



**ANNUAL REPORT
1 JULY 2007 – 30 JUNE 2008**

Electricity Retail Corporation

Synergy's 2007/08 Annual Report outlines our objectives, major activities and operations for the financial year ending 30 June 2008, as well as our performance targets for the year ahead.

All targets are consistent with the Government's policy and budgetary requirements.

Our current and future functions and responsibilities are defined in the business's governing legislation, the *Electricity Corporations Act 2005 (WA)* and in the industry's governing legislation, the *Electricity Industry Act 2004 (WA)* (and subordinate instruments).

The Board of Directors is the governing body, appointed by the Minister for Energy and our Managing Director has overall responsibility for Synergy's day-to-day operations.

Synergy's accountability to Government is met through our:

- Strategic Development Plan and
- Statement of Corporate Intent.

Both are agreed annually with the Minister.

Our Annual Report has been produced and provided to the Minister within the time specified by the Act and includes:

- statutory financial statements;
- statutory information required of any company under the Corporations Law;
- an overview of major achievements and an appraisal of future prospects;
- a comparison of performance with Statement of Corporate Intent targets and
- other information required by the Act to be included, such as the particulars of any directions given by the Minister.

CHAIRMAN'S REPORT

It is a pleasure to present Synergy's 2007/08 Annual Report.

It has been a very satisfying year in which Synergy achieved both a strong financial result and a number of significant milestones.

For the second year Synergy recorded an after tax profit substantially above expectations. While lower than last year, the profit of \$39.6 million is still an excellent outcome with the normalised performance above budget. With the market still evolving, the result was influenced by a number of factors that are not expected in the future.

The healthy profit builds on the solid platform Synergy has established since its inception a little over two years ago. It contributes to our growing balance sheet, which is an essential foundation to enter into large procurement transactions. It therefore directly influences Synergy's ability to meet one of its core goals: to lead in the creation of an efficient, effective market.

This is an exciting and challenging time to be in the energy industry from both a local and global perspective.

Synergy has an instrumental role to play in ensuring the success of the market arising from its position in the market, and the need to procure competitively priced energy supplies over future years. The success of these activities will significantly impact the successful evolution of a competitive, secure and sustainable energy industry in Western Australia.

In addition, Synergy is very aware of the impact of climate change policies on the use of energy in Western Australia. This will greatly influence every aspect of Synergy's business activities in the future. Climate change will also expand Synergy's opportunities. For example, the company will be investing in carbon sequestration projects to secure carbon permits.

The Board appreciates the magnitude of the challenge and the long term impact of decisions it is now making.

During the year Synergy was pleased to announce four new power procurement agreements.

- Biomass plant
- Landfill gas plant
- Gas turbine power station
- Coal fired power station

These projects will commence supplying Synergy's customers from 2010. The new renewable energy supplies are particularly important in meeting our steep growth targets for this form of power and the accreditation regime for renewable energy.

These new agreements are significant as they drive competition in the wholesale generation energy market and broaden both Synergy's diversity of supply and portfolio of suppliers. This also strengthens our ability to offer increasingly secure and stable supply.

A large challenge faced by all users of energy in Western Australia is the nature of the market. It is isolated from the national grid (NEM), servicing a vast area for a small market, and features a very peaked load shape. This requires a sophisticated approach to managing supply and demand, particularly given the need to increase supplies from renewable sources, most of which do not provide base load energy and require back-up generation and network support.

Additional supply contracts have created relationships with new suppliers, however we acknowledge the vital relationship we have had with Verve Energy during the year. Synergy recognises that Verve's financial position has been constrained by frozen tariffs under the vesting contract. We note that this is being addressed by Government. Synergy also expects Verve's financial position will improve over time as Synergy sources new supplies to displace those procured under the vesting arrangement and Verve benefits from new fuel contracts.

Synergy's procurement activities require careful management of financial risk as the company must work with the classic mismatch of buying long and selling short. We have had to offer long term contracts in order for suppliers to agree to develop new generation assets, yet Synergy is obliged to sell over a much shorter term.

While Synergy's procurement activities are critical, the company must continually evolve to meet the other great challenge of being a progressive, nimble and agile retailer. The Board has appreciated the significant work undertaken by Synergy people in transforming the company at all levels to ensure it is prepared for the future.

Synergy is obliged to be highly efficient, the benefits of which are passed on to customers through a lower cost in order to serve and improve delivery of services. These are particularly important goals as we face substantially higher generation, environmental and network costs; all of which ultimately impact customers.

To match our success in delivering new supply contracts is our commitment to assist our customers to use energy efficiently.

While Synergy will exploit competitive tensions to keep prices down, considerable work is required to increase the understanding of the impact on our business and customers in a carbon constrained world, and what action customers can take to mitigate these price effects. Synergy is the best placed entity in Western Australia, and has the most extensive customer relationship, to undertake this important task.

2007/08 was a very successful year that has contributed to building the strong platform required for Synergy's continued success. The company also made a direct return to the communities by over \$33 million in dividend and tax equivalent payments to Government.

On behalf of the Board, I thank the executive team who have delivered outstanding leadership across the business. They have been supported by Synergy's staff who have risen to the many and varied challenges faced during the year.

I would like to acknowledge all of my colleagues on the Board, and recognise the valuable contribution of Craig Coleman, who retired at the beginning of the year. He has been replaced by David Hunt, who is highly qualified and brings international experience in the energy industry to the role. The Board looks forward to David's contribution to Synergy's long term success.

In addition, much of Synergy's success rests with the excellent relationship it has with many key stakeholders. In particular, the Board records its appreciation to the Minister for Energy, Hon Fran Logan, and his staff, the Office of Energy, and the Government.

Our results position Synergy well to be a progressive, high performing business, actively working to deliver the most cost effective energy solutions for customers well into the future.

Michael Smith
Chairman

MANAGING DIRECTOR'S REPORT

I am very pleased to report another successful year at Synergy, a credit to the hard work and dedication of all of my colleagues.

Our results are a reflection of the commitment and expertise of our people, who have worked diligently to establish Synergy's identity as a successful and independent energy retailer.

At Synergy, we have an unambiguous commitment to our customers, through the delivery of secure and competitively priced energy, by helping customers manage their energy consumption and by advocating on behalf of our customers.

It was therefore pleasing to record a number of milestones during the year which were focused on addressing the needs of Synergy's customers, both in the franchise market and the contestable industrial and commercial markets.

Keeping our customers connected is our primary role. We accept, however, there are customers who experience financial difficulties, and in the face of rising tariffs in future years, it is important Synergy is ready to assist such customers.

During the year, Synergy completed a comprehensive review of its Financial Hardship Policy, which culminated in the appointment of specialised case support officers and the allocation of financial incentives to assist customers to manage their accounts and avoid debts. The new policy represents a positive and refreshing approach to helping customers in financial hardship.

A pleasing outcome of Synergy's review of its Financial Hardship policy is a reduction in the number of disconnections of over 26% compared to the previous year.

Synergy was also an active participant on the Government's Utilities Essential Services Hardship Inter-Agency Working Group. The Working Group's activities culminated in the announcement of new support measures for low income and financial hardship customers. Synergy will have a significant role to play in delivering these benefits, and has been working with the Office of Energy and the Department for Child Protection to deliver these benefits.

Synergy's main interaction with customers is through its Contact Centre, which took over 1.8 million calls during the year. It was therefore very special for Synergy's Contact Centre to be recognised with the awarding of the Teleservices Centre of the Year award and Manager of the Year. This award is more than a tribute to our people who are the voice of Synergy; it recognises the strong emphasis Synergy places on providing high quality service to its customers.

In addition to our personalised customer service, Synergy developed and released new tools for customers to manage and track their energy consumption – My Account, the SmartWays Calculator and Home Design Tool. There is certainly increasing interest in energy consumption and its impact on the environment, and Synergy is responding through the release of new interactive online tools for customers to measure and track their energy consumption and greenhouse gas emissions.

The business is also focused on ensuring it is well equipped to meet the expectations of our customers in the future, and through the year, on top of our usual business activities, we continued work to transform our business to be competitive in the future. As envisaged last year, this resulted in some cost increases during the year to ensure the seamless progress of this program of work.

A large amount of work was undertaken – and is continuing – transforming our structure, systems and activities to ensure we are a more responsive business, meeting the changing needs of our customers while lowering our cost to serve. We are on track to implement a new billing and customer relationship management system in 2009, which will further improve our interactions with our customers and reduce our cost to serve by providing the ability to take new products to market quicker.

Most important for our customers is having secure energy supplies. Synergy is working today to ensure future demand in the next decade will be met. The signing of new supply agreements will provide for customer demand in future years. These contracts are worth approximately \$5.5 billion and increased Synergy's commitments to over \$11 billion over the long term. During the year we commenced tender programs to acquire additional supply agreements, again from diverse sources, beyond 2010.

During the year, Synergy launched a new accredited renewable energy product, EasyGreen, to complement its existing product, NaturalPower. Increased demand for NaturalPower, coupled with strong interest in EasyGreen, resulted in increased sales of accredited renewable energy by over 59% compared to the previous year. Synergy is seeking new sources of accredited renewable energy as a result of the healthy demand for accredited renewable energy.

Synergy is a dual fuel supplier and approximately 50% of the company's revenue is subject to competition, in the industrial and commercial sector. Over the year, Synergy continued to perform strongly in this market. In particular, it has achieved strong growth in the gas market and looks forward to continuing to drive growth in this area of the business in future years. Synergy attributes its success in this area to a committed, knowledgeable and experienced sales team, and its activities in seeking secure and competitively priced energy supplies.

Important reviews were undertaken during the year and will contribute to the development of Western Australia's energy market.

In particular, the Office of Energy's Electricity Retail Market Review, considering the issues of tariffs, full retail contestability and the roll out of smart meters, will directly impact Synergy's customers.

The Government has announced residential and commercial tariffs will be increasing from 1 July 2009. For residential customers, this is the first effective tariff increase since 1997, and for many business customers, the first effective increase since 1992. Synergy has commenced work on the implementation of these changes, and communicating the impacts with customers.

Synergy has long advocated cost reflective tariffs as being essential to ultimately drive competition in both the wholesale and retail energy markets in Western Australia. However, given the magnitude of the increases required to achieve cost reflectivity, Synergy supports a glide path over time in order to enable customers to adjust to the changes.

We are committed, at the same time, to assisting our customers to accommodate these future tariff increases by delivering energy management information, advice and solutions to assist in minimising energy consumption, and mitigating some of the potential cost impacts from the tariff increases.

During the year, Synergy commenced public information campaigns outlining the importance of energy efficiency, both to reduce greenhouse gas emissions and to save money. We are committed to encouraging the efficient use of energy, which is in the interest of our customers, the environment and the industry.

This work will continue throughout the forthcoming year, to ensure customers understand the tariff changes.

In June, Western Australia's energy industry faced a significant challenge when gas supplies were reduced by around 30% following an explosion at Varanus Island. While Synergy's gas customers continued to be supplied and were not directly impacted, Synergy worked with various suppliers and government agencies to develop strategies to respond to the shortage, and also supported the industry by seeking alternative gas supplies to assist businesses with urgent requirements. The incident highlighted the importance of diverse fuel supplies, which Synergy has been actively pursuing through its procurement activities.

Synergy's people are vital to the continued success of the business. Synergy was able to finalise its first Collective Agreement during the year, which is important to continued business operations. This was achieved through the collaboration of staff, the Australian Services Union and management and is important to ensure we maintain our committed and talented workforce.

The continued success of Synergy, since its inception in April 2006, is a great tribute to all the staff members across the business who have collectively

worked hard to achieve the positive results we have delivered. I thank all of my colleagues for their contribution during the year.

I am confident the experience, skills, knowledge and commitment of our people positions Synergy to play a leading role in the energy industry in Western Australia in future years.

Of course, our success would not have been possible without the support of our Board, the Minister for Energy, Hon Fran Logan, and his staff and the Office of Energy. I also thank the executive team and all the great people at Synergy for their hard work and dedication during the year.

James K Mitchell
Managing Director

A year of success

Since Synergy was established in April 2006, it has realised some outstanding achievements. Particular achievements over the last twelve months include:

- Strengthening the identity of the business as an independent stand-alone retailer by relocation to separate premises and further development of the brand; Synergy moved into its new contemporary head office premises at 228 Adelaide Terrace in July 2007 and pursuing a 4 star green rating;
- Successful finalisation of major procurements for wholesale supply:
 - 40MW renewable energy from a forestry waste biomass power plant at Manjimup;
 - 1MW supply from an expansion of landfill-gas fired power plant at Henderson.
 - 330MW supply rights from gas turbines at Neerabup; and
 - 200MW supply contract from Bluewaters Power Station near Collie;
- Reconfirmed a AA- Public Credit Rating from Standard and Poors;
- Launch of My Account to assist customers in tracking their energy usage;
- Development of an interactive energy calculator - a finalist in the WA Web Awards 2007;
- Entered the 180GJ gas market - securing many new gas customers;
- Successful implementation of new tariff changes for the first time in seven years;
- Launched a new accredited renewable energy product, Easy Green, to improve access to environmental products of choice by customers;
- Increased the number of accredited renewable energy customers by over 59% between July 2007 and June 2008;
- External recognition of Synergy's risk management planning;
- Finalisation of our first Collective Agreement, thanks to the collaboration of staff, management and the Australian Services Union;
- Improvements in Contact Centre processes and technology and extended Contact Centre opening hours;
- Comprehensive review of Synergy's financial hardship policy, culminating in appointment of two case support officers and reduced disconnections;
- Ongoing sponsorships (Synergy Parklands and Kings Park Lights, Starlight Children's Foundation, Western Australian Symphony Orchestra, Synergy Gallipoli Run and Telethon 2006); and
- Finalist in WA Environmental Awards – "Government – Leading by Example".

ABOUT SYNERGY

Synergy is Western Australia's largest energy retailer with approximately 900,000 industrial, commercial and residential customers, generating total annual revenue of more than \$1.5 billion.

Synergy supplies customers connected to the South West Interconnected System (SWIS) covering the area from Kalbarri in the north down to Albany in the south and east to Kalgoorlie.

The primary activities of Synergy include energy trading (purchasing), marketing, sales and customer service, billing and payment processing. The business operates a dedicated Contact Centre and a limited outbound teleservices group. In addition, Synergy services major customers' needs through a diversified team of account managers.

SYNERGY'S PEOPLE

Synergy values the experience and expertise of its people. During 2007/08, Synergy employed over 350 permanent staff in the following business areas:

- Retail
- Wholesale
- Customer and Brand Equity
- Business Services
- Human Resources and Organisational Development
- Legal and Regulatory
- Business Transformation

OUR VISION

Synergy was born out of disaggregation in April 2006. At that time Synergy developed a vision aimed at transforming Synergy into a brilliantly successful retailer by 2009, utilising the skills, experience and passion of its people.

With 2009 rapidly approaching, and a comprehensive transformation program underway aimed at achieving this vision, Synergy has commenced the planning beyond 2009 to develop the vision and strategy through to 2015 and beyond.

