Annual Report
2008-09

Operations review

Financial review – Appendix A

OUR COMPANY

Verve Energy is Western Australia's leading electricity producer with a generating capacity of 2967MW.

Verve Energy owns and operates four major power stations - Kwinana, Cockburn, Pinjar and Muja (near Collie), while a fifth, Collie power station, is owned by us and operated by a private company. Our smaller power stations are situated at Mungarra, West Kalgoorlie, Geraldton and Kwinana and a joint venture power station at the Worsley alumina refinery near Collie. We also have an agreement with the owners of Kemerton Peaking Plant, near Bunbury, to purchase electricity during periods of peak demand.

These power stations are in the South West Interconnected System (SWIS), an area bounded by Kalbarri in the north, Kalgoorlie to the east, and Albany to the south.

We also generate electricity from renewable sources. We have wind farms at Albany, Esperance and Kalbarri, wind-diesel systems in Bremer Bay, Coral Bay, Denham, and Hopetoun; a pilot biomass plant at Narrogin; and a solar facility at Kalbarri.

Verve Energy supports the local communities in which our major power stations are located. Our partnership activities in the Collie-Bunbury and Kwinana-Rockingham areas focus on youth education, youth training and the environment.

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

Verve Energy is a State owned trading enterprise with annual revenue of approximately $1 billion and net assets of $267 million.

Verve Energy generates 71% of the energy produced in the SWIS. Verve Energy participates in the Wholesale Electricity Market, which was established in September 2006, competing with privately owned electricity companies in the SWIS. The bulk of our electricity is contracted to Synergy. Outside the SWIS, Verve Energy sells power from wind and wind-diesel systems to Horizon Power.

As part of the deregulation of the WA power industry, the Government imposed a ceiling on Verve Energy's capacity, to encourage others to build generating plant. Verve Energy's installed generating capacity has been capped at 3000MW.

VISION STATEMENT

By 2012 Verve Energy will be recognised as a vibrant, innovative energy business by being commercially, socially and environmentally successful.

Organisation structure

Executive

Shirley In't Veld	- Managing Director
Wally Borovac	- Chief Financial Officer
Jason Waters	- General Manager Trading and Fuel
Tony Narvaez	- General Manager Strategy and Business Development
Ross Stidolph	- Chief Operating Officer
Derek Noakes	- General Manager Corporate Services

Board

David Eiszele	- Chairman
Harvey Collins	- Director (Deputy Chairman)
Ian Purcell	- Director
Gaye McMath	- Director
Keith Spence	- Director
Shirley In't Veld	- Managing Director

From the Chairman and Managing Director

During the past year, Verve Energy's role in relation to electricity security in the evolving WA energy market remained unchanged, but was put to the test during the Varanus Island gas crisis. Our timely and effective response, in recommissioning two retired units at Muja, demonstrated that Verve Energy is well placed to handle the challenges that come with being the supplier of last resort.

As well as improved operational performance, Verve Energy ended the year in a better than forecast financial position. Our financial performance, while still unsatisfactory, outperformed budget with a net loss after tax of $171 million compared with a budgeted loss of $288 million.

Higher electricity sales, largely the result of other generators' newly built power stations being unavailable, were a factor in these results. Significantly improved plant availability was also a positive aspect of the past year's operations; and resulted in much lower capacity payment refunds, as well as more efficient fuel usage.

With our Government's focus on the value of viable State owned generation, the Oates Review is examining issues affecting our financial performance, including the Vesting Contract with Synergy and the market rules, and has recommended a strategy to enable Verve Energy to operate as a sustainable long-term participant in the WA electricity market.

A major stride forward comes with State Government funding of two 100MW High Efficiency Gas Turbines at our Kwinana site. These turbines will be highly efficient, have a stop-start capability which will support our role as balancer in the market, and will be run as mid-merit/peaking units. They will also be dual-fuelled to provide additional security in the event of a gas disruption.

Two important factors in our forecast improved financial performance for 2010 and beyond, are the tariff increases after a 10 year freeze, which came into effect in April 2009, and Community Service Obligation payments implemented by the State Government. As tariffs further increase, our financial position will continue to improve.

Meeting demand

The gas crisis last year highlighted the extent to which Verve Energy is relied upon to ensure electricity supply security. We continued to meet demand during the six-month gas crisis by optimising our fuel use and bringing two of the retired Muja units back online.

Production

Having invested $174 million in upgrading our generation assets, we secured significantly improved levels of operational performance during the past year, while still managing the operational challenges related to our role as balancer in the market. The annual average Forced Outage Factor (FOF) of 3.3%, which is our lowest to date and well down on our previous year's figure of 5.3%, certainly reflects the effort put into the overhaul and maintenance programs at our power stations. The second half of the year FOF was 2% which helped contribute to the excellent result for the full year.

At the same time, our load profile continues to change as other generators' plant comes online.

Verve Energy has also entered into a memorandum of understanding with a potential joint venture partner, a private company, to refurbish Muja AB Power Station to help ensure security of electricity supply. The units will be retro-fitted with pollution reduction equipment and will operate as mid-merit peaking plant with a 10 to 15 year lifespan.

Safety and people

Now that we are better placed as an organisation to attract and retain the right people, particularly in the engineering and technical areas, we have replenished our workforce, which strengthens our ability to compete in the market.

We are disappointed with our safety performance. With 11 Lost Time Injuries and 51 Medically Treated Injuries, we have elevated our focus on safety and a major safety program is underway. At the same time, our Gas Turbines and Sustainable Operations branch has achieved a commendable 20 years with no Lost Time Injuries.

Renewables

Verve Energy has a high level of in-house expertise in renewable energy, and is actively progressing three wind farm projects at Milyeannup on the south coast, Mumbida near Geraldton and Grasmere, an extension to our Albany wind farm, while also evaluating pump storage, solar and biomass projects. We have achieved notable success in the past year with high wind penetration at our wind-diesel operations throughout the State.

Emission reduction

While the Federal Government's Carbon Pollution Reduction Scheme (CPRS) is still being debated, Verve Energy is aiming to reduce its carbon intensity through measures such as installing high efficiency gas turbines, retiring old plant, improving the efficiency of our existing plant and investing in renewable energy projects. At the same time, we are investigating carbon-reducing technologies such as carbon capture/storage.

Looking ahead

With new Board membership comes broad expertise and a fresh commitment to achieving our vision of becoming a technologically innovative and financially viable generator in WA. We look forward with optimism and enthusiasm to the next chapter in Verve Energy's development.

Our sincere thanks to all our people for their dedication and hard work throughout the year.

David Eiszele
Chairman

Shirley In't Veld
Managing Director

Review of financial performance

Verve Energy recorded a net loss after tax of $171 million. EBIT was a loss of $133 million which was again affected by the limitations within the Vesting Contract. Under this contract Verve Energy has not received cost reflective tariffs.

During the first quarter Verve Energy's results were affected by high fuel costs as a result of gas supply curtailments during the Varanus Island crisis. While the first quarter was challenging, the second half performance was pleasing with an average Forced Outage Factor of around 2% and good fuel availability.

Plant reliability and availability has been the result of Verve Energy's planned maintenance program which is based on world's best practice, balancing performance at the most competitive cost. The corporation invested $174 million into plant and equipment ($42 million in capital works and $132 million in materials and services) during the financial year.

Verve Energy had an increase in net borrowings (loans borrowed net of cash and cash equivalents) of $177 million for the year ended 30 June 2009. Net assets are $267 million.

Corporate results

ITEMS	2008-09	2007-08
Revenue ($m)	1,053.0	1,054.5
EBIT ($m)	(133.2)	(98.3)
NPBT ($m)	(239.5)	(184.3)
Net borrowings (excluding finance leases) ($m)	1,097.2	902.3
Net assets ($m)	266.7	438.1
Supply of electricity (GWh)	14,244	14,300
Electricity generation sent out (GWh)	11,891	11,753
Forced outage factor (%)	3.3	5.3
Renewable energy generation wind and biomass (GWh)	83.3	112.7
Plant availability (%)	85.8	80.8
Thermal efficiency (%)	31.7	32.5
Total Greenhouse Gas Emissions (million tonnes CO2-e)	10.6	10.1
Carbon Intensity (kgCO2e/kWh electricity sent out)	0.906	0.872
Environmental licence breaches	6	1
RECS	81,561	112,428
Number of employees	593	586
Lost Time Injury Frequency Rate (includes contractors)	5.9	5.3
Medical Time Injury Frequency Rate (includes contractors)	27.3	19.4
Corporate reputation index (%)	56	61

Generation facts and figures

Generating plant	**Fuel**	**Capacity (kW)**	**Acquired/ commissioned**
Collie	Coal	340,000	1999
Cockburn	Gas	240,000	2003
Muja A and B	Coal/heavy fuel oil	240,000	1965 Retired April 2007 *
Muja C	Coal/heavy fuel oil	400,000	1981
Muja D	Coal/heavy fuel oil	454,000	1985-86
Kwinana A and C	Coal/gas/fuel oil	640,000	1970-78
Kwinana B	Gas/fuel oil	240,000	1970-73 Retired December 2008
Kwinana gas turbine	Gas/distillate	21,000	1972
Mungarra gas turbines	Gas	112,000	1990-91
Pinjar gas turbines	Gas/distillate	586,000	1990-96
Worsley	Gas	60,000	2000
Tiwest gas turbine	Gas	36,000	1999
West Kalgoorlie gas turbine	Distillate	62,000	1984-90
Geraldton gas turbine	Gas/distillate	21,000	1973
Albany wind farm – 12 turbines	Wind	22,000	2002
Bremer Bay – 1 turbine	Wind	600	2004
Coral Bay – 3 turbines	Wind	600	2007
Denham – 4 turbines	Wind	1000	1997, 1998, 2007
Esperance – 15 turbines	Wind	5625	1993 & 2002
Hopetoun - 2 turbines	Wind	1200	2004 & 2007
Kalbarri Wind Farm – 2 turbines	Wind	1600	2008

***** 120,000kW returned July 2008-April 2009

Electricity generation

Electricity generation	**2008-09**	**2007-08**
Generated - GWh	12,675.1	12,450.9
Sent out - GWh	11,890.8	11,753.1
Used in works - GWh	784.3	697.8
Purchased - GWh	2,353.2	2,546.9
Capacity factor %	44.6	40.7

Sustainability report

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

Environmental Management System (EMS)

To responsibly manage our environmental risks and performance, Verve Energy utilises an Environmental Management System (EMS) which is built on 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. Our Environmental Policy is the cornerstone of our EMS and encourages us to strive for environmental excellence. Our Environmental Policy was reviewed during the year and no changes were made.

