



Annual Report

2010

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Verve Energy is Western Australia's leading electricity producer.

Safety is our overarching value, and ethical behaviour is a driving force for all our activities which must be open and accountable.

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

The company is a key participant in the WA Government's Strategic Energy Initiative that will underpin the State's energy needs for the next 20 years.

Verve Energy is committed to investing in cleaner energy, and is at the forefront in developing sustainable energy solutions, using wind, bio-energy and solar energy.

Highlights 2010

- 44% improvement in safety performance
- Ongoing excellent plant availability underpinning reliable electricity supplies
- Improved reliability – Forced outage Factor (FoF) 2.2%
- Positive and sustainable financial return on assets
- Achieved profitability – NPAT \$97.5 million
- Reduced net debt by 8.4%
- High efficiency gas turbines (HEGTs) at Kwinana on track for completion in late 2011
- Reduced total emissions by 24%

Chairman and Managing Director's Report

Safety, operational and financial performances were strong outcomes for Verve Energy during the year.

Safety

The Board and management team focused on Verve Energy's safety culture and performance and is pleased with the marked improvement in the safety results.

During the year, we launched a new safety program, "Safety For All – Harm For None" which systematically targets people, systems and plant safety.

We will continue our safety improvement focus for 2010/2011 by investing in our people and ongoing safety improvement. In addition, extra professional safety resources will be recruited to assist Verve Energy on our journey towards Zero Harm.

Production

Operationally our performance has been robust and we continue to invest in improvements in our generation plant. Our forced outage factor, which measures reliability was 2.2%, our lowest yet, reflecting the efforts put into the overhaul and maintenance programs at our power stations over the past four years.

We are now undertaking two major projects to ensure ongoing reliability of supply: two 100MW high efficiency gas turbines (HEGTs) at Kwinana and the refurbishment of Muja AB.

The two HEGTs will meet the important mid-merit and peaking loads and will have a stop-start capability to support our role as balancer in the market. They will also be dual-fuelled to provide additional security in the event of a gas disruption, and are expected to be completed by October 2011.

The refurbishment of four coal fired generating units comprising Muja Power Station's Stages A and B is a joint venture between Verve Energy and Inalco, and includes the installation of pollution reduction equipment to limit particulate emissions to world's best practice standards. Muja AB will operate on a mid-merit basis, for between 10-15 years, allowing time for low-carbon generation technologies and commercial carbon capture solutions to be developed to replace existing technologies.

We continue with our commitment to sustainability and are investing in a six turbine extension of the Albany Wind Farm. This extension, known as Grasmere Wind Farm, will produce a further 14MW of electricity, and Grasmere and Albany wind farms together are expected to produce 104GWh to meet approximately 80% of Albany's electricity needs with renewable energy. The project is expected to be completed by early 2012.

The only impediment to continuing operational improvement is the current surplus of base load generating plant on the South West Interconnected System (SWIS) which results in Verve Energy plant being under-utilised for significant periods of time. We are in the process of conducting an Operational Review to prepare mitigation measures by establishing the best way to restructure our working arrangements to match plant dispatch.

Financial

After four years as a participant in Western Australia's new electricity market, Verve Energy is pleased to announce our strong financial performance and a net profit after tax of \$97.5 million, following a \$171 million loss the previous year.

We are operating in an evolving commercial market place and have worked hard to become profitable. Without losing sight of our position as the State's major electricity generator, we are focused on cost and debt management, and productivity growth.

Verve Energy's financial performance has improved significantly and we are now a forward looking, commercially successful energy business. This year's significant turnaround in financial performance is the result of a range of factors including cost reflective electricity tariffs and associated Community Service Obligation payments to our major customer Synergy, as well as ongoing improvements in our operational performance. This result will enable us to pay the State Government a dividend, expected to be around \$63.4 million.

With a substantial increase in revenue and a reduction of debt, our Return on Capital Employed (ROCE) improved from -8.7% to +13.9%. An appropriate return on Verve Energy's assets is critical to sustain Verve Energy's ability to supply electricity.

Verve Energy Review

In early 2009, the Minister commissioned energy consultant Peter Oates to review Verve Energy's financial situation and outlook. Mr Oates completed his report in August 2009. Redesign of the energy market and the need to address Verve Energy's financial predicament were two key recommendations from this Verve Energy Review. Verve Energy is working closely with the Government in relation to the implementation of the recommendations, in particular, the re-negotiation of the Vesting Contract and the market rules.

Looking ahead

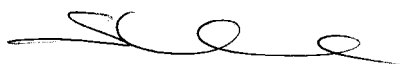
As a result of the State Government's decision to ensure tariffs reflect the true cost of electricity in the market, Verve Energy is now well placed to continue to operate profitably and competitively in the market, and to focus on continuous improvement in all areas of our operations. However it is critical that the recommendations of the Verve Energy Review are implemented in full to ensure our long-term commercial viability.

Verve Energy is currently reviewing the key strategic issues facing the corporation and we will launch our new strategic plan early in the 2011 financial year, setting the direction to continue to underpin Western Australia's electricity needs.

The 2009/2010 year has been a watershed year for Verve Energy and we would like to record our sincere thanks to the Board and the Verve Energy team for their efforts, dedication and contribution to our business.



David Eiszele
Chairman



Shirley In't Veld
Managing Director

Our People and their Health and Safety

Verve Energy has a team of motivated and enthusiastic people. We value our employees and strive to provide a safe and positive working environment.

We have a friendly team environment where people are treated fairly and consistently. We value and encourage diversity in the workplace, and the contributions from people with different backgrounds, experiences and perspectives. Verve Energy is family friendly and promotes work-life balance.

At 30 June 2010, Verve Energy had 612 employees across five main sites, and their professionalism is vital to the success of the company. Our employees have been instrumental in the successful deployment of our best practice maintenance program which has delivered significantly improved plant performance.

Verve Energy has 26 apprentices at its power stations, and offers technical traineeships and graduate engineer positions to maintain the pool of qualified people who are essential for our future.

Equal Employment Opportunity

Verve Energy supports Equal Opportunity in the workplace, including a Diversity Policy, Flexible Working Arrangements, and an Equal Employment Opportunity Management Plan.

During the year, Verve Energy promoted an increased awareness of diversity in the workplace, highlighted by a very successful Diversity Challenge program for all employees, as we build a more inclusive work environment.

Health & Safety

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

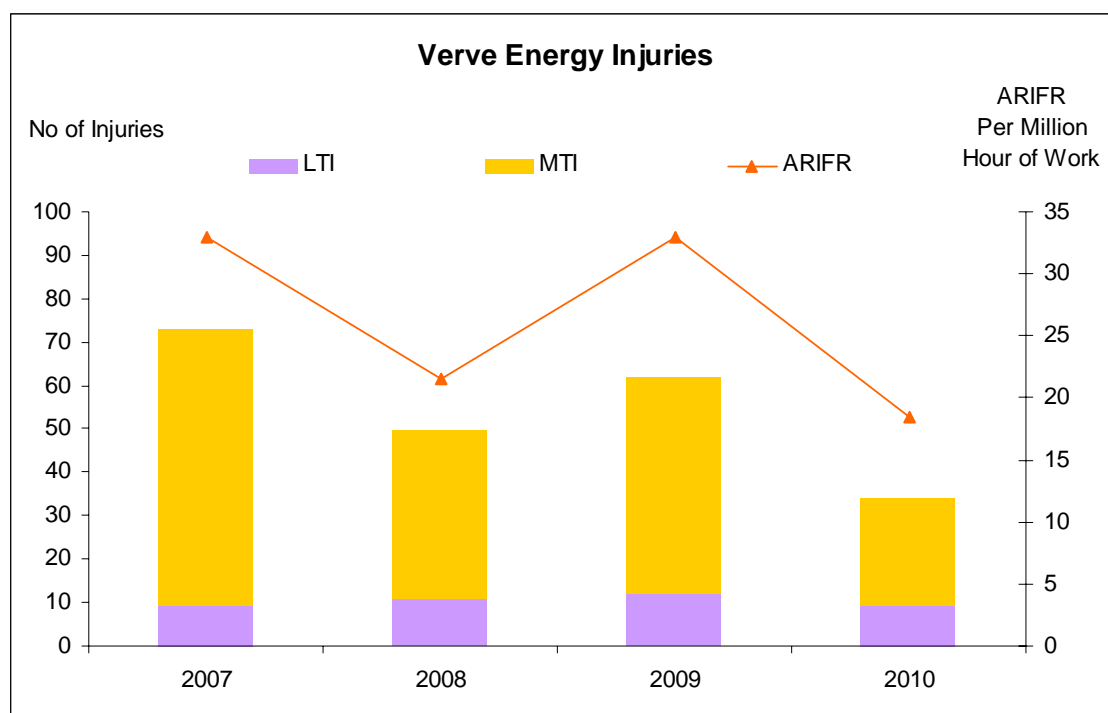
We continually strive to improve the quality of working life and business performance, reduce the risks of illness and injury, and boost the well-being of our people.

Every person working for Verve Energy is accountable for and accepts a personal responsibility to provide a safe and healthy workplace for themselves and their fellow workers.

Our commitment to safety has seen a significant improvement in our safety performance.

Safety Report

Since disaggregation Verve Energy has been working to improve its safety performance and in 2009/2010 Verve Energy recorded a significant improvement in our All Recordable Injury Frequency Rate (ARIFR), which reduced by 44% compared to the previous year. Total Lost Time Injuries and Medical Treatment Injuries have reduced in the current year as outlined in the following graph.