During the year, Synergy will develop a vision to redefine and innovate energy retailing to meet the changing needs of the community.

OUR PRIORITIES

Synergy's Board and Executive have identified the objectives which collectively represent the strategic direction of the business and enable delivery on current obligations.

While the Act requires Synergy adopt clear commercial objectives, other imperatives, particularly the requirements of the Government with regard to the establishment of a competitive electricity industry, must also be taken into

account. Synergy has actively supported the development of competition whilst also seeking to maximise longer-term profits.

Based on these requirements, Synergy has set three Strategic Objectives:

- Contribute to the creation of a competitive wholesale market;
- Be ready for increasing retail competition; and
- Maximise the long term value of the business.

OUR VALUES

The organisational values, on which we base our reputation and from which we will successfully deliver our vision, are:

Enterprising

As a business we strive to always seize opportunities, move ahead, take the initiative, innovate and focus on being the experts in energy. This value supports a culture focused on the growth of the business, our people, the community, the environment and the State.

Quality relationships

Synergy's people will establish good relationships with each person that has an interest in the business: Synergy understands the importance of good relationships with our customers, our staff, our stakeholders, the community and the environment.

Spirit

An intrinsic quality that enables us to approach work with enthusiasm and eagerness, Spirit breeds a culture of initiative, interest and 'giving things a go'.

Integrity

The foundation that grounds the business, our integrity means we will keep our promises and build trust with our customers and stakeholders.

CORPORATE RESPONSIBILITIES

As a retailer of an essential service, Synergy touches the lives of thousands of people every day in communities throughout the SWIS. Relationships with communities are fostered both through commercial relationships and through the key sponsorships and the partnerships the business participates in each year.

In carrying out its business, Synergy seeks to achieve an acceptable balance between the specific requirements established within the governing legislation and the broader responsibilities adopted in being a good corporate citizen.

Synergy is strongly committed to providing its customers with the highest level of service. Synergy's Customer Charter details this commitment to residential and small use business customers.

Environmental responsibilities

Synergy is committed to delivering innovative energy solutions for sustainable growth and minimising the environmental impact of its customers' use of energy.

Synergy recognises Government and community expectations for optimum environmental management, while also appreciating its responsibility for providing security and reliability of supply, and will continue to develop products and initiatives to support these.

This will include procurement arrangements which, subject to commercial viability, will see a greater proportion of wholesale energy acquired from environmentally friendly sources such as natural gas, wind and solar.

Synergy has clear obligations under the State Government's Greenhouse Initiative and the Federal Government's Mandatory Renewable Energy Target (MRET) scheme and is committed to meeting these.

Efficiency and demand management responsibilities

Synergy is committed to encouraging the efficient use of electricity, both to promote efficiency in electricity supply systems and the management of demand, and to minimise expenditure on electricity by customers.

This requirement reflects the fact Synergy has a franchise market of nearly 900,000 residential customers and it will undertake marketing activities which influence the amount of power consumed and the peak periods for electricity demand.

Market responsibilities

Synergy welcomes competition in the interest of its customers, and also recognises effective retail competition is a key element of the Government's electricity reform program. As the predominant retailer in the SWIS, Synergy appreciates the important role it has played and continues to play, to ensure the success of Western Australia's evolving energy market.

The availability of competitively priced wholesale electricity is essential for a competitive retail market and Synergy has been active in securing increased wholesale competition within the market, ensuring its success as a retailer and the overall success of Western Australia's energy industry.

Government policy

Synergy's Board, management and staff remain committed to the Government's industry reform process while continuing to focus on providing high quality service to its entire customer base.

In supporting the continued development of a competitive energy industry in Western Australia, Synergy is:

- continuing to operate as a commercially viable, independent energy retailer;
- committed to the development of the Wholesale Electricity Market;

- working with the Office of Energy, the Independent Market Operator and the Economic Regulatory Authority to further develop the new market environment;
- complying with the requirements and facilitating the implementation of various industry codes and other instruments designed both to underpin the operation of the market and as measures to mitigate market power;
- operating in the franchise electricity retail market (<50MWh or approximately \$8,000 per annum spend on electricity); and
- competing in the contestable electricity and gas markets.

Ministerial Reporting

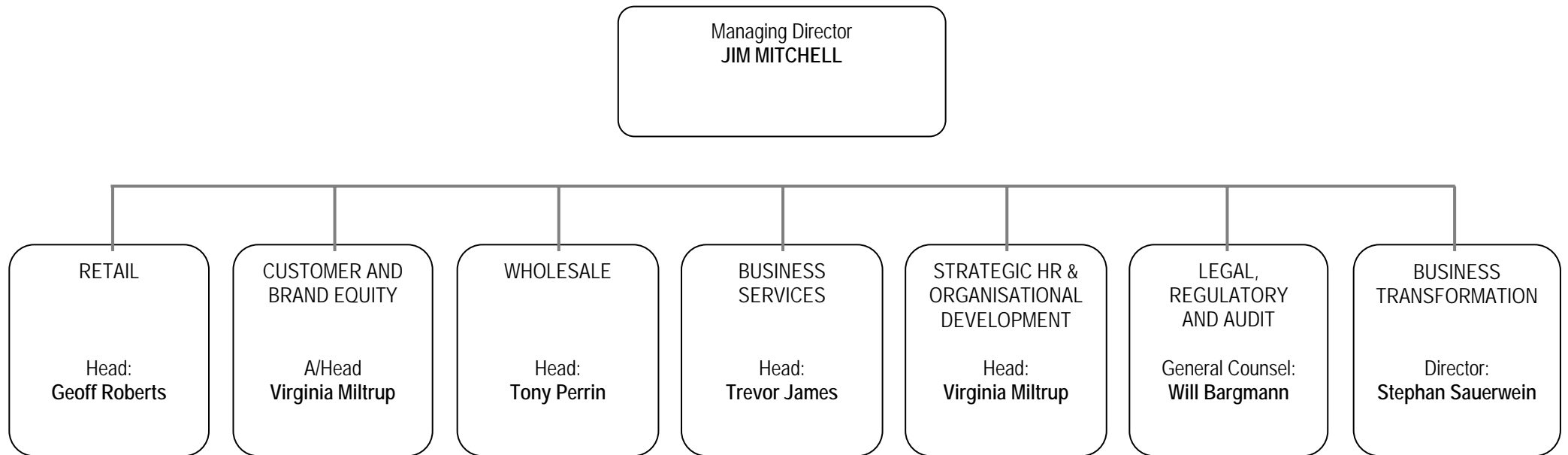
In line with the accountability provisions of the *Electricity Corporations Act (WA) 2005*, Synergy has provided the Minister with a quarterly report, for each of the first three quarters of the 2007/08 financial year, and this Annual Report details the entire 2007/08 financial year.

Each of the quarterly reports for the 2007/08 reporting period was submitted to the Minister no later than one month following the end of the preceding reporting quarter and included:

- an overview of performance (including specific performance indicators);
- highlights of important achievements; and
- consolidated financial statements with relevant accompanying notes.

SYNERGY'S ORGANISATIONAL STRUCTURE

During the year, a restructure of Synergy was undertaken to ensure it aligned with Synergy's strategic objectives of delivering the customer experience, improving its wholesale position and optimising business efficiency.



James K Mitchell, B.Comm, CPA, MAICD
Managing Director

Geoff Roberts, GAICD, FAIB
Head of Retail

Virginia Miltrup, B.Com, MAHRI
Head of Human Resources & Organisational Development
Acting Head of Customer and Brand Equity

Tony Perrin, B.Bus, MAICD
Head of Wholesale

Trevor James, B.Bus, MFTA, MAICD, FCPA
Chief Financial Officer & Head of Business Services

Will Bargmann, BA, JD
General Counsel and Company Secretary

Mr Stephan Sauerwein
Head of Business Transformation

The key roles of each department are as follows:

Retail

Retail are at the forefront of delivering customers' quality service at each point in which they interact with Synergy.

Retail is a large department responsible for delivering sales and service via the Contact Centre, the New Connections, Customer Transactions, and Customer Resolutions teams, as well as Account Management, Retail Sales and Product & Campaign Management groups. These teams ensure Retail keeps the customer at the centre of everything it does. .

The department also includes the Retail Operations group and Market Development unit. The former provides the various levels of support that enables the customer facing teams to deliver the Synergy 'experience', and the latter ensures Synergy develops and understands the strategy driving our business to deliver the right experience for its customers and the broader retail market.

Customer and Brand Equity

Customer and Brand Equity oversees Synergy's brand, segmentation, market research, promotions and advertising, sponsorship and corporate communications.

It also includes the Office of the Customer Advocate, established in July 2006 to provide a very personal service to customers. The Office performs a review

function independent of the operational areas at Synergy, and ensures services provided by Synergy meet customer requirements.

Wholesale

The role of Wholesale is to establish and manage a portfolio of competitive supply contracts for electrical energy, generating capacity, gas supply and transport, and environmental instruments. These contracts are mostly large scale and long term and form the basis of Synergy's product offerings to customers.

The importance of the work this department performs is not to be understated, as they ensure optimum electricity supply contracts are negotiated to deliver the most secure, sustainable and least cost options to Synergy's customers.

The Wholesale team has also been instrumental in the development of, and participation in the Wholesale electricity market in the SWIS.

Business Services

This Department manages Synergy's information technology systems, treasury functions including pricing, compliance and risk, and middle office for wholesale trading and sales.

It also manages the business's commercial contracts (suppliers) and oversees accounting and forecasting.

Strategic Human Resources and Organisational Development

Responsible for Synergy's human resources management, organisational development, staff retention strategies and associated activities.

Legal, Regulatory and Audit

Legal, Regulatory and Audit provides legal and contractual advice for the provision and management of legal issues within Synergy, undertakes the company secretariat role, and provides legal advice on complex regulatory issues. The Department reviews compliance with policies, operating principals and codes of conduct and oversees compliance with legislative and regulatory controls applicable to Synergy, including making submissions and liaising on behalf of Synergy, to regulatory bodies and other major stakeholders. It also assists Synergy to establish and maintain a sound and effective internal control environment and carries out any special investigations, appraisals, inspections and examinations in areas having financial operational and management impact.

Business Transformation

Business Transformation is driven by Synergy's strategic agenda and provides the delivery and management framework for the successful realisation of Synergy's vision. The program is driving the journey to the future state at multiple levels of business process, people and technology.

REPORT ON OPERATIONS

Synergy has delivered a healthy after tax profit of \$39.6 million for the 2007/08 financial year, although this is approximately 12% lower than the previous year's result due to a number of factors.

The result reflects the continued strength of Western Australia's economy which has resulted in strong demand for energy, including strong growth in Synergy's gas sales. Energy sales increased 6.02% while purchases increased by only 3.14%.

As envisaged last year, expenditure on materials and services was higher than the previous financial year. These were predominantly due to business re-engineering and associated supply costs. In addition, there were increased costs from activities in the wholesale electricity market.

Employee costs were also higher, arising from additional contract staff required during Synergy's transformation activities and renegotiation of the certified agreement.

Many of these costs are associated with Synergy's transformation, aimed at delivering cost efficiencies in future years and improving customer interaction. Achieving efficiencies across the business will be most important as customers face increasing generation, environmental and network costs.

The structure of the market again resulted in favourable one-off events.

Synergy had a very successful year negotiating new power purchase agreements in the order of \$5.5 billion, supporting its electricity and gas portfolio. This has increased commitments to over \$11 billion over the long term securing Western Australia's future energy supply. The electricity agreements have, in part, displaced supply originally from Synergy's vesting contract with Verve, and have driven competition in the wholesale electricity generation market.

Synergy's profit has enabled it to increase its equity by nine percent, to \$205 million, which is important in the context of providing a platform to enter long term power purchasing agreements.

The result ensures Synergy has maintained a strong balance sheet, which is critical to preserving its AA- credit rating from Standard and Poors which is important to supporting long-term power purchase agreements in the future.

Pleasingly, the result enabled Synergy to provide \$36.77m of payments to Government comprising \$19.8m in dividends and \$16.97m in taxation equivalent payment – that is, nearly two thirds of Synergy's profit has been returned to the Western Australian community by way of dividend or tax equivalent payments.

This positive outcome returns a healthy dividend to community in which Synergy plays an active role, and provides the platform for Synergy to deliver a secure energy future.

Year in Review

Synergy's staff were involved in many activities during the 2007/08 year, including the following major activities:

TRANSFORMING SYNERGY

A fundamental task being undertaken at Synergy, in which significant progress was achieved is the transformation of the whole business to become an efficient and agile business, built on a foundation which prepares Synergy's people, systems, processes and structure for an increasingly competitive environment. The outcome will be a significantly improved customer experience and greater efficiencies.

Synergy's Business Transformation program is driven by the organisation's strategic agenda and provides the delivery and management framework for the successful realisation of Synergy's short and long term vision.

A comprehensive business strategy is the foundation for business transformation and the prioritisation of strategic topics are critical to determine the transformation journey.

The program incorporates the replacement of Synergy's Western Power based legacy systems and multiple applications, with a new, hosted information technology platform. Importantly, Business Transformation is considerably more than an information technology project.

Synergy's Business Transformation program commenced in May 2007. It incorporates a strategic program of work across the business in the areas of process, people and technology to achieve operating efficiencies and competitive readiness.

It is a fundamental requirement that Synergy is prepared for increasing levels of competition in a changing energy marketplace.

To date, important aspects of Synergy's transformation has included a review and redefinition of Synergy's long term strategy and the identification of improvement opportunities aimed at significantly reducing the cost to serve.

During the year, Synergy selected Accenture and an SAP technology based solution for the delivery of its program.

While Synergy's transformation will be ongoing for many years, the current phase of the program will continue until mid 2009, in which Synergy is concentrating its transformation efforts on customer care and billing.

It includes the redesign of business processes and training, the creation of a new organisational structure based on new roles and positions and implementing a new technology system.

The Business Transformation program will create an efficient and agile business ready for an increasingly competitive future.

COMMITTED TO CUSTOMERS

Synergy has approximately 900,000 customers and is committed to providing outstanding and professional service to all of them, from the residential market to the industrial and commercial market.

Synergy's commitment to its customers is enunciated in its Customer Charter and outlines customers' rights, obligations and expectations.

Further information on customers' rights can be found in the Code of Conduct (for the Supply of Electricity to Small Use Customers). All Western Australian energy retailers must comply with the Code when conducting business with customers who consume less than 160MWh per year.

SECURING ELECTRICITY SUPPLY

It is important Synergy plans ahead in order to facilitate the development of new supply contracts for future years. During the year, new contracts were signed for the supply of energy and capacity in future years.

These contracts are vital to providing secure and sustainable supplies for Synergy's customers, and through a competitive wholesale market, Synergy is striving to deliver the most competitively priced energy for its customers.

INCREASING GAS BUSINESS

Synergy is a dual fuel provider and has established a significant presence in the gas market. From 1 July, Synergy was able to retail gas to customers with a usage of more than 180GJ per annum (previously, Synergy could only sell gas to customers purchasing more than 1TJ per annum). Synergy has achieved significant growth over the last financial year with a 53% increase in sales revenue compared to last financial year.

