, qualifications and independence status	***Age***	***Experience, special responsibilities and other directorships***
Mr Peter James West BSc (Hons) Independent Non-Executive Chairperson	62	Mr West was appointed as a non-executive Director in February 2006 for a three year term. Mr West had a distinguished career at BP holding a variety of management positions culminating in being Manufacturing Director for BP Australasia and Managing Director of BP Kwinana Refinery. Mr West is also Chairperson of the Dampier Port Authority and a Director of Scitech.
Mr Harvey Russell Collins BBus, FCPA, FAICD, SF Fin Independent Non-Executive Director - Deputy Chairperson	57	Mr Collins was appointed as a non-executive Director in April 2006 for a three year term. Mr Collins has served as a non-executive Director of Western Power and was also Interim Managing Director of Western Power for a short period. Mr Collins is Chairperson of HBF Health Funds Inc and IBT Education Limited and a Director for the Government Employees Superannuation Board (GESB) and Abra Mining Limited. He is a WA State Councillor of the Australian Institute of Company Directors.
Mr Leonard Francis Gill BE (Civil) Independent Non-Executive Director	49	Mr Gill was appointed as a non-executive Director in April 2006 for a one year term. Mr Gill had a distinguished career in the gas and power industry holding a variety of senior positions over a 26 year period including Chief Executive of TXU Australia.
Mr John Edward Lillywhite BCom, MBA, MAICD, AFAIM Chief Executive	49	Mr Lillywhite was appointed as Chief Executive in March 2006 for a five year term. Mr Lillywhite previously held senior management positions in Western Power including General Manager Generation.
Mr John Joseph O'Connor Independent Non–Executive Director	68	Mr O'Connor was appointed as a non-executive Director in April 2006 for a one year term. Mr O'Connor served as a Commissioner of the Australian Industrial Relations Commission for eight years and a non-executive Director of Western Power. He is also a Director of Fremantle Port Authority.
Ms Martine Daniele Pop PhD, EEC Commercial Law, FAICD, Independent Non-Executive Director	53	Ms Pop was appointed as a non-executive Director in April 2006 for a two year term. Ms Pop has more than 12 years of credit, risk management and control management experience with Macquarie Bank and Challenge Bank in senior and executive positions. Ms Pop worked for more than six years as an Executive Consultant with Ernst & Young, providing risk management and corporate management/governance advisory services to the private and public sectors. Ms Pop is also a Director of Gold Corporation and Australian Rail Track Corporation.

2. Company secretary

Mr Mark Hands BJuris LLB - was appointed to the position of Company Secretary in March 2006. Mr Hands previously held a senior management position in Western Power as General Counsel.

Directors' report
For the three months period ended 30 June 2006

3. Directors' meeting
The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Corporation during the financial period are:

Director	Board Meetings		Audit and Risk Management Committee Meetings		Remuneration and Development Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**
Mr Peter James West (Chairperson)	7	7	0	0	1	1
Mr Harvey Russell Collins(Deputy Chairperson)	5	7	1	1	0	0
Mr Leonard Francis Gill	7	7	0	0	1	1
Mr John Edward Lillywhite	7	7	1	1	1	1
Mr John Joseph O'Connor	5	7	0	0	1	1
Ms Martine Daniele Pop	5	7	1	1	0	0

A – Number of meetings attended
B – Number of meetings held during the time the Director held office during the period
Four of the Board meetings were resolutions without a meeting (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, unless otherwise stated.

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.

To fulfil 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, creating succession policies for senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

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

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

The full Board intends scheduling 10 meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairperson, Chief Executive and Company Secretary. Standing items include the Chief Executive's report (which includes a financial report), strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and Directors have other opportunities, including visits to business operations, for contact with a wider group of employees and key stakeholders.

Directors' report

For the three months period ended 30 June 2006

Director education

The Corporation has developed an induction pack 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 adviser at the Corporation's expense. The Director must consult with an 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 the Directors' report on page 4 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.
- The Governor appoints the Chairperson and Deputy Chairperson. Appointments in each case are made on the nomination of the Minister.
- A member of staff of the Corporation is not to be a Director of the Corporation.
- The Chief Executive may 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 (except for initial members to 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 is a committee of the Board established under Section 13 of the Act. The Remuneration and Development Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to staff of the Corporation.

The members of the Remuneration and Development Committee during the year were:

- Mr Peter James West – Independent Non-Executive Chairperson.
- Mr John Joseph O'Connor – Independent Non-Executive Director.
- Mr Leonard Francis Gill – Independent Non-Executive Director.

The Board policy is that the Remuneration and Development Committee will comprise entirely of independent non-executive Directors. Any person may be invited to Remuneration and Development Committee meetings, but not necessarily for the full duration of meetings. A standing invitation is issued to the Chief Executive, General Manager Human Resources and the General Counsel.

The Remuneration and Development Committee meets three times a year unless otherwise required. The committee met once during the period and committee members' attendance record is disclosed in the table of Directors' meetings on page 5 of this report.

Directors' report

For the three months period ended 30 June 2006

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 the Board fixes the remuneration with the concurrence of the Minister.

The Board on recommendation of the Chief Executive approves compensation levels for executives. Remuneration for key management personnel of the Corporation is competitively set to attract and retain appropriately qualified and experienced executives.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for our shareholder. The compensation structures take into account:

- The capability and experience of the key management personnel.
- The key management personnel's ability to control the relevant performance.
- The Corporation's performance including earnings and delivering constant returns on shareholder wealth.
- The amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed and performance-based incentives.

Fixed compensation

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

Performance-linked compensation

Performance-linked compensation is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The incentive is an 'at risk' component provided in the form of cash.

Each year the Remuneration and Development Committee sets the key performance indicators (KPIs) for the key management personnel. The KPIs generally include measures relating to the Corporation, and the individual, and include financial, people, customer, strategy and risk measures. The measures chosen directly align the individual's reward to the KPIs of the Corporation and to its strategy and performance.

Service contracts

It is the Corporation's policy that contracts of employment for key managers excluding the Chief Executive, General Manager Production and the General Manager Trading and Sustainable Energy, are unlimited in term but capable of termination on four weeks notice and that the Corporation retains the right to terminate the contract immediately, by making payment equal to 52 weeks pay in lieu of notice. The key managers 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 has a contract of employment that commenced on 1 April 2006 with the Corporation. The contract specifies the duties and obligations to be fulfilled by the Chief Executive and provides that the Board and Chief Executive will early in each financial year, consult and agree objectives for achievement during that year.