Many safety improvement initiatives implemented throughout Verve Energy's operations during the year contributed to this improved result, including:

- a higher focus on site safety leadership and accountability;
- the introduction of Safety Conversation Training;
- enhanced consultation and Employee Safety Ownership;
- an increase in the reporting of hazards and near misses (a strong indicator that our people are actively seeking to improve workplace safety);
- the ongoing dedicated work of elected safety representatives;
- the launch of our "Safety for All – Harm for None" program, which lays the foundation for a more effective and robust future safety culture;
- the implementation of Hazard and Operability Studies;
- the introduction of Root Cause Analysis; and
- ongoing enhancement of our Permit to Work System in preparation for the introduction of an Integrated Safe System of Work.

Several safety milestones occurred during the year, including:

- Gas Turbines & Sustainable Operations celebrated 20 years without a lost time injury;
- Cockburn Power Station achieved two years without a lost time injury; and
- Muja Power Station recorded an exceptional 60% reduction in the number of recordable injuries.

KEY FACTS	2009-10	2008-09
Number of employees	612	593
All Recordable Injury Frequency Rate	18.4	33.1
Corporate reputation index (%)	73	56

Financial Performance

- EBIT \$240.5 million
- NPAT \$97.5 million
- Dividend of \$63.4 million
- Net assets \$443.0 million
- Net debt \$1.18 billion
- Revenue \$1.24 billion

In 2009/2010, Verve Energy has been able to generate a strong and sustained return on its total assets of \$2.2 billion, achieving profitability with all major financial measures showing significant improvement over the previous year.

Earnings Before Income Tax (EBIT) was \$240.5 million, principally due to increased margins. Synergy is being paid increased tariffs and Community Service Obligation (CSO) payments, part of which in turn flow through to Verve Energy under the Vesting arrangement. Revenue increased by 18% over the previous year, to a total of \$1.24 billion.

The EBIT resulted in a net profit before tax of \$138.3 million, and an after-tax profit of \$97.5 million. This will enable the Board to recommend a dividend to the State of \$63.4 million.

The company spent \$133 million on its maintenance program and invested another \$158.7 million on capital assets, representing total expenditure of \$291.7 million on plant and equipment during the financial year. Of the \$158.7 million, \$87.2 million was spent on the new high efficiency gas turbines (HEGTs) and the \$71.5 million balance on sustaining and other capital. The HEGTs have been funded by equity contributions to Verve Energy.

Cost management is a key factor in achieving a solid financial outcome for Verve Energy. During the year this was impacted by the corporation's role to balance supply in the SWIS. With more entrants to the market Verve Energy's balancing role continued to grow and required burning more expensive gas in less efficient peaking plant at peak times.

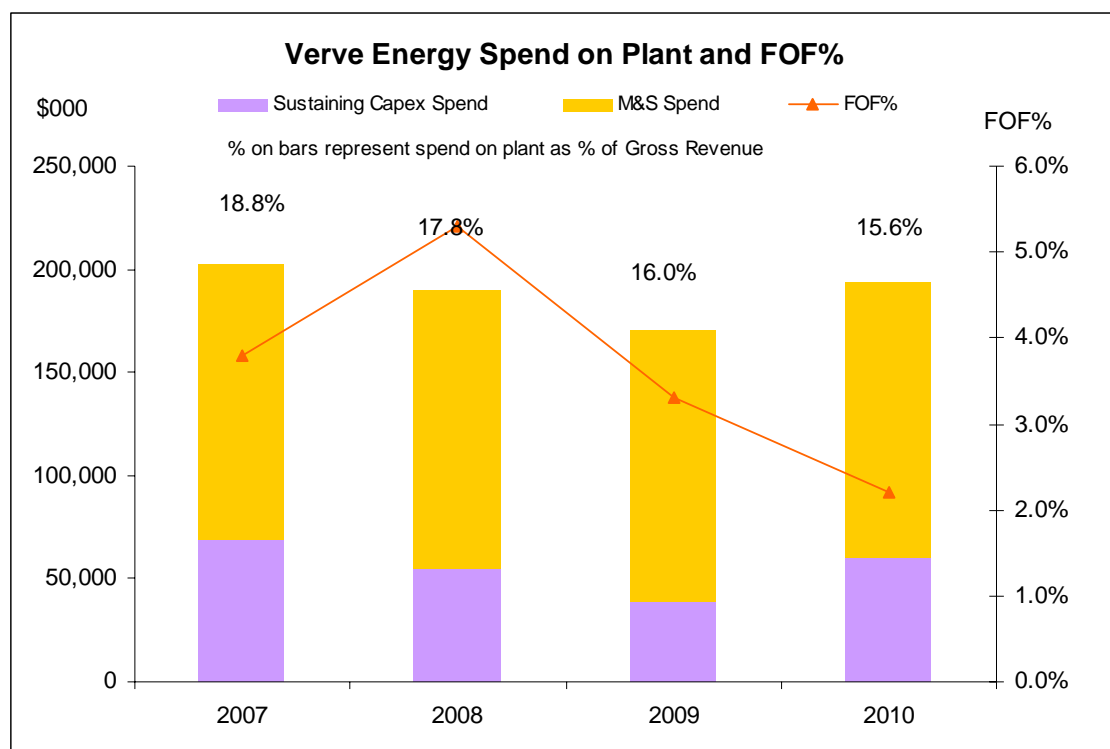
Verve Energy's net debt decreased by \$108.2 million for the year, while net assets increased by 66% to \$443 million.

KEY FACTS	2009-10	2008-09
Revenue (\$m)	1,239.5	1,053.0
EBIT (\$m)	240.5	(133.2)
Net profit before tax (NPBT) (\$m)	138.3	(239.5)
Net profit after tax (NPAT) (\$m)	97.5	(171.0)
Net borrowings (excluding finance leases) (\$m)	989.4	1097.2
Net assets (\$m)	443.0	266.7

Operational Performance

- Forced outage factor 2.2% – a 33% improvement over previous year
- Electricity supply above budget
- Emissions reduced by 24%

The ongoing reliability of Verve Energy’s plant was confirmed this year with an average forced outage factor of only 2.2%. The corporation’s expenditure of \$193.3 million in materials and services (M&S) and sustaining capital in the current year and the extensive works program on our plant over the last four years were significant factors in Verve Energy’s outstanding performance in terms of reliability of supply. As the State’s largest supplier and balancer in the market, this is Verve Energy’s key metric. Verve Energy has invested a large proportion of its gross revenue in its plant to promote efficiency and reliability which has resulted in improved plant performance.



Plant availability was slightly down on the previous year, reflecting our planned maintenance program, which is based on world’s best practice, balancing performance with cost. However, the availability result was still high at 83.8%.

Electricity supply continues to be strong and was above budget for the year. This was in part due to favourable vesting sales to Synergy and the Wholesale Electricity Market (WEM).

By keeping oil consumption to a minimum because of lower forced outages and high plant availability, costs were controlled. Gas usage exceeded estimates due to consistent running of gas plants at high capacity factors reflecting Verve Energy’s increased balancing role.

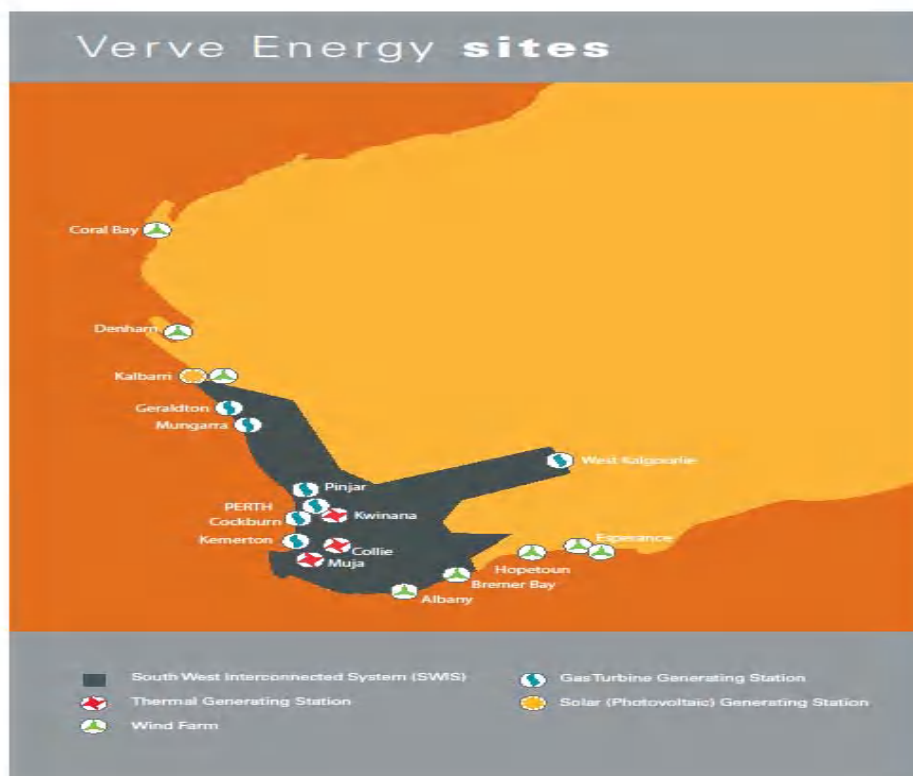
KEY FACTS	2009-10	2008-09
Supply of electricity (GWh)	11,961	14,244
Electricity generation sent out (GWh)	8,899	11,891
Forced outage factor (%)	2.2	3.3
Renewable energy generation wind and biomass (GWh)	84.3	83.3
Plant availability (%)	83.8	85.8
Thermal efficiency (%)	31.1	31.7
Total Greenhouse Gas Emissions (million tonnes CO ₂ -e)	8.1	10.6
Carbon Intensity (kgCO ₂ e/kWh electricity sent out)	0.910	0.906
Number of Environmental incidents	5	6
Number of Renewable Energy Certificates (RECs)	82,243	81,561

Our Market

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

The Wholesale Electricity Market (WEM) for the SWIS, operational since September 2006, provides an efficient platform for buyers and sellers to trade wholesale electricity. Verve Energy sells its electricity on the WEM as well as through bilateral contracts with other participants in the market. About 90% of our electricity output is sold to Synergy under the Vesting Contract established at the time of disaggregation in 2006.