The EMS is driven by an electronic system (EMISWeb) developed to record and facilitate activities undertaken to fulfil the Corporation's due diligence requirements. All Verve Energy power stations are registered on EMISWeb which includes all of the elements of ISO 14001, in particular detailed legal requirements, effective risk assessment and management databases. It is accessible by all Verve Energy employees. Site-specific environmental management programs and initiatives are developed locally and coordinated by local or regional EMS Team Leaders. Entrusting environmental management to each site has contributed to an improved environmental performance.

Auditing for continuous improvement

In order to confirm that appropriate management of Verve Energy's environmental risk is taking place and verify environmental due diligence, corporate governance and continual improvement of the EMS, an internal audit of Muja and Kwinana against AS/NZS ISO-14001:2004 was completed in May 2009.

The audit revealed a good level of compliance to ISO 14001 by Kwinana. However, some non-conformances to ISO 14001 were found in Muja's EMS. These are being attended to as a matter of priority.

In June 2009, an audit of legal requirements (all environmental legislation and licences) was completed on all our power stations. The audit revealed a good level of compliance with all relevant legislation and environmental licence conditions applying to all power stations.

ISO 14001 Certification

Muja and Kwinana power stations, which are owned and operated by Verve Energy, and Collie Power Station which is owned but not operated by Verve Energy, have certified their environmental management systems to ISO 14001. Muja and Kwinana power stations continued their certification after satisfactory external surveillance audits in June 2009.

In June 2009, after a successful external certification audit, Verve Energy's Perth Office was granted certification to ISO 14001.

Greenhouse response

Verve Energy, one of the first Western Australian companies to enrol in the Australian Government's Greenhouse Challenge Plus program, contributed to a reduction of over 37 million tonnes of CO_2-e from Australia's greenhouse gas emissions since its inception in 1997. The program ceased on 30 June 2009.

In 2008/09 Verve Energy's power stations produced 10.6 million tonnes of CO_2-e at an intensity of 906 tonnes per gigawatt hour sent out.

In the past year, Verve Energy generated enough renewable energy from our renewable energy generators, including Albany, Bremer Bay, Denham, Esperance, Hopetoun, Kalbarri and Coral Bay wind facilities, to offset 81,561 tonnes of CO_2.

Emissions

Verve Energy's emission details are provided annually to the National Pollutant Inventory (www.npi.gov.au).

Environmental incidents

There were six reportable environmental incidents during 2008-09, two of which resulted in action by the Department of Conservation and Environment (DEC).

Spill of dust suppression liquid at Kwinana Power Station: About eight kilolitres of detergent solution spilt after a pump fitting failed and accumulated in a washdown drain near the tank. The solution is used for dust suppression on the coal stockpile. During the cleanup, there was an additional spill of a tanker load of the solution to ground due to miscommunication. Both spills were successfully cleaned up with no environmental damage. The DEC served an official warning on Verve Energy under the Environmental Protection (Unauthorised Discharge) Regulations 2004.

Spill of hydrochloric acid at Cockburn power station (CKB): A welded joint on temporary pipework for the CKB Heat Recovery Steam Generator chemical clean sprang a pinhole leak, discharging approximately 50 litres of 8% hydrochloric acid to the 'bluemetal over sand' area under the pipework. The weld had previously been successfully tested under a head of hot water and it appears that the hydrochloric acid may have dissolved a welding fault. The acid was neutralised with soda ash, resulting in no environmental harm.
The DEC fined Verve Energy $250 under the Environmental Protection (Unauthorised Discharge) Regulations 2004.

Corporate governance standards

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

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

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

Equal employment opportunity

Verve Energy has a number of policies and procedures supporting Equal Opportunity in the workplace, including a Diversity Policy, Flexible Working Arrangements, and an Equal Employment Opportunity Management Plan.

Our focus for this year has been to increase awareness about diversity in the workplace, and to build a more inclusive work environment where everyone can work together as a team.

Risk management

Risk management is a fundamental management activity in Verve Energy.

The Risk Management Framework is the basis for assessing, monitoring and managing risks in a structured and systematic manner, consistent with AS/NZS 4360 Risk Management Standard.

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

State Records Act 2000

Verve Energy maintains and supports recordkeeping practices in its day to day business activities. The Corporation has an approved record keeping plan (Plan). An evaluation of the efficiency and effectiveness of the corporate recordkeeping systems and practices is currently in progress along with an update of the Plan to address the findings of the review. New employees are provided with information on the recordkeeping systems both at induction and as part of training in the use of the system. The induction and training programs are currently being reviewed and updated to address new systems implementation planned by the Corporation, to ensure they reflect any new business requirements, and communicate the employees' roles and responsibilities in regard to compliance with the recordkeeping plan.

Western Australian Electoral Act

In accordance with the requirements of Section 175ZE of the Western Australian Electoral Act 1907, the following information in respect to expenditures (excluding GST) incurred by, or on behalf of Verve Energy from 1 July 2008 to 30 June 2009 is disclosed as follows:

Market research organisations	$29,873
Media advertising agencies:	$68,711
Total expenditure:	$98,584

Electricity Generation Corporation

Trading as Verve Energy

ABN 586 738 30106

Annual Financial Report

30 June 2009

DMS#: 3151511

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Contents

Directors' report

The Directors present their report and the financial report of Verve Energy ('the Corporation') for the financial year ended 30 June 2009 and the auditor's report thereon.

1 Directors

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

Name, qualifications and independence status	*Age*	*Experience, special responsibilities and other directorships*
Mr David Russell Eiszele MBus, FAICD, FIE Chairperson Independent Non-Executive Director - Appointed February 2009	68	Mr Eiszele was appointed as Non-Executive Director in February 2009 for a two-year term. Mr Eiszele was former Chief Executive Officer of Western Power Corporation and accordingly has an extensive knowledge of the Power Industry. Since leaving Western Power Corporation, he has been active in the private sector and is currently Chairman of Pearlstreet Limited. He is a Director of Torrens Energy Limited.
Mr Harvey Russell Collins BBus, FCPA, FAICD, SF Fin Deputy Chairperson Independent Non-Executive Director	60	Mr Collins was appointed as a Non-Executive Director in April 2006. His current term expires on 30 April 2012. 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 (retiring October 2009), Navitas Limited and Bank of Western Australia Ltd (Bankwest). He is a Director of Brierty Limited and the Government Employees Superannuation Board (GESB) (retiring October 2009). He is a WA State Councillor of the Australian Institute of Company Directors.
Mr Ian Charles Purcell BE (Electrical) Independent Non-Executive Director	64	Mr Purcell was appointed as a Non-Executive Director in December 2007 His current term expires 30 April 2010. Mr Purcell is an electrical engineer and is the Principal Power Consultant to the Power and Industry Group in WA and NT for Sinclair Knight Merz. He has worked on hydro electric, steam, diesel and gas turbine power stations and power infrastructure projects in WA and around the world.
Mr Keith William Spence BSc (Hons) Independent Non-Executive Director - Appointed May 2009	55	Mr Spence was appointed as Non-Executive Director in May 2009 for a two-year term. Mr Spence recently retired after 31 years with Woodside Energy and Shell. A respected former Senior Executive with that company, Mr Spence also holds a number of directorships including GESB ML, Geodynamics Limited, Clough Limited and Skills Australia.
Ms Gaye Marie McMath BC, MBA; AMP, FCPA FAICD Independent Non-Executive Director - Appointed May 2009	50	Ms McMath was appointed as Non-Executive Director in May 2009 for a three-year term. Ms McMath is currently Executive Director Finance and Resources at the University of Western Australia where her responsibilities include financial services, human resources and facilities management. Ms McMath is a director of Silver Chain Nursing Association, WA Treasury Corporation and Gold Corporation.
Ms Shirley Eleanor In't Veld LLB (Hons) BCom Managing Director	54	Ms In't Veld was appointed in April 2007 for a five-year term. Ms In't Veld previously held senior management positions in Alcoa of Australia, most recently as Vice President of Primary Business Development and Managing Director of Alcoa Australia Rolled Products, as well as senior positions with Western Mining Corporation and Bankwest.
Mr Peter James West BSc (Hons) Chairperson Independent Non-Executive Director - Retired January 2009	65	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 Albany Port Authority. Mr West's term expired in early 2009.