The Chief Executive's contract of employment terminates on 1 April 2011. At any time prior to this date the contract can be terminated either by the Corporation providing 12 months notice or the Chief Executive providing six months notice. The Chief Executive has no entitlement to termination payment in the event of termination for misconduct.

The General Manager Trading and Sustainable Energy has a contract of employment that commenced on 31 January 2005 with Western Power Corporation that was subsequently assigned to the Corporation from 1 April 2006. This contract of employment terminates on 30 January 2007. At any time prior to this date either party can terminate the contract by providing six months notice.

4.4.1 Principles of compensation (continued)

Directors' report

For the three months period ended 30 June 2006

The General Manager Production has a contract of employment that commenced on 24 February 2006 with Western Power Corporation that was subsequently assigned to the Corporation from 1 April 2006. This contract of employment terminates on 24 February 2009. At any time prior to this date the General Manager providing 12 weeks notice, or the Corporation giving 12 months notice can terminate this contract.

Non-Executive Directors

The Minister determines total compensation for all non-executive Directors. Directors' base fees are presently set at $50,000 per annum plus 9% superannuation.

The Chairperson receives $105,000 per annum plus 9% superannuation. The Deputy Chairperson receives $65,000 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 – audited

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 for the three months period ended 30 June 2006 are:

	Short Term			Post employment	
	Salary & fees	Non-monetary benefits	Sub - total	Superannuation benefits	Total
	$	$	$	$	$
Non–executive Directors					
Mr Peter West (Chairperson)	43,474	140	43,614	3,925	47,539
Mr Harvey Collins (Deputy Chairperson)	18,209	166	18,375	1,654	20,029
Mr Leonard Gill	12,500	-	12,500	1,125	13,625
Mr John O'Connor	10,137	-	10,137	5,804	15,941
Ms Martine Pop	12,260	-	12,260	846	13,106
Executive Director					
Mr John Lillywhite (Chief Executive)	63,979	7,928	71,907	12,140	84,047
Executives					
Mr Ken Bowron	45,736	5,107	50,843	9,454	60,297
Mr Barrie Brandt	48,751	5,616	54,367	6,370	60,737
Mr Greg Denton	48,923	166	49,089	11,831	60,920
Mr Mark Hands	46,836	166	47,002	13,709	60,711
Mr Derek Noakes	53,713	1,604	55,317	4,979	60,296
Total	404,518	20,893	425,411	71,837	497,248

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, the 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 committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Corporation.

The members of the ARMC during the year were:

- Mr Harvey Collins (Chairperson) – Independent Non-Executive Director
- Ms Martine Pop – Independent Non-Executive Director

Directors' report
For the three months period ended 30 June 2006

4.5 Audit and Risk Management Committee (continued)
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 personnel, 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 advisers if it considers this necessary. The ARMC may meet with these external advisers without management being present.

The internal and external auditors, the Chief Executive, Company Secretary and Chief Financial Officer are invited to ARMC meetings at the discretion of the committee. The committee met once during the period and committee members' attendance record is disclosed in the table of Directors' meetings on page 5.

The Chief Executive 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, the Corporation's financial reports for the financial period ended 30 June 2006 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. Management has established and implemented the Risk Management Framework for assessing, monitoring and managing risks, in a structured and systematic manner, consistent with AS/NZ54360 Risk Management.

The 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 benefit that will accrue from a conscious, structured and dynamic approach to the management of risk.

A supporting risk management policy assists and 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
Management reports to the Board quarterly on the status of significant risks, ensuring risks are identified, assessed and appropriately managed.

A Risk Management Steering committee chaired by the Chief Executive provides direction of risk management, and also guidance and support to the Risk Manager in the implementation of an application of the Risk Management Framework.

Quality and integrity of personnel
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 all key employees, and these appraisals will be extended to other employee groups in the next year. Training and development needs are combined into the Corporation's annual training plan, and high potential employees have their own 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

Directors' report

For the three months period ended 30 June 2006

The Chief Executive 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 compliance and control which implements the policies adopted by the Board.

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

Environmental regulation

The Corporation's operations are subject to significant environment 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 (EMS) built upon the principles of ISO 14001, the International EMS standard. The EMS provides a structured process to assess and manage environmental risks and 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 of environmental performance. Compliance with the requirements of environmental regulations and with specific requirements of site environmental licences was substantially achieved across all.

No actions have been taken against the Corporation by any government agency for any breaches of environmental regulation, ministerial condition or licence conditions in the three months ended 30 June 2006.

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 by identifying and evaluating significant exposure to risks and contributing to the improvement of risk management and control systems in its work. The ARMC is responsible for approving the annual internal audit program and reviewing the internal audit function.

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 to assist Directors to disclose potential conflicts of interest.

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. The code of conduct and integrity has been developed to ensure the Corporation manages its employees in a prudent and equitable manner. In summary the code requires that all Corporation personnel obey all applicable laws, regulations, rules and other instructions, uphold the Corporation values and follow all lawful directions.

4.8 Communication with shareholders

The Corporation's key stakeholder is the Corporation's shareholder, the Minister, representing 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.

Directors' report

For the three months period ended 30 June 2006

5. Principal activities

The principal activities of the Corporation during the course of the three month period were to:

- Generate, purchase or otherwise acquire, and supply electricity from 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, the Corporation seeks to meet the requirements of its stakeholders. Our vision is to create a leading business in the evolving Western Australian energy market.
In order to achieve this vision, our primary strategic objectives are to:

- Embrace our new environment
  - i) Establish the Corporation as a competitive participant in the Wholesale Electricity Market (WEM).
  - ii) Establish marketing and trading capability.
  - iii) Increase our proportion of renewable energy.
- Maximise our value by matching our generating portfolio to market opportunities.
  Reduce cost of production.
  - i) Increase return on assets.
  - ii) Increase plant efficiency and flexibility.
  - iii) Diversify customer base.
- Drive improvements in service and cost through opportunities to renew and innovate
  - i) Increase plant availability and utilisation.
  - ii) Reduce carbon-intensity.
- Provide a safe and rewarding workplace
  - i) Create opportunities for personal growth and development.
  - ii) Foster a behaviour-based safety climate.
  - iii) Implement best practice human resources and organisation development practices.

