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## Financial Review

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# Operations Review



## Our company

**Verve Energy is Western Australia's leading electricity producer with 586 employees and a generating capacity of 3240MW.**

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

Verve Energy is a State asset with an equity level of \$438 million and annual revenue of approximately \$1 billion.

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

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

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

Verve Energy generates 71% of the energy produced in the SWIS.

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

### VISION STATEMENT

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

### Organisation structure

#### Executive

- Shirley In't Veld – Managing Director
- Wally Borovac – Chief Financial Officer
- Stephanie Unwin – Legal Counsel and Company Secretary
- Jason Waters – General Manager Trading and Fuel
- Tony Narvaez – General Manager Strategy and Business Development
- Fred Sibenaler – Chief Operating Officer
- Derek Noakes – General Manager Corporate Services

#### Board

- Peter West – Chairman
- Harvey Collins – Director (Deputy Chairman)
- Martine Pop – Director
- John O'Connor – Director
- Ian Purcell – Director

# Operations Review



## Chairman's Report

**It has been another challenging year for Verve Energy and while our financial performance was far from satisfactory, we look to the near future with optimism.**

We recorded a net loss after tax of \$132.1 million and a net debt increase of \$90.2 million for the year ended 30 June 2008. Our EBIT was a loss of \$95.5 million, affected by limitations under the Vesting Contract with Synergy and high fuel costs as a result of gas supply curtailments in January 2008 and June 2008. Our net assets are \$438.1 million.

Looking ahead, the State Government's announcement earlier this year in relation to electricity tariff increases and a special government subsidy to cover the gap between our costs and tariffs, will significantly increase our cash flow from July 2009, enabling us to reduce our debt, adjust our gearing and move towards profitability.

By generating stronger cash flow and profit commensurate with industry norms, Verve Energy will be able to reduce debt and invest in new efficient and environmentally friendly plant to replace old inefficient plant as it is due for retirement. This will enable Verve Energy to improve reliability and the costs of generation, and continue to be competitive in the developing energy market.

A Vesting Contract Review will begin shortly and with it an opportunity to develop a vastly improved arrangement between Verve Energy and Synergy.

Development of a national Emissions Trading Scheme (ETS) for introduction in 2010 has implications for Verve Energy. The Federal Government's Green Paper was released in July 2008 and details will become clear when the White Paper is issued in December 2008. A key element of ETS design is the facilitation of a smooth transition to low

emission technologies and Verve Energy supports free permit allocation to affected generators to assist this transition.

The Wholesale Electricity Market continued its evolution with several rule changes completed during the year that increased the efficiency of the market.

Verve Energy is looking forward to showcasing its considerable renewable energy expertise and making an important contribution towards a reduction in greenhouse gas emissions.

Through its Statement of Corporate Intent and Strategic Development Plan, Verve Energy sets its strategic direction and the strategies to support it. In 2008/09 Verve Energy will focus on continuing to compete effectively in the developing electricity market while contemplating a program for strengthening its generating portfolio within the bounds set legislatively. Key issues influencing that direction are the impending implementation of the proposed national emissions trading scheme, short and long-term fuel security and acceleration in the advent of competition.

Verve Energy's fundamentals are strong. Looking ahead we are confident that we can build a viable, efficient and reliable Verve Energy, which is clearly important for the continuing development of a competitive electricity market in WA.

In closing, I would like to thank my fellow Board members and the Verve Energy staff for their support, efforts and achievements during the year.

**Peter West**  
**Chairman**

# Operations Review



## Managing Director's Report

### Verve Energy's financial position continues to be less than robust.

In the past year, three major unforeseeable events have negatively impacted on our financial performance – the shutdown of Woodside's gas plant in January, the closure for several weeks of our Collie Power Station due to turbine failure and the Apache gas crisis. Consequently, Verve Energy had no choice but to burn expensive liquid fuel. Nonetheless, our ability to do this was instrumental in maintaining energy security.

### Production

With most of our plant more than 20 years old and much of it more than 30 years old, Verve Energy's focus remains on improving efficiency and reliability. To this end, we are well underway with a virtual rebuild of our Muja Power Station. This \$100 million project will be completed by the end of 2008 and will add at least another 15-20 years of service to the life of this station. Once this is complete, four generating units will have been overhauled, capacity increased from 800MW to 854MW and old electro-mechanical control and instrumentation equipment replaced with modern, state of the art digital equipment.

### Fuel

We are currently reviewing our gas supply arrangements, the intention being to enhance our flexibility in relation to fuel sources and effectively cater for any future gas shortages. In this regard, we have secured additional access to Dampier to Bunbury Natural Gas pipeline capacity and we are

evaluating opportunities for additional storage and contingency gas supplies.

Our new long term coal supply contract with Wesfarmers comes into effect from 2010, and will significantly reduce our average coal purchase costs.

### Environment

The Federal Government's Emissions Trading Scheme, scheduled to start in 2010, will inevitably have an impact on Verve Energy, the extent of which should be clarified in December, 2008 when details of the scheme are released.

In the meantime, Verve Energy is actively involved in the climate change debate and is contributing to the work being done by the National Generators Forum and the Energy Supply Association of Australia.

We are also investigating the installation of high efficiency gas turbines and, given that we will remain reliant on coal fired generation for many years, are participating in clean coal technology development.

### Renewable energy

As a potential antidote to our fairly heavy carbon footprint, our focus is also on growing our renewable energy business. In the past 12 months, we commissioned another two wind farms at Coral Bay and Kalbarri.

The 2008/09 State Budget approved a \$50 million equity injection for Verve Energy to team with a financial partner to pursue renewable energy opportunities. Verve Energy is working toward a 50:50 joint venture with the aim of developing a

# Operations Review



number of sustainable projects. The joint venture will initially seek to develop three wind farms with an expected output to power 25,000 homes.

We are, in addition, evaluating a 250MW advanced solar thermal project, pump storage and biomass projects.

## Safety

With five Lost Time Injuries and eight Medically Treated Injuries, our safety performance remains a focus of attention. To improve our safety performance, we have throughout the year launched a number of initiatives designed to reinforce appropriate work practices and minimise the number of safety incidents. These include 'stop and think' risk assessment, a safety behaviour incentive scheme, corporate and power station safety management plans and review of our permit to work and high risk work management systems.

## Organisation restructure

An organisation structure review resulted in a staff reduction and ongoing savings while we established a more effective, efficient and appropriate management structure for the competitive environment in which we operate.

## Looking ahead

In summary, we will continue to retire old, inefficient plant, lift the efficiency of our remaining plant, grow our renewable energy business, and evaluate new business opportunities, with a view to capitalising on our strengths.

Notwithstanding unprecedented fuel constraints, ageing plant and equipment and the hottest summer in 30 years, we have maintained electricity supplies to our customers. This is also testimony to the hard work, expertise and dedication of our people.

My sincere thanks to all our people for their commitment and loyalty throughout another operationally and financially challenging year.

**Shirley In't Veld**  
Managing Director

## Operations Review



## Review of Financial Performance

Verve Energy recorded a net loss after tax of \$132.1 million. The EBIT was a loss of \$95.5 million, affected by limitations under the Vesting Contract with Synergy and high fuel costs as a result of gas supply curtailments in January 2008 and June 2008.

Verve Energy had a net debt increase of \$90.2 million for the year ended 30 June 2008. Net assets are \$438.1 million.

The corporation invested \$63.2 million into capital plant and equipment during the financial year.

## Corporate results

ITEMS	2008	2007
Revenue (\$m)	1,039.1	1,068.2
EBIT (\$m)	(95.5)	13.0
NPBT (\$m)	(184.2)	(74.7)
Net debt (\$m)	929.9	838.7
Net assets (\$m)	438.1	570.5
Supply of electricity (GWh)	14,300.0	14,087.3
Electricity generation sent out (GWh)	11,753.1	12,012.5
Renewable energy generation wind and biomass (GWh)	112.7	88.7
Corporate reputation index %	61	54
Thermal efficiency (%)	32.5	34.8
Total Greenhouse Gas Emissions (million tonnes CO <sub>2</sub> -e)	10.1	10.6
Carbon Intensity (kgCO <sub>2</sub> e/kWh electricity sent out)	0.872	0.890
RECS	112,428	124,398
Plant availability (%)	80.8	83.7
Forced outage factor	5.3	3.8
Number of employees	586	591
Lost Time Injury Frequency Rate	5.3	3.49
Medical Time Injury Frequency Rate	19.4	31.46
Environmental licence breaches	1	0

# Operations Review



## Generation facts and figures

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

Electricity generation	2008	2007
Generated - GWh	12,450.9	12,757.17
Sent out - GWh	11,753.1	12,012.5
Used in works - GWh	697.8	744.67
Purchased - GWh	2,546.9	2074.8
Capacity factor %	40.7	40.9



### Environmental incidents

Verve Energy rigorously investigates all environmental incidents reported through its Environmental Management System. There was one environmental licence breach resulting in enforcement action but not prosecution. **Groundwater Licence Condition Non-conformance at Muja Power Station (MPS).** A review of groundwater monitoring completed on the Stockton South Borefield revealed that some monitoring conditions of the Licence to Abstract Water had not been met. The Department of Water (DoW) was notified in writing. As a consequence, the DoW placed a Direction Notice on MPS, directing them to meet all monitoring conditions within 21 days. MPS is complying with the Notice.