Name, qualifications and independence status	***Age***	***Experience, special responsibilities and other directorships***
Mr John Joseph O'Connor Independent Non–Executive Director - Resigned March 2009	71	Mr O'Connor was appointed as a Non-Executive Director in April 2006. Mr O'Connor served as a Commissioner of the Australian Industrial Relations Commission for eight years and a Non-Executive Director of Western Power Corporation. He is also a Director of Fremantle Port Authority. Mr O'Connor resigned on 18 March 2009.
Ms Martine Daniele Pop PhD, EEC Commercial Law, FAICD Independent Non-Executive Director - Resigned April 2009	56	Ms Pop was appointed as a Non-Executive Director in April 2006. Ms Pop is also a Director of Gold Corporation and Wheat Exports Australia and is currently chairing a number of Audit, Risk Management and Governance Committees of WA Agencies. She has been a director of the Board of SBS, The Grain Pool of WA, Australian Rail Track Corporation and Chairperson of the WA Meat Industry Authority. Ms Pop resigned effective 30 April 2009.

2 Company secretary

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

3 Directors' meeting

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

Director	Board Meetings		Remuneration and Development Committee Meetings		Audit and Risk Management Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**
Mr David Russell Eiszele	5	6	1	1	-	-
Mr Peter James West	13	13	2	2	-	-
Mr Harvey Russell Collins	17	19	-	-	7	7
Mr John Joseph O'Connor	15	15	2	2	-	-
Ms Martine Daniele Pop	16	16	-	-	6	7
Mr Ian Charles Purcell	18	19	2	3	6	7
Mr Keith William Spence	-	1	-	-	-	-
Ms Gaye Marie McMath	1	1	-	-	-	-
Ms Shirley Eleanor In't Veld	19	19	-	-	-	-

A – Number of meetings attended

B – Number of meetings held during the time the Director held office during the period

Eight 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 except for ASX Listing Rule continuous disclosure compliance requirements for a listed company.

4.1 Board of Directors

Role of the Board

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

In fulfilment of this role, the Board is responsible for the overall corporate governance of the Corporation including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing and removing the Managing Director, 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.

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

To assist in the execution of its responsibilities, the Board has established two committees, the Remuneration and Development Committee and the Audit and Risk Management Committee. These committees have written mandates and operating procedures. The Board established 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 schedules 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 the meetings is prepared in conjunction with the Chairperson, Managing Director and Company Secretary. The Managing Director's report, which includes a financial report, and safety report are standing agenda items. Submissions are circulated in advance. Executives are regularly invited to present at Board meetings and Directors have other opportunities, including visits to business operations, for contact with a wider group of employees and key stakeholders.

Director education

The Corporation 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 advisor at the Corporation's expense. The Director must consult with an independent advisor suitably qualified in the relevant field and obtain the Chairperson's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Director is made available to all other members of the Board.

Composition of the Board

The names of the Directors of the Corporation in office at the date of this report are set out in 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 by 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 David Eiszele (commenced from 1 February 2009 as Chairperson)
- Mr Peter James West – Independent Non-Executive Chairperson (term expired January 2009)
- Mr Ian Charles Purcell – Independent Non-Executive Director
- Mr John Joseph O'Connor – Independent Non-Executive Director (resigned on 18 March 2009)

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 Managing Director and General Manager Corporate Services.

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

4.4 Remuneration report – Audited

4.4.1 Principles of compensation

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

The Board, on recommendation of the Managing Director, approves compensation levels for executives. Remuneration for key managers 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 managers.
- The key managers' 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 manager'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 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 managers 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 managers. 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 Managing Director and the Chief Operating Officer, are unlimited in term but generally these contracts are capable of termination by the key managers on four weeks notice and that the Corporation retains the right to terminate the contract immediately by making payment equal to a maximum of 52 weeks pay in lieu of notice. The 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 Managing Director has a contract of employment that commenced on 30 April 2007 with the Corporation. The contract specifies the duties and obligations to be fulfilled by the Managing Director and provides that the Board and Managing Director will, early in each financial year, consult and agree on the objectives for achievement during that year.

The Chief Operating Officer has a contract of employment that commenced on 23 February 2009 and which terminates on 23 February 2012.

The Managing Director's contract of employment terminates on 30 April 2012. At any time prior to this date the contract can be terminated either by the Corporation providing 12 months notice or the Managing Director providing six months notice.

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

Non-Executive Directors

The Minister determines total compensation for all Non-Executive Directors. Directors' base fees are presently set at $53,750 per annum plus 9% superannuation. The Chairperson receives $112,875 per annum plus 9% superannuation. The Deputy Chairperson receives $69,875 per annum plus 9% superannuation. Non-Executive Directors do not receive performance related compensation. Directors' fees cover all main Board activities and membership of committees.

4.4.2 Directors' and Executive Officers' remuneration

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

		Short Term			Post Employment		
		Salary & fees $	Short-term cash incentive $	Non-monetary benefits $	Super-annuation benefits $	Termination benefits $	Total $
Non–Executive Directors							
Mr David Eiszele (Chairperson) -Appointed February 2009	*2009*	7,966	-	-	35,448	-	43,414
	2008	-	-	-	-	-	-
Mr Peter West (Chairperson) - Retired January 2009	*2009*	31,488	-	820	38,123	-	70,431
	2008	95,590	-	1,333	17,553	-	114,476
Mr Harvey Collins	*2009*	43,691	-	1,333	28,074	-	73,098
(Deputy Chairperson)	*2008*	63,667	-	1,333	5,850	-	70,850
Mr John O'Connor	*2009*	2,430	-	-	38,702	-	41,132
- Resigned March 2009	*2008*	32,051	-	-	22,449	-	54,500
Ms Martine Pop	*2009*	36,072	-	-	12,045	-	48,117
- Resigned April 2009	*2008*	39,952	-	923	13,625	-	54,500
Mr Ian Purcell	*2009*	50,253	-	1,333	4,643	-	56,229
	2008	24,910	-	667	2,302	-	27,879
Mr Keith Spence	*2009*	5,168	-	465	-	-	5,633
- Appointed May 2009	*2008*	-	-	-	-	-	-
Ms Gaye McMath	*2009*	5,168	-	465	-	-	5,633
- Appointed May 2009	*2008*	-	-	-	-	-	-
Executive Director							
Ms Shirley Eleanor In't Veld	*2009*	374,195	60,500	1,333	39,242	-	475,270
(Managing Director)	*2008*	348,221	-	1,333	31,460	-	381,014
Executives							
Mr Fred Sibenaler	*2009*	108,028	39,204	872	97,345	340,418	585,867
(resigned on 24 February 2009)	*2008*	179,471	2,808	20,346	61,700	-	264,325
Mr Derek Noakes	*2009*	241,580	27,103	1,333	49,916	-	319,932
	2008	217,648	22,568	2,291	48,134	-	293,641

		Short Term			Post Employment		
		Salary & fees $	Short-term cash incentive $	Non-monetary benefits $	Super-annuation benefits $	Termination benefits $	Total $
Mr Jason Waters	*2009*	230,708	15,400	8,176	22,886	-	277,170
	2008	179,133	5,472	5,019	17,242	-	206,866
Mr Tony Narvaez	*2009*	224,065	20,900	-	22,047	-	267,012
	2008	174,740	7,943	-	16,489	-	199,172
Mr Wally Borovac	*2009*	151,047	-	1,179	92,686	-	244,912
	2008	54,964	-	513	22,626	-	78,103

4.5 Audit and Risk Management Committee

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

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

The members of the ARMC during the year were:

- Mr Harvey Russell Collins (Chairperson) – Independent Non-Executive Director
- Mr Ian Charles Purcell – Independent Non-Executive Director
- Ms Martine Daniele Pop – Independent Non-Executive Director (resigned 30 April 2009)

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

The internal and external auditors, the Managing Director, Company Secretary (where applicable), Chief Financial Officer, General Manager Corporate Services and other staff are invited to ARMC meetings at the discretion of the committee. The committee met seven times during the year and committee members' attendance record is disclosed in the table of Directors' meetings on page 5.

The Managing Director 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 year ended 30 June 2009 comply with Accounting Standards and present a true and fair view of the Corporation's financial condition and operational results. This statement is required annually.

4.6 Risk management

Oversight of the risk management framework

Assisted by the ARMC, the Board oversees the establishment, implementation and maintenance of the Risk Management Framework and monitors its effectiveness. Management has established and implemented the Risk Management Framework for assessing, monitoring and managing risks, in a structured and systematic manner, consistent with AS/NZS 4360 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.

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

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

Risk profile

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

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

Quality of employees

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

Financial reporting

The Managing Director 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 during the year.

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, and 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 that includes results of environmental audits and incidents. Compliance with licence requirements and environmental legislation was met, with the exception of action taken by the regulator as a result of two minor incidents.

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

Internal audit

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

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

Conflict of interest

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

4.7 Ethical standards

Code of Conduct and Integrity

Pursuant to Section 31 of the Act the Corporation has prepared and issued a code of conduct setting out minimum standards of conduct and integrity that are to be observed by all employees including Board members. The code of conduct 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 employees obey all applicable laws, regulations, rules and other instructions, uphold the Corporation's values and follow all lawful directions.