ELECTRICITY RETAIL MARKET REVIEW

During the year, the Minister for Energy initiated the Electricity Retail Market Review, which entailed a detailed review of retail tariff arrangements, the introduction of full retail contestability (FRC) in electricity and the roll out of smart meters. While the review was undertaken by the Office of Energy, Synergy carried out significant work during the year, supporting and assisting the review, conducting modelling and advocating in the interests of its customers.

To date, the Office of Energy has released the outcome of the tariff review, which has recommended increases to both residential and commercial tariffs. The new tariffs will require significant customer communications, information technology changes, staff training, and other activities. The increase of the A1 residential tariff will be the first since 1997, other than for the introduction of the GST.

TARIFF CHANGES

In July 2007, Synergy implemented increases to the commercial S1 and T1 tariffs, the first increase in these tariff categories since 1992, and the introduction of the new R3 tariff. These changes required significant IT changes and testing – considerable work considering the length of time since any tariffs had increased – and training of customer facing staff, coupled with communications to impacted customers. The changes were implemented seamlessly with no disruption to customer activities.

UTILITY HARDSHIP REVIEW

In June 2007, the Minister for Energy established an Interagency Working Group to examine and report to Government on ways in which government agencies, government-owned utilities and welfare agencies can improve the delivery and coordination of essential utilities services to the community's most disadvantaged individuals and families.

Synergy was an active participant on the review, representing the interests of customers experiencing financial hardship and working with the Office of Energy and other government agencies to develop initiatives to assist such customers. Synergy continues to play an active part in representing these customers as a key member of the Government's Hardship Implementation Steering Committee (HISC).

An outcome of the work of this committee was the announcement in May of a Hardship Utilities Grant Scheme, in which Synergy is providing significant support for the implementation and on-going provision of assistance to customers having difficulty paying their electricity bill.

ESTABLISHMENT OF CUSTOMER ADVOCACY COMMITTEE

Synergy has established a Customer Advocacy Committee, chaired by its Customer Advocate, Ken Nylander and including customer representative organisations including Western Australian Council of Social Services, Anglicare, the Tenants Advice Service, Financial Counsellors Association, People with Disabilities, the Council on the Ageing and the Country Women's Association. The Committee is a conduit between Synergy and customer representative organisations and has broad terms of reference, canvassing customer facing issues, providing customer input directly into Synergy on products, services and initiatives with which Synergy is involved.

FINANCIAL HARDSHIP ASSISTANCE

During the year, Synergy undertook a comprehensive review of its financial hardship policy, which included consultation with representatives of Western Australia's community and welfare sector, and a review of best practice in other jurisdictions.

The review culminated in the development of *'Keeping Connected'*, Synergy's financial hardship policy, created to provide an extra level of support to customers experiencing genuine financial hardship.

The policy review facilitated two new initiatives:

- The appointment of specialist Case Support Officers to provide support and assistance to Synergy's customers experiencing hardship. The Case Support Officers work closely with customers referred from financial counsellors to agree manageable payment arrangements and also provide information on energy efficiency and available rebates and concessions to help bring bills under control; and
- Financial assistance made available for electricity bills for customers in immediate hardship, subject to eligibility criteria.

A pleasing outcome of the review of Synergy's financial hardship policy is the significant reduction in disconnections from non-payment of accounts.

In recognition of the importance of electricity as an essential service, Synergy is committed to assisting its customers experiencing hardship and will continue to consult with welfare sector representatives to ensure new and emerging community issues are considered.

WACOSS SUPPORT

In addition to the support Synergy provides to customers experiencing financial hardship through internal policies, Synergy provided additional support to customers through the Western Australian Council of Social Service's (WACOSS) Power Assist Scheme, coordinated by the WACOSS Emergency Relief Forum. The Forum assists Synergy customers experiencing financial difficulties with payments toward their electricity accounts, in particular to prevent disconnection. Synergy gave WACOSS \$75,000 during the year.

COMMUNITY EDUCATION CAMPAIGN

During the year, and in cooperation with Western Power and the Office of Energy, Synergy participated in an educational campaign detailing ways customers could help maintain system reliability during peak consumption times. The *Beat the Peak* campaign promoted the decreased use of electricity in the summer peak period from 3pm to 6pm, to deliver a more reliable system. Synergy, Western Power, Verve and the Office of Energy, provided funding for the campaign which ran across television, radio and press.

BUSINESS CONTINUITY PLANNING

Knowing it is integral to all businesses and households in the SWIS, business continuity planning is vital at Synergy. During the year, Synergy completed detailed pandemic planning for each of its departments, enabling Synergy to operate if a human influenza pandemic results in the loss of between 30 and 50% of staff for a period of eight weeks. Such planning is vital to ensure the ongoing operations of the business during times of crisis, which are beyond the control of the organisation.

COMMITTED TO THE ENVIRONMENT

As Western Australia's largest energy retailer, Synergy appreciates the obligation it has to delivering secure and sustainable energy supplies, and

assisting customers to optimise their energy consumption, as well as the need to offer alternative, environmentally friendly energy options.

Synergy promotes energy efficiency through a range of communication channels, and where commercially viable, procures energy from sources which are less emissions-intensive such as gas, wind and solar power.

Synergy offers three green energy options NaturalPower, EasyGreen and Earth Friendly.

NATURALPOWER

NaturalPower is electricity generated by renewable sources. Generating renewable energy produces no additional greenhouse gases and therefore reduces the detrimental impact of electricity generation emissions on the environment.

Synergy's NaturalPower is accredited by the National GreenPower Accreditation Program and is available for residential and business customers.

Synergy's NaturalPower is sourced from a portfolio of accredited GreenPower generators, including the Emu Downs and Albany wind farms.

At 30 June 2008, Synergy had 7571 NaturalPower customers, who purchased 59,021,650 kWh of renewable energy during the year, the equivalent of removing 18,011 cars from the roads for a year.

EASYGREEN

On 1 October 2007, Synergy launched a new accredited renewable energy product, EasyGreen.

Instead of nominating a percentage of GreenPower they wish to purchase, customers can nominate to purchase a lump sum of accredited renewable energy each bill, in ten dollar increments, providing more certainty as to how much their environmental commitment will cost each bill.

The EasyGreen product makes purchasing renewable energy available to segments of the community who otherwise may have considered it inaccessible.

At 30 June 2008, Synergy had 1228 EasyGreen customers, who purchased 1,370,111 kWh of renewable energy during the year, the equivalent of 423 cars being removed from the roads for a year.

EARTH FRIENDLY

Earth Friendly energy is generated in the traditional way, but Synergy guarantees to offset all emissions created in the production of the electricity by contributing to greenhouse gas reduction programs. In effect, Earth Friendly is greenhouse gas emission neutral.

Earth Friendly is the only certified Greenhouse Friendly energy product in WA. To achieve certification, Earth Friendly can only invest in abatement projects that have been rigorously assessed and approved by the Greenhouse Friendly Program.

Synergy delivered 6,685,784 kWh of carbon neutral electricity to 868 EarthFriendly customers in 2007/2008, which equates to 6686 Kg of CO2 emissions being offset.

THE GREEN AT BRIGHTON

In March, Synergy was involved in the launch of a 'green energy' partnership with the Satterley Property Group.

The Satterley Property Group, in partnership with Synergy, has committed to providing residents at The Green with a \$30 Synergy EasyGreen contribution for each household's Synergy two-monthly bill, over three years.

Satterley's EasyGreen contributions will help the environment by preventing more than 17,000 tonnes of greenhouse gas emissions, equivalent to taking almost five and a half thousand average sized cars off the road for one year.

RENEWABLE ENERGY BUYBACK SCHEME

Recognising the environmental benefits of renewable energy systems, Synergy provides a system to purchase excess energy generated from home renewable energy systems at premium rates vis-à-vis wholesale prices.

Synergy's Renewable Energy Buyback Scheme applies to domestic renewable energy systems from 500 watts to five kilowatts connected to the South West Integrated System.

In 2007/08 the number of customers participating in the scheme increased from 163 to 1,033. The scheme contributed over 577kWh of energy to the SWIS.

GREENEST SUBURB

During the 2007/08 period Synergy announced Perth's Greenest suburb, based on the uptake of accredited renewable energy as a proportion of the number of households in the suburb. The initiative, while recognising the commitment of different suburbs, also raised awareness of green energy in the wider community.

The greenest suburbs for 2007/08 were White Gum Valley, West Leederville, Shenton Park, South Fremantle and Margaret River.

BETTER GLOBES

In June 2008 Synergy in conjunction with Western Power and the Sustainable Energy Development Office, participated in the giveaway of free energy efficient compact fluorescent light globes (CFL's), in response to the energy shortage facing the state at the time. This complemented Synergy's television and outdoor advertising campaign which promoted the switch to CFL's in order to reduce energy consumed by lighting by up to 80 per cent.

COMMITTED TO THE COMMUNITY

As an essential community service retailer, Synergy touches the lives of thousands of people every day in communities throughout the SWIS.

Synergy currently undertakes the following Community Service Obligations:

- **Rebates:** Up to five different rebates are available to eligible customers (such as pensioners, veterans, seniors and persons with a Department of Social Security issued health card). Rebates can be claimed for the daily supply charge, account establishment fee and part of the meter-testing fee. People with dependent children listed on health care cards are able to claim a rebate for part of the energy charge on their bills.
- **Community Service Concession:** Eligible charitable and voluntary organisations can elect to take supply on the concessional C1 tariff instead of general supply tariffs, saving the typical customer up to \$276 per year.
- **The Power Price Equity Scheme:** Approved by the Government in 2004, this scheme ensures concession cardholders who are also permanent residents in caravan parks, receive similar benefits to those in standard dwellings.

Synergy disbursed CSOs of \$27.2 million during 2007/08.

This amount was fully reimbursed by the State Government.

KEY SPONSORSHIPS

Synergy is committed to assisting community projects wherever possible and sponsored a number of valuable community-based initiatives across the 2007/08 financial year.

SYNERGY PARKLAND

The Synergy Parkland is Synergy's flagship community partnership. Located in Kings Park and Botanic Garden it is the first environmental playground and community area of its kind in Australia.

The Parkland is a physical representation of Synergy's commitment to the environment and community. Synergy recognises the Parkland is a place for all West Australian's to use as a recreation area, and is an exciting and

challenging area for children to explore, discover, play and simply enjoy being outdoors.

Used by thousands of Western Australians each year, the Parkland is often the venue of choice to celebrate large community events. In 2007 Synergy sponsored Synergy Father's Day in Kings Park, which was held in the Parkland to celebrate West Australian dads.

KINGS PARK LIGHTS

Synergy and Channel 7 sponsor the Kings Park Lights – coloured lights on the trees in the Fraser Avenue which are turned on to mark specific events with colours varying according to the event. Some of the events celebrated in 2007/08 included: Christmas, St Valentine's Day, ANZAC Day, Mother's Day and Red Nose Day.

LANDCARE

Through our community based environmental partnership with Landcare Synergy selects projects that will substantiate and educate the importance of environmental responsibility.

Landcare projects for 2007/08 included:

Synergy Saved Us – A program of devolved grants available to bona fide Landcare groups within the SWIS region for enhancing and protecting native vegetation and providing security for bio-diverse flora and fauna in WA. Approval was given for the Denmark South Coast Highway corridor rehabilitation project, and Pamelup Pond – Pink Lake in the Shire of Harvey.

Baldivis Children's Forest (Junior Landcare) – This project increased the biodiversity of remnant tuart woodland at Baldivis Children's Forest, and the vegetation corridor linking Lake Walyungup and the Conversation Category wetland Outridge Swamp by planting 3000 local native seedlings in the area. In addition school activity days were undertaken and included workshops with an energy focus.

Greening Challenge – This project involved site preparation and weed management for revegetation alongside the Reid Highway, Caversham and the Bennett Brook (the latter has significance to indigenous people).

Great Garden Workshops - One of our most recent and innovative, collaborative efforts with Landcare is the development of the Synergy Energy Efficient Workshops programs. In partnership with, and run through the Great Gardens team, this program educates customers on using their gardens as "natural air-conditioners" by using trees and plants to influence temperatures inside the home.

WESTERN AUSTRALIAN SYMPHONY ORCHESTRA

Synergy proudly supports the West Australian Symphony Orchestra (WASO) and is a major partner of WASO's flagship outdoor summer concert series in Kings Park and Botanic Gardens.

The Synergy Summer Symphony Series caters to a wide range of members of the community through various events, such as:

- Synergy Symphony Under the Stars
- Pops in the Park
- Synergy Family Concert

The sponsorship reinforces Synergy's commitment to the community while strengthening relationships with major customers. The Summer Symphony Series provides Synergy with corporate hospitality for key stakeholders.

During 2007/08 the orchestra, conducted by Brett Waymark, performed a collection of classical favourites for the Synergy Symphony Under the Stars concert. In Pops in the Park, WASO teamed with ARIA winning musician Ben Lee and delighted over 8,000 people at the sold out events.

Young families enjoyed Synergy's Family Concert in the park, and experienced Jay Laga'aia, one of Play School's current and best loved presenters, perform with WASO. Over 4,000 people attended the sold out event.

STARLIGHT CHILDREN'S FOUNDATION

Synergy helps to brighten the lives of thousands of seriously ill children across Western Australia through its sponsorship of the Starlight Children's Foundation.

As a key sponsor of the Foundation, Synergy has supported the Starlight Express Van since 2006. In 2007 Synergy hosted the Starlight Christmas Party, which was held in the Synergy Parkland.

Over 70 children attended the party, which provided an opportunity for the families of seriously ill children to celebrate the festive season. The event is held in high regard by the children, who enjoy the magic and light mood of the day.

THE SYNERGY GALLIPOLI RUN

Introduced in 2006, the Synergy Gallipoli Run is an annual 5 mile (8 km) run in Kings Park on the Sunday before Anzac Day.

The partnership between Synergy and Athletics WA provides an opportunity for people of all ages to commemorate the ANZAC spirit, while contributing to their fitness and health. The annual event raises money for Athletics WA and charities nominated by the RSL.

TELETHON 2007

The 2007 40th Anniversary Telethon Weekend was a phenomenal success raising in excess of \$6.5 million. Telethon is one of Western Australia's most loved children's charities and taking pledges from many generous people was a team of 20 volunteers from Synergy's Contact Centre. Synergy also paid for the production of the T-shirts for the Telethon volunteers and production crew.

SYNERGY SPIRIT

In addition to Synergy's corporate sponsorships it has an internal outreach program called Synergy Spirit.

Synergy Spirit is an internal staff-initiated program of Synergy and raises funds through a number of internal activities such as casual dress Fridays and raffles.

Synergy Spirit not only helps to raise funds but also educates Synergy's staff about different charities, with the aim of raising awareness about the challenges and difficulties faced by people involved with the charities for whom we are raising funds.