### Atmospheric emissions

Verve Energy's emission details are provided annually to the National Pollutant Inventory (NPI). (<http://www.npi.gov.au>).

### Community partnerships

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

### Equal opportunity and diversity

Verve Energy has developed an Equal Employment Opportunity/Diversity Management Plan as required under Section 145 of the WA Equal Opportunity Act 1984. The initiatives contained within in the Plan are intended to promote the benefits of diversity, ensure the absence of discrimination and harassment in the workplace, and include strategies to try and increase our representation in the EEO groups.

### Governance Standards

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

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

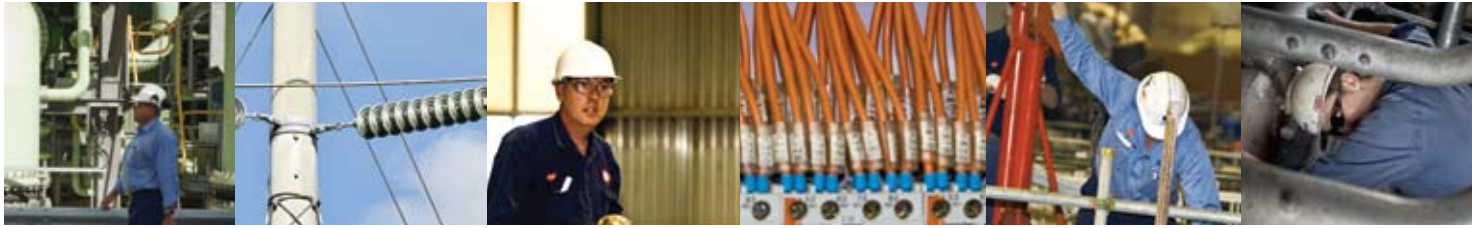
Verve Energy therefore adopts recognised best practice, standards and guidelines for corporate governance as outlined in the Australian Securities Exchange (ASX) Corporate Governance Council Principles and Recommendations, Australian Standards and the Government of Western Australia corporate governance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

### Risk Management

Risk management is a fundamental management activity in Verve Energy.

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

A supporting risk management policy assists and sets out the objectives and principles of risk management within the corporation. Risk Management is integrated into the major business processes.



### State Records Act 2000

Verve Energy maintains and supports quality recordkeeping 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 Recordkeeping Plan. Regular reviews are conducted of the corporate recordkeeping systems and practices to ensure their efficiency and effectiveness. New employees and contractors are provided with information on the recordkeeping systems both at induction and at compulsory training in the use of the system. 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 2007 to 30 June 2008 is disclosed as follows:

Market research organisations	\$22,000
Media advertising agencies:	\$35,812
<b>Total expenditure:</b>	<b>\$57,812</b>

# Annual Financial Report

30 June 2008



Electricity Generation Corporation (Trading as Verve Energy)  
ABN 586 738 30106

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# Directors' Report

For the financial year ended 30 June 2008



Electricity Generation Corporation (Trading as Verve Energy)

The Directors present their report and the financial report of Verve Energy ('the Corporation') for the financial year ended 30 June 2008 and the auditor's report thereon.

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# Directors' Report



FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

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## 1. Directors

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

**Mr Peter James West; BSc (Hons), Chairperson, Independent Non-Executive Director (Age 64):** Mr West was appointed as a Non-Executive Director in February 2006 for a three-year term. Mr West had a distinguished career at BP holding a variety of management positions culminating in being Manufacturing Director for BP Australasia and Managing Director of BP Kwinana Refinery. Mr West is also Chairperson of the Albany Port Authority

**Mr Harvey Russell Collins; BBus, FCPA, FAICD, SF Fin, Deputy Chairperson Independent Non-Executive Director (Age 59):** Mr Collins was appointed as a Non-Executive Director in April 2006 for a three-year term. Mr Collins has served as a Non-Executive Director of Western Power and was also Interim Managing Director of Western Power for a short period. Mr Collins is Chairperson of HBF Health Funds Inc and Navitas Limited and a Director of Brierty Limited and the Government Employees Superannuation Board (GESB). He is a WA State Councillor of the Australian Institute of Company Directors.

**Mr John Joseph O'Connor; Independent Non-Executive Director (Age 70):** Mr O'Connor was appointed as a Non-Executive Director in April 2006. Mr O'Connor served as a Commissioner of the Australian Industrial Relations Commission for eight years and a Non-Executive Director of Western Power. He is also a Director of Fremantle Port Authority.

**Ms Martine Daniele Pop; PhD, EEC Commercial Law, FAICD, Independent Non-Executive Director (Age 55):** Ms Pop was appointed as a Non-Executive Director in April 2006. Ms Pop has more than 12 years of credit, risk management and control management experience with Macquarie Bank and Challenge Bank in senior and executive positions. Ms Pop worked for more than six years as an Executive Consultant with Ernst & Young, providing risk management and corporate management/governance advisory services to the private and public sectors. Ms Pop is also a Director of Gold Corporation and Wheat Exports Australia and is currently chairing a number of Audit, Risk Management and Governance Committees of WA Agencies. She has been a director of the Board of SBS, The Grain Pool of WA, Australian Rail Track Corporation and Chairperson of the WA Meat Industry Authority.

**Mr Ian Charles Purcell; BE (Electrical) Independent Non-Executive Director (Age 63):** Mr Purcell was appointed as a Non-Executive Director in December 2007 for a one and half year term. 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.

**Ms Shirley Eleanor In't Veld; LLB (Hons) BCom Managing Director (Age 53):** Ms In't Veld was appointed in April 2007 for a five-year term. Ms In't Veld previously held senior management positions in Alcoa of Australia, most recently as Vice President of Primary Business Development and Managing Director of Alcoa Australia Rolled Products, as well as senior positions with Western Mining Corporation and Bankwest.

## 2. Company secretary

**Mr Mark Hands; BJuris LLB -** was appointed to the position of Company Secretary in March 2006. Mr Hands previously held a senior management position in Western Power as General Counsel. He terminated on 7th March 2008.

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

# Directors' Report continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

## 3. Directors' meeting

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

Director	Board Meetings		Remuneration and Development Committee Meetings		Audit and Risk Management Committee Meetings	
	A	B	A	B	A	B
Mr Peter James West (Chairperson)	14	14	3	3	0	0
Mr Harvey Russell Collins (Deputy Chairperson)	14	14	0	0	4	4
Mr John Joseph O'Connor	14	14	3	3	0	0
Ms Martine Daniele Pop	13	14	0	0	4	4
Mr Ian Charles Purcell (appointed December 2007)	8	8	1	1	0	0
Ms Shirley Eleanor In't Veld	14	14	3	3	4	4

A – Number of meetings attended

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

Two of the Board meetings were resolutions without a meeting (via circular resolution)

## 4. Corporate governance statement

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

### 4.1 Board of Directors

#### Role of the Board

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

In fulfilling this role, the Board is responsible for the overall corporate governance of the Corporation including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing and removing the Managing Director, creating succession policies for senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems.

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

To assist in the execution of its responsibilities, the Board has established two committees, the Remuneration and Development Committee and the Audit and Risk Management Committee. These committees have written mandates and operating procedures. The Board established a framework for the management of the Corporation including a system of internal control, a business risk management process and the establishment of appropriate policies.

The full Board schedules 10 meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

## 4.1 Board of Directors (continued)

The agenda for the meetings is prepared in conjunction with the Chairperson, Managing Director and Company Secretary. Standing items include the Managing Director's report (which includes a financial report), strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and Directors have other opportunities, including visits to business operations, for contact with a wider group of employees and key stakeholders.

### Director education

The Corporation has developed an induction pack to educate new Directors about the nature of the business. Directors also have the opportunity to visit business operations and meet with management to gain a better understanding of the business.

### Independent professional advice and access to Corporation information

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

### Composition of the Board

The names of the Directors of the Corporation in office at the date of this report are set out in the Directors' report on page 4 of this report. The composition of the Board is determined under the Act using the following principles:

- No less than four and no more than six Directors appointed by the Governor of Western Australia ("the Governor") on the nomination of the Minister.
- The Governor appoints the Chairperson and Deputy Chairperson. Appointments in each case are made on the nomination of the Minister.
- A member of staff of the Corporation is not to be a Director of the Corporation.
- The Chief Executive may be a Director of the Corporation.

## 4.2 Nomination of a Director

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

- Each nomination is made only after consultation with the Board (except for initial members to the Board); and
- Where a vacancy occurs the Board may recommend a candidate to the Minister.

## 4.3 Remuneration and Development Committee

The Remuneration and Development Committee is a committee of the Board established under Section 13 of the Act. The Remuneration and Development Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to staff of the Corporation.

The members of the Remuneration and Development Committee during the year were:

- Mr Peter James West – Independent Non-Executive Chairperson.
- Mr John Joseph O'Connor – Independent Non-Executive Director.
- Mr Ian Charles Purcell – Independent Non-Executive Director

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

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

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

## 4.4 Remuneration report – Audited

### 4.4.1 Principles of compensation

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

The Board, on recommendation of the Managing Director, approves compensation levels for executives. Remuneration for key managers of the Corporation is competitively set to attract and retain appropriately qualified and experienced executives.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for our shareholder. The compensation structures take into account:

- The capability and experience of the key managers.
- The key managers' ability to control the relevant performance.
- The Corporation's performance including earnings and delivering constant returns on shareholder wealth.
- The amount of incentives within each key manager's compensation.

