Electricity Generation Corporation
Trading as Verve Energy
ABN 586 738 30106

Annual Report
30 June 2011

Contents

Verve Energy is the leading generator of electricity in Western Australia, contributing to the wealth and welfare of the State, its people and businesses by providing safe, reliable, secure and competitive energy.
Verve Energy is recognised as a vibrant, innovative energy business through being commercially, socially and environmentally successful.

We own and operate an extensive and diverse portfolio of power stations and renewable energy systems with a total capacity of 2967MW.

Verve Energy provides balancing services which underpin the reliability of the electricity system for the entire south west of WA.

ACHIEVEMENTS

- **Replaced vesting contract with cost-reflective bilateral contract (ES10)**
- **25% reduction in Recordable Injury Frequency**
- **Plant reliability excellence record maintained**
- **Forced Outage Factor kept to a low 2.3%**
- **Profitability improved by 31.5%**
- **New renewable energy projects under way**
- **High efficiency gas turbines due for completion this summer**

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Verve Energy has consolidated its turnaround with a strong financial performance based on sound operational performance, cost reflective revenue and diligent cost management.

Again, a strong focus on asset maintenance has resulted in high reliability with a consistently low forced outage factor (FOF) of just 2.3%.

Verve Energy has recorded its second successive positive result with a Net Profit After Tax of $128.3 million, a 31.6% improvement over the previous year and achieved on the back of revenue growth, steady costs and electricity production based on high plant availability. Revenue rose to $1,287.9 million and our costs were held at $1,025.2 million.

Our forecasts show that changed market operating conditions in 2011/12 will reduce Verve Energy's profitability as:

- entry of significant new wind farm generation capacity on the SWIS will displace Verve Energy plant production and lead to an increase in average production costs as Verve Energy's plant portfolio is increasingly forced to operate at sub optimal levels due to its current role of market balancer;
- electricity sales volumes are reduced due in part to a forecast loss of market share associated with the entry of the new generation capacity on the SWIS.
- increased load following responsibilities will also impact on Verve Energy's ability to optimise fuel mix as we use more expensive gas and at less than optimal efficiency;
- production costs are expected to increase in line with general fuel price increases; and
- our maintenance spend continues at a high level to maintain plant reliability.

Safety first

A positive safety culture and performance is universally good for business as it reflects the quality of the organisation's operations and workforce morale.

Safety has always been our overarching value. Our focus on safety issues has been reaffirmed with the establishment of a Safety & Health business unit led by a General Manager. Strategies are being revitalised and new programs introduced across our worksites as the Occupational Safety and Health (OSH) push intensifies, in tandem with a strong, up-to-date safety culture being ingrained in all employees and contractors. Our goal is a marked improvement in safety performance and early results are positive as we work towards our goal of zero harm.

Advances in production techniques

Once again our people have performed exceptionally well during the year. Demands on them have intensified as Verve Energy has had to significantly change the way it operates in the continually evolving electricity market.

Much of our plant is being forced to operate in conditions for which it was not designed and Verve Energy is drawing on its in-house expertise to modify our generating units with the goal of maintaining reliability. Credit must go to our skilled teams for adapting to changing electricity market conditions. The challenges are products of the oversupply of baseload generation and the increase in wind generation.

Our new high efficiency gas turbines at Kwinana Power Station are to be completed this summer, providing 200MW capacity. Kwinana's superseded less-efficient Stage A units will be retired in October 2011 shortly before the new gas turbines are commissioned.

The refurbishment of Muja AB in Collie is on target for completion from early 2012.

Our sustainable energy projects are progressing well. The turbines for Grasmere Wind Farm at Albany are due to arrive in September 2011 with commissioning in early 2012. The output of Grasmere and Albany wind farms is expected to meet 80% of Albany's electricity needs with renewable energy. Mumbida Wind Farm is under construction in the Midwest region and due for completion in November 2012.

Fuel supply reassessment

Fuel security is paramount in ensuring security of supply. Our long term fuel supply arrangements are under review with the specific strategic purpose of securing diverse and well-priced contracts for our main fuels, gas and coal. We have succeeded in securing gas storage arrangements to provide emergency gas supply, to better manage our contracted gas supply arrangements and for gas trading flexibility.

A new owner of the Griffin coal mining operations, and Wesfarmers putting the Premier Coal operations on the market, has led to a reassessment of coal supply security for our baseload power plants.

Impact of a Carbon Tax

Coal and gas will continue to be the backbone of WA power supply for many years while the demand for baseload generation continues and while low-emission technologies are being developed. As debate continues around the carbon tax and emissions abatement, Verve Energy is taking steps to reduce its carbon intensity. Our strategies include replacing old generating units with new high efficiency plant, improving the efficiency of older plant, and investing in renewable projects.

The introduction of a carbon tax will result in significant additional costs to Verve Energy's electricity production. Such costs cannot be absorbed by the Corporation and the Corporation will unfortunately look to pass these costs through to our customers.

New projects in hand

Verve Energy is adopting innovative methods of financing new and replacement plant. Joint ventures, accessing project finance, and third party equity investments are opening new opportunities for us.

The past year heralded the launch of a number of renewable energy projects. Work started on Grasmere Wind Farm (a 14MW extension of the successful Albany Wind Farm); the 55MW Mumbida Wind Farm was announced; and a contract for Australia's biggest solar photovoltaic (PV) farm project is set to be finalised.

Current challenges

Verve Energy is expected to continue to play the anchor role in the WA electricity market. However, there is a need to implement changes to the market rules in order to remove some of the impediments to our efficient operation, and to remove the barriers for new entrants to the market, without impacting our business.

Though there is currently an oversupply of off-peak baseload on the market, WA will need significant baseload plant investment in seven to 10 years to meet forecast demand. Additional mid-merit generation will be required as new intermittent wind farm generation comes online. These two market opportunities provide Verve Energy with the scope to achieve its goals to be involved in all levels of generation – base, mid-merit, peaking and renewables.

Strategies for the future

A review of our Strategic Plan was carried out to ensure our business strategy remains in line with the significant changes to Verve Energy's operating environment. We used this opportunity to clarify our position and strengthen our resolve to grow and continue as a secure, high-performing generation business.

We will continue to consider renewable projects on their merit and invest in new thermal plant as required by the market.

2010/2011 has been a year of progress and consolidation for Verve Energy. We would like to record our sincere thanks to the Board for their guidance, support and insight over the last 12 months, and to all our people at Verve Energy for their ongoing and dedicated contribution to our business.

David Eiszele
Chairman

Shirley In't Veld
Managing Director

WORKING WITH US

We recognise our people as a core asset.

Our focus is on supporting them by creating a workplace and culture where safety is paramount and where people enjoy a healthy work/life balance.

We maintain a friendly team environment where people are treated fairly and consistently. Employees are encouraged and rewarded for their contribution to the success and improvement of our business.

At 30 June 2011, Verve Energy had 622 employees across five sites.

In recognition of the importance of building a talent pool for the future, Verve Energy trains apprentices at its power stations and takes on graduates. Through these practices we maintain a pool of qualified people who are essential to the successful operation of our business.

Verve Energy offers our people ongoing professional and career development opportunities in a broad range of challenging technical and professional disciplines relevant to our business.

During the year we launched a Leadership Program to develop and maximise the potential of our leaders.

Verve Energy values diversity in the workplace, is family friendly and strives for a culture where people take pride in what they do and enjoy coming to work.

We offer our employees part-time work, job-share arrangements, flexible working hours, the ability to salary sacrifice for additional annual leave, and paid parental leave above the minimum standard.

Verve Energy supports Equal Opportunity in the workplace through measures which include a Diversity Policy, Flexible Working Arrangements, and an equal Employment Opportunity Management Plan.

In a recent survey to which 363 of our employees voluntarily responded, 212 of those employees were from a culturally-diverse background.

OUR PEOPLE AND THEIR HEALTH AND SAFETY

- 25.5% improvement in Recordable Injury frequency
- Reduction of 49% in Lost Time Injury frequency

Safety is a key value for our organisation. We set ourselves high standards in safety and health, and continuously monitor and improve our performance to achieve our goal of zero harm.

Safety is good for business as good companies have a good safety culture and performance which is a reflection of company morale and quality of operations.

Led by the Verve Energy Board and Executive Team, we initiated a renewed and increased focus on the development of a more sustainable approach to safety and health in the past financial year with the establishment of a Safety & Health business unit led by the appointment of a General Manager for Safety & Health.

A major focus during the past 12 months has been the development of a Strategic Approach with a greater emphasis on planning in the new Safety and Health program.

Additional resources have been added to the unit to support operations and to continue the drive for improved performance throughout the Safety & Health program.

Major Safety & Health initiatives undertaken during 2010 / 2011 include:

- Establishing the Verve Energy Safety & Health Management Standards, and Safety & Health Management Plan,
- Developing a health education and promotional program,
- Increasing focus on Safety & Health communication,

- Developing Verve Energy's 'Golden Safety Rules' (high risk behaviours that are prohibited),
- Planning and developing a fitness for work program,
- Working towards the replacement of the current incident reporting system to a system that better meets the needs of the business, and
- Introducing an Occupational Hygiene Monitoring program.