Synergy Spirit's fundraising activities are overseen by an internal committee. In 2007/08 Synergy Spirit raised funds for:

- Diabetes WA;
- The Centre for Cerebral Palsy;
- WA Retinitis Pigmentosa Foundation and;
- Autism WA

In addition to raising funds for charities, Synergy Spirit also supports large charitable events such as the World's Greatest Shave which raises funds for the Leukaemia Foundation. In 2007 Synergy raised over \$5000 for this event, which saw ten Synergy employees shave or colour their hair for the cause.

Committed to our People

At Synergy our people are an important asset. Our employees bring a wealth of commitment and experience to the business and are the driving force behind making Synergy a successful participant in, and an integral part of Western Australia's competitive energy market.

Always commercially focused, our employees take initiative to get things started, collaborate to make things happen and take accountability to ensure we deliver on our promises.

Synergy encourages and rewards team members who demonstrate these cultural qualities.

Recognising and rewarding the talent and effort of our team is important to us. We are working toward creating a rewarding work environment, and have a number of initiatives in place to do this.

COMMITMENT AND EXPERTISE AWARDS

At Synergy we recognise the dedication and experience of our long serving staff is vital to the business' success.

Our Commitment and Expertise Awards recognise our rich heritage based on the expertise our people bring from their years at SECWA and Western Power.

Employees who reach 10,15, 20, 25, 30, 35, 40 and 45 year milestones are recognised with a Commitment and Expertise Award. This year we recognised 26 long serving employees, who together bring over 300 years experience to our business.

LEADING LIGHTS

The Leading Lights Employee Awards Program recognises staff who embrace the Synergy values of Enterprising, Quality Relationships, Spirit and Integrity, in their day to day work. The program is recognising the staff who lead the way for Synergy on our journey to becoming a brilliantly successful retailer.

The Leading Lights program was launched in 2007 to give staff and managers the opportunity to recognise fellow employees for living the Synergy values every day and going that extra mile for customers and other staff.

Synergy's Leading Lights are recognised each quarter, with annual awards presented each December.

WORK/LIFE BALANCE

In 2007 Synergy put in place a Work/Life Balance Program which is designed to foster the well-being of our employees, to enable them to achieve a balance between their jobs, families and personal lives.

Work/Life balance initiatives implemented at Synergy include:

- Provision of fruit to staff
- Yoga classes for Synergy employees during lunch breaks and after-hours
- Ballroom dance lessons after hours
- Corporate blood drive as part of the Australian Red Cross, Club Red Winter Challenge.
- Free influenza vaccinations for employees.

Over the next year there are plans to further develop Synergy's Work/Life Balance program by implementing a range of activities aimed at promoting employees commitment to activities outside of work, alleviate on-the-job stress, and improve job and overall life satisfaction.

EMPLOYEE ASSISTANCE PROGRAM

If any staff member is experiencing difficulties in their home or work life our Employee Assistance Program, (through the OSA Group) offers up to three free confidential consultation sessions to employees to work through their personal problems.

EMPLOYEE REFERRAL PROGRAM

We know the talent of our people is an important part of our business' success. We also know the best person to spot a Synergy person is through

another Synergy person - someone who already works in our business and understands our new culture.

Our Employee Referral Program rewards our employees for referring applicants - such as, friends, acquaintances, former colleagues, and neighbours - for employment at Synergy. If the person recommended is successful the Synergy employee who made the recommendation will be rewarded for their suggestion.

INTERNAL COMMUNICATIONS

Communication is an important aspect within Synergy. Keeping our employees informed about the direction of the business, and changes in the energy market, ensures our people are prepared to successfully meet the changing expectations of customers and provide them with timely and expert advice.

The company has an extensive internal communications program, which includes a regular staff forum and newsletters to keep staff informed and to foster a positive work culture.

THE YEAR AHEAD

Synergy is positioning itself to transform its business by 2009 and continue to be a successful participant in, and an integral part of Western Australia's competitive energy market.

There will be many major activities which will add to Synergy's program of work during 2008/09, including the implementation of the Office of Energy's tariff changes, announced by the Government during 2007/08.

At the same time, Synergy will be implementing its new technology platform, which will position Synergy to be more responsive to customers and facilitate Synergy's successful participation in an increasingly competitive market.

In addition, it is expected the Federal Government will release the draft legislation for the implementation of its Carbon Pollution Reduction Scheme (CPRS), and the timeframe for the Mandatory Renewable Energy Target (MRET).

These are major national policy changes which have significant implications for Synergy and its customers.

Synergy has an important role it will play in working with its suppliers and customers to mitigate the impact of these policy changes. The CPRS and MRET are important to addressing the global issue of climate change, but will impact every household and business throughout Western Australia.

Synergy will develop products, services and education campaigns to enable customers to mitigate the impact of these policy changes.

Synergy has commenced negotiation with the Forest Products Commission for the planting of six and a half million eucalypt trees, from which Synergy will receive the carbon permits, coupled with an option to secure further carbon permits through additional tree planting over the next ten years. This will be an important agreement for Synergy as it will provide Synergy with carbon permits as part of the proposed CPRS, and puts Synergy at the forefront of what will be a substantial industry in the future,

PERFORMANCE OVERVIEW

Synergy's corporate Key Performance Indicators (KPIs) have been selected to reflect the high-level business drivers, with the aim of allowing the shareholder and management to effectively monitor progress at a corporate level.

Accordingly, the corporate measures will not reflect the detailed management requirements for measuring performance at an operational level.

The KPIs used for monitoring Synergy's corporate performance are based on the:

- costs and relevance of providing the information on an ongoing basis;

- different information requirements of the organisation and the shareholder;
- regulatory requirements; and
- commercial sensitivity of the measures and the degree of exposure for those that could affect our competitive position.

In selecting these measures, discussions have been held with the Minister for Energy and his representatives within the Office of Energy whose views have been taken into account.

Operational Key Performance Indicators

	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Forecast ^a
Contact Centre Effectiveness				
Total Number of Calls Received	1,948,924	2,260,361	1,848,844	1,694,064
% of Calls not answered within 30 seconds from when a customer is connected to a complaint/inquiry line	21.3%	21%	15.76%	20.0%
Average waiting time before a call is answered (seconds)	31.5	20	13.6	30.0
% of calls abandoned	5.78%	5.0%	1.7%	5.0%
Business Development and Innovation				
Number of dual-fuel customers	46	118	219	331
Accredited renewable energy customers (NaturalPower; EasyGreen; REBS and Earth Friendly)	2,175	6,729	10,700	15,094
SmartPower sales	14,384	14,847	16,180	16,676
Customer Service				
Number of disputes involving the Energy Ombudsman	323	483	508	672

- a. Western Power fault calls will transition from Synergy to Western Power starting in November 2008 and complete by April 2009. Average wait time is dramatically reduced by the number of IVR (automatically answered) fault calls. Once fault calls are no longer handled by Synergy, the average wait time is expected to rise.

DIRECTORS' REPORT

The Synergy (Electricity Retail Corporation) Board of Directors present their report for the period 1 July 2007 to 30 June 2008.

BOARD OF DIRECTORS

Role of the Board

The Board of Directors is Synergy's governing body and responsible to the Minister for Energy (The Minister) for its performance. Subject to the *Electricity Corporation Act 1995* (the Act), the Board has the authority to perform the functions, determine policies and control Synergy's affairs.

Composition of The Board

The Board of Directors comprises five non-executive Directors and one executive Director, the Managing Director.

The Board is Synergy's governing body with authority, subject to the Act, in the name of the corporation, to perform the functions, determine the policies and control the affairs of the corporation.

DIRECTORS

The names and details of the Directors in office at any time during the period 1 July 2007 to 30 June 2008 are:

Michael Smith, FIMC, FAIM, FAMI – Director and Chairperson (Age 54)

Michael Smith, Managing Director of the Marketing Centre, was appointed Chairperson in March 2006. He has previously held several chairman and director positions since he began his career. Mr Smith's term expires on 31 March 2009.

Mr Smith also Chairs the Boards of iinet, Scotch College and the Perth International Arts Festival. He is a director of 7-Eleven Stores Pty Ltd, a chain of 350 convenience stores on Australia's east coast and of Home Building Society Ltd, listed on the ASX. He is also a Council member for the Australian Institute of Company Directors, a Fellow of the Australian Marketing Institute and Australian Institute of Management, an executive member of the American Marketing Association, a Chartered Management Consultant and Member of the Institute of Management Consultants.

Mr Smith was formerly the Chairperson and Director of the West Coast Eagles and a director of Indian Pacific Ltd.

James Mitchell, B.Com CPA MAICD – Managing Director (Age 56)

Jim Mitchell was appointed as CEO Designate, Western Power Retail in February 2006 and was Synergy's Managing Director from 1 April 2006. Mr Mitchell is also Chairman of the Uniting Church Investment Fund Advisory Board for the Uniting Church's Western Australian Synod. Mr Mitchell's term expires in 2010.

Eric Hooper BA (Business), MBA, GAICD – Director and Deputy Chairperson (Age 50)

Eric Hooper was appointed to the board as a non-executive director in March 2006. Mr Hooper is also a director of Oceans Garden Inc, and consultant providing corporate finance advisory services. Mr Hooper's term expires in 2009

Caryle Demarte PSM, BA, FAICD – Director (Age 60)

Caryle Demarte was appointed to the Board as a Non-Executive Director in March 2006. During the past three years, Ms Demarte has served as a director of the following companies:

- Yarra Valley Water
- Aurora Energy; and was formerly a director of:
- TXU Australia Customer Services Pty Ltd
- Energy and Water Industry Ombudsman of Victoria
- Energy Retailers Association of Australia
- VENCORP

Ms Demarte's term expires in 2011.

Terri Reilly, BA, B Soc Wk, GAICD – Director (Age 52)

Terri Reilly was appointed to the Board as a non-executive director in March 2006. Ms Reilly is Chief Executive Officer of Relationships Australia (WA). Ms Reilly is also a Director of Relationships Australia's National Board and on state and national committees concerned with a range of community and clinical issues. Ms Reilly's term expires in 2010.

David Hunt, BA (Hons) – Director (Age 45)

David Hunt was appointed to the Board as a Non-Executive Director in November 2007.

Mr Hunt has worked in electricity and gas sectors in both Australia and New Zealand. During his time in the industry, Mr Hunt has held a range of senior executive roles, most recently as Chief Executive of Contact Energy in New Zealand.

He is currently a director of Concept Consulting Group, an energy consultancy business providing services to clients in the Asia-Pacific region. Mr Hunt's term expires in 2009.

COMMITTEES

Synergy operates a Human Resources and Remuneration Committee and an Audit and Legal Compliance Committee consisting of the following Directors:

Human Resources and Remuneration Committee members – Terri Reilly (Chair), Mike Smith, and Caryle Demarte.

Audit and Legal Compliance Committee members – Eric Hooper (Chair), Caryle Demarte and David Hunt.

The Managing Director has a standing invitation to all Committees.

ROLE OF THE COMMITTEES

Remuneration and HR Committee

The purpose of the Committee is to assist the Board to fulfil its corporate governance oversight responsibilities in relation to:

- the remuneration and other terms and conditions of service of Synergy staff pursuant to Section 18(2) of the Act;
- quality assurance relating to the integrity and probity of Synergy's remuneration policies and practices;
- quality assurance relating to occupational health & safety policies and programs;
- succession planning and nomination of directors and the chief executive officer in accordance with Section 8(5) and Section 14(2)(a) of The Act; and
- review the performance of the Board and its Committees and the chief executive officer/managing director.

Audit and Legal Compliance Committee

The primary function of the Committee is to assist the Board in fulfilling its fiduciary duties and corporate governance and oversight responsibilities. The Committee will achieve this role by overseeing:

- The adequacy of the financial reporting, principles and policies, internal controls and procedures.
- The integrity and quality of financial statements and the independent audit of those statements.
- Oversight of Synergy's business transformation program.
- Compliance with the relevant regulatory and legal requirements.
- The internal audit function.
- The identification and management of business risks by Management.

DIRECTORS' MEETINGS

The number of meetings of the Board (including meetings of committees) and number of meetings attended by each of the Directors between 1 July 2007 and 30 June 2008 are as follows:

	Board Meetings		Remuneration and HR Committee		Audit and Legal Compliance Committee	
	A	B	A	B	A	B
Michael Smith	11	11	6	5		
Eric Hooper	11	11			6	6
Craig Coleman	1	1				
Caryle Demarte	11	11	6	6	6	6
Terri Reilly	11	11	6	6		
David Hunt	7	7			6	6
James Mitchell	11	11	6	6	6	6

- A Number of meetings attended
 B Number of meetings eligible to attend during the time the Director held office during the year.

Corporate Governance Statement

This statement outlines the principal corporate governance practices Synergy’s Board followed during the reporting period 1 July 2007 to 30 June 2008.

Synergy is committed to acting responsibly, ethically and with the highest standards of integrity. This requires sound corporate governance principles and practices to be adopted by the Board and implemented with commitment throughout the business.

The Synergy Board considers that its governance practices comply with the recommendations of the ASX Corporate Governance Council Best Practice Recommendations.

Best Practice Recommendation	Synergy Governance Practices
1. Lay solid foundations for management and oversight	<ul style="list-style-type: none"> • The role and responsibilities of the Board and Committees of the Board are clearly defined in the Terms of Reference for each body. • The Synergy Board and management are currently in the process of adopting a comprehensive Corporate Governance Framework. This Framework will define the system by which Synergy is directed and managed. When fully implemented the Framework will influence how objectives are set and achieved, how risk is monitored and assessed and performance optimised. It will support directors and senior managers in undertaking their governance responsibilities. • Management’s responsibilities are well defined and documented through formal position descriptions, performance agreements and Board-approved delegation of authority policies.
2. Structure the Board to add value	<ul style="list-style-type: none"> • All Non-Executive Directors (including the Chairman) are considered to be independent. • Details of Director’s experience, expertise and attendance at Board and Committee meetings are disclosed in the Annual Report. • Each director has access to all relevant company information and personnel. Subject to prior consultation with the Chairman, directors may seek independent professional advice on any matter, at Synergy’s expense. A copy of the independent advice received is available to all other members of the Board.
3. Promote ethical and responsible decision-making	<ul style="list-style-type: none"> • Synergy has a set of behavioural standards incorporating leadership principles and minimum standards applicable to the management of its personnel as well as a Code of Conduct setting out minimum standards of conduct for all personnel.