Compensation packages include a mix of fixed and performance-based incentives.

#### Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes fringe benefit taxation charges related to employee benefits), as well as employer contributions to superannuation funds.

#### Performance-linked compensation

Performance-linked compensation is designed to reward key managers for meeting or exceeding their financial and personal objectives. The incentive is an 'at risk' component provided in the form of cash.

Each year the Remuneration and Development Committee sets the key performance indicators (KPIs) for the key managers. The KPIs generally include measures relating to the Corporation and the individual, and include financial, people, customer, strategy and risk measures. The measures chosen directly align the individual's reward to the KPIs of the Corporation and to its strategy and performance.

#### Service contracts

It is the Corporation's policy that contracts of employment for key managers, excluding the Managing Director and the Chief Operating Officer, are unlimited in term but generally these contracts are capable of termination on four weeks notice and that the Corporation retains the right to terminate the contract immediately by making payment equal to a maximum of 52 weeks pay in lieu of notice. The key managers are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The Managing Director has a contract of employment that commenced on 30 April 2007 with the Corporation. The contract specifies the duties and obligations to be fulfilled by the Managing Director and provides that the Board and Managing Director will, early in each financial year, consult and agree on the objectives for achievement during that year.

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

The Chief Operating Officer has a contract of employment that commenced on 24 February 2006. This contract of employment terminates on 24 February 2009. At any time prior to this date the Chief Operating Officer providing 12 weeks notice or the Corporation giving 12 months notice can terminate this contract.

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 \$50,000 per annum plus 9% superannuation. The Chairperson receives \$105,000 per annum plus 9% superannuation. The Deputy Chairperson receives \$65,000 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.

## Directors' Report continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

### 4.4.2 Directors' and Executive Officers' remuneration

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

		Short Term	Post Employment		Total
		Salary & fees	Super-annuation benefits	Termination benefits	
		\$	\$	\$	
<b>Non-Executive Directors</b>					
Mr Peter West (Chairperson)	2008	105,000	9,450	-	114,450
	2007	105,000	9,450	-	114,450
Mr Harvey Collins (Deputy Chairperson)	2008	65,000	5,850	-	70,850
	2007	65,326	5,879	-	71,205
Mr John O'Connor	2008	50,000	4,500	-	54,500
	2007	50,327	4,529	-	54,856
Ms Martine Pop	2008	50,000	4,500	-	54,500
	2007	50,000	4,500	-	54,500
Mr Ian Purcell	2008	25,577	2,302	-	27,879
	2007	-	-	-	-
<b>Executive Directors</b>					
Ms Shirley Eleanor In't Veld (Managing Director)	2008	349,554	31,460	-	381,014
	2007	52,505	4,725	-	57,230
<b>Executives</b>					
Mr Ken Bowron (terminated 5th October 2007)	2008	91,221	9,715	641,642	742,578
	2007	247,780	28,129	-	275,909
Mr Barrie Brandt (terminated 14th December 2007)	2008	132,758	10,322	255,696	398,776
	2007	228,278	20,544	-	248,822
Mr Greg Denton (terminated 31st January 2008)	2008	176,497	14,277	30,486	221,260
	2007	262,508	21,916	-	284,424
Mr Mark Hands (terminated 7th March 2008)	2008	190,961	14,204	341,804	546,969
	2007	223,809	25,348	-	249,157
Mr Karl Matacz	2008	267,057	22,360	-	289,417
	2007	210,714	18,964	-	229,678
Mr Derek Noakes	2008	271,505	22,135	-	293,640
	2007	232,459	20,921	-	253,380

### 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, the 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 Collins (Chairperson) – Independent Non-Executive Director
- Ms Martine Pop – Independent Non-Executive Director
- Mr Ian Charles Purcell – Independent Non-Executive Director (appointed on 18 June 2008)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

## 4.5 Audit and Risk Management Committee (continued)

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 personnel, 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 advisers if it considers this necessary. The ARMC meets from time to time with these external advisers without management being present.

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

The Managing Director and the Chief Financial Officer declared in writing to the Board that the financial records of the Corporation for the financial period have been properly maintained, the Corporation's financial reports for the financial year ended 30 June 2008 comply with Accounting Standards and present a true and fair view of the Corporation's financial condition and operational results. This statement is required annually.

## 4.6 Risk management

### Oversight of the risk management framework

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

The Framework is designed to encourage and support the development of an appropriately risk aware culture within the business and to assist the Corporation to realise the benefit that will accrue from a conscious, structured and dynamic approach to the management of risk.

A supporting risk management policy assists and 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

Management reports to the Board quarterly on the status of significant risks, ensuring risks have been identified, assessed and are appropriately managed.

A Risk Management Steering Committee chaired by the Managing Director provides direction on risk management process, and also guidance and support to the Risk Manager 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 the Corporation's annual training plan, and high potential employees have their own 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.

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

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## 4.6 Risk management (continued)

### Financial reporting

The Managing Director and the Chief Financial Officer have declared in writing to the Board that the Corporation's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

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

### 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. Compliance with the requirements of environmental regulations and with specific requirements of site environmental licences was substantially achieved across all sites.

Further discussion on the Corporation's performance is contained in the operations review.

### Internal audit

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

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

### Conflict of interest

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

## 4.7 Ethical standards

### Code of Conduct and Integrity

Pursuant to Section 31 of the Act the Corporation has prepared and issued a code of conduct setting out minimum standards of conduct and integrity that are to be observed by all employees including board members. The code of conduct and integrity has been developed to ensure the Corporation manages its employees in a prudent and equitable manner. In summary the code requires that all Corporation employees obey all applicable laws, regulations, rules and other instructions, uphold the Corporation values and follow all lawful directions.

# Directors' Report continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

## 4.8 Communication with shareholder

One of the Corporation's key stakeholders is the Corporation's shareholder, the Minister, representing 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 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 nine key strategies:

- Plant – develop the right generation portfolio for our business through reinvestment, divestment and optimising the fuel mix;
- Marketing – profitably participate in the competitive electricity and gas markets;
- People – concentrate on recruiting and retaining the right people in the right places with the right skills, incentives and leadership;
- Finance – re-engineer and restructure our finances to position us for success;
- Cost efficiency – optimise our cost structure and reform our work practices;
- Business support – reform processes, systems and procedures, and ensure efficient and effective business support mechanisms;
- Business development – seek revenue diversification opportunities through developing new products and new markets;
- Environment and community – improve our environmental performance, work towards carbon neutrality and be socially responsible; and
- Relationships and influence – build and maintain constructive and productive relationships with all stakeholders.

## 6. Dividends

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

## 7. Events subsequent to reporting date

No item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation in future financial years has arisen in the interval between the end of the financial year and the date of this report.

## Directors' Report continued

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

### 8. Likely developments

The Corporation will rectify its financial shortfall by seeking to address revenue constraints and reduce costs. The Directors acknowledge the public interest considerations underlying both the market power mitigation measures that have been imposed on the Corporation, and the Government's policy decision to freeze tariffs until 2009.

However, the Directors believe that it is important that the impact of these decisions on its financial performance is clearly identified and recognised so that the net public benefit can be fully assessed. The Corporation will be seeking Government consideration of measures to mitigate these impacts on the Corporation where such measures would not be contrary to the public interest.

The Directors are cognisant of the emerging trends with respect to the management of environmental issues, particularly carbon emissions. To the extent that action is consistent with the Corporation's statutory responsibilities and financial capacity, it will seek to reduce carbon emissions through better plant efficiency, more rigorous internal energy management, greater use of renewable energy sources, and support of "clean coal" technology.

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

### 9. Indemnification of Directors and Officers

During the reporting period a Directors' and Officers' Liability Insurance Policy was established to ensure that the Directors and Officers have adequate coverage. The policy indemnifies Directors and Officers of the Corporation from losses arising from a claim or claims made against them jointly or severally during the period of insurance by reason of any wrongful act (as defined in the policy) in the capacity as a Director or Officer of the Corporation.

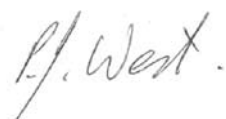
### 10. Non-audit services

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

### 11. Rounding off

The Corporation has rounded off to the nearest thousand dollars unless otherwise stated.

This report is made with a resolution of the Directors:



Dated at Perth this 18th day of September 2008

# Income statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	Note	2008 \$'000	2007 \$'000
<b>Revenue</b>			
Revenue	4a	1,023,685	1,060,146
Other income	4b	15,406	8,735
<b>Total revenue</b>		<b>1,039,091</b>	<b>1,068,881</b>
<b>Expenditure</b>			
Fuel and electricity purchases		(729,930)	(672,446)
Raw materials and services used		(133,921)	(132,312)
Employee expenses		(80,674)	(79,487)
Depreciation and amortisation expenses	5	(124,815)	(119,659)
Other expenses		(65,268)	(51,940)
<b>Total expenditure</b>		<b>(1,134,608)</b>	<b>(1,055,844)</b>
<b>Result from Operating Activities</b>		<b>(95,517)</b>	<b>13,037</b>
Financial income	5	4,915	2,098
Financial expenses	5	(93,648)	(89,859)
<b>Net finance expense</b>		<b>(88,733)</b>	<b>(87,761)</b>
<b>Loss before income tax</b>		<b>(184,250)</b>	<b>(74,724)</b>
Income tax benefit	7	52,152	22,424
<b>Loss for the financial year</b>		<b>(132,098)</b>	<b>(52,300)</b>

The income statement is to be read in conjunction with the notes of the financial statements set out on pages 17 to 46.