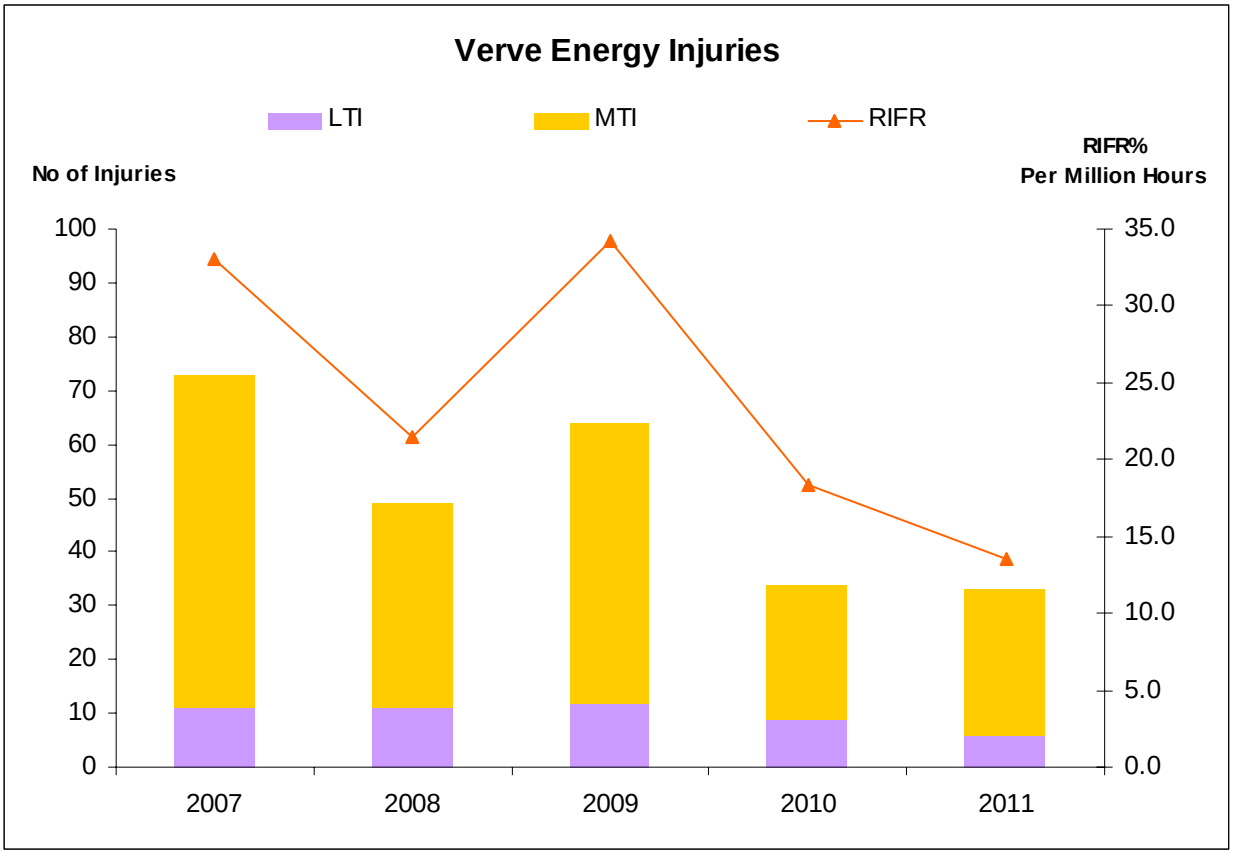
The effect of our renewed focus on health and safety is demonstrated in the dramatic improvements in injury frequency and lost time injury frequency. It is also evident in the improvement in Verve Energy's corporate reputation index.

	2010-11	2009-10
Number of employees	622	612
All Recordable Injury Frequency	13.7	18.4
Corporate reputation index (%)	74	73

In the past year there has been progress and improvement with Injury Frequency Rates continuing to fall. We started the 2010/2011 year with a recordable injury frequency rate of 18.4 which dropped to a rate of 13.7, a 25.5% improvement.

The Lost Time Injury Frequency has also decreased from 4.9 at the beginning of the financial year to 2.5, a 49% reduction, again a significant improvement. The performance observed during 2010 / 2011 confirms the ethos of continuous improvement established over recent years. We believe we can capitalise on this achievement and continue gaining improvements into the future.

Recordable Injury Frequency



FINANCIAL PERFORMANCE

- EBIT $251.0 million
- NPAT $128.3 million
- Dividend of $63.4 million
- Net assets $672.9 million
- Net debt $907.5 million
- Revenue $1,287.9 million

In 2010/2011, Verve Energy continued to generate a strong and sustained return on its total assets of $2,198.8 million, achieving profitability with all major financial measures continuing to improve over the previous year. This was still the case despite the current financial year performance being adversely impacted by the final Vesting Contract wash up relating to the period ended 30 September 2010. This is a matter over which Verve Energy has no control and relies on information supplied by Synergy. The final amount of $46.4 million was payable by Verve Energy to Synergy representing a negative impact of $57.2 million, of which $51.7 million related to the year ended 30 June 2010. The Vesting Contract was replaced with a more conventional bilateral contract on the 1 October 2010 which allocated risk to the appropriate parties and removed the netback obligations on the Corporation.

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 in balancing supply. With more entrants to the market Verve Energy's balancing role continued to grow and required burning more expensive gas fuels in less efficient peaking plant at peak times.

Earnings Before Income Tax (EBIT) was $251.0 million, with revenue increasing by 3.9% over the previous year, to a total of $1,287.9 million.

The EBIT result flowed through to a Net Profit Before Tax of $185.1 million, and an after-tax profit of $128.3 million. This will enable the Board to recommend a dividend to the State of $83.4 million.

Verve Energy's net debt decreased by $271.6 million for the year, while net assets increased by 52% to $672.9 million.

FINANCIAL ACHIEVEMENTS

	2010-11	**2009-10**
Revenue ($m)	1,287.9	1,239.5
EBIT ($m)	251.0	240.5
NPBT ($m)	185.1	138.3
Net borrowings (excluding finance leases) ($m)	861.5	1,093.1
Net assets ($m)	672.9	443.0

OUR OPERATIONS

Verve Energy provides safe, reliable, secure and competitive energy across all sectors of the WA community. We are the major generator in the State and are continually mindful of our responsibilities to maintain generating balance in the system.

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

In 2010/11, our sustainable portfolio generated 87.4GWh of electricity, an increase of 3.1 GWh over the previous year's performance.

OPERATIONAL PERFORMANCE

- $125.5m invested in capital assets
- $164m maintenance spend for efficiency & reliability
- Generation of 9488 GWh
- Emissions down to 8.0 million tonnes CO_2e
- Plant availability 76.5%
- Forced Outage Factor at a low 2.3 %

The past year was a solid year of operational performance. Our power stations made strong contributions to meet SWIS power demand during the prolonged heat of the 2010-11 summer and also the Varanus gas outage following Cyclone Carlos in February 2011. Our FOF was again a low 2.3%, continuing the trend of low forced outage performance. Plant availability meanwhile was down, as the result of our extensive maintenance program which ensures ongoing long term reliability.

We have built on our specialist expertise through targeted overseas recruitment; and we are focused on planning and implementing maintenance and mid-life refit programs for the long-term reliable operation of aging plant until new clean coal technology is available. Our strategy is to extend our specialist technical resources, and invest in technology to further ensure the long-term reliability of our plant.

Our productive partnership with leading international energy consultant RWE International ends this year, after the successful implementation of maintenance strategies to improve the performance of our plant. We will continue to use these effective tools to ensure maintenance processes are sustained for the ongoing benefit of our plant and required reliability. . Whilst RWE International no longer provides this service, we have entered into a new arrangement with a similar service provider

Verve Energy is expanding our IT infrastructure to analyse and interrogate process data of our whole portfolio with a view to maximising efficiencies, improving performance, managing fuel systems in order reduce our carbon footprint and achieving financial savings.

Initiatives undertaken by Verve Energy to ensure the ongoing reliability of supply include the building of two high efficiency gas turbines at Kwinana Power Station and the refurbishment of Muja Stages A and B. This refurbishment will provide transitional generating capacity, allowing Verve Energy to contribute to the development of "clean coal" and carbon capture and storage technologies.

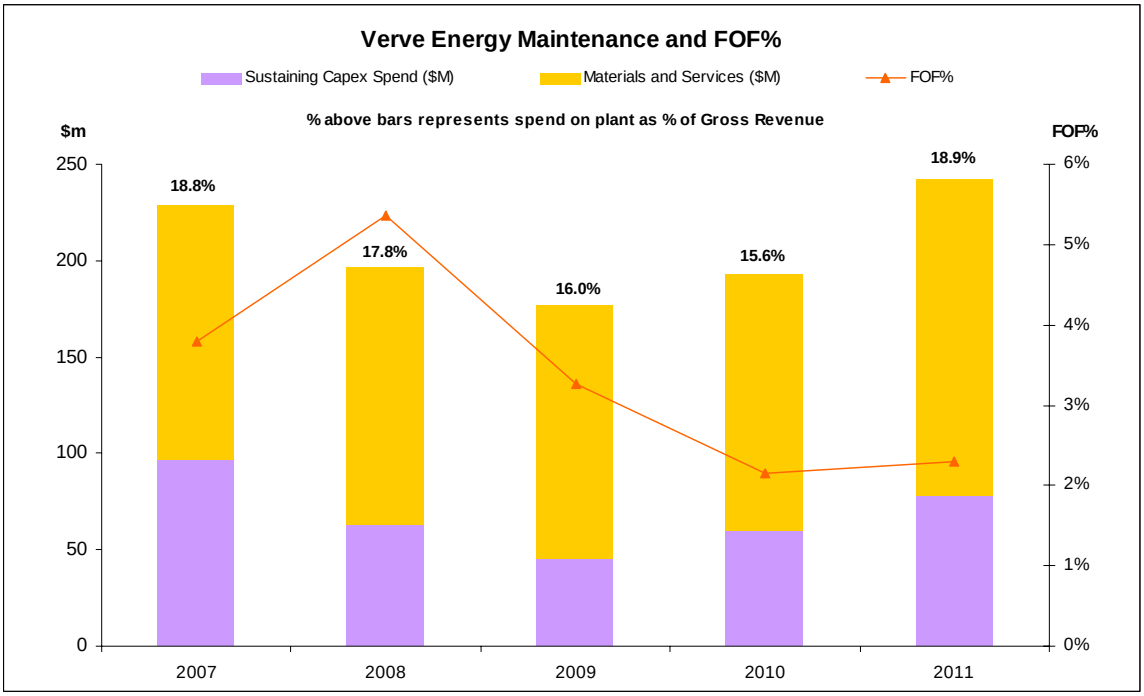
Other investment included: a reverse osmosis desalination plant to consolidate long term cooling water supplies at Collie and Muja power stations; installation of new dry ash hoppers; increased flyash dam capacity; a new administration office at Muja; an administration office/maintenance workshop at Cockburn Power Station; and a refurbished ocean outfall at Kwinana Power Station.