With 2967MW, Verve Energy is the biggest generator in the SWIS, however the energy market is forecast to expand at a rate of 3.7% per annum. Verve Energy now competes in the market with plant mix designed to meet demand loads during peak, shoulder and non-peak periods.



Operational Review

Verve Energy provides reliability and security of electricity supply to the community by leveraging its size and diversity of fuels. Verve Energy takes seriously its 'highest order mission', and the expectation of the community and the owner, that it will provide secure and reliable power supplies at all times. With its diversity of fuels and size, it is in the best position to deliver this.

The 2009/2010 year was a strong year operationally for Verve Energy. Forced outage rates were low, plant performance improved and oil consumption was minimised.

Early in the year, maintenance programs were conducted on all generating plant in readiness for the summer peak period. This was part of Verve Energy's long-term maintenance program which contributed to our low FoF and helped ensure there were no supply issues resulting from Verve Energy plant unavailability. Major planned outages were successful, on time and on budget at Muja, Collie, Kwinana, Cockburn and Pinjar power stations and our renewable facilities.

The contracts for the supply, installation and commissioning of two high efficiency gas turbines (HEGTs) at Kwinana Power Station were completed with General Electric and UGL Ltd. In readiness for the installation of the HEGTs, the demolition of Kwinana Power Station Stage B was completed in the first quarter of 2010.

With construction of the HEGTs underway, the project is on track for completion in October 2011.

An operational review commenced mid-year, to address the challenges presented by Verve Energy's changed operating environment where there is an oversupply of base load generation in WA.

Electricity generation was lower as the result of Verve Energy, in its role as balancer in the market, cycling its plant to make way for the oversupply of baseload capacity on the system.

	2009-10	2008-09
Generated - GWh	9,550.4	12,675.1
Sent out - GWh	8,899.4	11,890.8
Used in works - GWh	651.4	784.3
Purchased - GWh	3,061.7	2,353.2
Capacity factor %	36.2	44.6

Our Assets 2010

Generating plant	Fuel	Capacity (kW)	Acquired/commissioned
Collie	Coal	340,000	1999
Cockburn	Gas	240,000	2003
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 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	1,000	1997, 1998, 2007
Esperance – 15 turbines	Wind	5,625	1993 & 2002
Hopetoun - 2 turbines	Wind	1,200	2004 & 2007
Kalbarri Wind Farm – 2 turbines	Wind	1,600	2008

Sustainability

Verve Energy is committed to the principles and practices of good corporate citizenship, and a sustainable approach to all its activities.

We recognise that our long-term success is dependent on best practice environmental performance and strong community relations. It is also critical to protect the safety of all employees and community members in the areas of our operations.

Sustainable Energy

Verve Energy is committed to investing in cleaner energy, and is at the forefront in developing sustainable energy production – using wind, bio-energy and solar energy.

Our green energy systems include seven established wind farms, a solar facility and a pilot bio-mass facility.

Verve Energy is working to reduce greenhouse gas emissions by installing more efficient generation technology, improving the efficiency of existing plant, closing old inefficient plant, and developing renewable energy sources. We also sponsor carbon-reducing research including carbon capture and storage.

Our existing sustainable energy systems reduce the amount of greenhouse gases by many thousands of tonnes a year compared to conventional systems. We are committed to further developing our sustainable energy technologies.

Verve Energy is actively developing a range of new renewable energy projects, utilising the abundant wind and solar resources within Western Australia. These projects, in various stages of development, capitalise on Verve Energy's experience in developing, owning and operating renewable power generators, contributing to a cleaner society.

HEGTs

Our two new HEGTs at Kwinana Power Station, due for commissioning in October 2011, will improve Verve Energy's overall plant efficiency by making better use of fuel, reducing emissions and lowering the carbon intensity of our generation portfolio.

They will operate primarily on natural gas, with liquid fuel as a backup. When running on gas, emissions of major pollutants from the HEGT units will be best practice for an open cycle gas turbine.

Muja Stages A and B

The joint-venture refurbishment of Muja Stages A and B will enable Verve Energy to run the units as mid-merit for a further 10 -15 years. This investment will allow time for low-carbon generation technologies to be developed. Running Muja AB for this period then replacing it with 2020s low-carbon technology, rather than building a new coal-fired power station with current technology, will result in lower carbon emissions in the long term.

We also are introducing pollution reduction equipment which will improve the environmental performance of the refurbished plant by virtually eliminating the emission of particulates - a by-product of burning coal.

Environment

Verve Energy takes its environmental responsibilities seriously. High quality environmental management builds a strong bond amongst employees and our reputation is enhanced as a result among the communities in which we operate, regulators, industry and other stakeholders.

Environmental Management System

Verve Energy's Environmental Management System (EMS) is built on the principles of ISO 14001:2004, an international standard for assessing and managing environmental risk and achieving continual improvement in environmental performance.

The EMS at Perth Office, Muja Power Station and Kwinana Power Station are externally certified to ISO 14001:2004, and surveillance audits were completed in June 2009 and repeated in July 2010 with reasonable expectation of continued certification.

Environmental training courses are regularly provided to our people to develop and maintain the awareness and skills necessary to continually improve Verve Energy's environmental performance.

Emissions

Verve Energy, as a user of fossil fuels, has both the opportunity and the responsibility to reduce greenhouse emissions from its electricity production. Our commitment to ongoing development of sustainable energy technologies, such as our new HEGTs, is testament to the importance we assign to investment in cleaner energies.

Verve Energy's emission details are provided annually to the National Pollutant Inventory.

Environmental Incidents

There were five reportable environmental incidents for the 2009/2010 financial year, one of which resulted in action by the Department of Environment and Conservation.

Immediate corrective action was taken, no fines or penalties were issued and affected areas have been remediated.

Community

Verve Energy is committed to the principles and practices of good corporate citizenship and our community initiatives reflect our commitment to social responsibility in the areas in which we operate.

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

We have set up the highly successful Verve Energy Collie Community Fund for grants of up to \$1000 in the Collie area, and there are plans for a similar project for the Kwinana community.

We also support a youth driver training program in Collie, education scholarships for Kwinana's Gilmore College and Collie Senior High School, Kwinana Coast Care, the eternal flame in the HMAS Sydney II Memorial in Geraldton, and Constable Care in Collie and Kwinana.

Our workplace giving program, VEGAS, gives employees the opportunity to donate to charity. We give to the Royal Flying Doctor Service, Princess Margaret Hospital and WA Cancer Council.

Statutory Information

State Records Act 2000

Verve Energy maintains and supports professional recordkeeping practices in its day to day business activities in line with the *State Records Act 2000*. Verve Energy has updated its record keeping plan. An evaluation of the efficiency and effectiveness of the corporate recordkeeping systems, practices and training was completed during the financial year and the plan and related training was updated in line with that evaluation. Training is conducted on the record keeping plan along with training on Verve Energy's record keeping systems. New employees are provided with training at induction in the use of the record keeping system, the record keeping plan and their roles and responsibilities in regard to compliance with the Plan.

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 2009 to 30 June 2010 is disclosed as follows:

Market research organisation	\$16,595
Media advertising agencies	\$27,680
Total expenditure	\$44,275

Key Personnel

Board

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

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

Electricity Generation Corporation
Trading as Verve Energy
ABN 586 738 30106

Annual Financial Report
30 June 2010

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Directors' report

For the financial year ended 30 June 2010

1

1 Directors

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

<i>Name, qualifications and independence status</i>	<i>Age</i>	<i>Experience, special responsibilities and other directorships</i>
Mr David Russell Eiszele MBus, FAICD, FIE Chairperson Independent Non-Executive Director	69	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 extensive knowledge of the Power Industry. Since leaving Western Power Corporation, he has been active in the private sector. He is a Non-Executive Director of Torrens Energy Limited.
Mr Harvey Russell Collins BBus, FCPA, FAICD Deputy Chairperson Independent Non-Executive Director	61	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 Corporation and was also Interim Managing Director of Western Power Corporation for a short period. Mr Collins is Chairperson of Navitas Limited and Bank of Western Australia Ltd (Bankwest). He is a WA State Councillor of the Australian Institute of Company Directors.
Mr Ian Charles Purcell BE (Electrical) Independent Non-Executive Director	65	Mr Purcell was appointed as a Non-Executive Director in December 2007. 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	56	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 former Senior Executive with that company, Mr Spence also holds a number of directorships including Geodynamics Limited, Clough Limited and Skills Australia.
Ms Gaye Marie McMath BC, MBA; AMP, FCPA FAICD Independent Non-Executive Director	51	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	55	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.