The Corporation's code of conduct was revised during the year. Leaders within the Corporation are expected to model and uphold the behaviours and standards outlined in the code of conduct and to also ensure that their staff are accountable. Fair Treatment Advisors and Public Interest Disclosure (PID) Officers are in place for employees to contact with any workplace issues. Compliance with the code is assessed via employee feedback through formal surveys, feedback from exit interviews, and grievances or breaches reported via the Fair Treatment System or through the PID Officers. During the year, no formal grievances or breaches have been reported.

4.8 Communication with shareholder

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

5 Principal activities

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

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

- Undertake, maintain and operate any works, system, facilities, apparatus or equipment required for the above.

Objectives

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

Our vision is that by 2012, Verve Energy will be recognised as a vibrant, innovative business by being commercially, socially and environmentally successful. To achieve this vision, we are focusing on optimising our performance through eight key strategies:

- Plant - customise investment and operational strategy for each power station based on current and potential business value;
- Trading and fuel - profitably participate in competitive energy markets;
- People - recruit, develop and retain the right people in the right places with the right skills, incentives and leadership;
- Value creation - optimise the financial structure and continually improve work practices;
- Business support - review and reform processes, systems and procedures to ensure efficient and effective business support mechanisms;
- Business development - seek revenue diversification opportunities by developing new products, new markets and providing innovative energy solutions to customers;
- Safety, environment and community - improve safety and environmental performance, work towards a long term goal of carbon neutrality and be socially responsible; and
- Relationships and influence - build and maintain constructive and productive relationships with all stakeholders.

6 Dividends

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

7 Events subsequent to reporting date

Following Board approval in August 2009, the Minister gave his approval for the Corporation to enter into the contract to purchase gas turbines and associated equipment and services for the construction of its proposed high efficiency gas turbine (HEGT) project. The HEGT project has an expected capital expenditure of $263 million over two years and will be fully funded by an equity injection from the Government.

On 26 August 2009, the Minister announced that the Government had completed its review of Verve Energy's financial position and concluded that the solution to restoring profitability to Verve Energy was in a review of the Market Rules and the Vesting Contract between Verve Energy and Synergy. The Government further confirmed that the Corporation would not be remerged with the Government owned electricity retailer, Synergy.

Other than those stated above, no 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 has arisen in the interval between the end of the financial year and the date of this report.

8 Likely developments

The Corporation expects its ongoing financial shortfall will be addressed by the government's proposed introduction of cost reflective tariffs and attendant Community Service Obligation (CSO). The CSO will be paid to Synergy to cover the timing difference associated with the introduction of cost reflective tariffs to the consumer as opposed to the payment of cost reflective tariffs to Verve Energy. Verve Energy continues to address its profitability by seeking to reduce costs and seek efficiencies in its operations and administration.

The Directors acknowledge the public interest considerations underlying the market power mitigation measures that have been imposed on the Corporation. However, the Directors believe that it is important that the impact of these decisions on its financial performance is clearly identified and recognised so that the net public benefit can be fully assessed. In conjunction with the introduction of the cost reflective tariffs, the Corporation will be seeking to be appropriately and adequately compensated for the balancing services it provides within the South West Interconnect System (SWIS) and the effective "supplier of last resort" service provided.

The Corporation anticipates it has significant potential liabilities under the Federal Government's proposed Carbon Pollution Reduction Scheme (CPRS). Should Verve Energy not be able to recover the additional costs imposed under the CPRS either through increased electricity tariffs or a CSO then its future profitability will be severely impacted. Verve Energy will address these potential liabilities with the State Government when the nature of the impost becomes more apparent. If passed, the CPRS will commence on 1 July 2011. The Corporation has already commenced recording its emissions under the current environmental legislation discussed above. In the meantime, to the extent that action is consistent with the Corporation's statutory responsibilities and financial capacity, it will also seek to reduce carbon emissions through better plant efficiency, more rigorous internal energy management, greater use of renewable energy sources, and support of "clean coal" technology.

Upon disaggregation from Western Power Corporation, Verve Energy and Synergy entered into a Vesting Contract for the supply of electricity to Synergy to supply its franchise and existing contract supply customers. This contract was designed to ensure Synergy received a fixed, predetermined retail margin on its franchise customers. The Vesting Contract made provision for Verve Energy to supply electricity at a predetermined price subject to an annual review which assessed the extent to which Synergy's guaranteed margin as retailer was exceeded or eroded. Once determined there was an adjusting payment between Synergy and Verve Energy referred to as a "Netback" payment. To that extent, Verve Energy does not have transparency or control of its income and, since disaggregation, has been the subject of large repayments and reductions in its income in order to support the retail margin of Synergy and the guaranteed returns of the regulated assets of Western Power. In the current year $34.8m was paid to Verve Energy from Synergy as a Netback settlement from the year ended 30 June 2008; Verve Energy did not bring that amount to account at 30 June 2008 due to its inability to independently verify such a large receivable as an asset at the time. For the current year Verve Energy has accrued $9.0 million as payable to Synergy as a Netback adjustment. In the coming year Verve Energy expects there will be a substantial re-design of the Vesting Contract such that the Corporation will have more certainty and control of its income.

The Corporation is continually alert for new commercial opportunities. The Corporation is a participant in a highly competitive market such that disclosure in this report of details concerning specific developments under consideration would be likely to result in unreasonable prejudice to the interests of the Corporation.

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 have adequate coverage. The policy indemnifies Directors and Officers of the Corporation from losses arising from a claim or claims made against them jointly or severally during the period of insurance by reason of any wrongful act (as defined in the policy) in the capacity as a Director or Officer of the Corporation.

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

10 Non-audit services

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

11 Rounding off

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

This report is made with a resolution of the Directors:

DAVID EISZELE	SHIRLEY IN'T VELD
CHAIRMAN	MANAGING DIRECTOR

Dated at Perth this 23rd day of September 2009

Income statement

For the year ended 30 June 2009

	Note	2009	2008
		$'000	$'000
Income			
Revenue	5	1,052,975	1,054,466
Other income	6	9,525	6,563
Total income		**1,062,500**	**1,061,029**
Expenses			
Fuel and electricity purchases		(796,598)	(750,978)
Raw materials and services used		(131,681)	(133,921)
Employee expenses		(87,214)	(80,674)
Depreciation and amortisation expenses		(129,679)	(124,815)
Other expenses		(50,549)	(68,979)
Total expenditure		**(1,195,721)**	**(1,159,367)**
Result from Operating Activities		(133,221)	(98,338)
Finance income		1,750	4,915
Finance expenses		(108,001)	(90,827)
Net finance expense	7	**(106,251)**	**(85,912)**
Loss before income tax	9	**(239,472)**	**(184,250)**
Income tax benefit	10	68,305	52,152
Loss for the financial year		**(171,167)**	**(132,098)**

The income statement is to be read in conjunction with the notes of the financial statements set out on pages 20 to 51.

Balance sheet

As at 30 June 2009

	Note	2009 $'000	2008 $'000
Assets			
Cash and cash equivalents	11	9,621	27,747
Trade and other receivables	12	96,417	144,565
Inventories	13	138,546	103,626
Derivative financial instruments	14	2,753	13,576
Investment	15	228	510
Total current assets		**247,565**	**290,024**
Property, plant and equipment	16	1,630,267	1,752,592
Intangible assets	17	2,600	2,012
Deferred tax assets	20	100,316	31,690
Derivative financial instruments	14	167	6,975
Total non-current assets		**1,733,350**	**1,793,269**
Total assets		**1,980,915**	**2,083,293**
Liabilities			
Trade and other payables	21	156,683	202,190
Interest-bearing loans and borrowings	22	184,150	103,439
Employee benefits	23	27,741	26,168
Provisions	24	50,169	60,336
Derivative financial instruments	14	9,766	4,440
Total current liabilities		**428,509**	**396,573**
Interest-bearing loans and borrowings	22	1,112,640	1,016,790
Employee benefits	23	24,491	21,578
Provisions	24	147,960	209,337
Derivative financial instruments	14	579	940
Total non-current liabilities		**1,285,670**	**1,248,645**
Total liabilities		**1,714,179**	**1,645,218**
Net assets		**266,736**	**438,075**
Equity			
Contributed equity	25	635,362	635,362
Reserves	25	(732)	(560)
Accumulated losses		(367,894)	(196,727)
Total equity		**266,736**	**438,075**

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 20 to 51.

Statement of changes in equity

	Contributed equity $'000	Hedging reserve $'000	Fair value reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2007	635,362	(498)	235	(64,629)	570,470
Effective portion of changes in fair value of cash flow hedges	-	(182)	-	-	(182)
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax	-	430	-	-	430
Net loss on investments	-	-	(545)	-	(545)
Net loss for the year	-	-	-	(132,098)	(132,098)
Total recognised income and expense for the year	-	248	(545)	(132,098)	(132,395)
Balance at 30 June 2008	**635,362**	**(250)**	**(310)**	**(196,727)**	**438,075**
Balance at 1 July 2008	635,362	(250)	(310)	(196,727)	438,075
Effective portion of changes in fair value of cash flow hedges	-	(2,046)	-	-	(2,046)
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax	-	1,564	-	-	1,564
Net loss on investment transferred to profit or loss, net of tax	-	-	310	-	310
Net loss for the year	-	-	-	(171,167)	(171,167)
Total recognised income and expense for the year	-	(482)	310	(171,167)	(171,339)
Balance at 30 June 2009	**635,362**	**(732)**	**-**	**(367,894)**	**266,736**

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 20 to 51.