## Statement of changes in equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	Contributed equity \$'000	Hedging reserve \$'000	Fair value reserve \$'000	Accumulated losses \$'000	Total \$'000
<b>Opening balance at 1 July 2006</b>	635,362	207	(85)	(12,329)	623,155
Effective portion of changes in fair value					
cash flow hedges	-	(705)	-	-	(705)
Net gain on investments	-	-	320	-	320
Net loss for the year	-	-	-	(52,300)	(52,300)
Total recognised income and expense for the year	-	(705)	320	(52,300)	(52,685)
<b>Closing balance at 30 June 2007</b>	<b>635,362</b>	<b>(498)</b>	<b>235</b>	<b>(64,629)</b>	<b>570,470</b>
<b>Opening balance at 1 July 2007</b>	635,362	(498)	235	(64,629)	570,470
Effective portion of changes in fair value					
cash flow hedges	-	248	-	-	248
Net gain on investments	-	-	(545)	-	(545)
Net loss for the year	-	-	-	(132,098)	(132,098)
Total recognised income and expense for the year	-	248	(545)	(132,098)	(132,395)
<b>Closing balance at 30 June 2008</b>	<b>635,362</b>	<b>(250)</b>	<b>(310)</b>	<b>(196,727)</b>	<b>438,075</b>

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 17 to 46.

# Balance sheet

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	Note	2008 \$'000	2007 \$'000
<b>Assets</b>			
Cash and cash equivalents	8	27,747	28,322
Trade and other receivables	9	144,565	121,032
Inventories	10	103,626	114,607
Derivative financial instruments	11	13,576	2,752
Investments	12	510	1,289
<b>Total current assets</b>		<b>290,024</b>	<b>268,002</b>
Property, plant and equipment	13	1,752,592	1,817,188
Intangible assets	14	2,012	968
Deferred tax assets	17	31,690	-
Derivative financial instruments	11	6,519	1,861
<b>Total non-current assets</b>		<b>1,792,813</b>	<b>1,820,017</b>
<b>Total assets</b>		<b>2,082,837</b>	<b>2,088,019</b>
<b>Liabilities</b>			
Trade and other payables	18	201,734	114,978
Interest-bearing loans and borrowings	19	103,439	84,790
Employee benefits	20	26,168	23,199
Provisions	21	60,336	58,834
Derivative financial instruments	11	4,440	3,906
<b>Total current liabilities</b>		<b>396,117</b>	<b>285,707</b>
Interest-bearing loans and borrowings	19	1,016,790	945,230
Deferred tax liabilities	17	-	20,588
Employee benefits	20	21,578	23,304
Provisions	21	209,337	242,037
Derivative financial instruments	11	940	683
<b>Total non-current liabilities</b>		<b>1,248,645</b>	<b>1,231,842</b>
<b>Total liabilities</b>		<b>1,644,762</b>	<b>1,517,549</b>
<b>Net assets</b>		<b>438,075</b>	<b>570,470</b>
<b>Equity</b>			
Contributed equity	22	635,362	635,362
Reserves	22	(560)	(263)
Accumulated losses	22	(196,727)	(64,629)
<b>Total equity</b>		<b>438,075</b>	<b>570,470</b>

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 17 to 46.

# Statement of cash flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	Note	2008 \$'000	2007 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		1,005,491	1,082,978
Cash paid to suppliers and employees		(956,571)	(1,014,215)
Interest paid		(81,485)	(75,961)
Interest received		4,896	1,969
<b>Net cash from operating activities</b>	8	<b>(27,669)</b>	<b>(5,229)</b>
<b>Cash flows from investing activities</b>			
Payment of property, plant and equipment		(63,172)	(81,779)
<b>Net cash from investing activities</b>		<b>(63,172)</b>	<b>(81,779)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowing		207,000	1,381,916
Repayment of borrowing		(116,734)	(1,284,179)
Capital contributions		-	7,263
<b>Net cash from financing activities</b>		<b>90,266</b>	<b>105,000</b>
Net increase/(decrease) in cash and cash equivalents		(575)	17,992
Cash and cash equivalents at 1 July 2007		28,322	10,330
<b>Cash and cash equivalents at 30 June 2008</b>	8	<b>27,747</b>	<b>28,322</b>

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 17 to 46.

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# Notes to the financial statements

## 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 2008 comprises the Corporation and its dormant subsidiary and the Corporation's interest in associates and jointly controlled entities.

## 2. Basis of preparation

### (a) Statement of compliance

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

The financial statements were approved by the Board of Directors on 18th September 2008.

### (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
- available-for-sale financial assets are measured at fair value

The methods used to measure fair values are discussed further in note 3(p).

### (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, the Corporation has rounded off to the nearest thousand dollars unless otherwise stated.

### (d) Use of estimates and judgements

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

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

- Note 11 - Derivative financial instruments
- Note 12 - Investments
- Note 13 – Property, plant and equipment
- Note 19 – Interest-bearing loans and borrowings
- Note 20 - Employee benefits
- Note 21 - Provisions
- Note 23 - Financial instruments

# Notes to the financial statements

## 2. Basis of preparation (continued)

### (e) Going concern

The Corporation has incurred a loss of \$132,098,000 for the financial year ended 30 June 2008 (2007: \$52,300,000) and has a working capital deficiency of \$106,093,000 (2007: \$17,705,000). There are reasonable grounds to believe that the Corporation is able to pay its debts as and when they become due and payable considering the balance of available financing facilities of \$470,042,000 (2007: \$560,307,000) is not utilised at the end of reporting period (refer note 19), and the fact that the Corporation is forecasting positive operating cashflows in 2009. Accordingly the financial statements have been prepared on the going concern basis which contemplates establishment of profitable and cash flow positive operations and the realisation of assets and settlement of liabilities in the ordinary course of business.

## 3. Significant accounting policies

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

### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

Consolidated accounts have not been presented as they are identical to the Corporation as the investment in the subsidiary (Western Carbon Pty Ltd as disclosed in note 27) has been fully written off prior to disaggregation and has been dormant since.

#### (ii) Joint ventures

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

#### Jointly controlled entities

In the financial statements, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount. The Corporation's share of the jointly controlled entity's net profit or loss is recognised in the income statement from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the reserves.

In the Corporation's financial statements, investments in joint venture entities are carried at cost.

#### Jointly controlled operations and assets

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

#### (iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Corporation's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the jointly controlled entities or, if not consumed or sold by the jointly controlled entity, when the Corporation's interest in such entities is disposed of.

# Notes to the financial statements

## 3. Significant accounting policies (continued)

### (b) Foreign currency transactions

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

### (c) Financial instruments

#### (i) Non-derivative financial instruments

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

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

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

Cash and cash equivalents comprise cash at bank and call deposits. Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms.

Accounting for finance expense is discussed in note 3(l) (iv) and financial income is discussed in note 3(k)(v).

#### (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. Embedded derivatives are 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. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is measured at fair value through profit or loss.

# Notes to the financial statements

## 3. Significant accounting policies (continued)

### (ii) Derivative financial instruments (continued)

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. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Corporation designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations. The fair value of hedging derivatives is classified as a non-current assets or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months.

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

On entering into a hedging relationship, the Corporation determines if it is necessary to apply hedge accounting. Where hedge accounting applies, the Corporation formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or 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.

#### Cash flow hedges

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

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

#### Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit and loss as part of foreign currency gains and losses.

### (d) Property, plant and equipment

#### (i) Recognition and measurement

Additions of items of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. 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.

# Notes to the financial statements

## 3. Significant accounting policies (continued)

### (d) Property, plant and equipment (continued)

#### (ii) Subsequent costs

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

#### (iii) Depreciation

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

Buildings	40 years
Plant and equipment	2 – 45 years
Leasehold improvements	10 years
Lease assets	25 years

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

### (e) Intangible assets

#### (i) Recognition and measurement

Intangible assets that are acquired by the Corporation, which have finite useful lives, are measured at their fair value less accumulated amortisation and accumulated impairment loss.

#### (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 follows:

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

### (f) Leased assets

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

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

### (g) Inventories

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

# Notes to the financial statements

## 3. Significant accounting policies (continued)

### (h) Impairment

#### (i) Financial assets

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

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

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

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

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

#### (ii) Non-financial assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

# Notes to the financial statements

## 3. Significant accounting policies (continued)

### (i) Employee benefits

#### (i) Defined contribution plans

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

#### (ii) Defined benefit plans

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

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

When the benefits of a fund are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement 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 improved) or negative (where existing benefits are reduced).

#### (iii) Long-term service benefits

The Corporation's net obligation in respect of long-term employee benefits other than defined benefit plans 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, and the fair value of any related assets is deducted.

#### (iv) Termination benefits

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

#### (v) Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wages and salary rates that the Corporation expects to pay as at reporting date including related on-costs, such as workers compensation, insurance and payroll tax.