2 Company secretary

Ms Stephanie Unwin B Econ LLB was appointed to the position of Legal Counsel and Company Secretary in April 2008. In 2010, Ms Unwin's position was retitled General Counsel and Company Secretary. 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.

Directors' report

For the financial year ended 30 June 2010

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3 Directors' meeting

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

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

A – Number of meetings attended

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

(1): In addition to these, 6 Board meetings were held via circular resolution.

4 Corporate governance statement

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

4.1 Board of Directors

Role of the Board

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

In fulfilment of this role, the Board is responsible for the overall corporate governance of the Corporation including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing and removing the 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 11 meetings each year, plus strategy meetings, meetings by circular resolution and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

Directors' report

For the financial year ended 30 June 2010

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

Independent professional advice and access to Corporation information

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

Composition of the Board

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

- No less than four and no more than six Directors appointed by the Governor of Western Australia ("the Governor") on the nomination of the Minister.
- 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; 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 - Chairperson
- Mr Ian Charles Purcell – Independent Non-Executive Director
- Mr Keith William Spence – Independent Non-Executive Director

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

Directors' report

For the financial year ended 30 June 2010

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The Remuneration and Development Committee meets at least three times a year unless otherwise required. The committee met four times during the period and the committee members' attendance record is disclosed in the table of Directors' meetings in section 3 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 executives 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's 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 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.

Directors' report

For the financial year ended 30 June 2010

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

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

Non-Executive Directors

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

4.4.2 Directors' and Executive Officers' remuneration

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

		Short Term			Post Employment	Total
		Salary & fees ¹	Short-term cash incentive	Non-monetary benefits	Super-annuation benefits	
		\$	\$	\$	\$	\$
Non-Executive Directors						
Mr David Eiszele ² (Chairperson)	2010	103,555	-	-	9,320	112,875
	2009	39,829	-	-	3,585	43,414
Mr Harvey Collins (Deputy Chairperson)	2010	68,542	-	1,333	6,289	76,164
	2009	65,729	-	1,333	6,036	73,098
Mr Ian Purcell	2010	52,417	-	1,333	4,838	58,588
	2009	50,253	-	1,333	4,643	56,229
Mr Keith Spence ²	2010	58,918	-	-	5,303	64,221
	2009	5,168	-	465	-	5,633
Ms Gaye McMath ²	2010	58,918	-	-	5,303	64,221
	2009	5,168	-	465	-	5,633
Executive Director						
Ms Shirley Eleanor In't Veld (Managing Director)	2010	376,557	127,277	1,333	45,465	550,632
	2009	374,195	60,500	1,333	39,242	475,270
Executives						
Mr Ross Stidolph ²	2010	313,588	18,961	1,333	30,049	363,931
	2009	98,618	-	359	8,908	107,885
Mr Derek Noakes	2010	280,187	48,085	1,333	29,664	359,269
	2009	265,080	27,103	1,333	26,416	319,932

Directors' report

For the financial year ended 30 June 2010

		Short Term			Post Employment	Total
		Salary & fees ¹	Short-term cash incentive	Non-monetary benefits	Super-annuation benefits	
		\$	\$	\$	\$	
Mr Tony Narvaez ³	2010	254,763	45,000	-	26,979	326,742
	2009	224,065	20,900	-	22,047	267,012
Mr Jason Waters ³	2010	256,329	36,450	1,333	26,470	320,582
	2009	230,708	15,400	8,176	22,886	277,170
Mr Wally Borovac ³	2010	236,954	37,500	1,621	24,847	300,922
	2009	223,513	-	1,179	20,222	244,912

Note:

1. Comprises salary and fees and salary sacrificed benefits (including superannuation), where applicable.
2. Appointed during the last financial year and therefore comparatives for 30 June 2009 do not reflect full year remuneration.
3. Appointed to their respective roles in 2008 and 2009 and at remuneration levels below their predecessors. Remuneration increases, based on increasing experience and performance in their roles, are expected to be higher than average for a period as their remuneration moves towards market levels.

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
- Ms Gaye Marie McMath – Independent Non-Executive Director
- Mr Ian Charles Purcell – Independent Non-Executive Director

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

The internal and external auditors, the Managing Director, Company Secretary (where applicable), Chief Financial Officer, General Manager Corporate Services, Manager Audit & Risk and other staff are invited to ARMC meetings at the discretion of the committee. The committee met 5 times during the year and committee members' attendance record is disclosed in the table of Directors' meetings under section 3 of this report.

Directors' report

For the financial year ended 30 June 2010

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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 statements for the financial year ended 30 June 2010 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 control and that the system is operating effectively in all material respects in relation to financial reporting risks.

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

Environmental regulation

The Corporation's operations are subject to significant 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.

Directors' report

For the financial year ended 30 June 2010

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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. It is available to all staff on our intranet and is also included in inductions for new employees. Everyone in the Corporation is expected to uphold these behaviours and standards. The code 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. The Fair Treatment System was promoted again to all employees during the year. Compliance with the code is assessed via employee feedback through formal surveys, feedback from formal surveys, 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 were 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:

Directors' report

For the financial year ended 30 June 2010

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- 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:

- Safety, environment and community - improve safety and environmental performance, work towards a long term goal of carbon neutrality and be socially responsible; and
- 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;
- 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 shareholder during the previous financial year.

7 Events subsequent to reporting date

The Corporation trades within the Western Australian Wholesale Energy Market ("WEM") which is an evolving but competitive environment made up of a number of generators and retailers. The WEM was designed to attract private sector investment in the WA electricity market and increase competition within the sector. Where possible, the Corporation has supported the ideals of the WEM by seeking opportunities to joint venture with the private sector and facilitate private equity and debt investment into the market. Currently investment in thermal generation plant has been curtailed following the global financial crisis and uncertainty surrounding the future treatment and imposition of carbon costs.

Directors' report

For the financial year ended 30 June 2010

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The Independent Market Operator has forecast a requirement for an additional 720MW of capacity by the Capacity Year 2014/15. Given the current investment climate, Verve Energy has sought to joint venture with a private investment and engineering group to refurbish the decommissioned Muja AB generation facility. On 16 August 2010 Verve Energy took up 50% interest in Vinalco Energy Pty Ltd, a special purpose vehicle (SPV) incorporated to refurbish Muja AB. The SPV and Verve Energy's joint venture partner are seeking to finalise commercial and financing arrangements to commence refurbishment of the plant. At the date of this report the finalisation of these arrangements was still in progress.

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 adjustments 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 \$4.8m was paid to Verve Energy from Synergy as a Netback settlement from the year ended 30 June 2009. For the current year Verve Energy has accrued \$10.8 million as receivable from Synergy as a Netback adjustment.

In early 2009, the Minister commissioned energy consultant Peter Oates to review Verve Energy's financial situation and outlook. The review was completed in August 2009. A substantial re-design of the Vesting Contract has been undertaken as a result of the review. Verve Energy and Synergy have been working together to establish a commercial bilateral contract to replace the existing Vesting Contract. The design of this commercial bilateral contract will address the current "netback" arrangement and will enable Verve Energy to have more control of its income. The essential terms of the bilateral contract have now been settled and this contract will be effective from 1 October 2010.

On 12 August 2010 the Corporation sold one of its smaller generating plant (38MW) to the contracted offtaker. The transaction is still conditional and is expected to become unconditional in January 2011. The sale is on vendor terms and does not have a material impact on Verve Energy's profitability or net asset position.

Other than the disclosure 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's financial shortfall in previous years was addressed by the government by introducing cost reflective tariffs and attendant Community Service Obligation (CSO). The CSO was 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. Synergy received a CSO of \$167.3 million which assisted them to pay cost reflective prices to the network provider and electricity generators, including 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 Interconnected System (SWIS) and the effective "supplier of last resort" service provided. A review of the Market Rules for the Wholesale Electricity Market (WEM) has emanated from the government's review of Verve Energy's financial position in August 2009.

Directors' report

For the financial year ended 30 June 2010.

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The Corporation anticipates it has significant potential liabilities under any Carbon Pollution Reduction Scheme (CPRS) or similar. Should Verve Energy not be able to recover the additional costs imposed under a 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. The Corporation has already commenced recording its emissions under the National Greenhouse and Energy Reporting Act 2007 (NGER). 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.

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

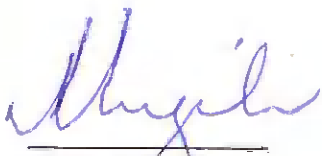
10 Non-audit services

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.