<p>4. Safeguard integrity in financial reporting</p>	<ul style="list-style-type: none"> • The Managing Director and the Head of Business Services certify that the financial statements give a true and fair view to the Board. • The Board has an Audit and Legal Compliance Committee that operates under a formal Charter. The committee comprises of only independent directors with a Chair who is not the Chairman of the Board. Membership and attendance of the Audit and Legal Compliance Committee is disclosed in the Annual Report. • The Audit and Legal Compliance Committee reviews and recommends the financial statements to the Board • The Manager, Internal Audit and external advisors perform the internal audit function. • The Office of the Auditor General performs the external audit function.
<p>5. Make timely and balanced disclosure</p>	<ul style="list-style-type: none"> • Synergy is a statutory corporation. As such, the ASX Listing Rules do not apply. • Nonetheless, an extensive continuous reporting regime is in place in relation to Synergy's shareholder, the Minister for Energy (including quarterly reporting in relation to the Statement of Corporate Intent which is negotiated and completed with the Minister on an annual basis). The Minister tables the Statement of Corporate Intent in both Houses of Parliament within 14 days of its approval.
<p>6. Respect the rights of shareholders</p>	<ul style="list-style-type: none"> • Synergy has developed a formal protocol to ensure that a comprehensive level of governance applies to all communications with the Minister and his Office. • Legislation requires Synergy to consult the Minister on major initiatives or courses of action that are likely to be of significant public interest. Synergy must obtain the approval of the Minister for major strategic initiatives and any project involving expenditure greater than \$20 million
<p>7. Recognise and manage risk</p>	<ul style="list-style-type: none"> • The Audit and Legal Compliance Committee oversees risk-related issues. The committee oversees the Risk Management Framework and its implementation plan. • The Managing Director and the Head of Business Services certify to the Board that the financial statements are founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board.
<p>8. Encourage enhanced performance</p>	<ul style="list-style-type: none"> • A performance framework is established and overseen by the Board's Human Resource and Remuneration Committee (as reflected in its Charter). • The Board has an induction process in place for directors and on-going education. • The Board has a performance evaluation regime in place that covers the evaluation of the Board, its Committees and members of staff.
<p>9. Remunerate fairly and responsibly</p>	<ul style="list-style-type: none"> • The Minister for Energy approves the remuneration of all non-executive directors. • The Board subject to the concurrence of the Minister for Energy approves the remuneration of the Managing Director. • The Board on recommendation of the Managing Director approves the remuneration of all Executive Officers. • The directors and senior executive remuneration is disclosed in

	the Annual Report.
10. Recognise the legitimate interests of stakeholders	<ul style="list-style-type: none"> • Synergy has a clear view of its wider group of stakeholders (including but not limited to the Minister and Government, employees, customers, the community, unions and regulatory authorities).

REMUNERATION REPORT

Principles Used to Determine the Nature and Amount of Remuneration

Remuneration approval protocols are as follows:

Specified Non-Executive Directors:	The Minister for Energy approves the remuneration of all Non-Executive Directors. The Minister for Energy approves the remuneration of all Non-Executive Directors.
Managing Director:	The Board subject to the concurrence of the Minister for Energy approves the remuneration of the Managing Director (also referred to as the CEO).
Specified Executive Officers:	The Board on recommendation of the Managing Director approves the remuneration of all Specified Executive Officers.

The Remuneration Policy is to:

- remunerate individuals in accordance with performance and responsibility;
- ensure consistent decision making on individual remuneration adjustments;
- establish flexible remuneration arrangements; and
- establish and maintain salary ranges comparable to other companies of similar size and industry.

Specified Non-Executive Directors

A non-executive director is to be paid out of the funds of the corporation such remuneration and allowances as are determined in the case of that director by the Minister.

Remuneration

Refer to emolument of Key Management Personnel

Managing Director

Synergy Managing Director James K Mitchell is not paid an additional amount to sit on the Synergy Board.

COMPENSATION OF DIRECTOR'S AND EXECUTIVE DISCLOSURES

Service Agreements

James Mitchell, Managing Director

- **Term of Agreement** – 5 years commencing from 1 April 2006.
- **Notice period**- 26 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Synergy, will be by payment of the greater of the amount equivalent to the remuneration calculated over the balance of the period of this agreement, or a redundancy payment of 150% of annual salary, unless reasonable alternative employment with Synergy is obtained.
 - Poor performance: the lesser of either 13 weeks notice or remainder of the Agreement.
- **Performance Pay**- At the Board's discretion with the concurrence of the Minister, a payment of up to 27% remuneration can be made for the achievement of specific targets set by the Board.

Geoff Roberts, Head of Retail Sales & Customer Service

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: paying 12 weeks in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, maximum of 87 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
 - Other than redundancy, incapacity, poor performance or serious misconduct: 52 weeks notice or 52 weeks total fixed remuneration as payment of lieu of notice.
- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board. ARR payments will range from zero for non-performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Trevor James, Head of Business Services

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 87 weeks.
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maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Tony Perrin, Head of Wholesale

- **Term of the Agreement** – Until 30 September 2009
- **Notice period**- 26 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 87 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
 - Other than redundancy, incapacity or poor performance: 26 weeks notice or 26 weeks total fixed remuneration as payment in lieu of notice.
- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board. ARR payments will range from zero for non-performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Russell Mitchell, Head of Customer and Brand Equity (resigned December 2007)

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 87 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
 - Other than redundancy, incapacity, poor performance or serious misconduct: 52 weeks notice or 52 weeks total fixed remuneration as payment of lieu of notice.
- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Virginia Miltrup, Acting Head of Customer and Brand Equity (Since April 2008)

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**

- Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 52 weeks.
- Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
- Other than redundancy, incapacity, poor performance or serious misconduct: 52 weeks notice or 52 weeks total fixed remuneration as payment of lieu of notice.
- **Performance Pay-** At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Emolument of Key Management Personnel

Details of the nature and amount of each element of the emolument for Key Management Personnel during 2007/08 are detailed below:

	Short Term Benefits			Post Employment Benefits	Other Benefits \$,000	Termination Benefits \$,000	Total Remuneration \$,000
	Salary & Fees \$,000	At Risk Remuneration \$,000	Non-Monetary \$,000	Superannuation & Retirement \$,000			
Non-Executive Directors							
Michael Smith (Chairperson)	105			9			114
Eric Hooper	65			6			71
Terri Reilly	50			4			54
Caryle Demarte	50			4			54
Craig Coleman	6			1			7
David Hunt	31			3			34
Sub-Total Non-Executive Directors	307			27			334
Executive Directors							
James K Mitchell	337	117		38			492
Other Key Management Personnel							
Russell Mitchell, Head of Customer and Brand Equity	140	-		13			153
Virginia Miltrup, A/Head of Customer and Brand Equity	31	41		3			75
Trevor James, Head of Business Services	248	77		38			363
Geoff Roberts, Head of Retail	199	62		18			279
Tony Perrin, Head of Wholesale	214	67		22			303
TOTAL	1,476	364		159			1,999

Indemnification of Directors and Officers

The Board has approved a Directors' and Officers' Liability Insurance Policy to ensure the Directors and Officers of the Corporation have adequate coverage.

The cover will pay on behalf of the Corporation, or Directors and Officers of the Corporation, 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 by the policy) in the capacity of Director or Officer of the Corporation.

The Directors' and Officers' Liability Insurance Policy forms part of the Corporation's Third Party Liability Policy, and it is therefore not possible to determine the premium applicable.

At the date of this Report no claims have been made against the Directors and Officers component of the policy.

REVIEW OF OPERATIONS

The operations of the Corporation during the financial year and the results of those operations are discussed in the Chairman's Report, the Managing Director's Report and the Review of Operations.

CHANGE IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Corporation during the financial year.

PRINCIPAL ACTIVITIES

The functions of the Corporation are —

- to supply electricity to consumers and services which improve the efficiency of electricity supply and the management of demand;
- to purchase or otherwise acquire electricity for the purposes of supplying electricity to customers;
- to provide ancillary services;
- by agreement with the Regional Power Corporation (Horizon), to provide retail support services to that corporation;
- to acquire gas and supply it to consumers;

It is also the function of the Corporation to use its expertise and resources to provide consultative, advisory or other services for profit; to develop and turn to account any technology, software or other intellectual property relating to the functions above; to manufacture and market any product relating to the functions above; or to exploit its fixed assets for profit so long as the proper performance of its functions are not affected.

The Corporation can do anything that it determines to be conducive or incidental to the performance of its function mentioned above.

The Corporation in performing its functions must act in accordance with prudent commercial principles and endeavour to make a profit, consistent with maximising its long-term value.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Synergy has established an energy procurement process, which encompasses the securing of sufficient capacity and energy to meet customer sales and market obligations. Over the course of the next year, Synergy expects to enter into at least two wholesale supply contracts of significant value, as well as an agreement with the Forest Products Commission for the planting of 6.5 million trees, from which Synergy will secure the carbon permits.

In addition, Synergy awaits the Federal Government releasing the draft legislation for the implementation of its Carbon Pollution Reduction Scheme, and the new Mandatory Renewable Energy Targets of both the Federal and State Governments, which will have material implications for Synergy and its customers.

MINISTERIAL DIRECTIONS

Synergy has received no Ministerial Directions during the year.

STATE RECORDS ACT 2000

Synergy maintains and supports quality record-keeping practices in its day-to-day business activities. All records are managed according to the requirements of the State Records Act 2000 and Synergy's approved Record Keeping plan. Regular reviews are conducted of the corporate record-keeping systems and practices to ensure their efficiency and effectiveness. New employees and contractors are provided with information on the record-keeping systems both at induction and at training in the use of the system. The training programs are reviewed on an ongoing basis to ensure they reflect any new business requirements.

PUBLIC INTEREST DISCLOSURE

The Public Interest Disclosure Act came into effect 1 July 2003. The Act facilitates the disclosure of public interest information and provides protection for those making such disclosures and those who are subject to such disclosures. Synergy is committed to the aims and objectives of the Act.

In May 2006, a set of procedures was developed which outlined the manner in which Synergy will comply with its obligations under the Act. Public Interest

Disclosure information is included in Synergy's induction program, procedures and staff information are posted on our intranet facility for staff to view. Synergy has appointed the Managing Director, the Head of Business Services, Company Secretary/General Counsel, Head of Strategic Human Resources and Organisational Development and the Manager Internal Audit as Public Interest Disclosure Officers

There were no disclosures made during 2007/08.

APPENDIX ONE – FINANCIAL STATEMENTS



**Electricity Retail Corporation
Trading as Synergy**

(ABN 71 743 446 839)

Financial Statements for the Year Ended 30 June 2008

Director's Declaration

In accordance with a resolution of the Directors of Synergy, we declare that –

In the opinion of the Directors:

- (a) the financial statements and notes:
 - (i) comply with Australian Accounting Standards (including the Australian Accounting Interpretations);
 - (ii) are in accordance with Section 192, Schedule 4, Division 3 of the *Electricity Corporations Act 2005*;
 - (iii) give a true and fair view of Synergy's financial position as at 30 June 2008 and its performance, for the financial year ended on that date.

- (b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they fall due, in accordance with the structure of the Corporation existing at 30 June 2008.

For and on behalf of the Board,



Mr Michael Smith
Chairman

Date 25/8/2008




Mr James K Mitchell
Managing Director

Date 25/8/2008

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Income Statement

For the Year Ended 30 June 2008

	NOTES	30/06/08 \$'000	30/06/07 \$'000
Revenue	2	1,633,815	1,540,763
Other Income	3	10,975	8,673
Cost of Sales	4	(1,480,641)	(1,400,002)
Employee Benefits Expense	5	(34,474)	(27,876)
Finance Costs	5	-	(13)
Materials & Services	5	(66,148)	(43,468)
Depreciation & Amortisation	5	(1,848)	(2,232)
Other expenses	5	(5,099)	(10,965)
		<hr/>	<hr/>
Profit Before Income Tax Equivalent Expense		56,580	64,880
Income Tax Equivalent Expense	6	(16,971)	(19,656)
		<hr/>	<hr/>
Profit After Income Tax Equivalent Expense		<u>39,609</u>	<u>45,224</u>

The above Income Statement should be read in conjunction with the accompanying notes.

Balance Sheet

As At 30 June 2008

	NOTES	30/06/08 \$'000	30/06/07 \$'000
CURRENT ASSETS			
Cash and Cash Equivalents	7	106,552	132,943
Trade and Other Receivables	8	255,953	239,023
Intangible Assets	9	17,380	11,699
Inventories (at cost)		11,700	128
Financial Assets	10	8,583	1,116
Other Assets	11	291	1,507
Total Current Assets		400,459	386,416
NON-CURRENT ASSETS			
Property, Plant and Equipment	12	9,981	11,219
Intangible Assets	13	4,269	2,180
Financial Assets	10	53,766	14,942
Deferred Tax Assets	14	6,442	7,338
Total Non-Current Assets		74,458	35,679
Total Assets		474,917	422,095
CURRENT LIABILITIES			
Trade and Other Payables	15	258,297	207,874
Tax Liabilities	14	110	14,980
Provisions	16	5,617	5,772
Total Current Liabilities		264,024	228,626
NON-CURRENT LIABILITIES			
Deferred Tax Liabilities	14	256	434
Provisions	16	5,001	4,396
Total Non-Current Liabilities		5,257	4,830
Total Liabilities		269,281	233,456
NET ASSETS		205,636	188,639
EQUITY			
Contributed Equity	17	136,560	136,560
Retained Earnings	17	69,076	52,079
TOTAL EQUITY		205,636	188,639

The above Balance Sheet should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the Year Ended 30 June 2008

	NOTES	30/06/08 \$'000	30/06/07 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,750,669	1,629,572
Interest Received		8,722	8,051
Other operating receipts		47,015	34,107
Energy Purchases and Network Access Costs		(1,421,682)	(1,384,092)
Payments to Employees and Suppliers *		(275,157)	(240,389)
Interest and other costs of financing		-	(36)
Lease Expenses		(2,234)	(2,985)
Income Tax Equivalent Payments		(34,185)	(13,361)
Goods and Services Tax Received (Paid)		<u>(14,126)</u>	<u>3,595</u>
NET CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES	22	<u>59,022</u>	<u>34,462</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from (Payments for) Investments		(59,860)	29,712
Payment for Plant and Equipment		(568)	(3,406)
Payment for Leasehold Improvements		-	(7,923)
Payment for Intangible Assets *		<u>(2,866)</u>	<u>(2,481)</u>
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(63,294)</u>	<u>15,902</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends Paid		(22,612)	(6,856)
Customer and Contractor Deposits		<u>493</u>	<u>(278)</u>
NET CASH FLOWS USED IN FINANCING ACTIVITIES		<u>(22,119)</u>	<u>(7,134)</u>
NET INCREASE (DECREASE) IN CASH AND AND CASH EQUIVALENTS		(26,391)	43,230
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<u>132,943</u>	<u>89,713</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	22	<u>106,552</u>	<u>132,943</u>

* Renewable Energy Certificates purchases for 2006/07 of \$15.016M have been reclassified from investing to operating activities as the expenditure is associated with energy purchases, a principal revenue producing activity. Note 22 has also been amended to reflect this change in classification for 2006/07.

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the Year Ended 30 June 2008

	NOTES	30/06/08 \$'000	30/06/07 \$'000
Retained Earnings:-			
Retained Earnings at beginning of the year	17	52,079	13,711
Profit after Income Tax Equivalent Expense	17	39,609	45,224
Dividends Provided for or Paid		<u>(22,612)</u>	<u>(6,856)</u>
Retained Earnings at end of the year		<u>69,076</u>	<u>52,079</u>
Contributed Equity:-			
Contributed Equity at beginning of the year	17	136,560	132,832
Adjustments to Contributed Equity during the year	17	<u>-</u>	<u>3,728</u>
Contributed Equity at end of the year		<u>136,560</u>	<u>136,560</u>
<u>EQUITY AT END OF THE YEAR</u>		<u>205,636</u>	<u>188,639</u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Summary of Significant Accounting Policies

For the Year Ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

The financial statements of Electricity Retail Corporation trading as Synergy for the year ended 30 June 2008 were authorised for issue in accordance with a resolution of the Directors on 25 August 2008.