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

# Notes to the financial statements

## 3. Significant accounting policies (continued)

### (j) Provisions

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

#### (i) Decommissioning cost

In accordance with the Corporation's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

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

### (k) Revenue

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

#### (i) Sales of electricity

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

#### (ii) Sales of goods and services

Sales of goods and services comprise revenue earned from fuels, steam sales, renewable energy certificate, spinning reserve and other related goods and services is 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) Finance income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised in the income statement as it accrues, using the effective interest method.

#### (vi) Government grants

Grants that compensate the Corporation for expenses incurred are recognised as revenue in the income statement in the same periods in which the expenses are incurred. Grants that compensate the Corporation for the cost of an asset are recognised in the income statement as other income. Government grant income is recognised when the grant becomes receivable.

#### (vii) Renewable energy certificates

Sales of renewable energy certificates are recognised in the financial statements when the significant risks and rewards of ownership have been transferred to the customer.

# Notes to the financial statements

## 3. Significant accounting policies (continued)

### (l) Expenses

#### (i) Fuel costs

Fuel costs are assigned on the basis of weighted average cost.

#### (ii) Operating lease payments

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

#### (iii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge 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.

#### (iv) Finance expenses

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Interest expense is recognised in the income statement as it accrues, using the effective interest method.

### (m) Income tax

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

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

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

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

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

### (n) Goods and services tax

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

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

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

# Notes to the financial statements

## 3. Significant accounting policies (continued)

### (o) New Standards and interpretations not yet adopted

The following Standards, amendments to Standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

- AASB 8 Operating Segments replaces the presentation requirements of segment reporting in AASB 114 Segment Reporting. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Corporation as the Standard is only concerned with disclosures.
- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Corporation's 30 June 2010 financial statements and will constitute a change in accounting policy for the Corporation. In accordance with the transitional provisions the Corporation will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Corporation has not yet determined the potential effect of the revised Standard on future earnings.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 Non-current Assets Held for Sale and Discontinued Operations, AASB 102 Inventories, AASB 107 Cash Flow Statements, AASB 134 Interim Financial Reporting, AASB 136 Impairment Assets, AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 Operating Segments. This Standard is only expected to impact disclosures contained within the financial report.
- AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 117 Leases, AASB 118 Revenue, AASB 120 Accounting for Government Grants and Disclosure of Government Assistance, AASB 121 The Effects of Changes in Foreign Exchange Rates, AASB 131 Interest in Joint Ventures, and AASB 139 Financial Instruments: Recognition and Measurement. AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as interpretation 12 Service Concession Arrangements.

### (p) 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 and debt securities

The fair value of available-for-sale financial assets is determined by reference to their quoted market bid prices and interest rates as at the balance sheet date without any deduction for transaction costs and includes accrued interest to 30 June 2008.

#### (ii) Derivatives

Forward exchange contracts are either marked to market using quoted market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps, broker quotes are used. Those quotes are back tested using pricing models or discounted cash flow techniques.

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

#### (iii) Finance lease liabilities

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

## Notes to the financial statements

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### **3. Significant accounting policies (continued)**

#### **(p) Determination of fair values (continued)**

##### **(iv) Trade and other receivables/payables**

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

##### **(v) Interest bearing loans and borrowings**

Fair value is calculated based on discounted expected future principal and interest cash flows.

#### **(q) Segment reporting**

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

# Notes to the financial statements

	2008 \$'000	2007 \$'000
<b>4. Revenue and other income</b>		
<b>a. Revenue</b>		
Sale of electricity	901,698	953,351
Sale of goods and services	121,987	106,795
	1,023,685	1,060,146
<b>b. Other income</b>		
Contract works	1,498	1,016
Derivative financial instruments gains		
Commodities	4,360	213
Contribution income	800	3,109
Government grants	2,185	2,262
Other	6,563	2,135
	15,406	8,735
<b>5. Expenses</b>		
Loss before tax includes the following specific expenses:		
Depreciation and amortisation expenses		
Depreciation	116,770	111,959
Leased assets	7,589	7,588
Intangible assets	456	112
	124,815	119,659
Other expenses include:		
Operating lease expenses	8,275	9,429
Derivative loss - foreign exchange forward contracts	3,747	(265)
Derivative loss – electricity contracts (unrealised)	1,782	433
	88,733	87,761
Net financing costs		
Interest income	(4,915)	(2,098)
Finance lease interest	28,620	28,610
Unwinding of discount on provision – Decommissioning cost	9,961	10,476
Interest and finance charges paid and payable	55,067	50,773
	88,733	87,761
<b>6. Auditors' remuneration</b>		
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Audit services		
Audit and review of financial reports	320,000	300,000
Under provided in previous year	70,000	92,800
	390,000	392,800
<b>7. Income tax benefit</b>		
	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Recognised in the income statement</b>		
<b>Current tax benefit</b>		
Current year	-	-
<b>Deferred tax benefit</b>		
Origination and reversal of temporary differences	11,682	(22,312)
Benefit of tax loss recognised	40,470	44,736
Total income tax benefit in income statement	52,152	22,424

# Notes to the financial statements

	2008 \$'000	2007 \$'000
<b>7. Income tax benefit (continued)</b>		
<b>Reconciliation between tax benefit and pre-tax net loss</b>		
Loss before tax	(184,250)	(74,724)
Income tax using the domestic Corporation tax rate of 30%	55,275	22,417
Decrease in income tax benefit due to:		
Non deductible expenses	(691)	7
Overprovided tax benefit in respect of prior year	(2,432)	-
Income tax benefit and pre-tax net loss	52,152	22,424
<b>8. Cash and cash equivalents</b>		
Cash at bank and on hand	744	1,122
Call deposits	27,003	27,200
Cash and cash equivalents	27,747	28,322
<b>Reconciliation of cash flows from operating activities</b>		
<b>Cash flows from operating activities</b>		
Loss for the period	(132,098)	(52,300)
Adjustments for:		
Depreciation and amortisation	124,815	119,659
Loss/(gain) on disposal of asset	-	10
Loss/(gain) on financial instruments	(1,782)	(434)
Unwinding discount	9,961	10,067
	896	77,002
<b>Operating profit before changes in working capital and provisions</b>		
Decrease/(Increase) in trade and other receivables	(23,534)	15,181
Decrease/(Increase) in inventories	10,981	(13,027)
Decrease in other current assets	(42,575)	1,954
(Decrease)/Increase in trade and other payables	86,756	(17,031)
(Decrease) in provisions and others	(60,193)	(69,308)
<b>Net cash from operating activities</b>	(27,669)	(5,229)
<b>9. Trade and other receivables</b>		
Trade receivables (net of impairment)	118,026	103,326
GST & other receivables	5,105	1,104
Deposits	16,747	11,602
Prepayments	4,687	5,000
	144,565	121,032
The Corporation's exposure to credit & currency risks and impairment losses related to trade receivable are disclosed in note 23.		
<b>10. Inventories</b>		
Fuels	62,121	73,179
Raw materials	40,994	41,124
Work in progress	316	262
Finished goods	195	42
	103,626	114,607

# Notes to the financial statements

	2008 \$'000	2007 \$'000
<b>11. Derivative financial instruments</b>		
<b>Current assets</b>		
Interest rate swaps – embedded	-	729
Other derivatives	-	1,396
Forward exchange contracts - cash flow hedge	25	-
Commodity swaps	13,551	627
	13,576	2,752
<b>Non-current assets</b>		
Interest rate swaps - cash flow hedge	1,394	1,051
Interest rate swaps – FVTPL	1,544	801
Commodity swaps	3,581	9
	6,519	1,861
<b>Current Liability</b>		
Interest rate swaps – embedded	(313)	-
Commodity swaps	-	(4)
Electricity derivatives	(2,215)	(1,829)
Forward exchange contracts – cash flow hedge	(836)	(1,579)
Forward exchange contracts - FVTPL	(111)	-
Commodity swaps – embedded	(965)	(494)
	(4,440)	(3,906)
<b>Non-current Liability</b>		
Commodity swaps	-	(53)
Forward exchange contracts – cash flow hedge	(940)	(630)
	(940)	(683)

**(a)** The Corporation is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates, foreign exchange rates and commodity prices in accordance with the Corporation's financial risk management policies.

**(i) Interest rate swap**

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

**(ii) Forward exchange contracts – cash flow hedge**

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

**(iii) Commodity swap contracts – cash flow hedge**

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

**(b) Interest rate swaps and commodity swaps - embedded**

The Corporation has contractual arrangements that provide evidence of embedded derivatives for a swap between a distillate price index and CPI, and an interest rate derivative. Both embedded derivatives are economically hedged through commodity and interest rate swaps respectively. The gain or loss on the fair value of the embedded interest rate derivative at balance sheet date is recognised immediately in the income statement, as is the related interest rate swap, for which hedge accounting has not been applied. The gain or loss on the fair value of the embedded distillate/CPI derivative at balance sheet date is recognised immediately in the income statement, as is the related commodity swap, where hedge accounting is not achieved.

**(c) Credit risk exposure**

The Corporation undertakes 100% of its transactions in foreign exchange, commodity and interest rate contracts with financial institutions with a credit rating of A or better.

# Notes to the financial statements

## 11. Derivative financial instruments (continued)

### (d) Other derivatives

The Corporation undertakes electricity derivatives. The gain or loss on the fair value of the electricity derivatives at balance sheet date are recognised immediately in the income statement with the fair value assessed using valuation techniques in accordance with AASB139 AG74.