Statement of cash flows

For the year ended 30 June 2009

	Note	2009	2008
		$'000	$'000
Cash flows from operating activities			
Cash receipts from customers		1,082,361	1,005,491
Cash paid to suppliers and employees		(1,137,733)	(956,571)
Interest paid		(96,245)	(81,485)
Interest received		1,893	4,896
Net cash used in operating activities	*11*	**(149,724)**	**(27,669)**
Cash flows from investing activities			
Payment for property, plant and equipment		(45,373)	(63,172)
Proceeds from disposal of assets		125	-
Net cash used in investing activities		**(45,248)**	**(63,172)**
Cash flows from financing activities			
Proceeds from borrowing		974,000	207,000
Repayment of borrowing		(797,154)	(116,734)
Net cash from financing activities		**176,846**	**90,266**
Net decrease in cash and cash equivalents		(18,126)	(575)
Cash and cash equivalents at 1 July		27,747	28,322
Cash and cash equivalents at 30 June	*11*	**9,621**	**27,747**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 20 to 51.

1 Reporting Entity

Electricity Generation Corporation trading as Verve Energy ('the Corporation') is a Corporation incorporated under the Electricity Corporation Act 2005 ("the Act") and domiciled in Australia. The financial report of the Corporation for the financial year ended 30 June 2009 comprises the Corporation and its dormant subsidiary and the Corporation's interest in associates and joint ventures.

2 Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASB's') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Electricity Corporation Act 2005 ("the Act"). The Act is specifically aligned and cross referenced to the Corporations Act 2001. The financial report also complies with the International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 23rd September 2009.

(b) Basis of measurement

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

- derivative financial instruments are measured at fair value
- investment is measured at fair value

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

- Note 14 - Derivative financial instruments
- Note 23 - Employee benefits
- Note 24 - Provisions
- Note 26 - Financial instruments

(e) Going concern

The Corporation has incurred a net loss of $171,167,000 for the financial year ended 30 June 2009 (2008: $132,098,000) and has a working capital deficiency of $180,944,000 (2008: $106,549,000). 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 facilities of $293,196,000 (2008: $470,042,000) is not utilised at the end of reporting period (refer note 22), and the fact that the Corporation is forecasting positive operating cashflows in 2010. It should be further noted that the implementation phase of the review into Verve Energy's financial position (refer note 32) will take place over the next 18 months. Accordingly the financial statements have been prepared on the going concern basis which contemplates establishment of profitable and cash flow positive operations and the realisation of assets and settlement of liabilities in the ordinary course of business.

3 Significant accounting policies

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

(a) 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 30) has been fully written off upon incorporation of the Corporation 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 jointly controlled 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.

(b) Foreign currency transactions

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

The Corporation's investment in equity securities is classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit and loss.

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

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

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

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

(ii) Derivative financial instruments

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

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

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

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

Cash flow hedges

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

Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability.

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

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

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

Other derivatives

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

Separable embedded derivative

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Buildings	40 years
Plant and equipment	2 – 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.

(e) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Corporation, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

(f) Leased assets

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Corporation's balance sheet.

(g) Inventories

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

(h) Impairment

(i) Financial assets

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

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

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

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

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

(ii) Non-financial assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. 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.

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

(i) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

(ii) Defined benefit plans

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

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

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

(iii) Long service leave

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

(iv) Termination benefits

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

(v) Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wages 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.

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

(j) Provisions

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

(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 construction of a power station or other asset on the land is completed.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. The present value is recalculated at each balance sheet with key assumptions such as future restoration costs, discount rate and consumer price index reviewed and updated at the same time.

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

(k) 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 products and is recognised when the electricity is provided.

(ii) Other energy sales

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

(iii) Contributions received

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

(iv) Contract works

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

(v) Government grants

Grants related to operational expenditure

An unconditional government grant is recognised in profit or loss as other income when the grant becomes receivable. A conditional government grant is recognised initially as deferred income when there is reasonable assurance that they will be received and that the Verve Energy will comply with the conditions associated with the grant.

Grants related to asset

Grants which compensate the Corporation for the costs of an asset are first recognised as deferred income and subsequently recorded in profit or loss to match the realisation of the cost of the relative asset.

Government grant income is recognised when the grant becomes receivable.

(l) Lease payments

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(m) Finance income and expenses

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

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

(n) Income tax

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

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in 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 reporting date, and any adjustment to tax payable in respect of previous years.

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

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

(o) Goods and services tax

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

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

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

(p) Segment reporting

As per the Act, the function of the Corporation is restricted to the South West Interconnected System ("SWIS") except where the Corporation generates and supplies or purchases electricity from renewable sources.

(q) New Standards and interpretations not yet adopted

The following Standards, amendments to Standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this financial report:

- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Corporation's 30 June 2010 financial statements and will constitute a change in accounting policy for the Corporation. In accordance with the transitional provisions the Corporation will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Corporation has not yet determined the potential effect of the revised Standard on future earnings.
- Revised AASB 101 *Presentation of Financial Statements (2007)* introduces the term of *total comprehensive income*, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner change in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Corporation's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the financial statements.

- Revised AASB 7 *Financial instruments: disclosures* introduces additional disclosure requirements in relation to fair value of financial instruments using a three-level hierarchy. Revised AASB 7, which becomes mandatory for the Corporation's 30 June 2010 financial statements, will impact the disclosure of financial instruments in the financial statements.

(r) Comparatives

Where necessary, comparatives have been reclassified for consistency with current year's classification and presentation. Reclassified balances mainly include the following:

- Other income of $4,483,000 was reclassified to revenue
- $26,298,000 in relation to impairment loss on trade receivables which was previously offsetting revenue was reclassified to be included in other expenses
- $21,048,000 in relation to reserve capacity refunds which was previously included in other expenses was reclassified to be included in fuel and electricity purchases
- Gain on interest rate swaps of $4,360,000 previously included in other income was reclassified to finance expenses
- Loss on embedded interest rate swaps and borrowing costs of $1,539,000 previously included in other expenses was reclassified to finance expenses

4 Determination of fair values

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

(i) Investment in equity securities

Investment in equity securities is classified as available-for-sale financial asset and its fair value is determined by reference to its quoted market bid price as at the balance sheet date without any deduction for transaction costs.

(ii) 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.

(iii) 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 changes in interest rates.

(iv) 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.

(v) Interest bearing loans and borrowings

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

5 Revenue

	2009 $'000	2008 $'000
Energy sale - electricity	924,234	927,996
Energy sale - others	131,915	121,987
Contract works	1,225	1,498
Contribution income	-	800
Government grants	(4,399)	2,185
	1,052,975	1,054,466

Electricity sales in the current year included $34.8m paid to the Corporation by Synergy as a Netback settlement from the year ended 30 June 2008. Such an amount was disclosed as a contingent asset at 30 June 2008 due to the Corporation's inability to independently verify such a large receivable as an asset at the time.

6 Other income

	2009 $'000	2008 $'000
Gain on derivative financial instruments	5,990	-
Miscellaneous income	3,535	6,563
	9,525	6,563

7 Net finance expense

	2009 $'000	2008 $'000
Interest income	1,750	4,915
Finance lease interest	(28,595)	(28,620)
Interest and finance charges on loans and borrowings	(65,548)	(55,563)
Unwinding of discount on provision – Decommissioning cost	(10,900)	(9,961)
Gain / (Loss) on interest rate swaps	(4,746)	4,360
Gain / (Loss) on interest rate swaps – Embedded derivative	1,788	(1,043)
	(106,251)	(85,912)

8 Auditors' remuneration

	2009 $'000	2008 $'000
Audit of financial statements	226	320
Under/(over) provided in previous year	(75)	70
	151	390

9 Loss before income tax

	2009	2008
Loss before tax includes the following specific expenses:	$'000	$'000
Impairment loss on trade receivables	(12,426)	(26,298)
Impairment loss on investment	(724)	-
Write-down of fuel value	(19,817)	-
Operating lease expense	(7,826)	(8,275)
Loss on derivative financial instruments	-	(5,529)
Contribution to defined contribution plans	(5,803)	(5,767)

10 Income tax benefit

	2009	2008
Recognised in the income statement	$'000	$'000
Current tax benefit		
Current year	-	-
Deferred tax benefit		
Origination and reversal of temporary differences	13,687	6,372
Benefit of tax loss recognised	54,618	45,780
Total income tax benefit in income statement	68,305	52,152

	2009	2008
	$'000	$'000
Reconciliation between tax benefit and loss before income tax		
Loss before income tax	(239,472)	(184,250)
Income tax using the domestic Corporation tax rate of 30%	71,842	55,275
Decrease in income tax benefit due to:		
Exempt / (non-deductible) items	6	(691)
Overprovided tax benefit in respect of prior year	(3,543)	(2,432)
Income tax benefit	68,305	52,152