Synergy came into operation on 1 April 2006 as a result of legislation passed in September 2005 allowing for the disaggregation of Western Power Corporation into four separate entities.

The principal function of Synergy is to supply electricity to consumers in the South West Interconnected System (SWIS), which, extends between Kalbarri, Albany and Kalgoorlie.

(a) Basis of Preparation

The financial statements have been prepared as a general purpose financial report in accordance with the Australian Accounting Standards, the Framework and other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the disclosure requirements of Schedule 4 of the Electricity Corporations Act 2005.

The financial statements have been prepared on an accrual basis and are based on historical cost basis except for financial instruments, which are measured at fair value.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

(b) Statement of Compliance

The financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

(c) Comparative Information

Comparative information is for the period 1 July 2006 to 30 June 2007. Balance Sheet comparatives are for 30 June 2007.

(d) Reporting Period

The reporting period is for the year ended 30 June 2008.

Summary of Significant Accounting Policies

For the Year Ended 30 June 2008

(e) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Synergy 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 Energy

Sales of energy comprise revenue earned from the provision of electricity, gas and products and services to entities outside the economic entity and is recognised when the energy is provided.

Revenue recognised represents the sum of invoices raised and the movement in the estimated unread energy consumption. Unread energy consumption represents the estimated value of metered electricity and gas provided to customers but not invoiced. This assessment is based on historical data.

ii. Other Income

Other income comprises revenue earned from the provision of activities incidental to the core activities of Synergy. Other income may include:

- Gain on Sale of Non-Current Assets, and
- Interest

(f) Community Service Obligations

Community Service Obligations (CSOs) are obligations to perform functions, on behalf of the State Government, that are not in the commercial interests of Synergy to perform. Where the Government agrees to reimburse Synergy for the cost of CSOs, the entitlement to reimbursement is recognised in the income statement on a basis consistent with the associated CSO expenses. Synergy is reimbursed for the following CSO's:

- Supply charge rebates
- Caravan park rebates, and
- Air conditioning subsidy for seniors.

(g) Cost of Sales

Cost of sales are those costs directly attributable to the acquisition for sale of energy.

(h) Current Assets and Current Liabilities

Current assets and current liabilities are recognised on the basis of assets expected to be realised or consumed, and liabilities expected to be settled within twelve months from the reporting date.

(i) Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank, deposits held at call with financial institutions and other short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as mentioned above.

(j) Trade and Other Receivables

Trade receivables, which generally have 20-30 day terms, are recognised at fair value and subsequently measured at amortised cost, less a provision for any irrecoverable amounts (impairment of receivables). This provision is raised when collection of the full amount is no longer probable. Collectability of trade and other receivables are reviewed on an ongoing basis. Bad debts are written off against the provision when identified.

Summary of Significant Accounting Policies

For the Year Ended 30 June 2008

(k) Intangible Assets

i. Software

Research and Development Costs

Research costs are recognised in the income statement when incurred. Development expenditure incurred is capitalised when its future recoverability can reasonably be regarded as assured.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting period indicating that the carrying value may not be recoverable.

Amortisation

Following the initial recognition of development expenditure the cost model is applied whereby the asset is stated at cost less accumulated amortisation.

The useful life of Synergy's software is calculated using the straight-line method as follows:

Software	2.5-10 years
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Work-In-Progress

Work-in-progress is not amortised until the expense is capitalised.

ii. Renewable Energy Certificates

The Renewable Energy (Electricity) Act that took effect on 1 April 2001 requires electricity wholesale purchasers to source specified amounts of electricity from Renewable Energy (RE) sources. The Act imposes an annual liability, on a calendar year basis, by applying the specified Renewable Power Percentage to relevant wholesale acquisitions.

The RE liability is extinguished by annual surrender of an equivalent number of Renewable Energy Certificates (RECs) with a penalty applying for any shortfall. Synergy's liability is recognised at the average market price of REC purchased for the period. The liability is expensed in the income statement.

Synergy extinguishes its REC liability by the surrender of RECs that are purchased in the open market. RECs purchased from external sources are recognised as current intangible asset at their purchase price.

Disposal of Assets

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising from the derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement when the asset is derecognised.

(l) Prepayments

Prepaid expenses are recognised in the income statement in the reporting period in which the associated benefit is consumed.

Summary of Significant Accounting Policies

For the Year Ended 30 June 2008

(m) Property, Plant and Equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses as at 30 June 2008.

i. Acquisition of Assets

The cost method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the asset given at the date of acquisition plus costs incidental to the acquisition.

ii. Depreciation

Plant and equipment is depreciated using the straight-line method over their remaining useful lives.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful lives of Synergy's major plant and equipment classes are as follows:

Plant and Equipment	3.5 – 10 years
Leasehold Improvements	10 years

Depreciation rates are reviewed annually, and if necessary adjusted to reflect the most recent assessment of the useful lives of the assets.

iii. Disposal of Assets

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising from derecognition of an asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement when the asset is derecognised.

iv. Work-In-Progress

Work-in-progress is not amortised until the expense is capitalised.

(n) Impairment of Assets

At each reporting date Synergy assesses whether there is any indication that an asset may be impaired, that is events or changes in circumstances indicate the carrying value may not be recoverable. Where an indicator of impairment exists, Synergy makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

Reversals of Impairment

Impairment losses in respect of receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Impairment losses in respect of other assets other than those assets held for trading are reversed if there has been a change in the estimates used to determine the recoverable amount.

(o) Trade and Other Payables

These amounts represent liabilities for goods and services provided to Synergy prior to the end of the reporting period that are unpaid. The amounts are unsecured and the carrying amount is equivalent to fair value, as they are settled within prescribed periods.

Summary of Significant Accounting Policies

For the Year Ended 30 June 2008

(p) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Synergy's operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are recognised in the income statement in the reporting periods in which they are incurred.

Leases where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased plant and equipment and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance cost. The plant and equipment acquired under the finance lease is depreciated over the shorter of the asset's useful life and the lease term.

(q) National Taxation Equivalent Regime

Synergy operates under the National Taxation Equivalent Regime (NTER) environment. Under this regime, tax equivalent payments are remitted to the State Treasury, however Synergy'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 on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement 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 substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets or liabilities are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets or liabilities are reduced to the extent that it is no longer probable that the related tax effects will be realised.

(r) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable or payable to the ATO is included as part of receivables or payables in the balance sheet.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

Summary of Significant Accounting Policies

For the Year Ended 30 June 2008

(s) Provisions

Provisions are liabilities of uncertain timing and amount. They are recognised when Synergy:

- has a present obligation (legal or constructive) as a result of a past event,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

i. Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are recommended by the Board to the Minister and that the Minister in concurrence with the Treasurer accepts the recommendation as per the Electricity Corporations Act 2005.

ii. Employee Benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government securities, which have terms to maturity approximating the terms of the related liability.

iii. Retirement Benefit Obligations

All employees of Synergy are entitled to benefits upon retirement, disablement or death from one of many superannuation plans, which may include a defined contribution section, a defined benefit section, or both. The defined benefit Scheme is closed to new members.

Defined Contribution Superannuation Plans

Obligations for contributions to defined contribution plans are recognised in the income statement as incurred.

Defined Benefit Superannuation Plans

A provision in respect of the defined benefit superannuation plans is recognised in the balance sheet and is measured at the present value of the defined benefit obligations. This is based on services provided up to the reporting date, plus/less unrecognised actuarial gains/losses less the fair value of the superannuation plans' assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligations is based upon expected future payments and is calculated using discounted cash flows consistent with the Projected Unit Credit method. Consideration is given to the expected future wages and salaries level, experience of employee departures and periods of service.

Expected future payments are discounted using the market yield, as at the reporting date, on selected Commonwealth government securities with terms to maturity approximating the terms of the related liability.

The defined benefits of the Pension Scheme and Gold State Scheme are wholly unfunded. Synergy meets the costs of these benefits when the employee leaves the service of Synergy.

Summary of Significant Accounting Policies

For the Year Ended 30 June 2008

Actuarial gains and losses arising from experience adjustments and changes in actuarial adjustments are recognised immediately in the income statement.

Future taxes are not met by Synergy (the benefit paid is an untaxed amount to the employee) and so no allowance has been made for future taxes in measuring the net liability.

An actuarial review was conducted by PricewaterhouseCoopers for the year ended 30 June 2008 using the membership data as at 31 March 2008.

(t) Held to Maturity Investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Synergy's management has the positive intention and ability to hold to maturity. Held to Maturity investments are initially recognised at fair value plus transaction costs. After initial recognition they are carried at amortised cost using the effective interest method.

(u) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, 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 necessary to make the sale.

(v) Comparative Figures

Comparative figures are, where appropriate, reclassified to be comparable with the figures presented in the current financial year.

(w) Financial Instruments

Synergy has five categories of financial instruments disaggregated into the following classes:

Financial Assets

- Cash and Cash equivalents
- Trade and Other Receivables
- Held to Maturity Investments
- Security Deposit

Financial Liabilities

- Trade and Other Payables

The measurement bases used for each category of financial instruments are disclosed in these notes.

Summary of Significant Accounting Policies

For the Year Ended 30 June 2008

(x) Critical accounting judgements, estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(i) Leases

- Synergy has considered a number of contractual arrangements in applying the accounting policy. The assessment of these contractual arrangements requires a degree of judgement as to whether the significant risks and rewards of ownership of an asset are substantially transferred to other entities. The classification of a contractual arrangement could materially change the balance sheet of Synergy.

(ii) Held-to-maturity investments

- The Board have reviewed Synergy's Bonds and Floating Rate Notes as 'held-to-maturity' financial assets in light of its capital maintenance and liquidity requirements and have confirmed Synergy's positive intention and ability to hold such investments to maturity.

If Synergy fails to keep these investments to maturity other than for specific circumstances explained in AASB 139, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Summary of Significant Accounting Policies

For the Year Ended 30 June 2008

(y) Disclosure of changes in accounting policy and estimates

(i) Initial application of Australian Accounting Standards

Synergy has applied the following Australian Accounting Standard effective for annual reporting periods beginning on or after 1 July 2007:

Reference	Title	Summary	Application Date	Expected Impact
AASB 7	Financial Instruments: Disclosures	This standard requires new disclosures in relation to financial instruments.	1 July 2007	The changes have resulted in increased disclosures, both quantitative and qualitative, of Synergy's exposure to risks, including enhanced disclosure regarding components of Synergy's financial position and performance, and changes to the way of presenting certain items in the notes to the financial statements.

(ii) Future impact of Australian Accounting Standards, applicable to Synergy but not yet operative:

The following Australian Accounting Standards and Interpretations listed below were in issue but not yet effective:

Reference	Title	Summary	Application Date	Expected Impact
AASB 101	Presentation of Financial Statements	This standard requires new disclosures in the financial statements.	30 June 2009	The structure of the financial statements will change. These changes will require that owner changes in equity are presented separately from non-owner changes in equity. Synergy does not expect any financial impact when the Standard is first applied.

Notes to the Financial Statements

For the Year Ended 30 June 2008

	30/06/08 \$'000	30/06/07 \$'000
2 REVENUE		
Sales of Energy	1,612,457	1,520,894
Account Fees	12,734	11,634
Product & Services	8,624	8,235
	<u>1,633,815</u>	<u>1,540,763</u>
3 OTHER INCOME		
Interest	9,302	7,849
Other	1,673	824
	<u>10,975</u>	<u>8,673</u>
4 COST OF SALES		
Energy Purchases	936,789	908,224
Network Access Costs	525,357	481,053
Renewable Energy Certificates	18,495	10,725
	<u>1,480,641</u>	<u>1,400,002</u>

Notes to the Financial Statements

For the Year Ended 30 June 2008

	30/06/08 \$'000	30/06/07 \$'000
5 EXPENSES		
Profit before Income Tax Equivalent Expense includes the following specific items:		
Employee Benefits Expense		
- Wages and Salaries and Other Related Benefits	31,424	26,222
- Superannuation Costs	3,050	1,654
	<u>34,474</u>	<u>27,876</u>
Finance Costs		
- Interest on Short Term Borrowings	-	13
	<u>-</u>	<u>13</u>
Materials & Services		
- Metering	6,202	3,740
- Administration	26,819	20,052
- Communications	3,405	3,194
- Support Services	7,190	6,798
- Other	22,532	9,684
	<u>66,148</u>	<u>43,468</u>
Depreciation & Amortisation		
- Intangible Assets	777	1,960
- Plant and Equipment	687	254
- Leasehold Improvements	384	18
	<u>1,848</u>	<u>2,232</u>
Other Expenses		
Provision for Impairment of receivables	1,794	2,557
Derivative Loss	1,116	2,334
Impairment on Intangible Asset	-	2,218
Loss on Disposal Plant & Equipment	10	775
Operating Lease Rentals	1,438	2,275
Audit Services		
- Audit Services Office of Auditor General	50	221
Other	691	585
	<u>5,099</u>	<u>10,965</u>

Notes to the Financial Statements

For the Year Ended 30 June 2008

	30/06/08 \$'000	30/06/07 \$'000
6 INCOME TAX EQUIVALENT EXPENSE		
Income Statement		
<u>The Prima Facie Tax on Profit is Reconciled to Income Tax Provided in the Financial Statements as follows:</u>		
Profit Before Income Tax Equivalent Expense	56,580	64,880
Income Tax Calculated at 30%	16,974	19,464
Tax Effect of Non Assessable Differences		
- Other	31	48
Under/(Over) Income Tax Provided in Prior Years	(34)	144
Income Tax Equivalent Expense	16,971	19,656
Income Statement		
Current Income Tax		
- Current Income Tax Expense	15,359	21,776
- Under/(Over) Income Tax Provided in Prior Years	(34)	144
Deferred Income Tax		
- Relating to Origination & Reversal of Temporary Differences	1,646	(2,264)
	16,971	19,656
Deferred Income Tax Relating to Origination & Reversal of Temporary Differences is as follows:		
- Decrease/(Increase) in Deferred Tax Assets	1,824	(1,503)
- Increase/(Decrease) in Deferred Tax Liabilities	(178)	(761)
	1,646	(2,264)
Decrease/(Increase) in Deferred Tax Assets relate to the following:		
- Intangibles	432	(665)
- Provisions	4	(462)
- CSO Rebates	1,290	(425)
- Other	98	49
	1,824	(1,503)
Increase/(Decrease) in Deferred Tax Liabilities relate to the following:		
- Embedded Derivative	(335)	(700)
- Interest Receivable	157	(61)
	(178)	(761)

Notes to the Financial Statements

For the Year Ended 30 June 2008

	30/06/08	30/06/07
	\$'000	\$'000
CURRENT ASSETS		
7 CASH AND CASH EQUIVALENTS		
Cash at Bank	6,093	7,743
Domestic Currency Deposits	100,459	125,200
	106,552	132,943
8 TRADE AND OTHER RECEIVABLES		
Trade Receivables	100,537	95,959
Estimated Value of Unbilled Energy	137,949	133,770
Provision for Impairment of Receivables	(2,752)	(3,216)
	235,734	226,513
Other Receivables	20,219	12,510
	255,953	239,023

Trade receivables are non-interest bearing and are generally paid on 20 to 30 day settlement terms. In determining the recoverability of a trade receivable, Synergy regularly reviews any change in the credit quality of the trade receivable from the date credit was initially granted and a provision for impairment is then recognised based on the review conducted.