## 12. Investments

	2008 \$'000	2007 \$'000
Listed equity security available for sale	510	1,289

The movement in fair value from 1 April 2006 is recognised in the fair value reserve (refer Note 22).

## 13. Property, plant and equipment

	Land \$'000	Building \$'000	Plant & equipment \$'000	Works under construction \$'000	Leased assets \$'000	Total \$'000
<b>At cost</b>						
Balance cost at 1 July 2006	5,552	135,708	1,486,747	76,902	186,535	1,891,444
Additions	-	-	-	83,202	-	83,202
Transfers	-	206	36,791	(37,470)	-	(473)
Disposals	-	(373)	(2,227)	-	-	(2,600)
Decommissioning costs adjustment	-	-	(6,544)	-	-	(6,544)
Balance at 30 June 2007	5,552	135,541	1,514,767	122,634	186,535	1,965,029
Balance at 1 July 2007	5,552	135,541	1,514,767	122,634	186,535	1,965,029
Additions	-	-	-	64,756	-	64,756
Transfers	-	1,137	101,209	(103,846)	-	(1,500)
Disposals	(13)	-	(1,541)	-	-	(1,554)
Decommissioning costs adjustment	-	-	(1,939)	-	-	(1,939)
Balance at 30 June 2008	5,539	136,678	1,612,496	83,544	186,535	2,024,792
<b>Depreciation and impairment losses</b>						
Balance at 1 July 2006	-	1,882	26,453	-	1,896	30,231
Depreciation charge for the period	-	7,493	104,467	-	7,588	119,548
Disposal	-	(21)	(1,917)	-	-	(1,938)
Balance at 30 June 2007	-	9,354	129,003	-	9,484	147,841
Balance at 1 July 2007	-	9,354	129,003	-	9,484	147,841
Depreciation charge for the year	-	7,519	109,251	-	7,589	124,359
Balance at 30 June 2008	-	16,873	238,254	-	17,073	272,200
<b>Carrying amount</b>						
At 30 June 2007	5,552	126,187	1,385,764	122,634	177,051	1,817,188
At 30 June 2008	5,539	119,805	1,374,242	83,544	169,462	1,752,592

### (a) Leased plant

The Corporation has applied UIG 4, which is effective 1 January 2006, and has determined that the Power Purchase Agreement contains a lease arrangement. The lease has been recognised as a finance lease in accordance with AASB 117 Leases.

# Notes to the financial statements

## 13. Property, plant and equipment (continued)

### (b) Property, plant and equipment subject to decommissioning

On disaggregation, the Western Power Corporation's property, plant and equipment allocated to the Corporation was written up to its fair value. The fair value of the property, plant and equipment subject to decommissioning was calculated based on the discounted future cash flows associated with the assets.

### (c) Transfers

\$1,500,000 was transferred from works under construction to Intangible assets (note 14) (2007:\$473,000).

## 14. Intangible assets

	Computer software \$'000	Exclusive rights \$'000	Total \$'000
<b>At cost</b>			
Balance at 1 July 2006	94	537	631
Transfers from works under construction (refer note 13)	473	-	473
Balance at 30 June 2007	567	537	1,104
Balance at 1 July 2007	567	537	1,104
Transfers from works under construction (refer note 13)	1,500	-	1,500
Balance at 30 June 2008	2,067	537	2,604
<b>Amortisation</b>			
Balance at 1 July 2006	10	14	24
Amortisation for the year	56	56	112
Balance at 30 June 2007	66	70	136
Balance at 1 July 2007	66	70	136
Amortisation for the year	400	56	456
Balance at 30 June 2008	466	126	592
<b>Carrying amount</b>			
At 30 June 2007	501	467	968
At 30 June 2008	1,601	411	2,012

## 15. Investment in joint venture entity

The Corporation has a 50% interest in an incorporated joint venture, Wind Energy Corporation Pty Ltd. Wind Energy Corporation Pty Ltd was formed in Australia in August 2000 to focus on business opportunities relating to large scale wind farms operating in parallel with an interconnected electricity grid, and hybrid power systems for remote and regional applications that utilise renewable energy technologies. The original investment has been written down to its recoverable amount of zero before the disaggregation. The Corporation has been dormant during the financial period.

## 16. 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 the 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 parties' interest.

## Notes to the financial statements

### 17. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Property, plant and equipment	330	352	(229,459)	(243,382)	(229,129)	(243,030)
Inventory	1,065	-	-	-	1,065	-
Provisions	104,686	105,784	-	-	104,686	105,784
Other items	52,754	59,531	-	-	52,754	59,531
Tax value of loss carry-forwards	102,789	57,296	-	-	102,789	57,296
Derivative financial instruments	-	-	(250)	(8)	(250)	(8)
Investments	-	-	(225)	(161)	(225)	(161)
Net tax assets / (liabilities)	261,624	222,963	(229,934)	(243,551)	31,690	(20,588)

Movement in temporary differences during the year:

	Balance	Recognised		Balance	Recognised in		Balance
	30 June 2006 \$'000	Income \$'000	Equity \$'000	30 June 2007 \$'000	Income \$'000	Equity \$'000	30 June 2008 \$'000
Property, plant and equipment	(231,140)	(11,890)	-	(243,030)	13,901	-	(229,129)
Other investment	(24)	24	-	-	-	-	-
Inventory	2,198	(2,198)	-	-	1,065	-	1,065
Provisions	116,621	(10,837)	-	105,784	(1,098)	-	104,686
Other items	56,661	2,589	281	59,531	(6,777)	-	52,754
Tax value of loss carry forwards	12,560	44,736	-	57,296	40,470	-	97,766
Derivative financial instruments	(89)	-	81	(8)	4,529	(106)	4,415
Investments	36	-	(197)	(161)	62	232	133
Net tax assets / (liabilities)	(43,177)	22,424	165	(20,588)	52,152	126	31,690

	2008 \$'000	2007 \$'000
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### 18. Trade and other payables

Trade payables	136,850	93,649
Other payables	22,660	9,154
Billing in advance	30,000	800
Interest and other payables	12,224	10,705
GST and others	-	670
	<u>201,734</u>	<u>114,978</u>

## Notes to the financial statements

	2008 \$'000	2007 \$'000
<b>19. Interest-bearing loans and borrowings</b>		
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 23 – Financial Instruments.		
<b>Current liabilities</b>		
Finance lease liabilities	285	56
Unsecured loans and borrowings	103,154	84,734
	103,439	84,790
<b>Non-current liabilities</b>		
Finance lease liabilities	189,986	190,271
Unsecured loans and borrowings	826,804	754,959
	1,016,790	945,230
<b>Financing arrangements</b>		
<b>Unsecured funding facility at reporting date</b>		
Total facilities available	1,400,000	1,400,000
Facilities utilised at reporting date	929,958	839,693
Facilities not utilised at reporting date	470,042	560,307

### Unsecured funding facility

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

### Finance lease liabilities

Finance lease liabilities of the Corporation are payable as follows:

	2008			2007		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Less than one year	28,881	28,596	285	28,676	28,620	56
Between one and five years	116,698	113,528	3,170	116,221	113,933	2,288
More than five years	536,896	350,080	186,816	566,255	378,272	187,983
	682,475	492,204	190,271	711,152	520,825	190,327

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 13). The imputed finance expense on the liability was determined based on the Corporation's incremental borrowing rate.

## Notes to the financial statements

	2008 \$'000	2007 \$'000
<b>20. Employee benefits</b>		
<b>Current liabilities</b>		
Salaries and wages accrued	4,983	3,098
Liability for long service leave	8,076	7,889
Liability for annual leave	13,109	12,212
	26,168	23,199
<b>Non-current liabilities</b>		
Present value of wholly unfunded obligations	16,433	18,654
Recognised liability for defined benefit obligations	16,433	18,654
Liability for long service leave	5,145	4,650
	21,578	23,304
<b>Liability for defined benefit obligations</b>		
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.		
<b>Defined benefit superannuation funds</b>		
Amount at the balance sheet date		
Net liabilities	16,433	18,654
<b>Changes in the present value of the defined benefit obligations are as follows:</b>		
Defined benefit obligations at 1 July	18,654	16,789
Interest cost	1,104	942
Actuarial gain/(loss)	(2,749)	1,912
Service cost	210	282
Benefits paid	(786)	(1,271)
Defined benefit obligations at 30 June	16,433	18,654
<b>Amount recognised in the income statement:</b>		
Interest cost		942
Actuarial gain/(loss)	(2,749)	1,912
Service cost	210	282
Amount recognised in the income statement	(1,435)	3,136

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

	2008	2007
Discount rate at 30 June	6.64%	6.06%
Expected salary increases	4.50%	4.50%
Expected pension increase rate	2.50%	2.50%

# Notes to the financial statements

## 21. Provisions

	Decommissioning costs \$'000	Others \$'000	Total \$'000
Balance at 1 July 2006	189,656	160,072	349,728
Provisions used during the period	(7,353)	(51,980)	(59,333)
Unwinding of discount on provision	10,476	-	10,476
Balance at 30 June 2007	192,779	108,092	300,871
Current	17,184	41,650	58,834
Non-current	175,595	66,442	242,037
Balance at 30 June 2007	192,779	108,092	300,871
Balance at 1 July 2007	192,779	108,092	300,871
Provisions used during the period	(476)	(38,744)	(39,220)
Unwinding of discount on provision	9,961	-	9,961
Change in assumption	(1,939)	-	(1,939)
Balance at 30 June 2008	200,325	69,348	269,673
Current	25,068	35,268	60,336
Non-current	175,257	34,080	209,337
Balance at 30 June 2008	200,325	69,348	269,673

### Decommissioning costs

The Corporation estimates the future removal cost of generating facilities at the time of installation of the assets. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating costs, future removal technologies in determining removal cost, and asset specific discount rates to determine the present value of these cash flows.

