



March 2011 Quarterly Report — Financial Review

Balanced Scorecard - March 2011 Quarter

ITEMS	Mar-10	Mar-11
	YTD	YTD

FINANCIAL		
EBIT (\$M)	170.9	239.8
Average Unit Cost of Supply (c/kWh)	7.5	8.0
Return on Capital Employed (%)	13.0	17.8

CUSTOMERS		
Supply of Electricity (GWh)	9221.7	8709.4
Corporate Reputation Index	56.0	73.0

INTERNAL PROCESSES		
Thermal Efficiency (%)	30.6	30.7
Plant Availability (%)	85.1	77.4
Forced Outage Factor (%)	2.6	2.3
Fuel Diversity - Coal (%)	65.2	64.6
Fuel Diversity - Gas (%)	34.5	34.9
Fuel Diversity - Liquid (%)	0.3	0.5
Fuel Diversity - Biomass (%)	0.0	0.0

EMPLOYEES		
ARIFR (12 month moving average)	24.2	16.8

Commentary

EBIT of +\$239.8 million for YTD March 2011 was +\$68.9 million higher than the +\$170.9 million for the same period last year.

Key contributors to this result for YTD March 2011:

- * Favourable pricing and higher volumes in the first quarter
- * Second and third quarter results were mainly driven by higher volumes
- * Materials and Services were lower than budget by +\$27.4M YTD March 2011 due to timing differences in operational expenditures
- * Forced outage factor was down on last year reflecting the improved reliability of Verve Energy's plant.

Electricity demand in YTD March 2011 at 8,709.4 GWh was 10.2% higher than the budget of 7,903.5 GWh, and 5.9% lower than the previous year's 9,221.7 GWh, reflecting Verve Energy's loss of market share due to displacement and Verve Energy plant outages.

Operational performance for YTD March 2011 is highlighted by:

- * Outages at Muja that were originally budgeted for 2009/10 have been deferred to 2010/11. In comparison to last year, this has reduced both plant availability and supply of electricity, and increased the average unit cost of supply with the higher materials and services expenditure associated with Verve Energy's planned maintenance program.
- * Thermal efficiency has improved against last year with increased sent-outs from Cockburn, which is a more efficient plant.
- * Gas and oil diversity percentages were slightly higher than last year, mainly contributed by the:
 - 1) Varanus Apache gas outage restricting IPP generation in February 2011, and
 - 2) heat wave weather conditions in February 2011 and March 2011.



SAFETY

- ♦ Verve Energy's new Safety and Health group is revitalising existing strategies, policies and procedures.

OPERATIONS

- ♦ Verve Energy power stations made strong contributions to meet SWIS power demand during the hot summer and the brief Varanus gas outage in February 2011.
- ♦ At Kwinana Power Station, construction continued of two high efficiency gas turbines (HEGTs).
- ♦ Planning continued for the shutdown of KPS Stage A (two 120MW units) in October 2011. The units will be put on care and maintenance for up to two years.
- ♦ Collie Power Station operations and maintenance arrangement was extended.
- ♦ The Operational Review progressed as Verve Energy adjusts power station work patterns to cope with significant changes to plant dispatch.
- ♦ Verve Energy will build a 10ML/day reverse osmosis desalination plant near Muja Power Station to consolidate long term cooling water supplies.

- ♦ Bushfire bunkers have been installed at the Albany and Esperance wind farms.

FINANCIAL

- ♦ See Balanced Scorecard.
- ♦ Verve Energy's financial position remains strong, based on solid operational performance, cost reflective revenue and diligent cost management.

STRATEGY & BUSINESS DEVELOPMENT

- ♦ Muja AB refurbishment by Vinalco Energy, a Verve Energy-Inalco Energy joint venture, is progressing.
- ♦ Grasmere wind farm, a 13.8MW extension of the successful Albany wind farm – site works including foundation concrete pours are on schedule.
- ♦ Opportunities for renewable energy projects continue to be assessed.
- ♦ Negotiations are well advanced for the proposed Greenough River solar farm and Mumbida wind farm projects in the Midwest.

TRADING & FUEL

- ♦ Verve Energy's role in the projected expansion of the Mondarra gas reservoir is being discussed with the storage owner.

- ♦ Long term fuel supply arrangements are being reviewed.

CORPORATE SERVICES

- ♦ Impacts are being assessed of the potential Federal carbon tax and complementary measures (Energy Efficiency Opportunities legislation and MRET).
- ♦ Leadership development program was launched.
- ♦ On-line Compliance register was introduced.
- ♦ The terms of Verve Energy Board Chairman David Eiszele and Director Keith Spence have been extended.

CHALLENGES

- ♦ Maintain the focus on safety performance.
- ♦ Managing the impact on Verve Energy's portfolio and financial position of the current oversupply of off-peak base load generation and proposed renewable energy projects.
- ♦ Federal government climate change policy and regulation.