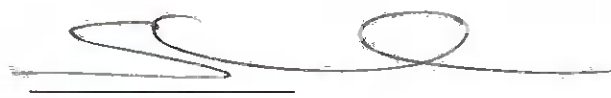
11 Rounding off

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
CHAIRMAN



SHIRLEY IN'T VELD
MANAGING DIRECTOR

Dated at Perth this 29th day of September 2010

Electricity Generation Corporation (trading as Verve Energy)

For the financial year ended 30 June 2010

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Statement of comprehensive income

For the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
Income			
Revenue	5	1,239,459	1,052,975
Other income	6	10,304	9,525
Total income		1,249,763	1,062,500
Expenses			
Fuel and electricity purchases		(605,158)	(796,598)
Raw materials and services used		(132,663)	(131,681)
Employee expenses		(95,594)	(87,214)
Impairment loss		(4,898)	-
Depreciation and amortisation		(124,382)	(129,679)
Other expenses		(46,542)	(50,549)
Total expenses		(1,009,237)	(1,195,721)
Result from Operating Activities		240,526	(133,221)
Finance income		3,590	1,750
Finance expenses		(105,806)	(108,001)
Net finance expense	7	(102,216)	(106,251)
Profit/(Loss) before income tax	9	138,310	(239,472)
Income tax (expense)/benefit	10	(40,777)	68,305
Profit/(Loss) for the financial year		97,533	(171,167)
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		(12,983)	(2,923)
Net change in fair value of cash flow hedges transferred to profit or loss		1,198	2,234
Net change in fair value of cash flow hedges transferred to property, plant and equipment		7,656	-
Net loss on investment transferred to profit or loss		-	443
Income tax on items of other comprehensive income		1,238	74
Other comprehensive income for the year, net of income tax		(2,891)	(172)
Total comprehensive income for the financial year		94,642	(171,339)

The statement of comprehensive income is to be read in conjunction with the notes of the financial statements set out on pages 16 to 49.

Electricity Generation Corporation (trading as Verve Energy)

For the financial year ended 30 June 2010

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Statement of financial position

As at 30 June 2010

	<i>Note</i>	2010 \$'000	2009 \$'000
Assets			
Cash and cash equivalents	11	103,770	9,621
Trade and other receivables	12	136,390	96,417
Inventories	13	146,484	138,546
Derivative financial instruments	14	1,124	2,753
Investment	15	228	228
Total current assets		387,996	247,565
Property, plant and equipment	16	1,679,722	1,630,267
Intangible assets	17	1,209	2,600
Deferred tax assets	20	60,777	100,316
Derivative financial instruments	14	3	167
Total non-current assets		1,741,711	1,733,350
Total assets		2,129,707	1,980,915
Liabilities			
Trade and other payables	21	166,150	156,683
Interest-bearing loans and borrowings	22	229,414	184,150
Employee benefits	23	33,930	27,741
Provisions	24	52	50,169
Derivative financial instruments	14	4,011	9,766
Total current liabilities		433,557	428,509
Interest-bearing loans and borrowings	22	1,053,226	1,112,640
Employee benefits	23	23,772	24,491
Provisions	24	174,500	147,960
Derivative financial instruments	14	1,702	579
Total non-current liabilities		1,253,200	1,285,670
Total liabilities		1,686,757	1,714,179
Net assets		442,950	266,736
Equity			
Contributed equity	25	716,934	635,362
Reserves	25	(3,623)	(732)
Accumulated losses		(270,361)	(367,894)
Total equity		442,950	266,736

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 16 to 49.

Electricity Generation Corporation (trading as Verve Energy)

For the financial year ended 30 June 2010

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Statement of changes in equity

	Contributed equity	Hedging reserve	Fair value reserve	Accumulated losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2008	635,362	(250)	(310)	(196,727)	438,075
Total comprehensive income for the year					
<i>Profit or loss</i>	-	-	-	(171,167)	(171,167)
<i>Other comprehensive income</i>					
Effective portion of changes in fair value of cash flow hedges	-	(2,923)	-	-	(2,923)
Net change in fair value of cash flow hedges transferred to profit or loss	-	2,234	-	-	2,234
Net loss on investment transferred to profit or loss	-	-	443	-	443
Income tax effect on items of other comprehensive income	-	207	(133)	-	74
Total other comprehensive income	-	(482)	310	-	(172)
Balance at 30 June 2009	635,362	(732)	-	(367,894)	266,736
Balance at 1 July 2009	635,362	(732)	-	(367,894)	266,736
Total comprehensive income for the year					
<i>Contribution by the shareholder</i>	81,572	-	-	-	81,572
<i>Profit or loss</i>	-	-	-	97,533	97,533
<i>Other comprehensive income</i>					
Effective portion of changes in fair value of cash flow hedges	-	(12,983)	-	-	(12,983)
Net change in fair value of cash flow hedges transferred to profit or loss	-	1,198	-	-	1,198
Net change in fair value of cash flow hedges transferred to property, plant and equipment	-	7,656	-	-	7,656
Income tax effect on items of other comprehensive income	-	1,238	-	-	1,238
Total other comprehensive income	-	(2,891)	-	-	(2,891)
Balance at 30 June 2010	716,934	(3,623)	-	(270,361)	442,950

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 16 to 49.

Electricity Generation Corporation (trading as Verve Energy)

For the financial year ended 30 June 2010

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Statement of cash flows

For the year ended 30 June 2010

	<i>Note</i>	2010	2009
		\$'000	\$'000
Cash flows from operating activities			
Cash receipts from customers		1,209,302	1,082,361
Cash paid to suppliers and employees		(943,366)	(1,137,733)
Interest paid		(95,585)	(96,245)
Interest received		3,590	1,893
Net cash used in operating activities	<i>11</i>	173,941	(149,724)
Cash flows from investing activities			
Payment for property, plant and equipment		(147,233)	(45,373)
Proceeds from disposal of assets		19	125
Net cash used in investing activities		(147,214)	(45,248)
Cash flows from financing activities			
Proceeds from borrowing		835,000	974,000
Repayment of borrowing		(849,150)	(797,154)
Contribution by the shareholder		81,572	-
Net cash from financing activities		67,422	176,846
Net decrease in cash and cash equivalents		94,149	(18,126)
Cash and cash equivalents at 1 July		9,621	27,747
Cash and cash equivalents at 30 June	<i>11</i>	103,770	9,621

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 16 to 49.

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 2010 comprises the Corporation and its dormant subsidiary and the Corporation's interest in associates and joint ventures.

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

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 ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Electricity Corporation Act 2005 ('the Act'). The Act is specifically aligned and cross referenced to the Corporations Act 2001. The financial 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 29 September 2010.

(b) Basis of measurement

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

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

(e) Changes in accounting policies

Starting as of 1 July 2009, the Corporation has changed its accounting policies in relation to accounting for borrowing costs and financial statement presentation.

Financial statement presentation

The Corporation has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. As a result, the Corporation includes all non-owner changes in equity in the statement of comprehensive income. The Corporation has also adopted changes to certain terminologies used in the financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard. This change in accounting policy only impacts the presentation aspect of the financial statements.

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 exists 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. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in 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 interest bearing loans and borrowings.

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

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

The Corporation's investment in equity securities is classified as available-for-sale financial assets. Subsequent to initial recognition, 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.

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

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

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

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

(ii) Derivative financial instruments

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

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

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

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

Cash flow hedges

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

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
Leased plant	25 years

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

(e) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Corporation, 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) Inventories

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

(g) Impairment

(i) Financial assets

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

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

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

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

(h) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

The discount rate is the yield at the 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 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.

(i) Provisions

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

Decommissioning cost

In accordance with the Corporation's published environmental policy and applicable legal requirements, a provision for site restoration 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.

(j) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. It is 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 Corporation 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.

A government grant is recognised when the grant becomes receivable.

(k) Leases

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

Lessee

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

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

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

(l) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised in 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.

(m) Income tax

The Corporation operates under the National Taxation Equivalent Regime (NTER) environment. While tax equivalent payments will continue to be remitted to State Treasury, the Corporation's tax is subject to Australian Taxation Office (ATO) administration. The calculation of the liability in respect of 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.

(n) Goods and services tax

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

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

(o) 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.

(p) Borrowing costs

Change in accounting policy

In respect of borrowing costs relating to qualifying assets for which the commencement of capitalisation is on or after 1 July 2009, the Corporation capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Corporation immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of AASB 123 *Borrowing Costs*. In accordance with the transitional provisions of that standard, comparative figures are not restated.

The Corporation capitalises borrowing costs with respect to property, plant and equipment and intangibles that are qualifying assets. Other borrowing costs are expensed. For the year ended 30 June 2010, this change in accounting policy has no impact as no borrowing costs qualified for capitalisation.

(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 2010, but have not been applied in preparing this financial report:

- Revised AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets. The standard is not mandatory until 1 January 2013 but is available for early adoption. Adoption of AASB 9 is unlikely to have a significant impact on the Corporation's financial statements.
- The first, second and third annual improvement projects result in amendments to various AASBs. Some of these amendments are available for early adoption. These amendments are not expected to have any material impact on the Corporation's financial statements.

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

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

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

Forward exchange contracts are either marked to market using quoted market prices at the balance sheet date or by discounting the contractual forward price and deducting the current spot rate.

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

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) 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.

(iv) Interest bearing loans and borrowings

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

(v) Financial guarantee liabilities

For financial guarantee liabilities, the fair value at initial recognition is the higher of the accumulative value of loan repayments at different default rates and the present value of finance costs saved by the guarantee, being the difference in the finance costs for the loan and a loan of the same terms without the guarantee.

(vi) Finance lease liabilities

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

5 Revenue

	2010	2009
	\$'000	\$'000
Energy sale - electricity	1,125,610	924,234
Energy sale - others	111,776	131,915
Contract works	1,649	1,225
Government grants	424	(4,399)
	<u>1,239,459</u>	<u>1,052,975</u>

For the year ended 30 June 2010 the accrual for the Netback settlement under the Vesting Contract has been included in energy sales – electricity. Electricity sales in the year ended 30 June 2009 included \$34.8 million paid to the Corporation by Synergy as a Netback settlement from the year ended 30 June 2008.