Significant changes in the state of affairs

There was no material change in the state of affairs during the financial period. The distribution of assets and liabilities from Western Power Corporation to the Corporation on disaggregation is disclosed in Note 30.

6. Dividends

No dividends were paid or declared by the Corporation to the owner during the financial period.

7. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation in future financial years.

8. Likely developments

The Corporation will continue to pursue its policy of increasing profitability during the next financial year.

Further information about likely developments in the operations of the Corporation and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Corporation.

Directors' report

For the three months period ended 30 June 2006

9. Indemnification of Directors and Officers

During the reporting period a Directors and Officers Liability Insurance Policy was established to ensure that the Directors and officers had 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 the capacity as a Director or Officer of the Corporation.

10. Non-audit services

During the period, the contractor to the Corporation's auditor did perform certain other services in addition to their statutory duties.

Details of the amounts paid to the contractor to the Corporation's auditor for non-audit services provided during the year are set out below.

	$
Other services	
Taxation compliance services	5,000

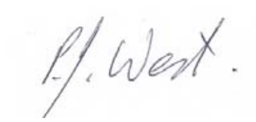
11. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 46 and forms part of the Directors' Report for the financial period ended 30 June 2006.

12. Rounding off

The Corporation has rounded off to the nearest thousand dollars unless otherwise stated.

This report is made with a resolution of the Directors:



Chairman

Dated at Perth this 20 day of September 2006.

Income statement

For the three months period ended 30 June 2006

	Note	Three months ended 30 June 2006 $'000
Revenue	*2a*	245,242
Other income	*2b*	12,848
		258,090
Fuel and electricity purchases		160,717
Raw materials and services used		41,259
Employee expenses		15,360
Depreciation and amortisation expenses	*3*	30,775
Other expenses		6,812
	3	254,923
Profit before financing costs		3,167
Financial income	*3*	184
Financial expenses	*3*	(19,816)
Net financing costs		(19,632)
Loss before tax		(16,465)
Income tax benefit	*5*	4,546
Loss for the financial period		(11,919)

The income statement is to be read in conjunction with the notes of the financial statements set out on pages 19 to 43.

Statement of Changes In Equity
For the three months period ended 30 June 2006

	Note	2006
		$'000
Equity at beginning of the financial period	*30*	629,326
Direct adjustment to equity		
Fair value (net of tax)		(121)
Finance lease (net of tax)		(2,364)
		(2,485)
Net Income recognised directly in equity		
Reserves		
Hedging reserve (net of tax)	*20*	207
Fair value reserve (net of tax)	*20*	(85)
		122
Loss for the period		(11,919)
Equity at end of the financial period		615,044

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 19 to 43.

Balance sheet
As at 30 June 2006

	Note	2006 $'000
Assets		
Cash and cash equivalents	6	10,330
Trade and other receivables	7	128,951
Inventories	8	101,581
Derivative financial instruments	9	637
Investments	12	832
Total current assets		242,331
Property, plant and equipment	10	1,911,934
Intangible assets	11	607
Derivative financial instruments	9	794
Total non-current assets		1,913,335
Total assets		2,155,666
Liabilities		
Trade and other payables	16	125,210
Interest-bearing loans and borrowings	17	116,915
Employee benefits	18	18,089
Provisions	19	53,660
Derivative financial instruments	9	5,346
Total current liabilities		319,220
Interest-bearing loans and borrowings	17	867,776
Deferred tax liabilities	15	82,565
Employee benefits	18	20,907
Provisions	19	250,154
Total non-current liabilities		1,221,402
Total liabilities		1,540,622
Net assets		615,044
Equity		
Contributed equity	20	626,841
Reserves	20	122
Accumulated losses		(11,919)
Total equity		615,044

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 19 to 43.

Statement of cash flow

For the three months period ended 30 June 2006

	Note	2006
		$'000
Cash flows from operating activities		
Cash receipts from customers		161,716
Cash paid to suppliers and employees		(185,303)
Interest paid		(2,132)
Interest received		184
Net cash from operating activities	26	(25,535)
Cash flows from investing activities		
Payment of property, plant and equipment		(36,254)
Net cash from investing activities		(36,254)
Cash flows from financing activities		
Proceeds from borrowing		259,000
Repayment of borrowing		(192,393)
Payment of finance lease liabilities		(6,925)
Net cash from financing activities		59,682
Net decrease in cash and cash equivalents		(2,107)
Cash and cash equivalents at 1 April 2006		12,437
Cash and cash equivalents at 30 June 2006	6	10,330

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 19 to 43.

Notes to the financial statements for three months ended 30 June 2006

1. Significant accounting policies

(a) Statement of compliance

(b) Basis of preparation

(c) Going concern

(d) Basis of consolidation

(e) Foreign currency

(f) Derivative financial instruments

(g) Hedging

(h) Property, plant and equipment

(i) Intangible assets

(j) Investments

(k) Trade and other receivables

(l) Inventories

(m) Cash and cash equivalents

(n) Impairment

(o) Interest-bearing borrowings

(p) Employee benefits

(q) Provisions

(r) Trade and other payables

(s) Revenue

(t) Expenses

(u) National tax equivalent regime

(v) Goods and services tax

(w) Accounting estimates and judgements

(x) Segment reporting

Notes to the financial statements for three months ended 30 June 2006

Notes to the financial statements

1. Significant accounting policies

Electricity Generation Corporation trading as Verve Energy ('the Corporation') is a Corporation domiciled in Australia. The financial report of the Corporation for the three months period ended 30 June 2006 comprises the Corporation and its subsidiaries and the Corporation's interest in associates and jointly controlled entities.

The financial report was authorised for issue by the Directors on 20 September 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial reports of the Corporation comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian dollars. The following standards and amendments were available for early adoption but have not been applied by the Corporation in these financial statements:

- UIG 8 Scope of AASB 2.
- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The Corporation plans to adopt UIG 8, AASB 7 and AASB 2005-10 in the 2007 financial year. The initial application of UIG 8, AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Corporation as the standard and the amendment are concerned only with disclosures.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as available-for-sale.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(w).

The Corporation has rounded off to the nearest thousand dollars unless otherwise stated.