11 Cash and cash equivalents

	2009	2008
	$'000	$'000
Cash at bank and on hand	140	744
Call deposits	9,481	27,003
	9,621	27,747
Reconciliation of cash flows from operating activities		
Cash flows from operating activities		
Loss for the period	(171,167)	(132,098)
Adjustments for:		
Impairment loss on trade receivables	12,426	26,298
Impairment loss on investment	724	-
Loss/(gain) on derivative financial instruments	(5,990)	5,529
Write down of inventories	19,817	-
Loss on disposal of property, plant and equipment	1,662	-
Depreciation and amortisation	129,679	124,815
Derecognition of decommissioning liability	(10,722)	-
Unwinding of discount on decommissioning provision	10,900	9,961
Operating (loss)/profit before changes in working capital and provisions	(12,671)	34,505
Decrease/(Increase) in trade and other receivables	35,722	(49,832)
Decrease/(Increase) in inventories	(54,737)	10,981
Decrease in derivative financial instruments and investment	28,454	(49,887)
(Decrease)/Increase in trade and other payables	(43,385)	86,756
Decrease in provisions and others	(34,481)	(7,914)
Decrease/(Increase) in deferred tax assets	(68,626)	(52,278)
Net cash used in operating activities	(149,724)	(27,669)

12 Trade and other receivables

	2009	2008
	$'000	$'000
Trade receivables (net of impairment)	87,045	118,026
Other receivables	3,604	5,105
Deposits	-	16,747
Prepayments	5,768	4,687
	96,417	144,565

The Corporation's exposure to credit risks and impairment losses related to trade receivable are disclosed in note 26.

13 Inventories

	2009 $'000	2008 $'000
Fuels	94,910	62,121
Raw materials	43,636	41,505
	138,546	103,626

14 Derivative financial instruments

	2009 $'000	2008 $'000
Current assets		
Forward exchange contracts - cash flow hedge	15	25
Commodity swaps	-	13,551
Interest rate swaps - embedded	1,475	-
Electricity derivatives - embedded	1,263	-
	2,753	13,576
Non-current assets		
Interest rate swaps - cash flow hedge	137	2,219
Interest rate swaps - FVTPL	-	1,175
Commodity swaps	-	3,581
Forward exchange contracts - cash flow hedge	30	-
	167	6,975
Current Liability		
Interest rate swaps - cash flow hedge	(303)	-
Interest rate swaps - embedded	-	(313)
Commodity swaps	(8,439)	-
Electricity derivatives - embedded	-	(2,215)
Forward exchange contracts - cash flow hedge	(347)	(836)
Forward exchange contracts - FVTPL	(5)	(111)
Commodity derivative - embedded	(209)	(965)
Interest rate swaps - FVTPL	(463)	-
	(9,766)	(4,440)
Non-current Liability		
Forward exchange contracts - cash flow hedge	(99)	(940)
Interest rate swaps - cash flow hedge	(480)	-
	(579)	(940)

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

(a) Interest rate swap

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

(b) Forward exchange contracts – cash flow hedge

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

(c) Commodity swap contracts

The Corporation has entered into commodity swaps to hedge against adverse commodity price movements. The swaps do not qualify for hedge accounting and therefore the gain and loss from remeasuring the hedging instruments at fair value is recognised immediately in profit or loss.

(d) Embedded derivatives

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

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

Embedded derivatives are separated from their hosting contracts and accounted for at fair value. The change in fair value is recognised immediately in profit or loss. The Corporation assesses the fair value using valuation techniques in accordance with AASB139 AG74.

The fair value of the embedded derivatives are determined by reference to parameters:

- Commodity derivative: prevailing oil market price as at maturity date
- Electricity derivative: forward price estimates based on the Corporation’s internal contracts and other market estimates.

15 Investment

	2009 $’000	2008 $’000
Listed equity security available for sale	228	510

16 Property, plant and equipment

	Land	Building	Plant & equipment	Works under construction	Leased plant	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At cost						
Balance at 1 July 2007	5,552	135,541	1,514,767	122,634	186,535	1,965,029
Additions	-	-	-	64,756	-	64,756
Transfers	-	1,137	101,209	(103,846)	-	(1,500)
Disposals/write-off	(13)	-	(1,541)	-	-	(1,554)
Decommissioning costs adjustment	-	-	(1,939)	-	-	(1,939)
Balance at 30 June 2008	5,539	136,678	1,612,496	83,544	186,535	2,024,792
Balance at 1 July 2008	5,539	136,678	1,612,496	83,544	186,535	2,024,792
Additions	-	-	-	43,251	-	43,251
Transfers	-	-	74,635	(76,273)	-	(1,638)
Disposals/write-off	-	-	(1,191)	(596)	-	(1,787)
Decommissioning costs adjustment	-	-	(33,522)	-	-	(33,522)
Balance at 30 June 2009	5,539	136,678	1,652,418	49,926	186,535	2,031,096
Depreciation and impairment losses						
Balance at 1 July 2007	-	(9,354)	(129,003)	-	(9,484)	(147,841)
Depreciation charge for the period	-	(7,519)	(109,251)	-	(7,589)	(124,359)
Balance at 30 June 2008	-	(16,873)	(238,254)	-	(17,073)	(272,200)
Balance at 1 July 2008	-	(16,873)	(238,254)	-	(17,073)	(272,200)
Depreciation charge for the year	-	(7,549)	(113,492)	-	(7,588)	(128,629)
Balance at 30 June 2009	-	(24,422)	(351,746)	-	(24,661)	(400,829)
Carrying amount						
At 30 June 2008	5,539	119,805	1,374,242	83,544	169,462	1,752,592
At 30 June 2009	5,539	112,256	1,300,672	49,926	161,874	1,630,267

(a) Leased plant

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

(b) Property, plant and equipment subject to decommissioning

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 subject to decommissioning was calculated based on the discounted future cash flows associated with the assets.

(c) Transfers

$1,638,000 was transferred from works under construction to Intangible assets (note 17) (2008:$1,500,000).

17 Intangible assets

	Computer software $'000	Exclusive rights $'000	Total $'000
At cost			
Balance at 1 July 2007	567	537	1,104
Transfers from works under construction (refer note 16)	1,500	-	1,500
Balance at 30 June 2008	2,067	537	2,604
Balance at 1 July 2008	2,067	537	2,604
Transfers from works under construction (refer note 16)	1,638	-	1,638
Balance at 30 June 2009	3,705	537	4,242
Amortisation			
Balance at 1 July 2007	(66)	(70)	(136)
Amortisation for the year	(400)	(56)	(456)
Balance at 30 June 2008	(466)	(126)	(592)
Balance at 1 July 2008	(466)	(126)	(592)
Amortisation for the year	(995)	(55)	(1,050)
Balance at 30 June 2009	(1,461)	(181)	(1,642)
Carrying amount			
At 30 June 2008	1,601	411	2,012
At 30 June 2009	2,244	356	2,600

18 Investment in joint venture entity

The Corporation has a 50% interest in an incorporated joint venture, Wind Energy Corporation Pty Ltd. Wind Energy Corporation Pty Ltd 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. Wind Energy Corporation Pty Ltd has been dormant during the financial period.

19 Interest in joint venture operation

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

20 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables	4,782	9,461	-	-	4,782	9,461
Inventories	6,475	1,065	-	-	6,475	1,065
Derivative financial instruments	2,227	-	-	(4,551)	2,227	(4,551)
Investment	218	133	-	-	218	133
Property, plant and equipment	-	-	(217,578)	(229,729)	(217,578)	(229,729)
Intangibles	385	331	-	-	385	331
Trade and other payables	4,353	-	-	-	4,353	-
Employee benefits	15,670	14,324	-	-	15,670	14,324
Provisions	66,661	78,066	-	-	66,661	78,066
Finance lease	56,996	57,081	-	-	56,996	57,081
Tax loss carry-forwards	160,127	105,509	-	-	160,127	105,509
Net tax assets / (liabilities)	**317,894**	**265,970**	**(217,578)**	**(234,280)**	**100,316**	**31,690**

Movement in temporary differences during the year:

	Balance	Recognised		Balance	Recognised in		Balance
	30 June 2007	Profit or loss	Equity	30 June 2008	Profit or loss	Equity	30 June 2009
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables	1,571	7,890	-	9,461	(4,679)	-	4,782
Inventories	-	1,065	-	1,065	5,410	-	6,475
Derivative financial instruments	(8)	(4,437)	(106)	(4,551)	6,324	454	2,227
Investment	(161)	62	232	133	218	(133)	218
Property, plant and equipment	(243,382)	13,653	-	(229,729)	12,151	-	(217,578)
Intangibles	352	(21)	-	331	54	-	385
Trade and other payables	-	-	-	-	4,353	-	4,353
Employee Benefits	13,951	373	-	14,324	1,346	-	15,670
Provisions	90,262	(12,196)	-	78,066	(11,405)	-	66,661
Finance lease	57,098	(17)	-	57,081	(85)	-	56,996
Tax loss carry-forwards	59,729	45,780	-	105,509	54,618	-	160,127
Net tax assets / (liabilities)	**(20,588)**	**52,152**	**126**	**31,690**	**68,305**	**321**	**100,316**

21 Trade and other payables

	2009 $'000	2008 $'000
Trade payables and accrued operating expense	103,930	136,850
Other payables	3,543	22,660
Deferred income	35,524	30,000
Interest accrued	13,686	12,680
	156,683	202,190

22 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 26 – Financial Instruments.