Collie Power Station operations and maintenance arrangements were extended with Transfield Worley Parsons Power Services. We participated in the Collie South West Hub carbon capture and storage project and employed specialist engineers to help plan ongoing maintenance and upgrades. We continue to plan for the closure of older plant and review power demand growth while considering the options for replacement or upgrades of generation capacity.

The Operational Review progressed significantly during the year as Verve Energy adjusts power station work patterns to cope with significant changes to plant dispatch and plans to shutdown KPS Stage A (two 120MW units) in October 2011.

Our capability to operate plant using different fuels contributes to the reliability of supply, and this flexibility was demonstrated again following the enforced shutdown of the Varanus gas plant earlier this year.

The Corporation expended $164.2 million on materials and services as part of its maintenance program and invested another $201.8 million on capital assets, representing total expenditure of $365.8 million on plant and equipment during the financial year. Of the $365.8 million capital expenditure, $119.1 million was expended on the new high efficiency gas turbines (HEGTs) and the $246.7 million balance on sustaining and other capital to ensure the ongoing reliability and efficiency of our fleet. The HEGTs have been funded by equity contributions to Verve Energy.



In 2010/11, our sustainable portfolio comprised of 39 wind turbines at Albany, Esperance, Bremer Bay, Hopetoun, Kalbarri, Denham and Coral Bay. Their combined generation 87.4GWh of electricity, an increase of 3.5% over the previous year's performance, was in the main driven by equipment availability rather than increased wind activity.

KEY FACTS	2010-11	2009-10
Supply of electricity (GWh)	11,233	11,961
Generated (GWh)	9,488	9,550
Used in works (GWh)	627	651
Electricity generation sent out (GWh)	8,861	8,899
Purchased (GWh)	2,372	3,062
Renewable energy generation wind (GWh)	87.4	84.3
Forced Outage Factor (%)	2.3	2.2
Plant availability (%)	76.5	83.8
Capacity factor (%)	35.2	36.2
Thermal efficiency (%)	31.1	31.1
Total Greenhouse Gas Emissions (million tonnes CO2e)	8.0	8.1
Carbon Intensity (kgCO2e/kWh electricity sent out)	0.902	0.910
Number of Environmental Incidents	3	5
Number of RECS	74,715	82,243

OUR ASSETS

Generating plant	Fuel	Capacity (kW)	Acquired/ commissioned
Collie	Coal	340,000	1999
Cockburn	Gas	240,000	2003
Muja A and B	Coal/heavy fuel oil	240,000	1965 - Retired April 2007
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
West Kalgoorlie gas turbine	Distillate	62,000	1984-90
Geraldton gas turbine	Gas/distillate	21,000	1973
Albany – 12 turbines	Wind	22,000	2002
Bremer Bay – 1 turbine	Wind/diesel	600	2004
Coral Bay – 3 turbines	Wind/diesel	600	2007
Denham – 4 turbines	Wind/diesel	1,000	1997, 1998, 2007
Esperance – 15 turbines	Wind	5,625	1993 & 2002
Hopetoun - 2 turbines	Wind/diesel	1,200	2004 & 2007
Kalbarri – 2 turbines	Wind	1,600	2008

OUR MARKET

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

Verve Energy sells its electricity on the Wholesale Electricity Market (WEM) for the SWIS as well as through bilateral contracts with other participants in the market. Currently, Verve Energy sells the majority of its electricity to Synergy under the Replacement Vesting Contract negotiated between Verve Energy and Synergy.

Verve Energy provides balancing services which underpin the reliability of the SWIS. We are required to dispatch our plant to follow fluctuations in demand and changes in generation by Independent Power Producers.

In October 2011, Verve Energy will commence two new significant bilateral contracts with Synergy resulting from previous displacement tenders under the original Vesting Contract.

SUSTAINABILITY REPORT

Verve Energy strives for environmental excellence as the cornerstone of sustainability. We aim to maintain efficient and reliable operations while minimising any adverse effects on the environment.

Verve Energy continually takes steps towards reducing atmospheric emissions by installing new generating plant to replace old inefficient plant.

We are committed to continuing our development of renewable energy generation using wind and solar technologies.

To improve our environmental performance, Verve Energy has adopted a strategy to close some of its coal-fired and less efficient gas-fired generating units and replace them with new technologies; upgrade other units to improve their efficiency; and to invest in sustainable energy technologies.

Sustainable energy expansion

Verve Energy continues to invest in green generation technologies to expand our sustainable portfolio.

Our existing portfolio, which includes wind farms and wind-diesel systems in remote locations, reduces the amount of greenhouse gases by over 100,000 tonnes of CO_2e a year compared to conventional systems.

Our current program will see 80% of Albany's electricity needs coming from clean, inexhaustible renewable energy. Completion of the Grasmere Wind Farm at the western end of the Albany Wind Farm will take the number of turbines in the Albany region to 18 and the total capacity of the combined wind farms to 35.4MW.

In addition the 55MW Mumbida Wind Farm near Geraldton is also under construction and is expected to commence operations by the end of 2012.

Verve Energy is currently investigating further sustainable projects including a solar facility.

Environmental protection

Highlights

- Internal audits of both Verve Energy's Environmental Management System (EMS) and Environmental Legal Requirements confirmed an improvement in the level of our environmental management.
- This was particularly evident at our largest power station, Muja, where a marked improvement in collaboration between all sections led to a reduction in the number of non-conformance issues.

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

Our revised Environmental Management Framework provides a corporate and systematic approach to environmental management of Verve Energy's operations.

In line with this Framework, Verve Energy has reviewed and updated our Environmental Policy, which is strongly focused on environmental excellence.

Environmental Management System (EMS)

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

The EMS is driven by an electronic system (EMISWeb) developed to record and facilitate activities undertaken to fulfil Verve Energy's due diligence requirements.

Surveillance audits were completed in June 2009 and were repeated in July 2010, with our certifying authority, SAI Global, recommending 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.

Site-specific Environmental Management Programs (EMPs) and initiatives during the year have included improved hydrocarbon and groundwater management; review of emergency response procedures and training; water mass balance studies; and calibration of pollution monitoring equipment.

Auditing for continuous improvement

Internal and external auditing is a key component of the continual improvement of Verve Energy's EMS. Internal EMS and legal compliance audits were completed for Muja, Kwinana, Perth Office, and gas turbine sites from February to May 2011.

The internal EMS audits found no major non-compliances identified, and three minor non-compliances which have been dealt with.

The internal legal compliance audits found no major non-compliances and 12 minor non-compliances which are being progressed for close-out.

Emissions reduction

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

- To close selected coal-fired and less efficient gas-fired generating units and replace them with new technologies.
- To upgrade a range of units to improve their efficiency.
- To build renewable energy projects.

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

In 2010/11, Verve Energy emissions were marginally reduced to 8 million tonnes of CO2e due to the combination of reduced generation and improved efficiency.

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

Environmental incidents at lowest level

In 2010/11, the number of environmental incidents reported was the lowest since the establishment of Verve Energy, reflecting our improved environmental performance. In total, there were three environmental incidents requiring a report to an environmental regulator during the year.

Community partnerships

Verve Energy makes genuine and far-reaching contributions to the communities in which our major power stations operate.

We focus on youth education, youth training, and the environment. These programs are established through our partnership activities in the Collie-Bunbury and Kwinana-Rockingham areas.

Through the Verve Energy Collie Community Fund, our highly successful community partnership program, we have given out many thousands of dollars in grants to groups in the Collie area.

Additional support is provided for:

- A youth driver training program in Collie
- Educational scholarships for Kwinana's Gilmore College
- Clontarf Academy for Aboriginal boys at Gilmore College
- Educational scholarships for Collie Senior High School
- Kwinana Coast Care
- The Eternal Flame in Geraldton
- The Engineering building at Curtin University
- Constable Care in both Collie and Kwinana

Our workplace giving program, VEGAS, provides our people with the opportunity to donate to charity direct from their salary. Over the past two years we have collectively donated $60,000 to the Royal Flying Doctor Service, Princess Margaret Hospital and WA Cancer Council.

During the year we introduced a Volunteer Leave scheme which allows employees one day of paid leave per year to undertake volunteer work for not-for-profit organisations or community groups.

STATUTORY INFORMATION

CORPORATE GOVERNANCE STANDARDS

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

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

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

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

RISK MANAGEMENT

Verve Energy is committed to ensuring that risk management is a proactive and dynamic process that is embedded throughout the business, and managed in a structured and systematic manner to assist managers to make informed decisions and achieve successful business outcomes.

In line with our commitment to continuous improvement, Verve Energy has recently revised its risk assessment criteria and developed a formal risk management strategy.