(c) Going concern

Notwithstanding that the Corporation has incurred a loss of $11,919,000 for the three months ended 30 June 2006 and has a working capital deficiency of $76,889,000, there are reasonable grounds to believe that the Corporation is able to pay its debts as and when they become due and payable considering the balance of available financing

Going concern (continued)

facilities of $658,044,000 is not utilised at the end of reporting period, and the fact that the Corporation is forecasting positive cashflow in 2007. Accordingly the financial statements have been prepared on the going concern basis which contemplates establishment of profitable operations and the realisation of assets and liabilities in the ordinary course of business.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exits when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

Consolidated accounts have not been presented as they are identical to the Corporation as the investment in the subsidiary (Western Carbon Pty Ltd as disclosed in note 25) has been fully written off prior to disaggregation and has been dormant since.

(ii) Joint ventures

Joint ventures are those entities over whose activities the Corporation has joint control, established by contractual agreement.

Jointly controlled entities

In the financial statements, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount. The Corporation’s share of the jointly controlled entity’s net profit or loss is recognised in the income statement from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the reserves.

In the Corporation’s financial statements, investments in joint venture entities are carried at cost.

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 consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the financial statements.

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 interest in such entities is disposed of.

(e) Foreign currency

The functional and presentation currency of the Corporation is Australian dollars (A$).

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(f) Derivative financial instruments

The Corporation uses derivative financial instruments to hedge its exposure to foreign exchange, commodity and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury policy, the Corporation does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy g).

The fair value of interest rate swaps is the estimated amount that the Corporation would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. The fair value of commodity swaps is the estimated amount the Corporation would receive or pay to terminate the swap at balance sheet date, taking into account current commodity prices.

Interest rate swap and commodity swap-embedded are accounted for at fair value. The gain and loss on measurement to fair value is recognised immediately in the income statement.

(g) Hedging

On entering into a hedging relationship, 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 fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or 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.

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised).

For cash flow hedges, other than those described above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(ii) Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

(h) Property, plant and equipment

(i) Owned assets

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy n). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. The finance lease is stated at an estimated amount equal to its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy n). Lease payments are accounted for as described in accounting policy (v).

(iii) Subsequent costs

The Corporation recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Corporation and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current period are as follows:

Buildings	40 years
Plant and equipment	20 – 45 years
Leasehold improvements	10 years
Lease assets	25 years

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

(i) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy n).

(i) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets and are amortised from the date they are available for use. The estimated useful lives in the current period are as follows:

Computer software	2 – 3 years

Exclusive rights	2 –14 years

(j) Investments

(i) Investments in equity securities

Financial instruments held as available-for-sale are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

The fair value of financial instruments held as available-for-sale is their quoted at market price at the balance sheet date.

(k) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (n)).

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(m) Cash and cash equivalents

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

(n) Impairment

The carrying amounts of the Corporation's assets, other than deferred tax assets (see accounting policy u), are reviewed at balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy n(i)).

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement .

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) Calculation of recoverable amount

The recoverable amount of the investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate 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 had been recognised.

Notes to the financial statements

(iii) Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset) is derecognised when:

A. the rights to receive cash flows from the asset have expired

B. the Corporation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or

C. the Corporation has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(p) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

(ii) Defined benefit superannuation funds

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 balance sheet date 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 improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement 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 the income statement.

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 improved) or negative (where existing benefits are reduced).

(iii) Long-term service benefits

The Corporation's net obligation in respect of long-term service benefits, other than defined benefit superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Corporation's obligations.

Notes to the financial statements

Employee benefits (continued)

(iv) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Corporation expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(q) Provisions

A provision is recognised in the balance sheet when the Corporation has a present legal or constructive obligation as a result of a past event, 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, where appropriate, the risks specific to the liability.

(i) Decommissioning cost

In accordance with the Corporation's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

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

(r) Trade and other payables

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

(s) 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 valued 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 comprises revenue earned from the provision of electricity and is recognised when the electricity is provided.

(ii) Sales of goods and services

Sales of goods and services comprise revenue earned from fuels and steam sales and is 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 is recognised as revenue to the extent of the works completed.

(iv) External chargeable 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) Interest income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

Notes to the financial statements

Revenue (continued)

(vi) Government grants

Grants that compensate the Corporation for expenses incurred are recognised as revenue in the income statement in the same periods in which the expenses are incurred. Grants that compensate the Corporation for the cost of an asset are recognised in the income statement as other income. Government grant income is recognised when the grant becomes receivable.

(vii) Renewable energy certificates

Renewable energy certificates are not recognised in the financial statements until they are sold or surrendered.

(t) Expenses

(i) Fuel costs

Fuel costs are assigned on the basis of weighted average cost.

(ii) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(iii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge 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.

(iv) Interest expenses

Interest expense is recognised in the income statement as it accrues, using the effective interest method.

(u) National Taxation Equivalent Regime

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 these taxes is governed by the Income Tax Administration Acts and the NTER guidelines as agreed by the State Government.

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of tax liability.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(v) 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.

Goods and services tax (continued)

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 balance sheet.

Notes to the financial statements

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 that are recoverable from, or payable to, the ATO are classified as operating cash flows.

(w) Accounting estimates and judgements

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Key sources of estimation uncertainty

Note 21 contains a detailed analysis of the foreign exchange exposure of the Corporation and risks in relation to foreign exchange movements.

(ii) Defined benefit superannuation fund obligations

Various actuarial assumptions are utilised in the determination of the Corporation's defined benefit superannuation fund obligations. These assumptions are discussed in note 18.

(iii) Long service leave provision

Various actuarial assumptions are utilised in the determination of the Corporation's long service leave liability.

(iv) Decommissioning cost

The Corporation determines the anticipated costs of dismantling and removing the asset and restoring the site on which it is located based on the actual expenditure incurred in the past.

(v) Finance lease asset

The Corporation determines the anticipated costs of constructing the asset and the estimated rate of return on the asset.

(vi) Interest rate swap and commodity swap-embedded

The Corporation determines the anticipated interest rate derivatives and distillate price index.

(x) Segment reporting

As per the Act, the functions of the Corporation is restricted to South West interconnected system except where the Corporation generates and supplies or purchases electricity from renewable sources.