	2009	2008
Current liabilities	**$'000**	**$'000**
Finance lease liabilities	477	285
Unsecured loans and borrowings	183,673	103,154
	184,150	103,439
Non-current liabilities		
Finance lease liabilities	189,509	189,986
Unsecured loans and borrowings	923,131	826,804
	1,112,640	1,016,790
Financing arrangements		
Unsecured funding facility at reporting date		
Total facilities available	1,400,000	1,400,000
Facilities utilised at reporting date	(1,106,804)	(929,958)
Facilities not utilised at reporting date	293,196	470,042

Unsecured funding facility

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

Finance lease liabilities

Finance lease liabilities of the Corporation are payable as follows:

	2009			2008		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	$'000	$'000	$'000	$'000	$'000	$'000
Less than one year	29,015	28,538	477	28,881	28,596	285
Between one and five years	117,211	112,981	4,230	116,698	113,528	3,170
More than five years	507,369	322,090	185,279	536,896	350,080	186,816
	653,595	463,609	189,986	682,475	492,204	190,271

The lease relates to a power purchase arrangement which is not the legal form of a lease however the Corporation concluded that the arrangement contains a lease of the equipment, because fulfilment of the arrangement is economically dependent on the use of the equipment and it is unlikely that any parties other than the Corporation will receive more than an insignificant part of the output. The lease was classified as a finance lease. The Corporation could not estimate reliably the relative fair value of the lease element and other elements of the required payments. Therefore at the inception of the lease the Corporation recognised an asset and a liability at an amount equal to the estimated fair value of the equipment (note 16). The imputed finance expense on the liability was determined based on the Corporation's incremental borrowing rate.

23 Employee benefits

	2009	2008
Current liabilities	$'000	$'000
Salaries and wages accrued	5,610	4,983
Liability for long service leave	8,271	8,076
Liability for annual leave	13,860	13,109
	27,741	26,168
Non-current liabilities		
Recognised liability for defined benefit obligations	18,624	16,433
Liability for long service leave	5,867	5,145
	24,491	21,578

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.

The liability for defined benefit obligations is reviewed and recalculated by the Government Employees Superannuation Board (GESB) at each balance sheet date.

	2009 $'000	2008 $'000
Defined benefit obligations		
Amount at the balance sheet date		
Net liabilities	18,624	16,433
Changes in the present value of the defined benefit obligations are as follows:		
Defined benefit obligations at 1 July	16,433	18,654
Interest cost	1,056	1,104
Actuarial (gain)/loss	2,577	(2,749)
Service cost	83	210
Benefits paid	(1,525)	(786)
Defined benefit obligations at 30 June	18,624	16,433
Amount recognised in the income statement:		
Interest cost	1,056	1,104
Actuarial (gain)/loss	2,577	(2,749)
Service cost	83	210
Recognised in the income statement as employee expenses	3,716	(1,435)

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

	2009	2008
Discount rate at 30 June	5.34%	6.64%
Expected salary increases	4.50%	4.50%
Expected pension increase rate	2.50%	2.50%

24 Provisions

	Decommissioning costs	Others	Total
	$'000	$'000	$'000
Balance at 1 July 2007	192,779	108,092	300,871
Provisions used during the period	(476)	(38,744)	(39,220)
Unwinding of discount on provision	9,961	-	9,961
Change in assumptions	(1,939)	-	(1,939)
Balance at 30 June 2008	200,325	69,348	269,673
Current	25,068	35,268	60,336
Non-current	175,257	34,080	209,337
Balance at 30 June 2008	200,325	69,348	269,673
Balance at 1 July 2008	200,325	69,348	269,673
Provisions used during the period	(1,347)	(36,853)	(38,200)
Unwinding of discount on provision	10,900	-	10,900
De-recognition of provision	(10,722)	-	(10,722)
Change in assumptions	(33,522)	-	(33,522)
Balance at 30 June 2009	165,634	32,495	198,129
Current	17,674	32,495	50,169
Non-current	147,960	-	147,960
Balance at 30 June 2009	165,634	32,495	198,129

Decommissioning costs

The Corporation estimates the future removal cost of generating facilities at the time 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 costs, future removal technologies in determining removal cost, and asset specific discount rates to determine the present value of these cash flows. Such assumptions are reviewed and updated at least once a year at each balance sheet date.

Because of the long-term nature of the liability, there is significant uncertainty around the estimated restoration costs that will be incurred. The Corporation has assumed the sites will be restored using the technology and materials that are available currently. The provision has been calculated using a discount rate of 6.49% (2008: 6.4%).

Others

On incorporation of the Corporation, 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.

25 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.

Hedging reserve

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

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 or impaired.

26 Financial instruments

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

- credit risk
- liquidity risk
- market risk.

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

Overview

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

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

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

Credit risk

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

Trade and other receivables

The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Corporation's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. Approximately 76% (2008: 79%) of the Corporation's revenue is attributable to sales transactions with a single customer.

The Corporation has established a credit policy under which each new customer is analysed individually for creditworthiness before the Corporation's standard payment and delivery terms and conditions are offered. The Corporation review includes external ratings, when available. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Board; these limits are reviewed quarterly. Customers that fail to meet the Corporation's benchmark creditworthiness may transact with the Corporation only on a prepayment basis or with a security in an acceptable form.

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

Investments and derivative financial instruments

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

Exposure to credit risk

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

The Corporation's maximum exposure to credit risk at the reporting date was:

	2009	2008
	$'000	$'000
Cash and cash equivalents	9,621	27,747
Trade receivables (net of impairment)	87,045	118,026
Other receivables	3,604	5,105
Deposits	-	16,747
Derivative financial assets	2,920	20,551
Available-for-sale financial assets	228	510
	103,418	188,686

The Corporation's most significant customer, Synergy, accounts for $63.0 million of the trade receivables carrying amount at 30 June 2009 (2008: $70.9 million)

The ageing of the Corporation's trade receivables at 30 June 2009 was:

	2009		2008	
	Gross	Impairment	Gross	Impairment
	$'000	$'000	$'000	$'000
Not past due	85,221	(482)	116,077	-
Past due 0-30 days	1,177	(487)	4,286	(3,088)
Past due 31-90 days	1,584	(1,332)	8,314	(7,575)
More than 90 days	15,003	(13,639)	20,884	(20,872)
	102,985	(15,940)	149,561	(31,535)

Impaired amounts relate to receivables under dispute.

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

	2009	2008
	$'000	$'000
Balance at 1 July	(31,535)	(5,237)
Impairment loss recognised	(12,426)	(26,298)
Impairment loss utilised	28,021	-
Balance at 30 June	(15,940)	(31,535)

Liquidity risk

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

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

30 June 2009	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial assets							
Forward exchange contract – cashflow hedge							
Inflow	45	2,283	421	110	-	1,752	-
Outflow	-	(2,230)	(407)	(107)	-	(1,716)	-
Interest rate swaps – cashflow hedge	137	159	(160)	(92)	411	-	-
	182	212	(146)	(89)	411	36	-
Derivative financial liabilities							
Commodity swaps – embedded	(209)	(216)	(108)	(108)	-	-	-
Commodity swaps – FVTPL	(8,439)	(10,517)	(4,502)	(6,015)	-	-	-
Forward exchange contract – cashflow hedge							
Inflow		9,669	2,558	1,732	5,379	-	-
Outflow	(446)	(10,537)	(2,811)	(1,878)	(5,848)	-	-
Forward exchange contracts – FVTPL							
Inflow	-	81	81	-	-	-	-
Outflow	(5)	(86)	(86)	-	-	-	-
Interest rate swaps – cashflow hedge	(783)	(699)	(589)	(257)	(276)	216	207
Interest rate swaps – FVTPL	(463)	(467)	(467)	-	-	-	-
	(10,345)	(12,772)	(5,924)	(6,526)	(745)	216	207
Non-derivative financial liabilities							
Finance lease	(189,986)	(653,595)	(14,508)	(14,507)	(29,102)	(88,109)	(507,369)
Interest-bearing loans and borrowings	(1,106,804)	(1,386,060)	(138,540)	(103,248)	(264,153)	(383,627)	(496,492)
Trade and other payables	(121,159)	(121,159)	(121,159)	-	-	-	-
	(1,417,949)	(2,160,814)	(274,207)	(117,755)	(293,255)	(471,736)	(1,003,861)
Total	(1,428,112)	(2,173,374)	(280,277)	(124,370)	(293,589)	(471,484)	(1,003,654)