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

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

Risk profiling

A rolling risk profiling program ensures that the key activities and operations of Verve Energy's diverse portfolio are subject to risk assessment. The risk profiles provide an opportunity to not only identify and assess risks, but also to highlight risks where risk reduction strategies are required.

For example during the year:

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

As part of the risk profiling process, responsibilities were assigned, as required, to progress identified risk reduction tasks. Our Audit & Risk Manager monitored the progression of these tasks.

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

Continuous improvement

During the year Verve Energy revised its risk assessment criteria. The updated criteria are designed to be a 'better fit' for the organisation's activities, at the corporate and technical level. The criteria now provide greater clarification of risk appetite, risk escalation and risk level approvals.

A formal risk management strategy was developed during the year and was endorsed by management, the Executive and the Board. The strategy was based on a comprehensive risk management maturity review which considered input from key risk stakeholders across the business.

State Records Act 2000

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

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 2010 to 30 June 2011 is disclosed as follows:

Market research organisation	$18,035
Media advertising agencies	$13,510
Total expenditure	$31,545

KEY PERSONNEL

Executive

Shirley In't Veld	–	Managing Director
Wally Borovac	–	Chief Financial Officer
Jason Waters	–	General Manager Trading & Fuel
Tony Narvaez	–	General Manager Strategy & Business Development
Ross Stidolph	–	Chief Operating Officer
Derek Noakes	–	General Manager Corporate Services
Rick Walker	–	General Manager Safety & Health

Board

David Eiszele	–	Chairman
Harvey Collins	–	Director (Deputy Chairman)
Ian Purcell	–	Director (Retired on 22 June 2011)
Gaye McMath	–	Director
Keith Spence	–	Director
Shirley In't Veld	–	Managing Director

GLOSSARY

CO2e	Carbon dioxide equivalent
EBIT	Earnings Before Income Tax
EMS	Environmental Management System
FOF	Forced Outage Factor
GW	Gigawatt (1 million Kilowatts)
GWh	Gigawatt hour (1 million Kilowatt hours)
HEGT	High Efficiency Gas Turbine
IT	Information Technology
LTI	Lost Time Injury
MTI	Medical Treated Injury
MW	Megawatt (1000 kilowatts/ 1 million watts)
MWh	Megawatt Hour (1000 Kilowatt/hours)
NPAT	Net Profit After Tax or Profit for the financial year
NPBT	Net Profit Before Tax or Profit before income tax
OSH	Occupational Safety and Health
REC	Renewable Energy Certificate
RIFR	Recordable Injury Frequency
RIF	Recordable Injury Frequency
Solar PV	Solar photovoltaic
SWIS	South West Interconnected System

1 Directors

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

Name, qualifications and independence status	*Age*	*Experience, special responsibilities and other directorships*
Mr David Russell Eiszele MBus, FAICD, FIE Chairperson Independent Non-Executive Director	70	Mr Eiszele was appointed as Non-Executive Director in February 2009. His current term expires in December 2012. 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	62	Mr Collins was appointed as a Non-Executive Director in April 2006. His current term expires in 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 retired as a WA State Councillor of the Australian Institute of Company Directors in July 2011.
Mr Keith William Spence BSc (Hons) Independent Non-Executive Director	57	Mr Spence was appointed as Non-Executive Director in May 2009. His current term expires in March 2014. Mr Spence recently retired after 31 years with Woodside and Shell. A former Senior Executive with those companies, Mr Spence also holds a number of directorships including Geodynamics Limited, Clough Limited and Skills Australia.
Ms Gaye Marie McMath BCom, MBA; AMP, FCPA FAICD Independent Non-Executive Director	52	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. Prior to this she held senior management positions with BHP Billiton over a 23 year period. Ms McMath is a director of WA Treasury Corporation and Gold Corporation. She is a WA State Councillor of the Australian Institute of Company Directors.
Ms Shirley Eleanor In't Veld LLB (Hons) BCom Managing Director	56	Ms In't Veld was appointed in April 2007 for a five-year term. Ms In't Veld previously held senior management positions in Alcoa of Australia, most recently as Vice President of Primary Business Development and Managing Director of Alcoa Australia Rolled Products, as well as senior positions with Western Mining Corporation and Bankwest.
Mr Ian Charles Purcell – retired 22 June 2011 BE (Electrical) Independent Non-Executive Director	66	Mr Purcell was appointed as a Non-Executive Director in December 2007 and retired in June 2011. 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.

2 Company secretary

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

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	10	11	4	4	4	5
Mr Keith William Spence	10	11	3	4	-	-
Ms Gaye Marie McMath	10	11	-	-	5	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, 3 Board meetings were held via circular resolution.

4 Corporate governance statement

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

4.1 Board of Directors

Role of the Board

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

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

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.
- The Chief Executive Officer may be a Director of the Corporation.
- Other than the Chief Executive Officer, a member of staff of the Corporation is not to be a Director of the Corporation.

4.2 Nomination of a Director

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

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

4.3 Remuneration and Development Committee

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

The Remuneration and Development Committee meets at least three times a year unless otherwise required. The committee met 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

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 financial targets and strategic objectives, and achieve the broader outcome of creation of value for our owner. The compensation structures take into account:

- The capability and experience of the executive officers
- The executive officers' ability to control the relevant performance
- The Corporation's performance including earnings and delivering constant returns on owner wealth
- The amount of incentives within each executive officers' compensation

Compensation packages include a mix of fixed remuneration 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 executive officers 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 executive officers. 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 executive officers, excluding the Managing Director and the Chief Operating Officer, are unlimited in term but generally these contracts are capable of termination by the executive officers 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 executive officers are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The 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.

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	
		Salary & fees[1]	Short-term cash incentive	Non-monetary benefits	Super-annuation benefits	Total
		$	$	$	$	$
Non–Executive Directors						
Mr David Eiszele (Chairperson)	*2011*	103,555	-	-	9,320	112,875
	2010	103,555	-	-	9,320	112,875
Mr Harvey Collins (Deputy Chairperson)	*2011*	68,542	-	1,333	6,289	76,164
	2010	68,542	-	1,333	6,289	76,164
Mr Ian Purcell	*2011*	52,417		1,333	4,838	58,588
	2010	52,417	-	1,333	4,838	58,588
Mr Keith Spence	*2011*	53,750	-	-	4,838	58,588
	2010	53,750	-	-	4,838	58,588
Ms Gaye McMath	*2011*	53,750	-	-	4,838	58,588
	2010	53,750	-	-	4,838	58,588
Executive Director						
Ms Shirley Eleanor In't Veld (Managing Director)	*2011*	387,138	134,496	1,333	47,067	570,034
	2010	376,557	127,277	1,333	45,465	550,632
Executives						
Mr Ross Stidolph	*2011*	328,006	63,756	1,333	35,379	428,474
	2010	313,588	18,961	1,333	30,049	363,931
Mr Derek Noakes	*2011*	293,073	58,852	1,333	31,793	385,051
	2010	280,187	48,085	1,333	29,664	359,269
Mr Tony Narvaez	*2011*	275,338	56,000	-	29,820	361,158
	2010	254,763	45,000	-	26,979	326,742
Mr Jason Waters	*2011*	275,396	55,463	1,333	29,897	362,089
	2010	256,329	36,450	1,333	26,470	320,582
Mr Wally Borovac	*2011*	269,675	48,825	1,127	28,766	348,393
	2010	236,954	37,500	1,621	24,847	300,922

Note:

1. Comprises salary and fees and salary sacrificed benefits (including superannuation), where applicable.

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 advisers without management being present.

The internal and external auditors, the Managing Director, 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.

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 2011 comply with Accounting Standards and present a true and fair view of the Corporation's financial condition and operational results. This statement is required annually.

4.6 Risk management

Oversight of the risk management framework

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

The 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 regular report on the status of significant risks and implementation strategies to mitigate those risks.

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

Quality of employees

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

Financial reporting

The 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.

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 during the year.

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

Internal audit

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

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

Conflict of interest

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

4.7 Ethical standards

Code of Conduct and Integrity

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

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

4.8 Communication with owner

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

5 Principal activities

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

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

Objectives

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

Our vision is 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 the following strategies:

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

6 Dividends

On 17 March 2011, the Corporation received a Ministerial Direction made in accordance with section 126(3)(b) of the Act by the Minister to pay a final dividend equal to 65% of its net profit after tax for the year ended 30 June 2010, which amounted to $63,409,000. The payment was made on 29 June 2011.

7 Ministerial order and direction

In addition to those disclosed in section 6 above, on 1 September 2010, the Corporation received a Ministerial Direction made in accordance with section 111 of the Act in relation to a gas transport contract. This direction was cancelled on 3 May 2011.

Under a Ministerial Order made by the Minister in accordance with section 84(1) of the Act, the Vesting Contract between the Corporation and Synergy was cancelled and replaced by a new contract effective from 1 October 2010.

8 Events after the reporting period

On 10 July 2011, the Australian Government announced the "*Securing a Clean Energy Future – the Australian Government's climate change Plan*" and subsequently released the draft legislation on 28 July 2011. Whilst the announcement and the draft legislation provides further details of the framework for a carbon pricing mechanism, uncertainties continue to exist on the impact of any carbon pricing mechanism on the Corporation as it has yet to be voted on and passed by both houses of Parliament.

The introduction of a carbon pricing mechanism has the potential to significantly impact the assumptions used for the purpose of the value-in-use calculations in impairment testing on non-current non-financial assets. Based on information available as at the date of this report and the best estimates that could be made, the Corporation has re-performed the impairment testing calculation and has concluded that there is no impairment to its non-current non-financial assets as a result of the carbon pricing mechanism. However, due to the uncertainties in the final legislation and other matters, there remains a risk that the Corporation is not able to fully pass through the carbon tax which could negatively impact the Corporation's future financial performance. The Corporation will continue to review its position.