6 Other income

	2010	2009
	\$'000	\$'000
Gain on derivative financial instruments	-	5,990
Insurance recovery	7,974	747
Miscellaneous income	2,330	2,788
	<u>10,304</u>	<u>9,525</u>

7 Net finance expense

	2010	2009
	\$'000	\$'000
Interest income	3,590	1,750
Finance lease interest	(28,539)	(28,595)
Interest and finance charges on loans and borrowings	(65,774)	(65,548)
Unwinding of discount on provision – Decommissioning cost	(9,721)	(10,900)
Loss on interest rate swaps	(658)	(4,746)
Gain / (Loss) on interest rate swaps – Embedded derivative	(1,114)	1,788
	<u>(102,216)</u>	<u>(106,251)</u>

8 Auditors' remuneration

	2010	2009
	\$'000	\$'000
Audit of financial statements	<u>234</u>	<u>231</u>

9 Profit/(Loss) before income tax

	2010	2009
	\$'000	\$'000
Profit/(loss) before tax includes the following specific expenses:		
Impairment loss on trade receivables	(7,648)	(12,426)
Impairment loss on investment	-	(724)
Impairment loss on property, plant and equipment	(4,898)	-
Write-back /(write-down) of fuel inventory value	3,731	(19,817)
Operating lease expense	(3,014)	(4,152)
Loss on derivative financial instruments	(1,698)	-
Contribution to defined contribution superannuation plans	<u>(6,975)</u>	<u>(5,803)</u>

10 Income tax benefit

	2010	2009
	\$'000	\$'000
Current tax benefit		
Current year	<u>-</u>	<u>-</u>
Deferred tax benefit		
Origination and reversal of temporary differences	1,636	6,532
Benefit of tax loss (utilised)/recognised	<u>(42,413)</u>	<u>61,773</u>
Total income tax (expense)/benefit in profit or loss	<u>(40,777)</u>	<u>68,305</u>
Reconciliation between tax benefit and loss before income tax		
Profit/(loss) before income tax	138,303	(239,472)
Income tax using the domestic Corporation tax rate of 30%	(41,491)	71,842
<i>Decrease in income tax benefit due to:</i>		
Exempt / (non-deductible) items	14	6
Under/(over) provided tax benefit in respect of prior year	<u>700</u>	<u>(3,543)</u>
(Decrease)/increase in income tax benefit	<u>(40,777)</u>	<u>68,305</u>

11 Cash and cash equivalents

	2010	2009
	\$'000	\$'000
Cash at bank and on hand	4,233	140
Call deposits	99,537	9,481
	<u>103,770</u>	<u>9,621</u>

Reconciliation of cash flows from operating activities*Cash flows from operating activities*

Profit/(loss) for the period	97,533	(171,167)
Adjustments for:		
Impairment loss on trade receivables	7,648	12,426
Impairment loss	4,898	724
Loss/(gain) on derivative financial instruments	1,158	(5,990)
(Write-back)/write-down of inventories	(3,731)	19,817
Loss on disposal of property, plant and equipment	317	1,662
Depreciation and amortisation	124,382	129,679
Derecognition of decommissioning liability	(110)	(10,722)
Unwinding of discount on decommissioning provision	9,721	10,900
Operating (loss)/profit before changes in working capital and provisions	241,816	(12,671)
Changes in trade and other receivables	(47,621)	35,722
Changes in inventories	(4,207)	(54,737)
Changes in derivative financial instruments and investment	(8,126)	28,454
Changes in deferred tax assets	40,777	(68,626)
Changes in trade and other payables	(1,395)	(43,385)
Changes in provisions and others	(47,303)	(34,481)
Net cash used in operating activities	<u>173,941</u>	<u>(149,724)</u>

12 Trade and other receivables

	2010	2009
	\$'000	\$'000
Trade receivables (net of impairment)	119,508	87,045
Other receivables	2,175	3,604
Deposits	8,161	-
Prepayments	6,546	5,768
	<u>136,390</u>	<u>96,417</u>

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

13 Inventories

	2010	2009
	\$'000	\$'000
Fuels	102,178	94,910
Raw materials	44,306	43,636
	<u>146,484</u>	<u>138,546</u>

Fuels amounting to \$18,381,000 (2009: \$14,650,000) were carried at fair value less selling costs.

14 Derivative financial instruments

	2010	2009
	\$'000	\$'000
Current assets		
Interest rate swaps - cash flow hedge	400	-
Forward exchange contracts - cash flow hedge	138	15
Forward exchange contracts - FVTPL	120	-
Commodity swaps	-	-
Interest rate swaps - embedded	361	1,475
Electricity derivatives - embedded	105	1,263
	<u>1,124</u>	<u>2,753</u>
Non-current assets		
Interest rate swaps - cash flow hedge	-	137
Forward exchange contracts - cash flow hedge	3	30
	<u>3</u>	<u>167</u>
Current Liability		
Interest rate swaps - cash flow hedge	-	(303)
Commodity swaps	-	(8,439)
Forward exchange contracts - cash flow hedge	(4,011)	(347)
Forward exchange contracts - FVTPL	-	(5)
Commodity derivative - embedded	-	(209)
Interest rate swaps - FVTPL	-	(463)
	<u>(4,011)</u>	<u>(9,766)</u>
Non-current Liability		
Forward exchange contracts - cash flow hedge	(978)	(99)
Interest rate swaps - cash flow hedge	(724)	(480)
	<u>(1,702)</u>	<u>(579)</u>

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

	2010	2009
	\$'000	\$'000
Listed equity security available for sale	228	228

16 Property, plant and equipment

	Land	Building	Plant & equipment	Works under construction	Leased plant	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At cost						
<i>Balance at 1 July 2008</i>	5,539	136,678	1,612,496	83,544	186,535	2,024,792
<i>Additions</i>	-	-	-	43,251	-	43,251
<i>Transfers</i>	-	-	74,635	(76,273)	-	(1,638)
<i>Disposals/write-off</i>	-	-	(1,191)	(596)	-	(1,787)
<i>Decommissioning costs adjustment</i>	-	-	(33,522)	-	-	(33,522)
<i>Balance at 30 June 2009</i>	5,539	136,678	1,652,418	49,926	186,535	2,031,096
<i>Balance at 1 July 2009</i>	5,539	136,678	1,652,418	49,926	186,535	2,031,096
<i>Additions</i>	-	-	-	158,095	-	158,095
<i>Transfers</i>	-	-	18,899	(18,899)	-	-
<i>Disposals/write-off</i>	-	-	(571)	-	-	(571)
<i>Decommissioning costs adjustment</i>	-	-	19,585	-	-	19,585
<i>Balance at 30 June 2010</i>	5,539	136,678	1,690,331	189,122	186,535	2,208,205
Depreciation and impairment losses						
<i>Balance at 1 July 2008</i>	-	(16,873)	(238,254)	-	(17,073)	(272,200)
<i>Depreciation charge for the period</i>	-	(7,549)	(113,492)	-	(7,588)	(128,629)
<i>Balance at 30 June 2009</i>	-	(24,422)	(351,746)	-	(24,661)	(400,829)
<i>Balance at 1 July 2009</i>	-	(24,422)	(351,746)	-	(24,661)	(400,829)
<i>Depreciation charge for the year</i>	-	(7,549)	(107,854)	-	(7,588)	(122,991)
<i>Disposals/write-off</i>	-	-	235	-	-	235
<i>Impairment on idle assets</i>	-	-	(4,898)	-	-	(4,898)
<i>Balance at 30 June 2010</i>	-	(31,971)	(464,263)	-	(32,249)	(528,483)
Carrying amount						
<i>At 30 June 2009</i>	5,539	112,256	1,300,672	49,926	161,874	1,630,267
<i>At 30 June 2010</i>	5,539	104,707	1,226,068	189,122	154,286	1,679,722

(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

In 2009, \$1,638,000 was transferred from works under construction to Intangible assets (note 17).

17 Intangible assets

	Computer software	Exclusive rights	Total
	\$'000	\$'000	\$'000
At cost			
<i>Balance at 1 July 2008</i>	2,067	537	2,604
<i>Transfers from works under construction (refer note 16)</i>	1,638	-	1,638
<i>Balance at 30 June 2009</i>	<u>3,705</u>	<u>537</u>	<u>4,242</u>
<i>Balance at 1 July 2009</i>	3,705	537	4,242
<i>Transfers from works under construction (refer note 16)</i>	-	-	-
<i>Balance at 30 June 2010</i>	<u>3,705</u>	<u>537</u>	<u>4,242</u>
Amortisation			
<i>Balance at 1 July 2008</i>	(466)	(126)	(592)
<i>Amortisation for the year</i>	(995)	(55)	(1,050)
<i>Balance at 30 June 2009</i>	<u>(1,461)</u>	<u>(181)</u>	<u>(1,642)</u>
<i>Balance at 1 July 2009</i>	(1,461)	(181)	(1,642)
<i>Amortisation for the year</i>	(1,335)	(56)	(1,391)
<i>Balance at 30 June 2010</i>	<u>(2,796)</u>	<u>(237)</u>	<u>(3,033)</u>
Carrying amount			
<i>At 30 June 2009</i>	<u>2,244</u>	<u>356</u>	<u>2,600</u>
<i>At 30 June 2010</i>	<u>909</u>	<u>300</u>	<u>1,209</u>

18 Investment in joint venture entities

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.