30 June 2008	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial assets							
Forward exchange contract – cashflow hedge							
Inflow	25	244	244	-	-	-	-
Outflow	-	(219)	(219)	-	-	-	-
Interest rate swaps – cashflow hedge	2,219	2,714	343	361	542	852	616
	2,244	2,739	368	361	542	852	616
Derivative financial liabilities							
Electricity derivatives	(2,215)	(2,327)	(219)	(1,011)	(991)	(515)	409
Commodity swaps – embedded	(965)	(1,084)	(270)	(270)	(544)	-	-
Interest rate swaps – embedded	(313)	(347)	(11)	(95)	(150)	(91)	-
Forward exchange contract – cashflow hedge							
Inflow	-	16,598	3,749	4,286	3,031	5,532	-
Outflow	(1,776)	(19,645)	(4,242)	(4,745)	(3,572)	(7,086)	-
Forward exchange contracts – FVTPL							
Inflow	-	10,587	10,587	-	-	-	-
Outflow	(111)	(10,729)	(10,729)	-	-	-	-
	(5,380)	(6,947)	(1,135)	(1,835)	(2,226)	(2,160)	409
Non-derivative financial liabilities							
Finance lease	(190,271)	(682,475)	(14,419)	(14,462)	(29,015)	(87,683)	(536,896)
Interest-bearing loans and borrowings	(929,958)	(1,249,955)	(48,552)	(72,491)	(181,737)	(357,716)	(589,459)
Trade and other payables	(172,190)	(172,190)	(172,190)	-	-	-	-
	(1,292,419)	(2,104,620)	(235,161)	(86,953)	(210,752)	(445,399)	(1,126,355)
Total	(1,295,555)	(2,108,828)	(235,928)	(88,427)	(212,436)	(446,707)	(1,125,330)

Market Risk

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

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

Interest rate risk

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

Profile

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

	Carrying amount	
	2009	**2008**
Fixed rate instruments	**$'000**	**$'000**
Financial assets	1,475	-
Financial liabilities	(1,106,790)	(1,025,542)
	(1,105,315)	(1,025,542)
Variable rate instruments		
Financial assets	9,758	30,841
Financial liabilities	(191,246)	(95,000)
	(181,488)	(64,159)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

		-100 basis points		+100 basis points	
	Carrying amount	**Profit**	**Equity**	**Profit**	**Equity**
2009	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	9,621	(96)	-	96	-
Interest rate swaps	(1,109)	105	2,520	(104)	(2,412)
Borrowings	(1,106,804)	1,900	-	(1,900)	-
Interest rate swaps - embedded	1,475	13	-	(13)	-

		-100 basis points		+100 basis points	
	Carrying amount	**Profit**	**Equity**	**Profit**	**Equity**
2008	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	27,747	(277)	-	277	-
Interest rate swaps	3,394	358	1,379	(352)	(1,290)
Borrowings	(929,958)	950	-	(950)	-
Interest rate swaps - embedded	(313)	50	-	(50)	-

Currency risk

Profile

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

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

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

Exposure to currency risk

The Corporation's exposure to foreign currency risk at balance sheet date was as follows, based on notional amounts:

30 June 2009 (AUD'000s)	**USD**	**euro**	**GBP**	**CHF**
Estimated forecast purchases	(8,680)	(1,070)	(2,220)	-
Forward exchange contracts	8,680	1,070	2,220	-
Net exposure	-	-	-	-
30 June 2008 (AUD'000s)				
Estimated forecast purchases	(12,671)	(5,891)	(2,251)	(8,900)
Forward exchange contracts	12,671	5,891	2,521	8,900
Net exposure	-	-	-	-

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2009	**2008**	**2009**	**2008**
USD	0.7473	0.8966	0.8135	0.9634
euro	0.5418	0.6098	0.5754	0.6101
GBP	0.4627	0.4477	0.4862	0.4833
CHF	0.8342	0.9943	0.7537	1.0162

Sensitivity analysis

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

	-10%		**+10%**	
	Profit	**Equity**	**Profit**	**Equity**
2009	$'000	$'000	$'000	$'000
USD	-	(924)	-	756
GBP	(21)	(188)	21	188
euro	33	(99)	(33)	99
2008				
USD	(1,174)	(902)	961	738
GBP	-	(543)	-	543
euro	-	(213)	-	213

Other market price risk

Profile

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

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

Sensitivity analysis

A change of 10% in the market price of commodity/equity would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and foreign exchange rates, remain constant. The analysis is performed on the same basis for 2008

		-10%		+10%	
	Carrying amount	**Profit**	**Equity**	**Profit**	**Equity**
2009	$'000	$'000	$'000	$'000	$'000
Investment	228	(23)	-	23	-
Commodity swaps	(8,439)	1,476	-	(1,476)	-
Embedded electricity derivative	1,263	1,032	-	(1,032)	-
Embedded commodity derivative	(209)	45	-	(45)	-
2008					
Investment	510	-	(51)	-	51
Commodity swaps	17,132	4,450	-	(4,450)	-
Embedded electricity derivative	(2,215)	3,078	-	(3,078)	-
Embedded commodity derivative	(965)	141	-	(141)	-

Fair values versus carrying amounts

Other than disclosed below, the carrying values of the financial assets and liabilities approximate the fair values as at 30 June 2009:

		2009		2008	
		Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	Note	$'000	$'000	$'000	$'000
Interest-bearing loans and borrowings	*22*	1,106,804	1,116,009	929,958	896,151

Interest rates used for determining fair value

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

	2009	**2008**
Derivative financial instruments	3%-5.97%	7.25%-7.96%
Interest-bearing liabilities and borrowings	2.92%-6.37%	7.06%-7.85%

27 Operating leases

	2009	2008
Leases as lessee	**$'000**	**$'000**
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	33,222	23,068
Between one and five years	17,472	41,978
More than five years	5	372
	50,699	65,418

28 Capital and other commitments

	2009	2008
	$'000	**$'000**
Committed capital expenditure are payable as follows:		
Less than one year	26,736	16,196
Between one and five years	-	492
	26,736	16,688

29 Contingencies

The Corporation has commenced litigation against North West Shelf gas sellers. The quantum of the claim is up to $40 million and concerns the interpretation of the long term agreement for the supply of gas in relation to shortfall gas and the failure to supply gas as required in the period June 2008 to September 2008. Successful litigation represents a contingent asset of up to $40 million.

The Corporation provides for the restoration of its power station sites including any environmental rehabilitation as required by various environmental regulations (and as disclosed in note 24). Based on management's best estimates and assumptions, the Corporation has made adequate provision to cover these anticipated restoration costs. However many of these costs will be incurred at some time in the future and as such the provisions will be subject to changes due to uncertainty surrounding such estimates and assumptions. In addition there may be residual environmental obligations on sites which have been declared rehabilitated and to the extent these may arise represent contingent liabilities to the Corporation. Management does not have any means of quantifying this residual exposure.

30 Subsidiary

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

31 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 David Russell Eiszele (Chairperson)

Mr Harvey Russell Collins (Deputy Chairperson)

Mr Ian Charles Purcell

Mr Keith William Spence (appointed 19 May 2009)

Ms Gaye Marie McMath (appointed 19 May 2009)

Mr Peter James West (Chairperson) (retired January 2009)

Mr John Joseph O'Connor (resigned 18 March 2009)

Ms Martine Daniele Pop (resigned 30 April 2009)

Executives

Mr Derek Noakes

Mr Jason Waters

Mr Tony Narvaez

Mr Wally Borovac (appointed 21 August 2008)

Mr Ross Stidolph (appointed 23 February 2009)

Mr Fred Sibenaler (resigned 24 February 2009)

Mr Karl Matacz (resigned 11 August 2008)

Executive Director

Ms Shirley Eleanor In't Veld (Managing Director)

Directors' and executive remuneration

The directors' and executive remuneration included in employee expenses in the income statement are as follows:

	2009 $'000	2008 $'000
Short term employee benefits	1,784	1,775
Post employment benefits	572	152
Termination benefits	348	1,269
	2,704	3,196

No Directors or Executives have entered into a material contract with the Corporation since the end of the financial period.

32 Subsequent events

Following Board approval in August 2009, the Minister gave his approval for the Corporation to enter into the contract to purchase gas turbines and associated equipment and services for the construction of its proposed high efficiency gas turbine (HEGT) project. The HEGT project has an expected capital expenditure of $263 million over two years and will be fully funded by an equity injection from the Government.

On 26 August 2009, the Minister announced that the Government had completed its review of Verve Energy's financial position and concluded that the solution to restoring profitability to Verve Energy was in a review of the Market Rules and the Vesting Contract between Verve Energy and Synergy. The Government further confirmed that the Corporation would not be remerged with the Government owned electricity retailer, Synergy.

Other than those stated above, no 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 has arisen in the interval between the end of the financial year and the date of this report.

33 Segment Reporting

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

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 2009 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

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

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

2 The Directors have been given the declarations by the Managing Director and Chief Financial Officer for the financial year ended 30 June 2009 pursuant to the *Electricity Corporations Act 2005.*

Dated at Perth this 23rd day of September 2009

Signed in accordance with a resolution of the Directors:

DAVID EISZELE	SHIRLEY IN'T VELD
CHAIRMAN	MANAGING DIRECTOR

Auditor General

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

To the Parliament of Western Australia

I have audited the financial report of the Electricity Generation Corporation, which comprises the Balance Sheet as at 30 June 2009, and the Income Statement, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

The directors of the Electricity Generation Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Electricity Corporations Act 2005. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Summary of my Role

As required by the Electricity Corporations Act 2005, my responsibility is to express an opinion on the financial report based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer www.audit.wa.gov.au/pubs/AuditPracStatement_Feb09.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.

Audit Opinion

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

(a) giving a true and fair view of the Corporation's financial position as at 30 June 2009 and of its performance for the year ended on that date; and

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

GLEN CLARKE
ACTING AUDITOR GENERAL
23 September 2009

4th Floor Dumas House 2 Havelock Street West Perth 6005 Western Australia Tel: 08 9222 7500 Fax: 08 9322 5664