On 18 August 2011, South West Solar Development Holdings Pty Ltd in which the Corporation has 50% equity interest was incorporated for the purpose of pursuing the Corporation's plan to build and operate a 10MW solar plant in Midwest of WA.

9 Likely developments

The Corporation will continue to review its generation portfolio in order to improve efficiency and reduce carbon intensity. The Corporation will retire its Kwinana A plant in conjunction with the commissioning of the High Efficiency Gas Turbine at Kwinana Power Station.

10 Indemnification of Directors and Officers

During the reporting period a Directors' and Officers' Liability Insurance Policy was taken out at a premium cost of $84,483 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.

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

11 Non-audit services

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

12 Rounding off

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

This report is made with a resolution of the Directors:

DAVID EISZELE
CHAIRMAN

SHIRLEY IN'T VELD
MANAGING DIRECTOR

Dated at Perth this 24th day of August 2011

Statement of comprehensive income

For the year ended 30 June 2011

	Note	2011 $'000	2010 $'000
Income			
Revenue	5	1,287,922	1,239,459
Other income	6	16,770	10,304
Total income		**1,304,692**	**1,249,763**
Expenses			
Fuel and electricity purchases		(569,704)	(605,158)
Raw materials and services used		(163,976)	(132,663)
Employee expenses		(115,362)	(95,594)
Impairment loss on non-current assets		-	(4,898)
Depreciation and amortisation		(126,010)	(124,382)
Other expenses		(50,181)	(46,542)
Total expenses		**(1,025,233)**	**(1,009,237)**
Result from operating activities		**279,459**	**240,526**
Finance income		9,036	3,590
Finance expenses		(97,508)	(105,806)
Net finance expense	7	**(88,472)**	**(102,216)**
Share of loss of joint venture entities	19	(5,876)	-
Profit before income tax	9	**185,111**	**138,310**
Income tax expense	10	(56,819)	(40,777)
Profit for the financial year		**128,292**	**97,533**
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		(12,079)	(12,983)
Net change in fair value of cash flow hedges transferred to profit or loss		867	1,198
Net change in fair value of cash flow hedges transferred to property, plant and equipment		10,645	7,656
Income tax on other comprehensive income		171	1,238
Other comprehensive income for the year, net of income tax		**(396)**	**(2,891)**
Total comprehensive income for the financial year		**127,896**	**94,642**

The statement of comprehensive income is to be read in conjunction with the notes of the financial statements set out on pages 32 to 66.

Statement of financial position

As at 30 June 2011	Note	2011 $'000	2010 $'000
Assets			
Cash and cash equivalents	11	142,991	103,770
Trade and other receivables	12	156,703	136,390
Lease receivable	13	2,542	-
Inventories	14	129,612	146,484
Derivative financial instruments	15	73	1,124
Investment	16	166	228
Total current assets		**432,087**	**387,996**
Lease receivable	13	10,218	-
Property, plant and equipment	17	1,744,880	1,679,722
Intangible assets	18	1,720	1,209
Investments in joint venture entities	19	5,746	-
Deferred tax assets	21	4,129	60,777
Derivative financial instruments	15	-	3
Total non-current assets		**1,766,693**	**1,741,711**
Total assets		**2,198,780**	**2,129,707**
Liabilities			
Trade and other payables	22	224,471	166,150
Interest-bearing loans and borrowings	23	185,141	229,414
Employee benefits	24	37,061	33,930
Decommissioning provisions	25	22,064	52
Derivative financial instruments	15	4,443	4,011
Total current liabilities		**473,180**	**433,557**
Interest-bearing loans and borrowings	23	865,201	1,053,226
Employee benefits	24	25,008	23,772
Decommissioning provisions	25	160,605	174,500
Derivative financial instruments	15	1,841	1,702
Total non-current liabilities		**1,052,655**	**1,253,200**
Total liabilities		**1,525,835**	**1,686,757**
Net assets		**672,945**	**442,950**
Equity			
Contributed equity	26	882,442	716,934
Reserves	26	(4,019)	(3,623)
Accumulated losses	26	(205,478)	(270,361)
Total equity		**672,945**	**442,950**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 32 to 66.

Statement of changes in equity

	Contributed Equity	Hedging Reserve	Accumulated Losses	Total
	$'000	$'000	$'000	$'000
Balance at 1 July 2009	635,362	(732)	(367,894)	266,736
Contribution by the owner	81,572	-	-	81,572
Total comprehensive income for the year				
Profit	-	-	97,533	97,533
Other comprehensive income				
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
Net loss on investment transferred to profit or loss				
Income tax effect on 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**
Balance at 1 July 2010	716,934	(3,623)	(270,361)	442,950
Contribution by the owner	165,508	-	-	165,508
Dividend payment			(63,409)	(63,409)
Total comprehensive income for the year				
Profit	-	-	128,292	128,292
Other comprehensive income				
Effective portion of changes in fair value of cash flow hedges	-	(12,079)	-	(12,079)
Net change in fair value of cash flow hedges transferred to profit or loss	-	867	-	867
Net change in fair value of cash flow hedges transferred to property, plant and equipment	-	10,645	-	10,645
Income tax effect on other comprehensive income	-	171	-	171
Total other comprehensive income	-	(396)	-	(396)
Balance at 30 June 2011	**882,442**	**(4,019)**	**(205,478)**	**672,945**

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 32 to 66.

Statement of cash flows

For the year ended 30 June 2011

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Cash receipts from customers		1,279,978	1,209,302
Cash paid to suppliers and employees		(823,571)	(943,366)
Dividend paid		(63,409)	-
Interest paid		(94,020)	(95,585)
Interest received		12,912	3,590
Net cash from operating activities	11	**311,889**	**173,941**
Cash flows from investing activities			
Investments in Joint Ventures		(5,622)	-
Payment for property, plant and equipment		(200,198)	(147,233)
Proceeds from disposal of assets		176	19
Net cash used in investing activities		**(205,644)**	**(147,214)**
Cash flows from financing activities			
Proceeds from borrowing		59,000	835,000
Repayment of borrowing		(291,532)	(849,150)
Contribution by the owner		165,508	81,572
Net cash (used in)/from financing activities		**(67,024)**	**67,422**
Net increase in cash and cash equivalents		39,221	94,149
Cash and cash equivalents at beginning of reporting period		103,770	9,621
Cash and cash equivalents at end of reporting period	11	**142,991**	**103,770**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 32 to 66.

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 2011 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 statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Electricity Corporation Act 2005 ("the Act"). The Act is specifically aligned and cross referenced to the Corporations Act 2001.

The financial statements were approved by the Board of Directors on 24 August 2011.

Consolidated financial statements have not been presented as they are not materially different to the Corporation as the investment in the subsidiary (Western Carbon Pty Ltd as disclosed in note 31) has been fully written off upon incorporation of the Corporation and has been dormant since.

(b) Basis of measurement

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

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

(e) Going concern

It is the Corporation's policy to repay its loans and borrowings instead of holding excess cash. The Corporation also diversifies the loans and borrowings into maturity buckets. These have resulted in the Corporation having net current liabilities of $41,093,000 (2010: $45,561,000) as the reporting date. There are reasonable grounds to believe that the Corporate is able to pay its debts as and when they become due and payable, considering the balance of available financing facilities of $538,521,000 (note 23) and the fact the Corporation is forecasting net profits and positive operating cash flows in 2012. Accordingly the financial statements have been prepared on the going concern basis which contemplates establishment of profitable and cash flow operations and the realisation of assets and settlement of liabilities in the ordinary course of business.

3 Significant accounting policies

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

(a) Joint ventures

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

(i) Jointly controlled entities

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

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

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

(ii) Jointly controlled operations and assets

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

(iii) Transactions eliminated on equity accounting

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group 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 investments in such entities are disposed of.

(b) Foreign currency transactions

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

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

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

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

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

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

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

(ii) Derivative financial instruments

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

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

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

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

Cash flow hedges

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

On entering into a hedge relationship, the Corporation determines 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 cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

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

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

Other derivatives

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

Separable embedded derivative

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

(e) Intangible assets

(i) Recognition and measurement

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

(f) Inventories

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

(g) Impairment

(i) Financial assets

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

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

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

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

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

(ii) Non-financial assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. 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 the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

(h) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

When the benefits of a fund are increased, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in 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 up to the end of the reporting period and are calculated at undiscounted amounts based on remuneration wages and salary rates that the Corporation expects to pay as at the end of the reporting.

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

(i) Provisions

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

Decommissioning cost

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

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

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

(j) Revenue

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

(i) Sales of electricity

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

(ii) Other energy sales

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

(iii) Contributions received

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

(iv) Contract works

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

(v) Government grants

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

(k) Leases

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

Lessor

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

Lessee

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

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

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

(l) Finance income and expenses

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

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

(m) Income tax

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

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

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

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

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

(n) Goods and services tax

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

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

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

(o) Borrowing costs

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

(p) New accounting standards and interpretations not yet adopted

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report:

- Revised AASB 9 *Financial Instruments* and AASB 2009-11 and AASB 2010-7 *Amendments to Australian Accounting Standards Arising from AASB 9* address the classification and measurement of financial assets. The standards are not mandatory until 1 January 2013 but are available for early adoption. Adoption of AASB 9 and AASB 2009-11 is unlikely to have a significant impact on the Corporation's financial statements.
- The following accounting standards will only impact on disclosure of the Corporation's financial statements:
    - AASB 1053 *Application of Tiers of Australian Accounting Standards*: establishes a different financial reporting framework consisting of two tiers of general purpose financial statements with reference to the extent of disclosure requirements
    - AASB 1054 *Australian Additional Disclosures*: relocates all Australian specific disclosures from other standards to one place and revises disclosures in various areas
    - Revised AASB 7 *Financial Instruments: Disclosure* and AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*: change disclosure requirements for financial instruments

- The following accounting standards have been issued by the International Accounting Standards Board and are expected to be adopted by the AASB:
  - International Financial Reporting Standard (IFRS) 11 *Joint Arrangements* replaces existing standards on joint ventures and removes the option of proportionate consolidation. IFRS11 is effective for reporting period starting on or after 1 January 2013. Adoption of the Australian equivalent of IFRS11 is not expected to significantly change the Corporation's financial statements.
  - IFRS13 *Fair Value Measurement* establishes a single source of guidance to determining the fair value of assets and liabilities and also expands the disclosure requirements for all assets or liabilities carried at fair value. IFRS13 is effective for reporting periods starting on or after 1 January 2013.