### Others

On disaggregation, a provision was transferred to the Corporation for the amount in excess of the fair value the Corporation is required to pay for coal under a contract allocated to them. The provision was calculated by multiplying the tonnage of coal to be purchased under the contract by the difference between the coal's contract and fair value prices. The fair value of the coal was determined to be the coal price negotiated during the August 2005 contract agreement.

## 22. Contributed equity and reserves

### Reconciliation of movement in capital and reserves

	Contributed equity \$'000	Hedging reserve \$'000	Fair value reserve \$'000	Accumulated losses \$'000	Total \$'000
<b>Opening balance at 1 July 2006</b>	635,362	207	(85)	(12,329)	623,155
Effective portion of changes in fair value					
Cash flow hedges	-	(705)	-	-	(705)
Net change in fair value of investments	-	-	320	-	320
Net loss for the year	-	-	-	(52,300)	(52,300)
Total recognised income and expense for the year	-	(705)	320	(52,300)	(52,685)
<b>Closing balance at 30 June 2007</b>	635,362	(498)	235	(64,629)	570,470

# Notes to the financial statements

## 22. Contributed equity and reserves (continued)

	Contributed equity \$'000	Hedging reserve \$'000	Fair value reserve \$'000	Accumulated losses \$'000	Total \$'000
<b>Opening balance at 1 July 2007</b>	635,362	(498)	235	(64,629)	570,470
Effective portion of changes in fair value					
cash flow hedges	-	248	-	-	248
Net loss on investments	-	-	(545)	-	(545)
Net loss for the year	-	-	-	(132,098)	(132,098)
Total recognised income and expense for the year	-	248	(545)	(132,098)	(132,395)
<b>Closing balance at 30 June 2008</b>	635,362	(250)	(310)	(196,727)	438,075

### Contributed equity

Contributed equity represents the owner's initial contribution, being Western Power Corporation's assets, after deducting the liabilities that were transferred from Western Power Corporation to the Corporation on 1 April 2006.

### Hedging reserve

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

### Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

## 23. Financial instruments

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

- credit risk
- liquidity risk
- market risk.

This note presents information about the Corporation's exposure to each of the above risks, their 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 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 adequacy of the risk management framework in relation to the risks faced by the Corporation. The ARMC is assisted in its 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.

# Notes to the financial statements

## 23. Financial Instruments (continued)

### Credit risk

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

### Trade and other receivables

The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Corporation's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. Approximately 81% (2007: 84%) of the Corporation's revenue is attributable to sales transactions with a single customer.

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

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

### Investments and derivative financial instruments

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

### Exposure to credit risk

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

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

	Carrying amount	
	2008	2007
	\$'000	\$'000
Available for sale financial assets	510	1,289
Trade and other receivables	139,878	116,032
Cash and cash equivalents	27,747	28,322
Derivative financial assets	20,095	4,613
	<u>188,230</u>	<u>150,256</u>

The Corporation's most significant customer, a Western Australian electricity retailer, accounts for \$70.9m of the trade receivables carrying amount at 30 June 2008 (2007: \$81.7m)

The ageing of the Corporation's trade receivables at 30 June 2008 was:

	2008		2007	
	Gross	Impairment	Gross	Impairment
	\$'000	\$'000	\$'000	\$'000
Not past due	116,077	-	103,004	-
Past due 0-30 days	4,286	3,088	590	468
Past due 31-90 days	8,314	7,575	1,028	1,019
More than 90 days	20,884	20,872	3,941	3,750
	<u>149,561</u>	<u>31,535</u>	<u>108,563</u>	<u>5,237</u>

Impaired amounts relate to items under dispute.

# Notes to the financial statements

## 23. Financial Instruments (continued)

### Credit risk (continued)

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

	2008 \$'000	2007 \$'000
Balance at 1 July	5,237	12
Impairment loss recognised	26,298	5,225
Balance at 30 June	31,535	5,237

### 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 Group's reputation.

The following are the contractual maturities of financial assets and liabilities, including estimated interest payments and excluding the impact of netting agreements.

30 June 2007	Carrying amount \$'000	Contractual cash flows \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000s	5+ years \$'000
<b>Derivative financial assets</b>							
Interest rate swaps – cashflow hedge	1,051	1,437	66	178	200	554	439
	1,051	1,437	66	178	200	554	439
<b>Derivative financial liabilities</b>							
Electricity derivatives							
Inflow	-	-	-	-	-	-	-
Outflow	(1,829)	(2,193)	(426)	(303)	(1,147)	(317)	-
Commodity swaps – embedded derivatives:							
Inflow	-	-	-	-	-	-	-
Outflow	(494)	(561)	(107)	(107)	(176)	(171)	-
Commodity swaps:							
Inflow	-	-	-	-	-	-	-
Outflow	(57)	(61)	(4)	(57)	-	-	-
Forward exchange contract – cashflow hedge:							
Inflow	-	29,982	8,977	11,501	2,256	6,789	459
Outflow	(2,209)	(33,125)	(9,677)	(12,687)	(2,548)	(7,708)	(505)
	(4,589)	(5,958)	(1,237)	(1,653)	(1,615)	(1,407)	(46)
<b>Non-derivative financial liabilities</b>							
Finance lease	(190,327)	(711,152)	(14,310)	(14,366)	(28,881)	(87,340)	(566,255)
Interest-bearing loans and borrowings	(839,693)	(1,093,554)	(78,634)	(64,833)	(145,489)	(344,162)	(460,436)
Trade and other payables	(114,978)	(114,978)	(114,978)	-	-	-	-
	(1,144,998)	(1,919,684)	(207,922)	(79,199)	(174,370)	(431,502)	(1,026,691)
<b>Total</b>	(1,148,536)	(1,924,205)	(209,093)	(80,674)	(175,785)	(432,355)	(1,026,298)

# Notes to the financial statements

## 23. Financial Instruments (continued)

### Liquidity risk (continued)

30 June 2008	Carrying amount \$'000	Contractual cash flows \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000s	5+ years \$'000
<b>Derivative financial assets</b>							
Forward exchange contract – cashflow hedge							
Inflow	25	243	243	-	-	-	-
Outflow	-	(219)	(219)	-	-	-	-
Interest rate swaps – cashflow hedge	2,071	2,714	343	361	542	852	616
	2,096	2,738	367	361	542	852	616
<b>Derivative financial liabilities</b>							
Electricity derivatives							
Inflow	-	-	-	-	-	-	-
Outflow	(2,215)	(2,327)	(219)	(1,011)	(991)	(515)	409
Commodity swaps – embedded							
Inflow	-	-	-	-	-	-	-
Outflow	(965)	(1,084)	(270)	(270)	(544)	-	-
Interest rate swaps – embedded							
Inflow	-	-	-	-	-	-	-
Outflow	(313)	(347)	(11)	(95)	(150)	(91)	-
Forward exchange contract – cashflow hedge							
Inflow	-	16,598	3,749	4,286	3,031	5,532	-
Outflow	(1,776)	(19,645)	(4,242)	(4,745)	(3,572)	(7,086)	-
Forward exchange contracts – FVTPL							
Inflow	-	10,587	10,587	-	-	-	-
Outflow	(111)	(10,729)	(10,729)	-	-	-	-
	(5,380)	(6,947)	(1,135)	(1,835)	(2,226)	(2,160)	409
<b>Non-derivative financial liabilities</b>							
Finance lease	(190,271)	(682,475)	(14,419)	(14,462)	(29,015)	(87,683)	(536,896)
Interest-bearing loans and borrowings	(929,959)	(1,249,955)	(48,552)	(72,491)	(181,737)	(357,716)	(589,459)
Trade and other payables	(201,734)	(201,734)	(201,734)	-	-	-	-
	(1,321,964)	(2,134,164)	(264,705)	(86,953)	(210,752)	(445,399)	(1,126,355)
<b>Total</b>	(1,325,248)	(2,138,373)	(265,473)	(88,427)	(212,436)	(446,707)	(1,125,330)

### Market risk

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

# Notes to the financial statements

## 23. Financial Instruments (continued)

### Interest rate risk

#### Profile

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

	Carrying amount	
	2008 \$'000	2007 \$'000
<b>Fixed rate instruments</b>		
Financial assets	-	729
Financial liabilities	(1,557,747)	(1,550,845)
	<u>(1,557,747)</u>	<u>(1,550,116)</u>
<b>Variable rate instruments</b>		
Financial assets	30,685	30,174
Financial liabilities	(55,000)	-
	<u>(24,615)</u>	<u>30,174</u>

#### Fair value sensitivity analysis for fixed rate instruments

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

The impact of a 100 basis point increase/decrease of the interest rate can be found on page 43 and 44.