The ageing of trade receivables is as follows:

0 - 23 days	74,851	72,685
24 - 48 days *	18,352	17,461
49 - 76 days *	2,494	2,242
77 - 109 days *	1,721	1,213
More than 109 days *	374	151
More than 109 days ^	2,745	2,207
	100,537	95,959

* past due but not impaired

^ past due and impaired

Movements in the provision for impairment of receivables are as follows:

At 1 July	(3,216)	(2,647)
Provision for impairment recognised during the year	(1,794)	(2,557)
Net Receivables written off during the year	2,258	1,988
	(2,752)	(3,216)

Notes to the Financial Statements

For the Year Ended 30 June 2008

	30/06/08 \$'000	30/06/07 \$'000
9 INTANGIBLE ASSETS		
Renewable Energy Certificates	17,358	11,671
Emission Reduction Units	22	28
	17,380	11,699

Reconciliation

Reconciliations of the carrying amounts for each class of current intangible assets are set out below:

Renewable Energy Certificates

Opening Balance	11,671	4,984
Purchased	20,050	15,016
Surrendered	(14,363)	(8,329)
	17,358	11,671

Emission Reduction Units

Opening Balance	28	55
Purchased	45	-
Applied	(51)	(27)
	22	28

10 FINANCIAL ASSETS

Current

Embedded Derivative *	-	1,116
Held-to-Maturity Investments	8,583	-
	8,583	1,116

Non Current

Held-to-Maturity Investments	51,394	-
Security Deposit #	2,372	14,942
	53,766	14,942

* The fair value of the embedded derivative has been calculated by discounting the expected future cash flows at prevailing interest rates. The embedded derivative expired on 31 December 2007.

The security deposit represents the cash deposit held with the IMO and is recognised at cost with interest earned at prevailing interest rates.

11 OTHER ASSETS

Prepayments	291	1,507
	291	1,507

Notes to the Financial Statements

For the Year Ended 30 June 2008

	30/06/08 \$'000	30/06/07 \$'000
NON CURRENT ASSETS		
12 PROPERTY, PLANT AND EQUIPMENT		
Plant and Equipment		
Plant and Equipment - at Cost	7,118	3,402
Accumulated Depreciation	(775)	(88)
	6,343	3,314
Reconciliation		
Reconciliations of the carrying amounts for plant and equipment are set out below:		
Plant and Equipment		
Opening Balance	3,314	1,178
Additions	568	3,406
Reclassified from Leasehold Improvements	3,158	-
Disposals	(10)	(775)
Reclassified to Intangibles	-	(241)
Depreciation	(687)	(254)
	6,343	3,314
Leasehold Improvements		
Leasehold Improvements - at Cost	4,040	7,923
Accumulated Depreciation	(402)	(18)
	3,638	7,905
Reconciliation		
Reconciliations of the carrying amounts for leasehold improvements are set out below:		
Leasehold Improvements		
Opening Balance	7,905	-
Reclassified to Plant & Equipment	(3,158)	7,923
Adjustment	(725)	-
Depreciation	(384)	(18)
	3,638	7,905
TOTAL PROPERTY, PLANT AND EQUIPMENT	9,981	11,219
13 INTANGIBLE ASSETS		
Computer Software	9,502	6,636
Accumulated Amortisation	(3,015)	(2,238)
Accumulated Impairment	(2,218)	(2,218)
	4,269	2,180
Reconciliation		
Reconciliations of the carrying amount for non-current intangible assets is set out below:		
Computer Software		
Opening Balance	808	1,751
Additions	3,130	2,994
Reclassified from Plant and Equipment	-	241
Adjustment	(13)	-
Impairment	-	(2,218)
Amortisation	(777)	(1,960)
	3,148	808
Work-in-Progress	1,121	1,372
	4,269	2,180

Notes to the Financial Statements

For the Year Ended 30 June 2008

	30/06/08 \$'000	30/06/07 \$'000
TAXATION		
14 TAX LIABILITIES / ASSETS		
<u>Current</u>		
Income Tax Payable	-	14,893
Other	110	87
	<u>110</u>	<u>14,980</u>
<u>Non-Current</u>		
Deferred Tax Assets	6,442	7,338
Deferred Tax Liabilities	(256)	(434)
Net Deferred Tax Assets	<u>6,186</u>	<u>6,904</u>
Deferred Tax Liabilities		
Deferred Tax Liabilities relate to the following:		
Embedded Derivative	-	(335)
Interest Receivable	(256)	(99)
	<u>(256)</u>	<u>(434)</u>
Deferred Tax Assets		
Deferred Tax Assets relate to the following:		
Intangibles	233	665
Provisions	3,185	3,050
Provision for Impairment of Receivables	826	965
CSO Rebates	1,165	2,455
Other	1,033	203
	<u>6,442</u>	<u>7,338</u>

Notes to the Financial Statements

For the Year Ended 30 June 2008

	30/06/08 \$'000	30/06/07 \$'000
CURRENT LIABILITIES		
15 TRADE AND OTHER PAYABLES		
Trade Payables	252,627	195,777
Other Payables	5,670	12,097
	258,297	207,874
16 PROVISIONS		
Provision for:		
Employee Benefits	5,322	5,457
Other	295	315
	5,617	5,772
Reconciliation		
Reconciliations of the carrying amounts for each class of provision is set out below:		
<u>Employee Benefits</u>		
Opening Balance	5,457	4,171
Provisions	4,914	4,487
Payments	(5,049)	(3,201)
Closing Balance	5,322	5,457
<u>Other</u>		
Opening Balance	315	261
Provisions	(20)	54
Closing Balance	295	315

Notes to the Financial Statements

For the Year Ended 30 June 2008

	30/06/08 \$'000	30/06/07 \$'000
NON-CURRENT LIABILITIES		
16 PROVISIONS (continued)		
Provision for:		
Employee Benefits	1,217	979
Retirement Benefit Obligations	3,701	3,350
Other	83	67
	5,001	4,396
Reconciliation		
Reconciliations of the carrying amounts for each class of provision is set out below:		
<u>Employee Benefits</u>		
Opening Balance	979	1,002
Provisions	238	-
Transfers	-	(23)
Closing Balance	1,217	979
<u>Retirement Benefit Obligations</u>		
Present Value of Unfunded Obligations	3,701	3,350
	3,701	3,350
<u>Reconciliation of Movement in the Present Value of the Unfunded Obligations Recognised in the balance sheet</u>		
Opening Balance	3,350	3,697
Current Service Cost	125	103
Interest Cost	189	200
Actuarial (Gains) / Losses on Liabilities	329	(650)
Benefits paid	(292)	-
Closing Balance	3,701	3,350
<u>Amounts Recognised in the Income Statement</u>		
Current Service Cost	125	103
Interest Cost	189	200
Actuarial (Gains) / Losses Recognised	329	(650)
	643	(347)
<u>Historic Summary</u>		
Defined Benefit Plan Obligation	3,701	3,350
	3,701	3,350
Principal Actuarial Assumptions		
Discount Rate	6.50%	5.90%
Expected Future Salary Increases	4.50%	4.50%
Expected Future Pension Increases	3.00%	3.00%
<u>Other</u>		
Opening Balance	67	66
Provisions	16	1
Closing Balance	83	67

Notes to the Financial Statements

For the Year Ended 30 June 2008

	30/06/08 \$'000	30/06/07 \$'000
17 EQUITY		
<u>Contributed Equity</u>		
Contributions - Beginning of the Year	136,560	132,832
Adjustments to Contributions	-	3,728
Contributed Equity-End of the Year	<u>136,560</u>	<u>136,560</u>
<u>Retained Earnings</u>		
Retained Earnings-Beginning of the Year	52,079	13,711
Profit After Income Tax Equivalent Expense	39,609	45,224
Dividends Paid *	<u>(22,612)</u>	<u>(6,856)</u>
Retained Earnings-End of the Year	<u>69,076</u>	<u>52,079</u>
TOTAL EQUITY	<u><u>205,636</u></u>	<u><u>188,639</u></u>

***Dividends Not Recognised at Year End**

The dividend is recognised in the reporting period in which the dividends are recommended by the Board to the Minister and the Minister in concurrence with the Treasurer, accepts the recommendation as per the Electricity Corporations Act 2005.

The Board will recommend a dividend payment of \$19.8M to the Minister for the year ended 30 June 2008. (As per the Statement of Corporate Intent 50% of NPAT).

Notes to the Financial Statements

For the Year Ended 30 June 2008

	30/06/08 \$'000	30/06/07 \$'000
18 COMMITMENTS		
<u>Leases</u>		
Operating Leases:		
Within one year	12,986	21,345
Later than one year and not later than five years	188,555	88,906
After more than five years	265,908	182,635
Total minimum lease payments	467,449	292,886
Future Finance Leases:		
Within one year	-	-
Later than one year and not later than five years	-	166,648
After more than five years	-	1,064,633
Total minimum lease payments	-	1,231,281
Less amounts representing minimum finance charges	-	974,915
Future Liability Commitments	-	256,366
Leasing arrangements		

Operating Leases:

Operating leases relate to the purchase of Energy, Capacity and Renewable Energy Certificates with lease terms ranging between 10 to 25 years with various suppliers. Synergy also leases the office building under an operating lease for an initial lease term of 10 years with Synergy having two options to extend for a further 5 years each.

Finance Leases:

The amount disclosed above as a future finance lease relates to a power purchase agreement. It was assessed under UIG 4- 'Determining whether an arrangement contains a lease' and classified as a finance lease in accordance with AASB 117 - 'Leases'.

A reassessment of whether the arrangement contains a lease was made due to a change in the contractual terms. Since the arrangement does not contain a lease, future payments are not reported as they no longer fall within the disclosure requirements of AASB 117.

Notes to the Financial Statements

For the Year Ended 30 June 2008

18 COMMITMENTS (continued)	30/06/08 \$'000	30/06/07 \$'000
OTHER COMMITMENTS		
Intangible Assets:		
Not later than one year	12,591	11,900
Later than one year and not later than five years	132,086	37,300
Later than five years	174,839	69,000
	319,516	118,200

These commitments include the purchase of renewable energy certificates as a result of Synergy's requirement to source specified amounts of electricity from renewable energy sources as described in Note 1.

Energy Procurement Contracts:

Not later than one year	122,900	12,227
Later than one year and not later than five years	1,866,962	51,238
Later than five years	9,170,907	35,923
	11,160,769	99,388

These commitments consist of electricity and gas purchase agreements entered into for trading purposes.

19 CONTINGENT LIABILITIES AND ASSETS

Synergy's policy is to disclose details of contingent liabilities and contingent assets where the probability of future payments/receipts is not considered remote, as well as details of contingent liabilities and contingent assets, which although considered remote, the Directors of Synergy consider should be disclosed. As at 30 June 2008 there are no contingent assets or liabilities to be disclosed.

Notes to the Financial Statements

For the Year Ended 30 June 2008

20 KEY MANAGEMENT PERSONNEL REMUNERATION

Principles Used to Determine the Nature and Amount of Compensation

Compensation approval protocols are as follows:

- Non-Executive Directors: The Minister for Energy approves the compensation of all non-executive directors.
- Managing Director: The Board subject to the concurrence of the Minister for Energy approves the compensation of the Managing Director.
- Executive Officers: The Board is to determine the remuneration and other terms and conditions of service.

The Compensation policy is designed to:

- Compensate individuals in accordance with performance and responsibility;
- Ensure consistent decision making in individual compensation adjustments;
- Establish flexible compensation arrangements; and
- Establish and maintain salary ranges comparable to other companies of similar size and industry.

Non-Executive Directors

Payment to specified non-executive directors consists of a base fee and superannuation.

Managing Director and Executives

The Managing Director and Executives pay and reward framework has the following components:

- Base pay
- Selection of prescribed non-financial benefits
- Superannuation, and
- An annual at risk remuneration element

At Risk Remuneration

The At Risk Remuneration (ARR) scheme is self funding, therefore the amount of funds available will depend on the actual Earnings Before Interest and Tax (EBIT) exceeding budget.

More specific details per Key Management Personnel in relation to the ARR are noted in the Service Agreement section of this note.

The targets on which the ARR element is based are listed below:

Indicator

- Customer Service
- Organisational Health
- Regulatory Compliance
- Stakeholder Satisfaction
- Commercial Performance
- Power Procurement

Notes to the Financial Statements

For the Year Ended 30 June 2008

20 KEY MANAGEMENT PERSONNEL REMUNERATION (continued)

Service Agreements

James Mitchell, Managing Director

- **Term of the Agreement** – 5 years commencing from 1 April 2006.
- **Notice period**- 26 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Synergy, will be by payment of the greater of the amount equivalent to the remuneration calculated over the balance of the period of this agreement, or a redundancy payment of 150% of annual salary, unless reasonable alternative employment with Synergy is obtained.
 - Poor performance: the lesser of either 13 weeks notice or remainder of the Agreement.
- **Performance Pay**- At the Board's discretion with the concurrence of the Minister, a payment of up to 27% remuneration can be made for the achievement of specific targets set by the Board.