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

(ii) Derivatives

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

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

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

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

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

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

(iii) Trade and other receivables/payables

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

(iv) Interest bearing loans and borrowings

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

(v) Financial guarantee liabilities

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

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

(vi) Finance lease liabilities

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

5 Revenue

	2011	2010
	$'000	$'000
Energy sale - electricity	1,155,370	1,125,610
Energy sale - others	123,930	111,776
Contract works	3,439	1,649
Government grants	5,183	424
	1,287,922	1,239,459

Electricity sales for the current reporting period included $46,382,000, payable to Synergy as a netback settlement for the vesting contract in relation to the fourteen-month period ended September 2010. As at 30 June 2010, the Corporation recognised a $10,800,000 receivable from Synergy, based on advice from Synergy and subsequent recalculation revealed that the netback settlement should have been $40,900,000 as at 30 June 2010 and the variance is a result of incomplete data being used for the calculation. The effect of this is an understatement of $51,700,000 in Revenue and Profit before Income Tax in the current reporting period and a corresponding overstatement in Revenue and Profit before Income Tax in the comparative period.

The above has been treated as a change in accounting estimates and accordingly no retrospective adjustment has been made.

6 Other income

	2011	2010
	$'000	$'000
Insurance recovery	1,564	7,974
Gain on disposal of non-current assets	4,313	-
Development fees on projects	7,246	-
Miscellaneous income	3,647	2,330
	16,770	10,304

7 Net finance expense

	2011	2010
	$'000	$'000
Interest income	9,036	3,590
Finance lease interest expense	(28,456)	(28,539)
Interest and finance charges on loans and borrowings	(59,853)	(65,774)
Unwinding of discount on provision – Decommissioning cost	(9,074)	(9,721)
Gain / (Loss) on interest rate swaps	170	(658)
Loss on interest rate swaps – Embedded derivative	(295)	(1,114)
	(88,472)	(102,216)

8 Auditors' remuneration

	2011	2010
	$'000	$'000
Audit of financial statements	190	234

9 Profit before income tax

	2011	2010
Profit before tax includes the following specific expenses:	$'000	$'000
Impairment loss on trade receivables	(6,441)	(7,648)
Impairment loss on property, plant and equipment	-	(4,898)
Write-back of inventories - fuels	3,170	3,731
Operating lease expense	(2,194)	(3,014)
Loss on derivative financial instruments	(934)	(1,698)
Contribution to defined contribution superannuation plans	(8,194)	(6,975)

10 Income tax expense

	2011	2010
	$'000	$'000
Current tax expense		
Current year	-	-
Deferred tax expense		
Origination and reversal of temporary differences	7,928	1,636
Tax loss utilised	(64,747)	(42,413)
Total income tax expense in profit or loss	(56,819)	(40,777)
Reconciliation between income tax expense and profit before income tax		
Profit before income tax	185,111	138,310
Income tax using the domestic Corporation tax rate of 30%	(55,533)	(41,493)
Effect of:		
Exempt / (non-deductible) items	(1,632)	16
Under provided tax benefit in respect of prior year	346	700
Income tax expense	(56,819)	(40,777)

11 Cash and cash equivalents

	2011	2010
	$'000	$'000
Cash at bank and on hand	558	4,233
Call deposits	142,433	99,537
	142,991	103,770

Reconciliation of cash flows from operating activities

Cash flows from operating activities		
Profit for the period	128,292	97,533
Adjustments for:		
Impairment loss on trade receivables	6,441	7,648
Share of losses of Joint Ventures	5,876	-
Impairment loss on non-current assets	-	4,898
(Write-back)/write-down of inventories	(2,491)	(3,731)
(Gain)/Loss on disposal of property, plant and equipment	(4,313)	317
Depreciation and amortisation	126,010	124,382
Derecognition of decommissioning liability	(10)	(110)
Unwinding of discount on decommissioning provision	9,074	9,721
	268,879	240,658
Changes in trade and other receivables	(20,408)	(47,621)
Changes in inventories	18,810	(4,207)
Changes in derivative financial instruments and investment	(626)	(6,968)
Changes in deferred tax assets	56,819	40,777
Changes in trade and other payables	(15,646)	(1,395)
Changes in provisions and others	4,061	(47,303)
Net cash from operating activities	311,889	173,941

12 Trade and other receivables

	2011	2010
	$'000	$'000
Trade receivables (net of impairment)	132,734	119,508
Other receivables	1,115	2,175
Deposits	15,255	8,161
Prepayments	7,599	6,546
	156,703	136,390

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

13 Lease receivable

The lease receivable is to be received as follows:

	2011		
	Gross investment	Unearned interest income	Principal
	$'000	$'000	$'000
Less than one year	3,997	1,455	2,542
Between one and five years	12,635	2,417	10,218
	16,632	3,872	12,760

The lease relates to a licensing arrangement entered into during this reporting period whereby the Corporation grants a licence to a customer to operate one of its electricity generating plants. The Corporation concluded that this licensing arrangement contains a lease which was classified as a finance lease.

14 Inventories

	2011	2010
	$'000	$'000
Fuels	87,373	102,178
Raw materials	42,239	44,306
	129,612	146,484

Fuels amounting to $21,551,000 (2010: $18,381,000) were carried at fair value less costs to sell.

15 Derivative financial instruments

	2011 $'000	2010 $'000
Current assets		
Interest rate swaps - cash flow hedge	-	400
Forward exchange contracts - cash flow hedge	8	138
Forward exchange contracts - FVTPL	-	120
Interest rate swaps - embedded	65	361
Electricity derivatives - embedded	-	105
	73	1,124
Non-current assets		
Forward exchange contracts - cash flow hedge	-	3
	-	3
Current liability		
Forward exchange contracts - cash flow hedge	3,909	4,011
Electricity derivatives - embedded	534	-
	4,443	4,011
Non-current liability		
Forward exchange contracts - cash flow hedge	1,252	978
Interest rate swaps - cash flow hedge	589	724
	1,841	1,702

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 other comprehensive income. Where the Corporation considers an interest rate swap to be an ineffective hedge the gain or loss from remeasuring the derivative at fair value is recognised in profit or loss.

(b) Forward exchange contracts – cash flow hedge

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

(c) Embedded derivatives

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

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

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

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

16 Investment

	2011 $'000	2010 $'000
Listed equity security available for sale	166	228

17 Property, plant and equipment

	Land	Building	Plant & equipment	Works under construction	Leased plant	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At cost						
Balance at 1 July 2009	5,539	136,678	1,652,418	49,926	186,535	2,031,096
Additions	-	-	-	158,095	-	158,095
Transfers	-	-	18,899	(18,899)	-	-
Disposals/write-off	-	-	(571)	-	-	(571)
Decommissioning costs adjustment	-	-	19,585	-	-	19,585
Balance at 30 June 2010	5,539	136,678	1,690,331	189,122	186,535	2,208,205
Balance at 1 July 2010	5,539	136,678	1,690,331	189,122	186,535	2,208,205
Additions	951	448	-	200,383	-	201,782
Transfers	-	-	41,480	(43,604)	-	(2,124)
Disposals/write-off	(2)	(807)	(21,717)	-	-	(22,526)
Decommissioning costs adjustment			(947)	-	-	(947)
Balance at 30 June 2011	6,488	136,319	1,709,147	345,901	186,535	2,384,390
Depreciation and impairment losses						
Balance at 1 July 2009	-	(24,422)	(351,746)	-	(24,661)	(400,829)
Depreciation charge for the year	-	(7,549)	(107,854)	-	(7,588)	(122,991)
Disposals/write-off	-	-	235	-	-	235
Impairment on idle assets	-	-	(4,898)	-	-	(4,898)
Balance at 30 June 2010	-	(31,971)	(464,263)	-	(32,249)	(528,483)
Balance at 1 July 2010	-	(31,971)	(464,263)	-	(32,249)	(528,483)
Depreciation charge for the year	-	(7,524)	(109,284)	-	(7,589)	(124,397)
Disposals/write-off	-	474	12,896	-	-	13,370
Balance at 30 June 2011		(39,021)	(560,651)		(39,838)	(639,510)
Carrying amount						
At 1 July 2009	5,539	112,256	1,300,672	49,926	161,874	1,630,267
At 30 June 2010	5,539	104,707	1,226,068	189,122	154,286	1,679,722
At 30 June 2011	6,488	97,298	1,148,496	345,901	146,697	1,744,880

(a) Leased plant

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

(b) Transfers

There are transfers of $2,124,000 (2010: nil) from works under construction to Intangible assets in 2011 (note 18).