#### Currency risk

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

The Corporation hedges 100% of foreign currency exposure in respect of purchases. The Corporation uses forward exchange contracts to hedge its foreign currency risk. Where necessary, the forward exchange contracts are rolled over at maturity.

#### Forecasted transactions

At any point in time, the Corporation hedges 100% of its estimated foreign currency exposure in respect of forecast purchases. The Corporation classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value.

The net fair value of forward exchange contracts used as hedges of forecasted transactions at 30 June 2008 was a deficit of \$1,751,000 (2007: \$2,209,000), comprising assets of \$25,000 (2007: \$nil) and liabilities of \$1,776,000 (2007: \$2,209,000).

The impact of a 10% strengthening/weakening of the Australian dollar can be found on page 43 and 44.

# Notes to the financial statements

## 23. Financial Instruments (continued)

### Exposure to currency risk

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

30 June 2007 (AUD'000s)	USD	euro	GBP	CHF
Estimated forecast purchases	(19,539)	(2,145)	(5,744)	-
Forward exchange contracts	19,539	2,145	5,744	-
Net exposure	-	-	-	-

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

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2008	2007	2008	2007
USD	0.8966	0.7863	0.9634	0.8500
euro	0.6098	0.6019	0.6101	0.6312
GBP	0.4477	0.4067	0.4833	0.4247
CHF	0.9943	-	1.0162	-

### Commodity price risk

The Corporation is exposed to commodity price risk on oil purchases. The Corporation is also exposed to commodity price risk on an embedded derivative that is embedded in a coal purchase agreement.

The Corporation hedges its commodity price exposure using commodity swaps to hedge its price risk.

### Forecasted transactions

The commodity swaps are not classified as cash flow hedges, the change in fair value of the commodity swap is recognised in the income statement. The fair value of these financial assets is determined by reference to the prevailing oil market price as at maturity date.

The net fair value of commodity swap contracts not classified as cash flow hedges at 30 June 2008 was an asset of \$17,132,119 (2007: \$579,000) that was recognised in the income statement.

Embedded derivatives are separated from their host contract and are accounted for at fair value with changes in fair value recognised in the income statement. The net fair value of embedded commodity swap contracts at 30 June 2008 was a liability of \$965,000 (2007: \$494,000).

In determining the fair value of its electricity derivatives, the Corporation uses forward price estimates based on its internal contracts and other market estimates.

The impact of a 10% increase/decrease in relative commodity prices can be found on page 43 and 44.

# Notes to the financial statements

## 23. Financial Instruments (continued) Sensitivity analysis

	Carrying amount (\$'000)	Interest Rate Risk			Currency Risk			Commodity Price Risk		
		-100 basis points	+100 basis points	-10%	+10%	-10%	+10%	-10%	+10%	
		Profit (\$'000)	Equity (\$'000)	Profit (\$'000)	Equity (\$'000)	Profit (\$'000)	Equity (\$'000)	Profit (\$'000)	Equity (\$'000)	
<b>2007</b>										
<b>Financial assets</b>										
Cash and cash equivalents	28,322	(283)	-	283	-	-	-	-	-	-
Investments	1,289	-	-	-	-	-	(129)	-	129	-
Derivatives – FVTPL (interest rate swaps)	801	(309)	-	309	-	-	-	-	-	-
Derivatives – FVTPL (commodity swaps)	636	-	-	-	-	(1,860)	-	1,860	-	-
Derivatives – FVTPL (electricity derivatives)	1,396	-	-	-	-	(1,089)	-	2,089	-	-
Derivatives – FVTPL (embedded derivatives)	729	(47)	-	47	-	-	-	-	-	-
Derivatives – designated as cash flow hedges (interest rate swaps)	1,051	-	(1,292)	-	1,292	-	-	-	-	-
<b>Financial liabilities</b>										
Derivatives – FVTPL (commodity swaps)	(57)	-	-	-	-	965	-	(965)	-	-
Derivatives – FVTPL (embedded derivatives)	(494)	-	-	-	131	(107)	-	117	-	(117)
Derivatives – FVTPL (electricity derivatives)	(1,829)	-	-	-	-	-	-	1,412	-	(1,412)
Derivatives – designated as cash flow hedges (foreign exchange contracts)	(2,209)	-	-	-	3,106	-	(3,106)	-	-	-

## 23. Financial Instruments (continued) Sensitivity analysis

	2008												
	Carrying amount (\$'000)	Interest Rate Risk				Currency Risk				Commodity Price Risk			
		-100 basis points	+100 basis points	-10%	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%	+10%
	Profit (\$'000)	Equity (\$'000)	Profit (\$'000)	Equity (\$'000)	Profit (\$'000)	Equity (\$'000)	Profit (\$'000)	Equity (\$'000)	Profit (\$'000)	Equity (\$'000)	Profit (\$'000)	Equity (\$'000)	
<b>Financial assets</b>													
Cash and cash equivalents	27,747	(277)	-	277	-	-	-	-	-	-	-	-	
Investments	510	-	-	-	-	-	-	-	-	(51)	-	51	
Derivatives – FVTPL (interest rate swaps)	1,544	(637)	-	637	-	-	-	-	-	-	-	-	
Derivatives – FVTPL (commodity swaps)	17,132	-	-	-	-	-	-	-	(4,596)	-	-	4,596	
Derivatives – designated as cash flow hedges (interest rate swaps)	1,394	-	(928)	-	928	-	-	-	-	-	-	-	
Derivatives – designated as cash flow hedges (foreign exchange contracts)	25	-	-	-	(24)	-	-	24	-	-	-	-	
<b>Financial liabilities</b>													
Derivatives – FVTPL (foreign exchange contracts)	(111)	-	-	-	1,174	-	-	(960)	-	-	-	-	
Derivatives – FVTPL (embedded derivatives)	(1,278)	50	-	50	156	-	(156)	141	-	-	-	(141)	
Derivatives – FVTPL (electricity derivatives)	(2,215)	-	-	-	-	-	-	-	3,078	-	-	(3,078)	
Derivatives – designated as cash flow hedges (foreign exchange contracts)	(1,776)	-	-	-	-	1,540	-	(1,540)	-	-	-	-	
Borrowings	(929,959)	950	-	(950)	-	-	-	-	-	-	-	-	

# Notes to the financial statements

## 23. Financial Instruments (continued)

### Estimation of fair values

Other than disclosed below, the carrying values of the financial assets and liabilities approximate the fair values as at 30 June 2008:

	Note	2008		2007	
		Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Interest-bearing loans and borrowings	19	929,958	896,151	839,693	827,685

### Interest rates used for determining fair value

Other than the rates used by the actuarial assumptions rate as disclosed in Note 20, the Corporation uses the government bond rate of 6.4% (2007: 5.7%) to determine the fair value of decommission cost during the financial year.

	2008 \$'000	2007 \$'000
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## 24. Operating leases

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

Less than one year	23,068	20,913
Between one and five years	41,978	61,547
More than five years	372	441
	<u>65,418</u>	<u>82,901</u>

## 25. Capital and other commitments

Contracted but not provided for and payable:

Within one year	16,196	33,432
Between one and five years	492	12,304
	<u>16,688</u>	<u>45,736</u>

## 26. Contingencies

The Corporation has not recognised the estimated adjustment of \$37.9 million payable by Synergy in the financial statements due to lack of reliable information to verify such an amount. There were no contingent liabilities at 30 June 2008.

## 27. Subsidiary

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

## 28. Directors' and Executive remuneration disclosures

The following were Non-Executive Directors and Executives of the Corporation any time during the reporting period:

### Non-Executive Directors

Mr Peter James West (Chairperson)  
 Mr Harvey Russell Collins (Deputy Chair)  
 Mr John Joseph O'Connor  
 Ms Martine Daniele Pop  
 Mr Ian Charles Purcell

### Executives

Mark Hands (terminated 7th March 2008)  
 Ken Bowron (terminated 5th October 2007)  
 Barrie Brandt (terminated 14th December 2007)  
 Greg Denton (terminated 31st January 2008)  
 Derek Noakes  
 Karl Matacz

### Executive Directors

Ms Shirley Eleanor In't Veld (Managing Director)

# Notes to the financial statements

## 28. Directors' and Executive remuneration disclosures (continued)

	2008	2007
	\$'000	\$'000
Short term employee benefits	1,775	1,729
Post employment benefits	1,421	165
	<u>3,196</u>	<u>1,894</u>

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

## 29. Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation, in future financial years.

## 30. Segment Reporting

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

# Notes to the financial statements


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## 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 2008 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 2008 pursuant to the Electricity Corporations Act 2005.

Dated at Perth this 18th day of September 2008

Signed in accordance with a resolution of the Directors:



**Chairman**

# Independent Audit Report



## Auditor General

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

#### To the Parliament of Western Australia

I have audited the financial report of the Electricity Generation Corporation, which comprises the Balance Sheet as at 30 June 2008, and the Income Statement, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

#### Directors' Responsibility for the Financial Report

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

#### Summary of my Role

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

An audit does not guarantee that every amount and disclosure in the financial report is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial report.

#### Audit Opinion

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

- (a) giving a true and fair view of the Corporation's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

A handwritten signature in black ink, appearing to read 'Glen Clarke'.

GLEN CLARKE  
ACTING AUDITOR GENERAL  
22 September 2008