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For the financial year ended 30 June 2010

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20 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables	6,806	4,782	-	-	6,806	4,782
Inventories	530	530	-	-	530	530
Derivative financial instruments	1,375	2,227	-	-	1,375	2,227
Investment	218	218	-	-	218	218
Property, plant and equipment	-	-	(201,657)	(217,316)	(201,657)	(217,316)
Intangibles	402	385	-	-	402	385
Trade and other payables	1,552	1,657	-	-	1,552	1,657
Employee benefits	15,528	15,670	-	-	15,528	15,670
Provisions	54,301	67,885	-	-	54,301	67,885
Finance lease	56,853	56,996	-	-	56,853	56,996
Tax loss carry-forwards	124,869	167,282	-	-	124,869	167,282
Net tax assets / (liabilities)	262,434	317,632	(201,657)	(217,316)	60,777	100,316

Movement in temporary differences during the year:

	Balance	Recognised in		Balance	Recognised in		Balance
	30 June 2008	Profit or loss	Other comprehen sive income	30 June 2009	Profit or loss	Other comprehen sive income	30 June 2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables	9,461	(4,679)	-	4,782	2,024	-	6,806
Inventories	1,065	(535)	-	530	-	-	530
Derivative financial instruments	(4,551)	6,324	454	2,227	(2,090)	1,238	1,375
Investment	133	218	(133)	218	-	-	218
Property, plant and equipment	(229,729)	12,413	-	(217,316)	15,659	-	(201,657)
Intangibles	331	54	-	385	17	-	402
Trade and other payables	-	1,657	-	1,657	(105)	-	1,552
Employee Benefits	14,324	1,346	-	15,670	(142)	-	15,528
Provisions	78,066	(10,181)	-	67,885	(13,584)	-	54,301
Finance lease	57,081	(85)	-	56,996	(143)	-	56,853
Tax loss carry-forwards	105,509	61,773	-	167,282	(42,413)	-	124,869
Net tax assets / (liabilities)	31,690	68,305	321	100,316	(40,777)	1,238	60,777

21 Trade and other payables

	2010	2009
	\$'000	\$'000
Trade payables and accrued operating expense	114,307	103,930
Other payables	3,134	3,543
Deferred income	35,174	35,524
Interest accrued	13,535	13,686
	<u>166,150</u>	<u>156,683</u>

Deferred income included government grants amounting to \$5,174,000 (2009: \$5,523,000) in relation to the development and construction of wind diesel power systems.

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.

	2010	2009
	\$'000	\$'000
Current liabilities		
Finance lease liabilities	646	477
Unsecured loans and borrowings	228,768	183,673
	<u>229,414</u>	<u>184,150</u>

Non-current liabilities

Finance lease liabilities	188,863	189,509
Unsecured loans and borrowings	864,363	923,131
	<u>1,053,226</u>	<u>1,112,640</u>

Financing arrangements**Unsecured funding facility at reporting date**

Total facilities available	1,400,000	1,400,000
Facilities utilised at reporting date	(1,093,131)	(1,106,804)
Facilities not utilised at reporting date	<u>306,869</u>	<u>293,196</u>

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:

	2010			2009		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Less than one year	29,102	28,456	646	29,015	28,538	477
Between one and five years	117,807	112,255	5,552	117,211	112,981	4,230
More than five years	477,671	294,360	183,311	507,369	322,090	185,279
	<u>624,580</u>	<u>435,071</u>	<u>189,509</u>	<u>653,595</u>	<u>463,609</u>	<u>189,986</u>

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

	2010 \$'000	2009 \$'000
Current liabilities		
Salaries and wages accrued	5,944	5,610
Liability for long service leave	15,203	8,271
Liability for annual leave	12,783	13,860
	<u>33,930</u>	<u>27,741</u>
Non-current liabilities		
Recognised liability for defined benefit obligations	22,200	18,624
Liability for long service leave	1,572	5,867
	<u>23,772</u>	<u>24,491</u>

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.

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For the financial year ended 30 June 2010

	2010	2009
	\$'000	\$'000
Defined benefit obligations		
Amount at the balance sheet date		
Net liabilities	<u>22,200</u>	<u>18,624</u>
Changes in the present value of the defined benefit obligations are as follows:		
Defined benefit obligations at 1 July	18,624	16,433
Interest cost	961	1,056
Actuarial (gain)/loss	3,525	2,577
Service cost	73	83
Benefits paid	<u>(983)</u>	<u>(1,525)</u>
Defined benefit obligations at 30 June	<u><u>22,200</u></u>	<u><u>18,624</u></u>
Amount recognised in profit or loss:		
Interest cost	961	1,056
Actuarial (gain)/loss	3,525	2,577
Service cost	<u>73</u>	<u>83</u>
Recognised in profit or loss as employee expenses	<u><u>4,560</u></u>	<u><u>3,716</u></u>

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

	2010	2009
Discount rate at 30 June	5.48%	5.34%
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 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	<u>(33,522)</u>	-	<u>(33,522)</u>
Balance at 30 June 2009	<u><u>165,634</u></u>	<u><u>32,495</u></u>	<u><u>198,129</u></u>
Current	17,674	32,495	50,169
Non-current	<u>147,960</u>	-	<u>147,960</u>
Balance at 30 June 2009	<u><u>165,634</u></u>	<u><u>32,495</u></u>	<u><u>198,129</u></u>

	Decommissioning costs	Others	Total
	\$'000	\$'000	\$'000
Balance at 1 July 2009	165,634	32,495	198,129
Provisions used during the period	(20,278)	(32,495)	(52,773)
Unwinding of discount on provision	9,721	-	9,721
De-recognition of provision	(110)	-	(110)
Change in assumptions	19,585	-	19,585
Balance at 30 June 2010	174,552	-	174,552
Current	52	-	52
Non-current	174,500	-	174,500
Balance at 30 June 2010	174,552	-	174,552

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 5.19% (2009: 6.49%).

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 (the 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. The Contract terminated on 30 June 2010 and the provision was transferred to the Statement of Comprehensive Income.

25 Contributed equity and reserves

Contributed equity

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

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

Hedging reserve

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

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
- operational risk

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

Overview

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

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

The ARMC oversees how management monitors compliance with the Corporation's 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 79% (2009: 76%) 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 assets

Investments are allowed only in liquid securities and only with counterparties that have a credit rating in accordance with the Corporation's policy. Management does not expect any counterparty to fail to meet its obligations. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments in the balance sheet, less any collateral held as security. Other than the embedded derivatives, the Corporation only transacts in derivative financial instruments with financial institutions with an A (Standard and Poors) or A2 (Moody Investor Services) credit rating or better.

Electricity Generation Corporation (trading as Verve Energy)

Notes to the financial statements

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Financial guarantee

The Corporation doesn't provide any financial guarantee.

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:

	2010	2009
	\$'000	\$'000
Cash and cash equivalents	103,770	9,621
Trade receivables (net of impairment)	119,508	87,045
Other receivables	2,175	3,604
Deposits	8,161	-
Derivative financial assets	1,127	2,920
Available-for-sale financial assets	228	228
	<u>234,969</u>	<u>103,418</u>

The Corporation's most significant customer, Synergy, accounts for \$93.0 million of the trade receivables carrying amount at 30 June 2010 (2009: \$63.0 million).

The ageing of the Corporation's trade receivables at 30 June 2010 was:

	2010		2009	
	Gross	Impairment	Gross	Impairment
	\$'000	\$'000	\$'000	\$'000
Not past due	116,372	-	85,221	(482)
Past due 0-30 days	1,606	(672)	1,177	(487)
Past due 31-90 days	1,260	(1,145)	1,584	(1,332)
More than 90 days	22,958	(20,871)	15,003	(13,639)
	<u>142,196</u>	<u>(22,688)</u>	<u>102,985</u>	<u>(15,940)</u>

Impaired amounts relate to receivables under dispute.

Electricity Generation Corporation (trading as Verve Energy)

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

	2010	2009
	\$'000	\$'000
Balance at 1 July	(15,940)	(31,535)
Impairment loss recognised	(7,648)	(12,426)
Impairment loss utilised	900	28,021
Balance at 30 June	<u>(22,688)</u>	<u>(15,940)</u>

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 2010	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	141	2,302	2,063	145	94	-	-
Outflow	-	(2,164)	(1,933)	(140)	(91)	-	-
Interest rate swaps – cashflow hedge	400	490	237	253	-	-	-
	<u>541</u>	<u>628</u>	<u>367</u>	<u>258</u>	<u>3</u>	<u>-</u>	<u>-</u>
Derivative financial liabilities							
Forward exchange contract – cashflow hedge							
Inflow	-	63,806	40,876	5,324	15,962	1,644	-
Outflow	(4,989)	(68,974)	(44,505)	(5,813)	(16,964)	(1,692)	-
Interest rate swaps – cashflow hedge	(724)	(858)	(126)	(118)	(426)	(184)	(4)
	<u>(5,713)</u>	<u>(6,026)</u>	<u>(3,755)</u>	<u>(607)</u>	<u>(1,428)</u>	<u>(232)</u>	<u>(4)</u>
Non-derivative financial liabilities							
Finance lease	(189,509)	(624,580)	(14,535)	(14,567)	(29,223)	(88,584)	(477,671)
Interest-bearing loans and borrowings	(1,093,131)	(1,333,511)	(83,678)	(204,328)	(249,002)	(369,186)	(427,317)
Trade and other payables	(130,976)	(130,976)	(130,976)	-	-	-	-
	<u>(1,413,616)</u>	<u>(2,089,067)</u>	<u>(229,189)</u>	<u>(218,895)</u>	<u>(278,225)</u>	<u>(457,770)</u>	<u>(904,988)</u>
Total	<u>(1,418,788)</u>	<u>(2,094,465)</u>	<u>(232,577)</u>	<u>(219,244)</u>	<u>(279,650)</u>	<u>(458,002)</u>	<u>(904,992)</u>

Electricity Generation Corporation (trading as Verve Energy)

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For the financial year ended 30 June 2010

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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)

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.