18 Intangible assets

	Computer software	Exclusive rights	Total
	$'000	$'000	$'000
At cost			
Balance at 1 July 2009	3,705	537	4,242
Transfers from works under construction (refer note 17)	-	-	-
Balance at 30 June 2010	3,705	537	4,242
Balance at 1 July 2010	3,705	537	4,242
Transfers from works under construction (refer note 17)	2,124	-	2,124
Balance at 30 June 2011	5,829	537	6,366
Amortisation			
Balance at 1 July 2009	(1,461)	(181)	(1,642)
Amortisation for the year	(1,335)	(56)	(1,391)
Balance at 30 June 2010	(2,796)	(237)	(3,033)
Balance at 1 July 2010	(2,796)	(237)	(3,033)
Amortisation for the year	(1,557)	(56)	(1,613)
Balance at 30 June 2011	(4,353)	(293)	(4,646)
Carrying amount			
At 1 July 2009	2,244	356	2,600
At 30 June 2010	909	300	1,209
At 30 June 2011	1,476	244	1,720

19 Investments in joint venture entities

	2011	2010
	$'000	$'000
Cost of investments	11,622	-
Share of loss	(5,876)	-
	5,746	-

Investments in joint venture entities are as follows:

	Country of incorporation	Reporting date	Ownership interest	
			2011	2010
Vinalco Energy Pty Ltd[1]	Australia	30 June	50%	-
Mumbida Wind Farm Holdings Pty Ltd[2]	Australia	30 June	50%	-
Wind Energy Corporation Pty Ltd[3]	Australia	30 June	50%	50%

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

	2011	2010
	$'000	$'000
Current assets	15,544	-
Non-current assets	77,846	-
Current liabilities	(10,830)	-
Non-current liabilities	(96,789)	-
Income	167	-
Expenses	(17,220)	-
Profit/(loss)	(17,053)	-

1. Vinalco Energy Pty Ltd was formed in August 2011 to refurbish and subsequently operate the Muja AB plant.
2. Mumbida Wind Farm Holdings Pty Ltd and its subsidiary, Mumbida Wind Farm Pty Ltd (the Mumbida Group) were incorporated in November 2010.
3. 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.

20 Interest in joint venture operation

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

21 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables	57	6,806	-	-	57	6,806
Inventories	734	530	-	-	734	530
Derivative financial instruments	1,864	1,375	-	-	1,864	1,375
Investment	236	218	-	-	236	218
Lease receivable	-	-	(3,828)	-	(3,828)	-
Property, plant and equipment	-	-	(187,978)	(201,657)	(187,978)	(201,657)
Intangibles	420	402	-	-	420	402
Trade and other payables	475	1,552	-	-	475	1,552
Employee benefits	18,621	15,528	-	-	18,621	15,528
Provisions	56,747	54,301	-	-	56,747	54,301
Finance lease liability	56,659	56,853	-	-	56,659	56,853
Tax loss carry-forwards	60,122	124,869	-	-	60,122	124,869
Net tax assets / (liabilities)	**195,935**	**262,434**	**(191,806)**	**(201,657)**	**4,129**	**60,777**

Movement in temporary differences during the year:

	Balance	Recognised in		Balance	Recognised in		Balance
	30 June 2009	Profit or loss	Other comprehensive income	30 June 2010	Profit or loss	Other comprehensive income	30 June 2011
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables	4,782	2,024	-	6,806	(6,749)	-	57
Inventories	530	-	-	530	204	-	734
Derivative financial instruments	2,227	(2,090)	1,238	1,375	318	171	1,864
Investment	218	-	-	218	18	-	236
Lease receivable	-	-	-	-	(3,828)	-	(3,828)
Property, plant and equipment	(217,316)	15,659	-	(201,657)	13,679	-	(187,978)
Intangibles	385	17	-	402	18	-	420
Trade and other payables	1,657	(105)	-	1,552	(1,077)	-	475
Employee Benefits	15,670	(142)	-	15,528	3,093	-	18,621
Provisions	67,885	(13,584)	-	54,301	2,446	-	56,747
Finance lease liability	56,996	(143)	-	56,853	(194)	-	56,659
Tax loss carry-forwards	167,282	(42,413)	-	124,869	(64,747)	-	60,122
Net tax assets / (liabilities)	**100,316**	**(40,777)**	**1,238**	**60,777**	**(56,819)**	**171**	**4,129**

22 Trade and other payables

	2011	2010
	$'000	$'000
Trade payables and accrued operating expense	171,131	114,307
Financial guarantee liability	6,000	-
Other payables	4,731	3,134
Deferred income	31,584	35,174
Interest accrued	11,025	13,535
	224,471	166,150

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

23 Interest-bearing loans and borrowings

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

	2011	2010
	$'000	$'000
Current liabilities		
Finance lease liabilities	880	646
Unsecured loans and borrowings	184,261	228,768
	185,141	229,414
Non-current liabilities		
Finance lease liabilities	187,983	188,863
Unsecured loans and borrowings	677,218	864,363
	865,201	1,053,226

	2011	2010
	$'000	$'000
Financing arrangements		
Unsecured funding facility at reporting period		
Total facilities available	1,400,000	1,400,000
Facilities utilised at reporting period	(861,479)	(1,093,131)
Facilities not utilised at reporting period	538,521	306,869

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. As at the reporting date, the loans and borrowings bear interest at rates in the range of 4.60% to 7.15%.

Finance lease liabilities

Finance lease liabilities of the Corporation are payable as follows:

	2011			2010		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	$'000	$'000	$'000	$'000	$'000	$'000
Less than one year	29,223	28,343	880	29,102	28,456	646
Between one and five years	148,494	138,301	10,193	117,807	112,255	5,552
More than five years	417,761	239,971	177,790	477,671	294,360	183,311
	595,478	406,615	188,863	624,580	435,071	189,509

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 17). The imputed finance expense on the liability was determined based on the effective interest rate of the lease liability.

24 Employee benefits

	2011	2010
Current liabilities	$'000	$'000
Salaries and wages accrued	7,026	5,944
Liability for long service leave	16,301	15,203
Liability for annual leave	13,734	12,783
	37,061	33,930
Non-current liabilities		
Recognised liability for defined benefit obligations	23,495	22,200
Liability for long service leave	1,513	1,572
	25,008	23,772

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 the end of each reporting period.

	2011 $'000	2010 $'000
Defined benefit obligations		
Amount at the end of reporting period		
Net liabilities	23,495	22,200
Changes in the present value of the defined benefit obligations are as follows:		
Defined benefit obligations at 1 July	22,200	18,624
Interest cost	1,181	961
Actuarial (gain)/loss	1,145	3,525
Service cost	79	73
Benefits paid	(1,110)	(983)
Defined benefit obligations at 30 June	23,495	22,200
Amount recognised in profit or loss:		
Interest cost	1,181	961
Actuarial (gain)/loss	1,145	3,525
Service cost	79	73
Recognised in profit or loss as employee expenses	2,405	4,560

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

	2011	2010
Discount rate at 30 June	5.28%	5.48%
Expected salary increases	4.50%	4.50%
Expected pension increase rate	2.50%	2.50%

25 Decommissioning Provisions

	2011	2010
	$'000	$'000
Beginning balance	174,552	165,634
Provisions used during the period	-	(20,278)
Unwinding of discount on provisions	9,074	9,721
De-recognition of provision	(10)	(110)
Change in assumptions	(947)	19,585
Balance at the end of reporting period	182,669	174,552
Current	22,064	52
Non-current	160,605	174,500
Balance at the end of reporting period	182,669	174,552

Decommissioning costs

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

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 following assumptions were used for the calculation.

	2011	2010
Discount rate	5.22%	5.19%
Inflation rate	2.19% - 3.5%	1.81% - 3.5%

26 Contributed equity and reserves

Contributed equity

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

During the current year, the Corporation received 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.

Dividend

On 29 June 2011, the Corporation paid a final dividend amounting to $63,409,000 in relation to the year ended 30 June 2010.

27 Financial instruments

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

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

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

Overview

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

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

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

Credit risk

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

Trade, lease and other receivables

The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Corporation's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. Approximately 68% (2010: 79%) of the Corporation's revenue is attributable to sales transactions with a single customer.

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

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

Investments and derivative financial assets

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

Financial guarantee

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

Exposure to credit risk

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

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

	2011	2010
	$'000	$'000
Cash and cash equivalents	142,991	103,770
Trade receivables (net of impairment)	132,734	119,508
Other receivables	1,115	2,175
Deposits	15,255	8,161
Lease receivable	12,760	-
Derivative financial assets	73	1,127
Available-for-sale financial assets	166	228
	305,094	234,969

In addition to the above, the Corporation also has credit exposure arising from the financial guarantee granted in relation to a joint venture entity (refer to note 22). The maximum credit exposure in relation to the financial guarantee is equal to the outstanding borrowings by the joint venture which amounted to $62,098,000 as at the reporting date (2010: nil).

The Corporation's most significant customer, Synergy, accounts for $84,300,000 of the trade receivables carrying amount at 30 June 2011 (2010: $93,000,000).

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

	2011		2010	
	Gross	Allowance for impairment	Gross	Allowance for impairment
	$'000	$'000	$'000	$'000
Not past due	126,815	-	116,372	-
Past due 0-30 days	2,963*	-	1,606	(672)
Past due 31-90 days	2,847*	-	1,260	(1,145)
More than 90 days	298	(189)	22,958	(20,871)
	132,923	(189)	142,196	(22,688)

*As collateral for these overdue amounts, the Corporation holds bank guarantees of values equivalent to the receivables

Impaired amounts as at the reporting date related to receivables from a customer under receivership while the comparatives related to receivables under dispute.