Notes to the financial statements

2. Revenue and other income

a. Revenue

	2006 $'000
Sale of electricity	229,198
Sale of goods and services	16,044
	245,242

b. Other income

	2006 $'000
Contract works	3,944
Derivative financial instruments income	
FX gains	140
Embedded derivative	37
Commodity	967
Contribution income	946
Government grants	3,147
Others	3,667
	12,848

3. Expenses

Loss before tax includes the following specific expenses:

	2006 $'000
Depreciation and amortisation expenses	
Depreciation	28,322
Amortisation	
Lease asset	2,428
Intangible asset	25
	30,775
Net Financing costs	
Interest income	(184)
Finance lease interest	6,925
Unwinding of discount on provision	1,900
Interest and finance charges paid and payable	10,991
	19,632
Operating lease expenses	1,154
Cost of goods and services sold	12,285

Notes to the financial statements

4. Auditors' remuneration

	2006
	$
Audit services	
Audit and review of financial reports	153,000
Other services	
Taxation services	5,000
	158,000

5. Income tax benefit

Recognised in the income statement

	2006
	$'000
Current tax benefit	
Current year	-
Deferred tax benefit	
Origination and reversal of temporary differences	(8,014)
Benefit of tax loss recognised	12,560
Total income tax benefit in income statement	4,546

Reconciliation between tax benefit and pre-tax net loss

	2006
	$'000
Loss before tax	(16,465)
Income tax using the domestic Corporation tax rate of 30%	4,939
Decrease in income tax benefit due to:	
Non deductible expenses	(393)
Income tax benefit and pre-tax net loss	4,546

6. Cash and cash equivalents

	2006
	$'000
Cash at bank and on hand	3,830
Call deposits	6,500
Cash and cash equivalents	10,330

7. Trade and other receivables

	2006
	$'000
Trade receivables	112,190
Other receivables	110
Deposit	1,950
Prepayments	14,701
	128,951

On disaggregation, Western Power Corporation's recoverable works receivables were allocated to Western Power Networks. Where these receivables are collected by Western Power Networks on behalf of the Corporation, Western Power Network is required to distribute the monies to the Corporation.

Notes to the financial statements

8. Inventories

	2006 $'000
Fuels	64,460
Raw materials	36,886
Work in progress	108
Finished goods	127
	101,581

On disaggregation, the Western Power Corporation's coal inventory allocated to the Corporation was written down to its fair value. This is because the cost and net realisable value of the coal inventory was deemed to be in excess of the fair value. The fair value of the coal inventory was calculated using the coal price negotiated during the August 2005 contract agreement.

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9. Derivative financial instruments

	2006 $'000
Current assets	
Forward exchange – cash flow hedge	385
Commodity swaps – cash flow hedge	252
	637
Non current assets	
Interest rate swaps	579
Forward exchange contracts	215
	794
Current Liability	
Interest rate swaps – embedded	2,762
Forward exchange contracts – cash flow hedge	923
Commodity swaps – embedded	1,661
	5,346

Notes to the financial statements

Derivative financial instruments (continued)

(a) Instruments used by the Corporation

The Corporation is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Corporation's financial risk management policies.

(i) Interest rate swap

The Corporation considered the interest rate swap as ineffective, the gain or loss from remeasuring the hedging instruments at fair value is recognised into profit and loss as interest expense.

(ii) 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 equity.

(iii) Commodity swap contracts – cash flow hedge

The Corporation has entered into commodity swaps to hedge against adverse commodity price movements. The gain and loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and the ineffective portion is recognised immediately into the income statement.

(b) Interest rate swaps and commodity swaps-embedded

The Corporation has contractual arrangements that provide evidence of embedded derivatives for distillate price index and interest rate derivatives. The portion of the gain or loss on the fair value at balance sheet date is recognised immediately into the income statement.

(c) Credit risk exposure

The Corporation undertakes approximately 100% of its transactions in foreign exchange, commodity and interest rate contracts with financial institutions with a credit rating of A or better.

Notes to the financial statements

10. Property, plant and equipment

	Land	Building	Plant & equipment	Works under construction	* Leased assets	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance cost at 1 April 2006	5,552	135,708	1,488,541	36,681	-	1,666,482
Additions	-	-	-	40,087	238,799	278,886
Decommissioning costs adjustment	-	-	(2,555)	-	-	(2,555)
Written off	-	-	-	(129)	-	(129)
Balance at 30 June 2006	5,552	135,708	1,485,986	76,639	238,799	1,942,684
Balance depreciation 1 April 2006	-	-	-	-	-	-
Depreciation charge for the period	-	1,882	26,440	-	2,428	30,750
Balance at 30 June 2006	-	1,882	26,440	-	2,428	30,750
Carrying amount at 30 June 2006	5,552	133,826	1,459,546	76,639	236,372	1,911,934
Carrying amount at 1 April 2006	5,552	135,708	1,488,541	36,681	-	1,666,482

*The Corporation has applied UIG 4, which is effective 1 January 2006, and has determined that the Power Purchase Agreement contains a lease arrangement. The lease has been recognised as a finance lease in accordance with AASB 117 Leases.

On disaggregation, the Western Power Corporation's property, plant and equipment allocated to the Corporation was written up to its fair value. The fair value of the property, plant and equipment was calculated based on the discounted future cash flows associated with the assets.

11. Intangible assets

	Computer software	Exclusive rights	Total
	$'000	$'000	$'000
Cost at 1 April 2006	94	537	631
Additions	-	-	-
Cost at 30 June 2006	94	537	631
Depreciation at 1 April 2006	-	-	-
Depreciation charge for the period	10	14	24
Depreciation at 30 June 2006	10	14	24
Carrying amount at 30 June 2006	84	523	607
Carrying amount at 1 April 2006	94	537	631

12. Investments

	2006
	$'000
Listed equity security available for sale	832
	832

The movement in fair value from 1 April 2006 is recognised in the fair value reserve (refer Note 20).

Notes to the financial statements

13. Investment in joint venture entity

The Corporation has a 50% interest in a joint venture. Wind Energy Corporation was formed in Australia in August 2000 to focus on business opportunities relating to large scale wind farms operating in parallel with an interconnected electricity grid, and hybrid power systems for remote and regional applications that utilise renewable energy technologies. The original investment has been written down to its recoverable amount of zero before the disaggregation. The Corporation has been dormant during the financial period.

14. Interest in joint venture operation

The Corporation has a 50% interest in a joint venture, 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 the 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 parties' interest.

