



OPERATIONS

- All Verve Energy generating units are available for the 2008/09 summer peak demand period.
- All available Verve Energy coal and gas-fired power stations continued to operate through the gas shortage which resulted from the shutdown and later partial restoration of Apache Energy's gas plant on Varanus Island.
- Muja Power Station stage B (2x60MW), brought out of retirement as part of the strategy to combat the impact of the gas shortage, will continue to operate until 31 March 2009.
- Installation of the new control and instrumentation systems was completed at Muja Power Station in December 2008, when the fourth unit was converted successfully. MPS 7 and 8 returned to service after major outages.
- Kwinana Power Station Unit 4 joined Unit 3 in retirement in December 2008. Unit 2 returned to service after a major overhaul.
- Stockton bore field near Muja Power Station is being commissioned to consolidate water supplies for Muja and Collie Power Stations.
- The Exmouth mini wind farm research project was completed and the facility sold.
- Below-average wind speeds meant lower wind energy production.

FINANCIAL

- (See Balanced Scorecard).
- Recommendations from the procurement functions review are being implemented so that the projected improvements can be achieved.

BUSINESS DEVELOPMENT

- Good progress was made with the assessment of the potential future use of Muja Stages AB.
- Two significant power purchase agreements were signed off.
- Wind farm feasibility studies have reached an advanced stage.

CORPORATE SERVICES

- Community partnerships:
 - * Verve Energy Collie Community Fund community advisory committee approved the first grants to local organisations.
 - * Verve Energy sponsored the Engineers Australia Science and Technology Challenge for secondary schools in Kwinana and Bunbury.
 - * Employees took part in tree planting exercises at Kwinana Beach Welles Park.
- Staff – experienced power station engineers and staff were recruited overseas to fill critical vacancies; and graduates and apprentice

selections were made for the 2009 intake.

- Road Safety – Verve Energy is:
 - * assisting the Collie Senior High School organise a young drivers' education program in 2009.
 - * participating in the Industry Road Safety Alliance, focussing on the Collie-Boddington region.
- The 2009 Diversity and Equal Employment Opportunity management plan was approved.
- Safety – reinforcement of the safety messages continued across all sites.
- The environmental improvement plan for continued coal burning at Kwinana Power Station was endorsed by the community advisory committee.

CHALLENGES

- Arresting the significant financial performance decline; details of government financial package; reassessing the capital works program.
- Assessing the impact of the emission trading scheme white paper released by the Federal Government in December 2008.
- Establish the Verve Energy community fund in Kwinana.



Balanced Scorecard - December 2008 Quarter

ITEMS	Dec-07	Dec-08
	YTD	YTD

FINANCIAL		
EBIT (\$M)	(6.6)	(112.0)
Average Unit Cost of Supply (c/kWh)	6.7	8.1
Return on Capital Employed (%)	(0.8)	(13.8)

CUSTOMERS		
Supply of Electricity (GWh)	6931.6	7053.5
Corporate Reputation Index	54.0	61.0

INTERNAL PROCESSES		
Thermal Efficiency (%)	27.6	31.2
Plant Availability (%)	78.7	83.5
Forced Outage Factor (%)	3.8	4.8
Fuel Diversity - Coal (%)	68.6	67.0
Fuel Diversity - Gas (%)	29.7	32.1
Fuel Diversity - Liquid (%)	1.3	0.9
Fuel Diversity - Biomass (%)	0.4	0.0

EMPLOYEES		
LTIFR (12 month moving average)	5.2	6.8
MTIFR (12 month moving average)	24.5	25.8

Commentary

EBIT for December 08 Quarter of -\$112.0M is \$105.4M lower than the corresponding period last year but is \$64.8M better than MYR target of -\$176.8

The main reasons for the reduction in profitability are:

- Lower sales prices from the vesting contract with Synergy
- Higher fuel costs due to the gas crisis

Electricity demand of 7,053.5 GWh is 1.8% above the 6,931.6 GWh achieved in the corresponding period the previous year. All of the additional demand has been sourced externally.

Operational performance in the six months to December is highlighted by:

- average thermal efficiency of 31.2% is an improvement on the 27.6% for the same period in the previous year.
- forced outage factor of 4.8% was higher than corresponding period of 3.8% mainly due to a catastrophic turbine failure at Worsley since August 08

Challenges

Further reductions in average vesting price for electricity sales to Synergy will lead to significantly deteriorating financial performance.

A higher likelihood of reliance on liquid fuels may adversely affect production costs as we enter the peak demand period of the year (January - March).