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

	2011	2010
	$'000	$'000
Beginning balance	(22,688)	(15,940)
Impairment loss recognised	(6,441)	(7,648)
Impairment loss utilised	28,940	900
Ending balance	(189)	(22,688)

Liquidity risk

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

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

30 June 2011	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	8	2,057	2,057	-	-	-	-
Outflow	-	(2,048)	(2,048)	-	-	-	-
	8	9	9	-	-	-	-
Derivative financial liabilities							
Forward exchange contract – cashflow hedge							
Inflow	-	25,166	21,364	1,421	1,105	1,276	-
Outflow	(5,161)	(30,471)	(25,562)	(1,743)	(1,474)	(1,692)	-
Interest rate swaps – cashflow hedge	(589)	(687)	(108)	(114)	(213)	(291)	39
Electricity derivatives – Embedded	(534)	(699)	22	(20)	(85)	(287)	(329)
	(6,284)	(6,691)	(4,284)	(456)	(667)	(994)	(290)
Non-derivative financial liabilities							
Finance lease	(188,863)	(595,478)	(14,596)	(14,626)	(58,886)	(89,608)	(417,762)
Interest-bearing loans and borrowings	(861,479)	(1,044,321)	(79,525)	(153,117)	(146,794)	(406,435)	(258,450)
Trade and other payables	(186,887)	(186,887)	(186,887)	-	-	-	-
Financial guarantee liability	(6,000)	-	-	-	-	-	-
	(1,243,229)	(1,826,686)	(281,008)	(167,743)	(205,680)	(496,043)	(676,212)
Total	(1,249,505)	(1,833,368)	(285,283)	(168,199)	(206,347)	(497,037)	(676,502)

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	-	-	-
	541	628	367	258	3	-	-
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)
	(5,713)	(6,026)	(3,755)	(607)	(1,428)	(232)	(4)
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)	-	-	-	-
	(1,413,616)	(2,089,067)	(229,189)	(218,895)	(278,225)	(457,770)	(904,988)
Total	(1,418,788)	(2,094,465)	(232,577)	(219,244)	(279,650)	(458,002)	(904,992)

Market risk

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

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

Interest rate risk

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

Profile

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

	Carrying amount	
	2011	**2010**
Fixed rate instruments	**$'000**	**$'000**
Financial assets	140,894	91,137
Financial liabilities	(1,030,342)	(1,152,640)
	(889,448)	(1,061,503)
Variable rate instruments		
Financial assets	14,429	12,990
Financial liabilities	(20,589)	(130,324)
	(6,160)	(117,334)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) profit or loss and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

		-100 basis points		+100 basis points	
	Carrying amount	Profit	Other Comprehensive Income	Profit	Other Comprehensive Income
2011	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	14,364	(144)	-	144	-
Interest rate swaps	(589)	-	(1,062)	-	998
Unsecured loans and borrowings	(20,000)	200	-	(200)	-
Interest rate swaps - embedded	65	1	-	(1)	-
2010	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	12,629	(126)	-	126	-
Interest rate swaps	(324)	-	(1,428)	-	1,359
Unsecured loans and borrowings	(130,000)	1,300	-	(1,300)	-
Interest rate swaps - embedded	361	7	-	(7)	-

Currency risk

Profile

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

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

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

Exposure to currency risk

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

30 June 2011 (AUD'000s)	**USD**	**EURO**	**GBP**	**JPY**
Estimated forecast purchases	(8,382)	(18,295)	-	(77)
Forward exchange contracts	8,382	18,295	-	77
Net exposure	-	-	-	-
30 June 2010 (AUD'000s)	**USD**	**EURO**	**GBP**	**JPY**
Estimated forecast purchases	(57,610)	(4,720)	(1,369)	(2,536)
Forward exchange contracts	57,610	4,720	1,369	2,536
Net exposure	-	-	-	-

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2011	**2010**	**2011**	**2010**
USD	0.9903	0.8834	1.0729	0.8512
EURO	0.7253	0.6362	0.7404	0.6967
GBP	0.6220	0.5589	0.6668	0.5661
JPY	82.15	80.74	86.27	75.36

Sensitivity analysis

A 10 percent strengthening/weakening of the Australian dollar against the following currencies at 30 June would have increased / (decreased) profit or loss and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	-10%		+10%	
	Profit	Other Comprehensive Income	Profit	Other Comprehensive Income
2011	$'000	$'000	$'000	$'000
USD	13	925	10	(757)
GBP	-	-	-	-
EUR	-	1,821	-	(1,821)
JPY	10	9	(9)	(7)
2010				
USD	-	6,358	-	(5,202)
GBP	-	137	-	(137)
EUR	-	464	-	(464)
JPY	256	25	(210)	(21)

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) profit or loss and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and foreign exchange rates, remain constant. The analysis is performed on the same basis for 2010.

		-10%		+10%	
	Carrying amount	Profit	Other Comprehensive Income	Profit	Other Comprehensive Income
2011	$'000	$'000	$'000	$'000	$'000
Investment	166	(17)	-	17	-
Embedded electricity derivative	(534)	717	-	(717)	-
2010					
Investment	228	(23)	-	23	-
Embedded electricity derivative	105	224	-	(224)	-

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 2011:

		2011		2010	
		Carrying amount	Fair value	Carrying amount	Fair value
	Note	$'000	$'000	$'000	$'000
Unsecured loans and borrowings	*23*	861,479	879,580	1,093,131	1,110,205

Interest rates used for determining fair value

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

	2011	2010
Derivative financial instruments	4.75% - 5.18%	4.5% - 5.26%
Interest-bearing loans and borrowings	4.75% - 5.64%	4.5% - 5.53%

Fair value hierarchy

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

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

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

	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 $639,000 on embedded electricity derivatives was recognised as other expenses for the year ended 30 June 2011 (2010: $1,158,000 loss).

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

28 Operating leases

	2011	2010
Leases as lessee	**$'000**	**$'000**
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	1,095	1,800
Between one and five years	4,805	2,194
More than five years	-	191
	5,900	4,185

29 Capital and other commitments

	2011	2010
	$'000	$'000
Committed capital expenditures are payable as follows:		
Less than one year	118,375	182,482
Between one and five years	449	1,179
	118,824	183,661
Committed operating expenditures (excluding operating leases stated above) are payable as follows:		
Less than one year	29,572	73,010
Between one and five years	10,712	1,237
	40,284	74,247

30 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. This represents a contingent asset of up to $40 million, subject to a successful outcome from the litigation. 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 25). Based on management's best estimates and assumptions, the Corporation has made adequate provision to cover these anticipated restoration costs. However many of these costs will be incurred at some time in the future and as such the provisions will be subject to changes due to 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.

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

31 Subsidiary

Western Carbon Pty Ltd was incorporated in Australia in July 2002 and has been dormant since that date. Application for deregistration of this dormant subsidiary was lodged with the Australian Securities and investments Commission on 24 June 2011.

32 Directors' and executive remuneration disclosures

The following were Non-Executive Directors and Executives of the Corporation any time during the reporting period and represent the Corporations key managerial personnel:

Non-Executive Directors	Executives
Mr David Russell Eiszele (Chairperson)	Mr Ross Stidolph
Mr Harvey Russell Collins (Deputy Chairperson)	Mr Derek Noakes
Mr Ian Charles Purcell	Mr Jason Waters
Mr Keith William Spence	Mr Tony Narvaez
Ms Gaye Marie McMath	Mr Wally Borovac
	Mr Rick Walker

Executive Director

Ms Shirley Eleanor In't Veld (Managing Director)

Directors' and executive remuneration

The directors' and executive remuneration included in employee expenses in profit or loss are as follows:

	2011	2010
	$'000	$'000
Short term employee benefits	2,722	2,384
Post employment benefits	245	215
	2,967	2,599

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

33 Events after the Reporting Period

On 10 July 2011, the Australian Government announced the "*Securing a Clean Energy Future – the Australian Government's climate change Plan*" and subsequently released the draft legislation on 28 July 2011. Whilst the announcement and the draft legislation provides further details of the framework for a carbon pricing mechanism, uncertainties continue to exist on the impact of any carbon pricing mechanism on the Corporation as it has yet to be voted on and passed by both houses of Parliament.

The introduction of a carbon pricing mechanism has the potential to significantly impact the assumptions used for the purpose of the value-in-use calculations in impairment testing on non-current non-financial assets. Based on information available as at the date of this report and the best estimates that could be made, the Corporation has re-performed the impairment testing calculation and has concluded that there is no impairment to its non-current non-financial assets as a result of the carbon pricing mechanism. However, due to the uncertainties in the final legislation and other matters, there remains a risk that the Corporation is not able to fully pass through the carbon tax which could negatively impact the Corporation's future financial performance. The Corporation will continue to review its position.

On 18 August 2011, South West Solar Development Holdings Pty Ltd in which the Corporation has 50% equity interest was incorporated for the purpose of pursuing the Corporation's plan to build and operate a 10MW solar photovoltaic (PV) farm in the Greenough region of WA.

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 2011 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 2011 pursuant to the *Electricity Corporations Act 2005.*

Dated at Perth this 24 of August 2011

Signed in accordance with a resolution of the Directors:

DAVID EISZELE
CHAIRMAN

SHIRLEY IN'T VELD
MANAGING DIRECTOR

To the Parliament of Western Australia

ELECTRICITY GENERATION CORPORATION (TRADING AS VERVE ENERGY)

I have audited the financial report of the Electricity Generation Corporation. The financial report comprises the Statement of Financial Position as at 30 June 2011, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, Notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

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

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

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

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

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

Electricity Generation Corporation (Trading as Verve Energy)

Opinion

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

(a) giving a true and fair view of the of the Corporation's financial position as at 30 June 2011 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

26 August 2011