The following items which represent the Corporation's interest in the assets and liabilities employed in the joint venture were included in the assets and liabilities of the Corporation:

	2006
	$'000
Current assets	
Cash and cash equivalents	214
Trade receivables	901
Inventories	286
	1,401
Non current assets	
Plant and equipment	29,489
Total assets	30,890
Current liabilities	
Trade payables	5,129
Total liabilities	5,129

There are no contingent liabilities, contingent assets or capital commitments relating to the joint venture at 30 June 2006.

15. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets	**Liabilities**	**Net**
	2006	**2006**	**2006**
	$'000	**$'000**	**$'000**
Property, plant and equipment	2,432	(178,640)	(176,208)
Other investments	-	(60)	(60)
Inventory	2,198	-	2,198
Provisions	75,324	-	75,324
Other items	3,738	(64)	3,674
Tax value of loss carry-forwards	12,560	-	12,560
Hedging reserve	-	(89)	(89)
Fair value reserve	36	-	36
Net tax assets /(liabilities)	96,288	(178,853)	(82,565)

Deferred tax assets and liabilities (continued)

Notes to the financial statements

Movement in temporary differences during the period

	Balance 1 April 2006 $'000	Recognised in income $'000	Recognised in equity $'000	Balance at 30 June 2006 $'000
Property, plant and equipment	(172,923)	(3,285)	-	(176,208)
Other investment	(60)	-	-	(60)
Inventory	3,465	(1,267)	-	2,198
Provisions	80,063	(4,739)	-	75,324
Other items	1,332	1,277	1,065	3,674
Tax value of loss carry-forwards	-	12,560	-	12,560
Hedging reserve	-	-	(89)	(89)
Fair value reserve	-	-	36	36
Net tax assets / (liabilities)	(88,123)	4,546	1,012	(82,565)

On disaggregation, the Western Power Corporation's deferred tax liabilities were allocated to the four separate state owned entities based on the adjusted carrying value of the assets and liabilities contributed to them.

16. Trade and other payables

	2006 $'000
Trade payables	100,980
Other payables	5,128
Billing in advance	4,211
Interest and other payables	8,855
GST and others	6,036
	125,210

17. 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 21.

	2006 $'000
Current liabilities	
Finance lease liabilities	792
Unsecured loans and borrowings	116,123
	116,915
Non Current liabilities	
Finance lease liabilities	241,943
Unsecured loans and borrowings	625,833
	867,776

Financing arrangements
Unsecured funding facility at reporting date

Total facilities available	1,400,000
Facilities utilised at reporting date	741,956
Facilities not utilised at reporting date	658,044

Interest-bearing loans and borrowings (continued)
Unsecured funding facility

The Corporation has in place several borrowing facilities with Western Australian Treasury Corporation. There is no fixed repayment term on the facilities.

Finance lease liabilities

Finance lease liabilities of the Corporation are payable as follows:

	Minimum lease payments 2006 $'000	Interest 2006 $'000	Principal 2006 $'000
Less than one year	28,446	27,654	792
Between one and five years	115,674	109,144	6,530
More than five years	595,478	360,065	235,413
	739,598	496,863	242,735

The lease term under the contract is 25 years.

18. Employee benefits

	2006 $'000
Current liabilities	
Salaries and wages accrued	253
Liability for long service leave	7,047
Liability for annual leave	10,789
	18,089
Non Current liabilities	
Present value of wholly unfunded obligations	16,789
Present value of funded obligations	-
Recognised liability for defined benefit obligations	16,789
Liability for long service leave	4,118
	20,907

(a) Liability for defined benefit obligations

The Corporation makes contributions to two defined benefit superannuation funds that provide defined benefit amounts for employees upon retirement. The Corporation is expected to meet the cost of the retirement benefit obligations as they fall due.

Notes to the financial statements

Employee benefits (continued)

	2006 $'000
Defined benefit superannuation funds	
Amount at the balance sheet date	
Liabilities	16,789
Assets	-
Net liabilities	16,789

Changes in the present value of the defined benefit obligations are as follows:

Defined benefit obligations at 1 April 2006	19,145
Interest cost	237
Actuarial gain	(2,551)
Service cost	73
Benefits paid	(115)
Defined benefit obligations at 30 June 2006.	16,789

Amount recognised in the income statement:

Interest cost	237
Actuarial gain	(2,551)
Service cost	73
Amount recognised in the income statement	(2,241)

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

Discount rate at 30 June 2006	5.81%
Expected salary increases	4.5%
Expected pension increase rate	2.5%

19. Provisions

	Decommissioning costs 2006 $'000	Others 2006 $'000	Total 2006 $'000
Balance at 1 April 2006	144,447	174,322	318,769
Provisions used during the period	(50)	(14,250)	(14,300)
Unwinding of discount on provision	1,900	-	1,900
Changes in assumptions	(2,555)	-	(2,555)
Balance at 30 June 2006	143,742	160,072	303,814
Current	762	52,898	53,660
Non-current	142,980	107,174	250,154
	143,742	160,072	303,814

Decommissioning Cost

The Corporation estimates the future removal cost of generating facilities at the times of installation of the assets. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining removal cost, and asset specific discount rates to determine the present value of these cash flows.

Notes to the financial statements

Provisions (continued)

Others

On disaggregation, a provision was transferred to the Corporation for the amount in excess of the fair value, the Corporation is required to pay for coal under a contract allocated to them. The provision was calculated by multiplying the tonnage of coal to be purchased under the contract by the difference between the coal's contract and fair value prices. The fair value of the coal was determined to be the coal price negotiated during the August 2005 contract agreement.

20. Contributed equity and reserves

Contributed equity

Contributed equity represents the owner's initial contribution, being Western Power Corporation's assets, after deducting the liabilities that were transferred from Western Power Corporation to the Corporation on 1 April 2006.

Balance at 1 April 2006	629,326
Adjustment for finance lease and fair value	(2,485)
Balance at 30 June 2006	626,841

Hedging reserve

The hedging 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.

Changes in the hedging reserve are as follows:

Balance at 1 April 2006	-
Revaluation	296
Deferred tax	(89)
Balance at 30 June 2006	207

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

Changes in the fair value reserve are as follows:

Balance at 1 April 2006	-
Revaluation	(121)
Deferred tax	36
Balance at 30 June 2006	(85)

21. Financial Instruments

Exposure to credit, interest rate, currency and commodity risks arises in the normal course of business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign currency, commodity prices and interest rates.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

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.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Notes to the financial statements

Financial Instruments (continued)
Interest rate risk

Hedging

The Corporation adopts a policy of ensuring that 100% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Interest rate swaps, dominated in Australian dollars, have been entered into to achieve an appropriate exposure. The swaps that will mature in three years (see the following table) have a fixed rate of 5.56% and as at 30 June 2006, a notional contract amount of $43,100,000.