Electricity Generation Corporation (trading as Verve Energy)

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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	
	2010	2009
	\$'000	\$'000
Fixed rate instruments		
Financial assets	91,137	1,475
Financial liabilities	<u>(1,152,640)</u>	<u>(1,106,790)</u>
	<u>(1,061,503)</u>	<u>(1,105,315)</u>
Variable rate instruments		
Financial assets	12,990	9,758
Financial liabilities	<u>(130,324)</u>	<u>(191,246)</u>
	<u>(117,334)</u>	<u>(181,488)</u>

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 2009.

	Carrying amount	-100 basis points		+100 basis points	
		Profit	Equity	Profit	Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
2010					
Cash and cash equivalents	103,770	(126)	-	126	-
Interest rate swaps	(324)	-	(1,428)	-	1,359
Unsecured loans and borrowings	(1,093,131)	1,300	-	(1,300)	-
Interest rate swaps - embedded	361	7	-	(7)	-
2009					
Cash and cash equivalents	9,621	(96)	-	96	-
Interest rate swaps	(1,109)	(105)	(2,520)	104	2,412
Unsecured loans and borrowings	(1,106,804)	1,900	-	(1,900)	-
Interest rate swaps - embedded	1,475	13	-	(13)	-

Electricity Generation Corporation (trading as Verve Energy)

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Currency risk

Profile

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

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

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

Exposure to currency risk

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

30 June 2010 (AUD'000s)	USD	euro	GBP	JPY
Estimated forecast purchases	(57,610)	(4,720)	(1,369)	(2,526)
Forward exchange contracts	57,610	4,720	1,369	2,536
Net exposure	-	-	-	-
30 June 2009 (AUD'000s)				
Estimated forecast purchases	(8,680)	(1,070)	(2,220)	-
Forward exchange contracts	8,680	1,070	2,220	-
Net exposure	-	-	-	-

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
USD	0.8834	0.7473	0.8512	0.8135
euro	0.6362	0.5418	0.6967	0.5754
GBP	0.5589	0.4627	0.5661	0.4862
JPY	80.74	74.22	75.36	77.73

Electricity Generation Corporation (trading as Verve Energy)

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For the financial year ended 30 June 2010

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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 2009.

	-10%		+10%	
	Profit	Equity	Profit	Equity
2010	\$'000	\$'000	\$'000	\$'000
USD	-	6,358	-	(5,202)
GBP	-	137	-	(137)
EUR	-	464	-	(464)
JPY	256	25	(210)	(21)
2009				
USD	-	924	-	(756)
GBP	11	210	(11)	(210)
EUR	8	99	(8)	(99)
JPY	-	-	-	-

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 2009.

	Carrying amount	-10%		+10%	
		Profit	Equity	Profit	Equity
2010	\$'000	\$'000	\$'000	\$'000	\$'000
Investment	228	(23)	-	23	-
Embedded electricity derivative	105	224	-	(224)	-
2009					
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)	-

Operational Risk

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

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

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

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

Fair values

Fair values versus carrying amounts

Other than disclosed below, the carrying values of the financial assets and liabilities approximate the fair values as at 30 June 2010:

	Note	2010		2009	
		Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Interest-bearing loans and borrowings	22	1,093,131	1,110,205	1,106,804	1,116,009

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:

Electricity Generation Corporation (trading as Verve Energy)

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For the financial year ended 30 June 2010

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	2010	2009
Derivative financial instruments	4.5%-5.26%	3%-5.97%
Interest-bearing liabilities and borrowings	<u>4.5%-5.53%</u>	<u>2.92%-6.37%</u>

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

	Level 1	Level 2	Level 3	Total
2010	\$'000	\$'000	\$'000	\$'000
Investment	228	-	-	228
Forward exchange contracts	-	(4,728)	-	(4,728)
Interest rate swaps	-	(324)	-	(324)
Interest rate swaps – embedded	-	361	-	361
Electricity derivatives – embedded	-	-	105	105

A loss of \$1,158,000 on embedded electricity derivatives was recorded as other expenses for the year ended 30 June 2010.

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

27 Operating leases

	2010	2009
Leases as lessee	\$'000	\$'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	1,800	2,842
Between one and five years	2,194	1,258
More than five years	<u>191</u>	<u>-</u>
	<u><u>4,185</u></u>	<u><u>4,100</u></u>

28 Capital and other commitments

	2010	2009
	\$'000	\$'000
Committed capital expenditures are payable as follows:		
Less than one year	182,482	26,736
Between one and five years	<u>1,179</u>	<u>-</u>
	<u>183,661</u>	<u>26,736</u>
Committed operating expenditures (excluding operating leases stated above) are payable as follows:		
Less than one year	73,010	30,380
Between one and five years	<u>1,237</u>	<u>16,214</u>
	<u>74,247</u>	<u>46,594</u>

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. Should the Corporation not be successful in any litigation it may be required to meet the legal costs of the North West Shelf gas sellers.

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 that these may arise represent contingent liabilities to the Corporation. Management does not have any means of quantifying this residual exposure.

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

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
 Ms Gaye Marie McMath

Executives

Mr Ross Stidolph
 Mr Derek Noakes
 Mr Jason Waters
 Mr Tony Narvaez
 Mr Wally Borovac

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:

	2010	2009
	\$'000	\$'000
Short term employee benefits	2,384	1,163
Post employment benefits	215	193
Termination benefits	-	348
	<u>2,599</u>	<u>2,704</u>

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

32 Subsequent events

The Corporation trades within the Western Australian Wholesale Energy Market ("WEM") which is an evolving but competitive environment made up of a number of generators and retailers. The WEM was designed to attract private sector investment in the WA electricity market and increase competition within the sector. Where possible, the Corporation has supported the ideals of the WEM by seeking opportunities to joint venture with the private sector and facilitate private equity and debt investment into the market. Currently investment in thermal generation plant has been curtailed following the global financial crisis and uncertainty surrounding the future treatment and imposition of carbon costs.

The Independent Market Operator has forecast a requirement for an additional 720MW of capacity by the Capacity Year 2014/15. Given the current investment climate, Verve Energy has sought to joint venture with a private investment and engineering group to refurbish the decommissioned Muja AB generation facility. On 16 August 2010 Verve Energy took up 50% interest in Vinalco Energy Pty Ltd, a special purpose vehicle (SPV) incorporated to refurbish Muja AB. The SPV and Verve Energy's joint venture partner are seeking to finalise commercial and financing arrangements to commence refurbishment of the plant. At the date of this report the finalisation of these arrangements was still in progress.

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 adjustments 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 \$4.8m was paid to Verve Energy from Synergy as a Netback settlement from the year ended 30 June 2009. For the current year Verve Energy has accrued \$10.8 million as receivable from Synergy as a Netback adjustment.

In early 2009, the Minister commissioned energy consultant Peter Oates to review Verve Energy's financial situation and outlook. The review was completed in August 2009. A substantial re-design of the Vesting Contract has been undertaken as a result of the review. Verve Energy and Synergy have been working together to establish a commercial bilateral contract to replace the existing Vesting Contract. The design of this commercial bilateral contract will address the current "netback" arrangement and will enable Verve Energy to have more control of its income. The essential terms of the bilateral contract have now been settled and this contract will be effective from 1 October 2010.

On 12 August 2010 the Corporation sold one of its smaller generating plant (38MW) to the contracted offtaker. The transaction is still conditional and is expected to become unconditional in January 2011. The sale is on vendor terms and does not have a material impact on Verve Energy's profitability or net asset position.

Other than the disclosure 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

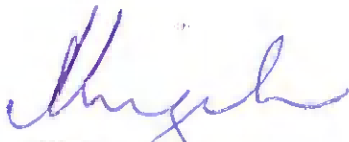
The Corporation operates in only one business and geographical segment being the generation and supply of electricity in Western Australia.

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 2010 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 2010 pursuant to the *Electricity Corporations Act 2005*.

Dated at Perth this 29th day of September 2010

Signed in accordance with a resolution of the Directors;



DAVID EISZELE
CHAIRMAN



SHIRLEY IN'T VELD
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 statements of the Electricity Generation Corporation. The financial statements comprise the Statement of Financial Position as at 30 June 2010, and the Statement of Comprehensive Income, 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 Statements

The directors of the Electricity Generation Corporation are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Electricity Corporations Act 2005. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are 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 statements 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. This document is available on the OAG website under "How We Audit".

An audit does not guarantee that every amount and disclosure in the financial statements 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 statements.

Audit Opinion

In my opinion, the financial statements of the Electricity Generation Corporation are 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 2010 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

COLIN MURPHY
AUDITOR GENERAL
30 September 2010