Geoff Roberts, Head of Retail

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service to a maximum of 87 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
 - Other than redundancy, incapacity, poor performance or serious misconduct: 52 weeks notice or 52 weeks total fixed remuneration as payment in lieu of notice.
- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Trevor James, Head of Business Services

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 87 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Notes to the Financial Statements

For the Year Ended 30 June 2008

20 KEY MANAGEMENT PERSONNEL REMUNERATION (continued)

Tony Perrin, Head of Wholesale

- **Term of the Agreement-** Until 30 September 2009.
- **Notice period-** 26 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 87 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
 - Other than redundancy, incapacity or poor performance: 26 weeks notice or 26 weeks total fixed remuneration as payment in lieu of notice.
- **Performance Pay-** At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Russell Mitchell, Head of Customer & Brand Equity (resigned December 2007)

- **Term of the Agreement-** Not a fixed term contract
- **Notice period-** 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 52 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
 - Other than redundancy, incapacity or poor performance: 52 weeks notice or 52 weeks total fixed remuneration as payment in lieu of notice.
- **Performance Pay-** At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Virginia Miltrup, Acting Head of Customer & Brand Equity (since April 2008)

- **Term of the Agreement-** Not a fixed term contract
- **Notice period-** 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 52 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
 - Other than redundancy, incapacity or poor performance: 52 weeks notice or 52 weeks total fixed remuneration as payment in lieu of notice.
- **Performance Pay-** At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Notes to the Financial Statements

For the Year Ended 30 June 2008

20 KEY MANAGEMENT PERSONNEL REMUNERATION (continued)

Details of the nature and amount of each element of emolument for Key Management Personnel for the period 1 July 2007 – 30 June 2008 are detailed below:

	Short Term Benefits			Post Employment Benefits			
	Salary & Fees \$ '000	At Risk Remuneration \$ '000	Non-Monetary \$ '000	Superannuation & Retirement \$ '000	Other Benefits \$ '000	Termination Benefits \$ '000	Total Remuneration \$ '000
Non-Executive Directors							
Michael Smith (Chairperson)	105	-	-	9	-	-	114
Eric Hooper	65	-	-	6	-	-	71
Terri Reilly	50	-	-	4	-	-	54
Caryle Demarte	50	-	-	4	-	-	54
Craig Coleman +	6	-	-	1	-	-	7
David Hunt ++	31	-	-	3	-	-	34
Sub-Total Non-Executive Directors	307	-	-	27	-	-	334
Executive Director							
James K Mitchell	337	117	-	38	-	-	492
Other Key Management Personnel							
Russell Mitchell, Head of Customer and Brand Equity *	140	-	-	13	-	-	153
Virginia Miltrup, A/Head of Customer & Brand Equity **	31	41	-	3	-	-	75
Trevor James, Head of Business Services	248	77	-	38	-	-	363
Geoff Roberts, Head of Retail	199	62	-	18	-	-	279
Tony Perrin, Head of Wholesale	214	67	-	22	-	-	303
TOTAL	1,476	364	-	159	-	-	1,999

+ Craig Coleman resigned August 2007

++ David Hunt commenced November 2007

* Russell Mitchell resigned December 2007

** Virginia Miltrup commenced April 2008

Notes to the Financial Statements

For the Year Ended 30 June 2008

20 KEY MANAGEMENT PERSONNEL REMUNERATION (continued)

Details of the nature and amount of each element of emolument for Key Management Personnel for the period 1 July 2006 – 30 June 2007 are detailed below:

	Short Term Benefits			Post Employment Benefits			
	Salary & Fees \$ '000	At Risk Remuneration \$ '000	Non-Monetary \$ '000	Superannuation & Retirement \$ '000	Other Benefits \$ '000	Termination Benefits \$ '000	Total Remuneration \$ '000
Non-Executive Directors							
Michael Smith (Chairperson)	105	-	-	9	-	-	114
Eric Hooper	65	-	-	5	-	-	70
Terri Reilly	50	-	-	4	-	-	54
Caryle Demarte	50	-	-	4	-	-	54
Craig Coleman	50	-	-	4	-	-	54
Sub-Total Non-Executive Directors	320	-	-	26	-	-	346
Executive Director							
James K Mitchell	321	116	-	28	-	-	465
Other Key Management Personnel							
Russell Mitchell, Head of Marketing	191	64	-	17	-	-	272
Trevor James, Head of Business Services	216	80	5	40	-	-	341
Geoff Roberts, Head of Retail Sales & Customer Service	189	63	-	17	-	-	269
Mike Bailey, Head of Wholesale*	107	-	-	9	-	-	116
Tony Perrin, Head of Wholesale**	101	40	-	10	-	-	151
TOTAL	1,445	363	5	147	-	-	1,960

* Mike Bailey resigned November 2006

** Tony Perrin commenced March 2007

Notes to the Financial Statements

For the Year Ended 30 June 2008

21 FINANCIAL INSTRUMENTS

Financial Risk Management - Overview

Synergy's Board has overall responsibility for risk management. To assist in fulfilling this role, the Board has established an Audit & Legal Compliance Committee (ALCC) and a Treasury Management Committee (TMC). The ALCC, has as part of its role, responsibility to oversee and monitor Synergy's treasury activities through the TMC. The Treasury Policy statement developed by the TMC establishes the framework for managing financial risks faced by Synergy. Adherence to this policy will ensure that, at all times, Synergy maintains the appropriate level of control over financial risks to ensure compliance with its strategic core values, as defined in the Corporate Strategic Plan.

Synergy's financial instruments consist mainly of short-term deposits with banks, held to maturity investments and receivables and payables. The main risks Synergy is exposed to are credit, liquidity and market risks.

a) Credit Risk

Credit risk arises when there is a possibility of default by counterparties on financial assets resulting in financial loss to Synergy. Synergy's maximum exposure on current receivables is the carrying amount net of provision for impaired receivables. Customers include both domestic and commercial customers who are billed and settlement is expected within prescribed settlement terms.

Synergy's credit control policy ensures that credit facilities are provided only to business customers with an appropriate credit history. Receivables balances are monitored on an ongoing basis through the credit management section and the credit control steering committee meets monthly to review aged receivables and proposed write-offs.

In addition, Synergy's Cash and Cash equivalents and Held to Maturity investments are held with banks that hold at least an A- credit rating with Standard & Poor's.

b) Liquidity Risk

Synergy's exposure to liquidity risk arises when it is unable to meet its financial obligations in the course of operating as a business. Synergy's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or other related costs. Synergy aims to achieve the optimum level of cash holding, to mitigate liquidity risk to an acceptable level, while at the same time maximizing return on investment, rather than holding excess cash.

Synergy actively manages its working capital requirements through cash flow forecasts to identify expected inflows and outflows and has the flexibility to liquidate a portion of its investments in a short time frame, if required. Synergy also maintains a short-term funding facility with Western Australia Treasury Corporation (WATC) and a bank guarantee facility with ANZ Bank Ltd to manage liquidity risk.

c) Market Risk

Market Risk relates to the susceptibility of fair values or future cash flows of a financial instrument to fluctuations arising from changes in market prices and it comprises of currency risk, interest rate risk and other price risk. Synergy's objective of market risk management is to manage and control market risk exposures within acceptable parameters. The market risks Synergy is exposed to are interest rate risk and other price risk.

(i) Interest Rate Risk

Interest rate risk reflects the possible exposure to fluctuations in the fair value or future cash flows of Synergy's financial instruments due to adverse movements in interest rates. Synergy is exposed to interest rate movement with regards to its Cash and Cash equivalents, Security Deposit and Held to Maturity investments.

Notes to the Financial Statements

For the Year Ended 30 June 2008

21 FINANCIAL INSTRUMENTS (continued)

Synergy invests in short term instruments, allowing Synergy to maximise any favourable movement in interest rates which invariably exposes Synergy to fluctuations in cash flows. However, Synergy's investments are held with banks that hold at least an A- credit rating with Standard & Poor's.

As at 30 June 2008 Synergy has no borrowings.

(ii) Other Price Risk

Other price risk reflects the possible exposure to fluctuations in the fair value or future cash flows of Synergy's financial instruments depending on the financial viability of the underlying corporate issuers. Synergy is exposed to fluctuations in the market prices of Held to Maturity investments.

Synergy's investment policy provides strategies for the minimizing price volatility by restricting investments to single name issuers that have a minimum Standard and Poor's credit rating of A-.

b) Liquidity Risk

The following are the contractual maturities of financial liabilities

30/06/08

Financial Liabilities

Trade and Other Payables

Carrying Amount \$'000	1 year or less \$'000	1 - 2 years \$'000	2 - 5 years \$'000	More than 5 years \$'000
258,297	258,297	-	-	-
258,297	258,297	-	-	-

30/06/07

Financial Liabilities

Trade and Other Payables

Carrying Amount \$'000	1 year or less \$'000	1 - 2 years \$'000	2 - 5 years \$'000	More than 5 years \$'000
207,874	207,874	-	-	-
207,874	207,874	-	-	-

Notes to the Financial Statements

For the Year Ended 30 June 2008

21 FINANCIAL INSTRUMENTS (continued)

c i) Interest Rate Risk

Interest Rate Exposure

30/06/08	Weighted Effective Interest Rate	Floating Interest Rate \$'000	Fixed Rate Within 1 Year \$'000	Floating Interest Rate Maturing						Total \$'000
				Within 1 Year \$'000	1-2 Years \$'000	2-3 Years \$'000	3-4 Years \$'000	4-5 Years \$'000	Over 5 Years \$'000	
Financial Assets										
Cash at Bank	7.00%	6,093	-	-	-	-	-	-	-	6,093
Fixed Term Deposits	7.44%	-	100,459	-	-	-	-	-	-	100,459
Held to Maturity Investments	8.12%	-	-	8,583	5,003	17,949	16,438	12,004	-	59,977
Security Deposit	7.56%	2,372	-	-	-	-	-	-	-	2,372
TOTAL		8,465	100,459	8,583	5,003	17,949	16,438	12,004	-	168,901

30/06/07	Weighted Effective Interest Rate	Floating Interest Rate \$'000	Fixed Rate Within 1 Year \$'000	Floating Interest Rate Maturing						Total \$'000
				Within 1 Year \$'000	1-2 Years \$'000	2-3 Years \$'000	3-4 Years \$'000	4-5 Years \$'000	Over 5 Years \$'000	
Financial Assets										
Cash at Bank	5.65%	7,743	-	-	-	-	-	-	-	7,743
Fixed Term Deposits	6.29%	-	120,200	-	-	-	-	-	-	120,200
Call Deposit	5.81%	5,000	-	-	-	-	-	-	-	5,000
Security Deposit	6.25%	14,942	-	-	-	-	-	-	-	14,942
TOTAL		27,685	120,200	-	-	-	-	-	-	147,885

Interest Rate Risk Sensitivity Analysis

30/06/08

Carrying Amount \$'000	-1% change		+1% change	
	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000

Financial Assets

Cash and Cash Equivalents	106,552	(1,066)	(1,066)	1,066	1,066
Held to Maturity Investments	59,977	(600)	(600)	600	600
Security Deposit	2,372	(24)	(24)	24	24
TOTAL	168,901	(1,690)	(1,690)	1,690	1,690

30/06/07

Carrying Amount \$'000	-1% change		+1% change	
	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000

Financial Assets

Cash and cash equivalents	132,943	(1,329)	(1,329)	1,329	1,329
Security Deposit	14,942	(149)	(149)	149	149
TOTAL	147,885	(1,478)	(1,478)	1,478	1,478

Notes to the Financial Statements

For the Year Ended 30 June 2008

21 FINANCIAL INSTRUMENTS (continued)

A sensitivity of 100 basis points or 1% has been selected for the interest rate risk sensitivity analysis as this depicts the current level of movement in interest rates. Reserve Bank of Australia (RBA) interest rates have moved a total of 150 basis points or 1.5% over the last two financial years (i.e. from 1 July 2006 to 30 June 2008) while the global credit crisis has led to another average increase of 50 basis points or 0.5% interest rate rise led by the major Australian banks. Inflationary pressures due to the strong Australian economy and the global credit crisis have made interest rates in Australia more susceptible to upward movement in the coming period. The analysis is performed on the same basis for 2007.

c ii) Other Price Risk

Other Price Risk Sensitivity Analysis

30/06/08

Carrying Amount \$'000	-5% change		+5% change	
	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000

Financial Assets

Held to Maturity Investments	59,977	(2,999)	(2,999)	2,999	2,999
	<u>59,977</u>	<u>(2,999)</u>	<u>(2,999)</u>	<u>2,999</u>	<u>2,999</u>

The sensitivity analysis above has been determined based on the exposure to possible fluctuations in the fair value or future cash flows of floating rate notes. The market prices or values of these financial instruments are dependent on the financial viability of the underlying corporate issuers at reporting date. The financial viability of the corporate issuers is reflected in their credit rating and any upgrade or downgrade by the credit rating agencies has a direct impact on the financial instrument's market price at reporting date.

A sensitivity of 5% has been selected to measure the possible movement in value at reporting date. In view of the fact that Synergy minimises market price volatility by restricting investments to single name issuers that have a minimum Standard and Poor's credit rating of A-, Synergy believes that any movement will be sufficiently captured within these parameters. The analysis was not performed for 2007 since all floating rate note investments were purchased in the current financial year.

Notes to the Financial Statements

For the Year Ended 30 June 2008

22 RECONCILIATION OF NET PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	30/06/08 \$'000	30/06/07 \$'000
Net Profit	39,609	45,224
<i>Add/(less) non-cash items:</i>		
Depreciation	1,071	272
Amortisation - Intangible Assets	777	1,960
Written Down Value of Non Current Assets Sold	10	775
Fair Value Adjustment - Embedded Derivative	1,116	2,334
Impairment of Intangibles	-	2,218
Unwinding of Discount - Held to Maturity Investments	(116)	-
<i>Change in assets and liabilities:</i>		
(Increase) / Decrease in Receivables	(5,367)	(34,786)
(Increase) / Decrease in Prepayments	1,217	(1,015)
Increase / (Decrease) in Trade Payables	57,000	39,692
(Increase) / Decrease in Security Deposits	12,570	(14,897)
Increase / (Decrease) in Employee Provisions	454	916
(Increase) / Decrease in Inventories	(11,572)	233
(Increase) / Decrease in Intangibles	(20,065)	(15,016)
Increase / (Decrease) in Other Provisions	(4)	55
(Increase) / Decrease in Accrued Interest Receivable	(464)	202
Increase / (Decrease) in Income Taxes Payable	(17,214)	6,295
Net Cash Provided by Operating Activities	<u>59,022</u>	<u>34,462</u>
Reconciliation of Cash and Cash Equivalents at End of Year		
Cash at Bank	6,093	7,743
Money Market Deposits	-	5,000
Fixed Rate Short Term Investment	100,459	120,200
Cash and Cash Equivalents at End of Year	<u>106,552</u>	<u>132,943</u>

Credit Standby Facilities

Synergy has a master lending agreement in place with the Western Australian Treasury Corporation. This agreement gives Synergy access to a number of debt facilities with a total limit of \$100 million. It includes a short term US facility with a limit of USD\$25 million and an Estimated Out-turn facility with a limit of AUD\$5 million.

Synergy also has a bank guarantee facility in place with the ANZ Banking Group Ltd. The facility provides Synergy with the ability to issue credit support to a counterparty / counterparties up to a limit of AUD\$50 million.

23 ECONOMIC DEPENDENCY

Synergy has a significant economic dependency on energy supply from Electricity Generation Corporation (Verve Energy) as per the vesting contract and access from Electricity Networks Corporation (Western Power).

24 EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance likely, in the opinion of the Directors, to affect significantly the operations of Synergy, the results of those operations, or the state of affairs of Synergy.



Auditor General

INDEPENDENT AUDIT REPORT ON ELECTRICITY RETAIL CORPORATION (TRADING AS SYNERGY)

To the Parliament of Western Australia

I have audited the financial report of the Electricity Retail Corporation (trading as Synergy), which comprises the Balance Sheet as at 30 June 2008, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement 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 Retail Corporation (trading as Synergy) 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 Retail Corporation (trading as Synergy) 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.

COLIN MURPHY
AUDITOR GENERAL
27 August 2008