The change in fair value of the interest rate swap is recognised in the income statement.

The net fair value of swaps at 30 June 2006 was approximately $579,396 comprising assets of $6,425,265 and liabilities of $5,845,869.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

	Note	Weighted average interest rate	Total $'000	6 months or less $'000	6-12 months $'000	1+ years $'000
Debt securities held-to-maturity*	*17*	*6.03%*	(741,956)	(169,221)	(58,042)	(514,693)
Cash	6	*5.25%*	3,830	3,830	-	-
Cash investments	*6*	*5.65%*	6,500	6,500	-	-
Deposits held as security	*7*	*5.79%*	1,950	1,950	-	-
Interest rate swap	*9*	*6.09%*	579	-	-	579
Finance lease*	*17*	*11.41%*	242,735	355	437	241,943
Total			(486,362)	(156,586)	(57,605)	(272,171)

*These assets/liabilities bear interest at fixed rates.

Foreign currency risk

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

The Corporation hedges its foreign currency exposure in respect of purchases. The Corporation uses forward exchange contracts to hedge its foreign currency risk. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

Forecasted transactions

The Corporation classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value.

The net fair value of forward exchange contracts used as hedges of forecasted transactions at 30 June 2006 was a deficit of $323,400, comprising assets of $600,100 and liabilities of $923,500 that were recognised in fair value derivatives.

Commodity price risk

The Corporation is exposed to commodity price risk on purchases.

The Corporation hedges its commodity price exposure in respect of purchases. The Corporation uses commodity swaps to hedge its price risk. Most of the commodity swap contracts have maturities of less than six months after the balance sheet date.

Notes to the financial statements

Financial Instruments (continued)

Forecasted transactions

The Corporation classifies its commodity swap contracts as cash flow hedges and states them at fair value. The portion of the gain or loss on the swap that is determined to be ineffective is recognised in the income statement.

The net fair value of commodity swap contracts used as hedges of forecasted transactions at 30 June 2006 was an asset of $252,000 that was recognised in fair value derivatives.

Where commodity swaps are not classified as cash flow hedges, the fair value of the commodity swap is recognised in the income statement.

Sensitivity analysis

In managing interest rate, commodity and currency risks the Corporation aims to reduce the impact of short-term fluctuations on the Corporation's earnings. Over the longer-term, however, permanent changes in foreign exchange, commodity and interest rates would have an impact on earnings.

At 30 June 2006, it is estimated that a general increase of 1% in interest rates would decrease the result before tax by approximately $1,750,000. Interest rate swaps have been included in this calculation.

It is estimated that a general increase of 1% in the value of the Australian dollar against other foreign currencies would have decreased the result before tax by approximately $33,000 for the financial period ended 30 June 2006. The forward exchange contracts have been included in this calculation.

It is estimated that a general increase of 1% in oil price would have decreased the profit before tax by approximately $36,000 for the financial period ended 30 June 2006. The commodities swap have been included in this calculation.

Estimation of fair values

Other than disclosed below, the carrying values of the financial assets and liabilities approximate the fair values as at 30 June 2006:

	Carrying amount	Fair value amount
	$'000	**$'000**
Interest-bearing loans and borrowings	741,956	750,587

Securities

Fair value is based on quoted market interest rates as at the balance sheet date without any deduction for transaction costs.

Derivatives

Forward exchange contracts are either marked to market using quoted market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps, broker quotes are used. Those quotes are back tested using pricing models or discounted cash flow techniques.

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 balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

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. The estimated fair values reflect change in interest rates.

Trade and other receivables / payables

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

Notes to the financial statements

Financial instruments (continued)

Interest rates used for determining fair value

Other than the rates used by the actuarial assumptions rate as disclosed in Note 18, the Corporation uses the government bond rate of 5.39% to determine the fair value of decommission cost during the financial period.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

22. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2006 $'000
Less than one year	17,753
Between one and five years	77,443
More than five years	456
	95,652

23. Capital and other commitments

	2006 $'000
Contracted but not provided for and payable:	
Within one year	56,450
Between one and five years	19,650
More than five years	-
	76,100

24. Contingencies

On disaggregation, Western Power Corporation contingent assets and liabilities were allocated to the corporation as follows. The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	2006 $'000
Contingent liabilities not considered remote	
Litigation	
Pacific Western Pty Ltd has lodged a claim for in excess of $2,700,000 against the Corporation for work completed under the operation and maintenance agreement for Collie Power Station. The Corporation has counter claimed against Pacific Western Pty Ltd. The amount claimed by the Corporation is included in contingent assets below	In excess of $2,700
A former Chief Executive of Western Power Corporation, Dr WS van der Mye is seeking an employment termination payment of $500,000 and unquantified amounts for breach of contract, interest and legal costs against the Corporation. The allegation is denied and the action is being defended.	500
Contingent assets	
Litigation	
The Corporation has made a claim against Pacific Western Pty Ltd for in excess of $6,000,000 being the amount of loss or damage directly attributable to the early termination.	6,000

Notes to the financial statements

25. Subsidiary

Western Carbon Pty Ltd was incorporated in Australia in July 2002 and has been dormant since that date.

26. Reconciliation of cash flows from operating activities

	2006 $'000
Cash flows from operating activities	
Loss for the period	(11,919)
Adjustments for:	
Depreciation and amortisation	30,775
Impairment losses	121
Unwinding discount	1,900
Operating profit before changes in working capital and provisions	
(Increase) in trade and other receivables	(96,661)
(Increase) in inventories	(3,410)
Decrease in other current assets	2,092
Increase in trade and other payables	54,991
(Decrease) in provisions and others	(3,424)
Net cash from operating activities	(25,535)

27. Directors' and executive remuneration disclosures

The following were non-executive Directors and Executives of the Corporation any time during the reporting period:

Non-executive Directors

Mr Peter James West (Chairperson)
Mr Harvey Russell Collins (Deputy Chair)
Mr Leonard Francis Gill
Mr John Joseph O'Connor
Ms Martine Daniele Pop

Executives

Mark Hands
Ken Bowron
Barrie Brandt
Greg Denton
Derek Noakes

Executive Director

Mr John Edward Lillywhite (Chief Executive)

	2006 $'000
Short term employee benefits	425,411
Post employment benefits	71,837
	497,248

Apart from the details disclosed in the Directors' report para 4.4.2 no Directors or Executives have entered into a material contract with the Corporation since the end of the financial period.

28. Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation, in future financial years.

29. Segment Reporting

The Corporation operates in only one business and geographical segment being the generation and supply of electricity in Western Australia.

Notes to the financial statements

30. Distribution to Owner (Disaggregation)

(1) Transfer Order

In September 2005, legislation was passed in Parliament to allow for the disaggregation of the Western Power Corporation into four separate state owned entities. These entities were created under the Electricity Corporations Act 2005 and established on 1 April 2006. The entities are:

- The Electricity Generation Corporation (Verve Energy);
- The Electricity Networks Corporation (Western Power Networks);
- The Regional Power Corporation (Horizon Power); and
- The Electricity Retail Corporation (Synergy Energy).

On disaggregation, the assets, rights and liabilities of the Western Power Corporation were distributed to the Minister. The Minister, under a Transfer Order prepared under section 147(1) of the Electricity Corporations Act 2005 (Gazetted on 31 March 2006), specified the subsequent allocation of these assets, rights and liabilities among the four separate owned entities.

The Transfer Order designated the allocation described above as a contribution by the owner of the Western Power Corporation for the four separate state owned entities and that the contribution formed part of the entities contributed equity. The transfer of the opening balances of assets and liabilities from Western Power Corporation to the four successor entities has been reported in the Western Power Corporation financial statements as at 30 June 2006. The Western Power Corporation financial statements include a reconciliation of the Western Power Corporation 31 March 2006 closing balances to the opening balances allocated to the four successor entities on 1 April 2006.

Further, the Transfer Order specified that the values of the assets, rights and liabilities of the Western Power Corporation vested in the Corporation and Synergy Energy be at those values determined as their fair values.

As the final details of the assets and liabilities to be transferred to the Corporation pursuant to the Transfer Order were only provided on 18 September 2006, there has only been limited time to review the appropriateness of the fair values and the adequacy of the supporting information thereto. Notwithstanding that the information provided at the date of transfer is considered reasonable, analysis is continuing and when complete, may potentially give rise to adjustments as at 1 April 2006.

(2) Taxation Treatment

The Western Power Corporation, and the four separate state owned entities are subject to the NTER administered by the ATO. Under agreement with the ATO, the disaggregation of the Western Power Corporation was completed on a tax neutral basis. Hence there was no NTER tax consequences for the Western Power Corporation. The four separate state owned entities inherited the tax attributes of the Western Power Corporation in relation to the assets, rights and liabilities allocated to them on disaggregation.

Notes to the financial statements

(3) Reconciliation

	Note	Transfer from owner 01/04/06 $'000	Reclassification $'000	Revised 01/04/06 $'000
Current Assets				
Cash and cash equivalents		12,437	-	12,437
Trade and other receivables	*1*	15,804	(194)	15,610
Inventories		98,171	-	98,171
Intangible assets		-	-	-
Derivative assets		1,723	-	1,723
Other assets		14,473	-	14,473
Total current assets		142,608	(194)	142,414
Non-Current Assets				
Property, plant and equipment		1,666,484	-	1,666,484
Intangible assets		631	-	631
Available-for-sale financial assets		953	-	953
Other financial assets		1,950	-	1,950
Derivative assets		335	-	335
Other assets		6,043	-	6,043
Total non-current assets		1,676,396	-	1,676,396
Total assets		1,819,004	(194)	1,818,810
Current Liabilities				
Trade and other payables	*1*	56,639	(1,221)	55,418
Interest bearing liabilities	*2*	-	107,620	107,620
Tax liabilities	*1*	(1,023)	1,027	4
Provisions		70,169	-	70,169
Derivatives liabilities		5,449	-	5,449
Other liabilities		975	-	975
Total current liabilities		132,209	107,426	239,635
Non-Current Liabilities				
Interest bearing liabilities	*2*	675,348	(107,620)	567,728
Deferred tax liabilities		88,124	-	88,124
Provisions		289,144	-	289,144
Other liabilities		4,853	-	4,853
Total non-current liabilities		1,057,469	(107,620)	949,849
Total liabilities		1,189,678	(194)	1,189,484
Net assets		629,326	-	629,326

Note 1: GST offline reporting adjustments not accounted for.
Note 2: Reclassified the interest bearing liabilities to current and non-current liabilities.
Note 3: The format has been reclassified further in these financial statements.

Directors' declaration

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 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial period ended on that date; and

(ii) complying with Australian Accounting Standards and the *Electricity Corporations Act 2005;* and

(b) the remuneration disclosures that are contained in sections 4.2.2 of the Remuneration report in the Directors' report comply with the *Electricity Corporations Act 2005.*

(c) 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 and Chief Financial Officer for the financial period ended 30 June 2006 pursuant to the *Electricity Corporations Act 2005.*

Dated at Perth 20 day of September 2006.

Signed in accordance with a resolution of the Directors:

P.J. West.

Chairman

AUDITOR **GENERAL**

INDEPENDENT AUDIT REPORT ON ELECTRICITY GENERATION CORPORATION (TRADING AS VERVE ENERGY)

To the Parliament of Western Australia

Audit Opinion
In my opinion, the financial report of the Electricity Generation Corporation (trading as Verve Energy) is in accordance with:

(a) schedule 3 of the Electricity Corporations Act 2005, including:
 (i) giving a true and fair view of the Corporation's financial position at 30 June 2006 and of its performance for the financial year ended on that date; and
 (ii) complying with Accounting Standards in Australia; and

(b) other mandatory professional reporting requirements in Australia.

Scope
The Board of Directors is responsible for the financial report.

The financial report consists of the Income Statement, Statement of Changes in Equity, Balance Sheet, Statement of Cash Flow, accompanying Notes and Directors' Declaration.

Summary of my Role
As required by the Electricity Corporations Act 2005, I have independently audited the financial report to express an opinion on it. This was done by testing selected samples of the evidence. Further information on my audit approach is provided in my audit practice statement. Refer "http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf".

An audit does not guarantee that every amount and disclosure in the financial report is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial report.

D D R PEARSON
AUDITOR GENERAL
26 September 2006

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