



QUARTERLY REPORT

**1 October 2010
to
31 December 2010**

FOR PUBLIC RELEASE

PERFORMANCE OVERVIEW

FINANCIAL PERFORMANCE

The result for the six month period shows a loss after tax of \$2m against a profit in the SDP budget of \$46M.

The replacement of the Verve Vesting Contract with the prescribed Vesting Replacement Contract has resulted in increases in the energy and capacity costs charged by Verve.

While revenue grew by 13.95% compared to the same period the previous year, the cost of sales increased by 25.40%, reflecting the increases in costs incurred by Synergy following the contractual changes.

To date, Synergy had not received a full community service obligation (CSO) payment to cover the cost increases from the prescribed Vesting Replacement Contract.

RENEWABLE ENERGY CUSTOMERS

The quarter also saw continued growth in the number of accredited renewable energy customers, increasing by 23% on the previous quarter (and 45.89% for the six months) to 39,547 customers. The growth is attributable to the number of households installing solar panels, taking advantage of the Government's net feed-in-tariff.

COMPLAINTS

Synergy has also seen an increase in the number of complaints directed to the Energy Ombudsman. Current trends in complaints relate to high bills, estimated meter readings and credit management issues, and Synergy is continuing to review customers' feedback to identify further improvements to the customer experience.

Synergy is also implementing programs to encourage customers to better understand their electricity usage and lower their bills by using electricity more efficiently.

KEY PERFORMANCE INDICATORS

| | Actual | Actual | 2010/11 Year to Date | | |
|--|-----------|-----------|----------------------|--------|----------|
| | 2008/09 | 2009/10 | Actual | Budget | Variance |
| Contact Centre Effectiveness | | | | | |
| Total Number of Calls Received | 1,083,434 | 1,257,153 | 692,810 | NA | NA |
| % of calls not answered within 30 seconds from when a customer is connected to an inquiry line | 9.70% | 23% | 26% | <20% | -6% |
| Average wait time before a call is answered (seconds) | 17.4 | 44.1 | 48 | <30 | -18 |
| % of calls abandoned | 2.28% | 3.1% | 3.5% | <=5% | -1.5% |
| Business Development and Innovation | | | | | |
| Accredited renewable energy customers (NaturalPower, EasyGreen, Earth Friendly, REBS) | 17,383 | 27,107 | 39,547 | NA | NA |
| SmartPower customers | 17,977 | 19,447 | 21,393 | NA | NA |
| Number of dual-fuel customers | 213 | * | * | NA | NA |
| Customer Service | | | | | |
| Number of disputes involving the Ombudsman | 487 | 1,581 | 1,738 | NA | NA |

* Synergy is no longer able to report on the number of dual fuel customers as was previously the case. Synergy is working with the Office of Energy to establish new reporting parameters which will provide meaningful and accurate data.



**Electricity Retail Corporation
Trading as Synergy**

(ABN 71 743 446 839)

Financial Statements for the Period Ended 31 December 2010

Table of Contents

| | | |
|----|-----------------------------------|---|
| 1. | Statement of Comprehensive Income | 1 |
| 2. | Statement of Financial Position | 2 |
| 3. | Statement of Cash Flows | 3 |
| 4. | Statement of Changes in Equity | 4 |
| 5. | Notes to the Financial Statements | 5 |

Statement of Comprehensive Income

For the Period Ended 31 December 2010

| | NOTES | 31/12/10 \$'000 | 31/12/09 \$'000 |
|---|-------|--------------------|--------------------|
| Revenue | 2 | 1,160,839 | 1,018,685 |
| Other Revenue | 3 | 78,893 | 89,380 |
| Cost of Sales | 4 | (1,176,061) | (937,848) |
| Employee Benefits Expense | 5 | (19,997) | (19,044) |
| Materials & Services | 5 | (34,987) | (46,250) |
| Depreciation & Amortisation | 5 | (3,268) | (1,768) |
| Other Expenses | 5 | (6,523) | (4,221) |
| (Loss) / Profit Before Income Tax Equivalent Expense | | (1,104) | 98,934 |
| Income Tax Equivalent Expense | 6 | (901) | (29,673) |
| (Loss) / Profit After Income Tax Equivalent Expense | | (2,005) | 69,261 |
| Other Comprehensive Income | | - | - |
| TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR | | (2,005) | 69,261 |

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

Statement of Financial Position

As At 31 December 2010

| ASSETS | NOTES | 31/12/10 \$'000 | 30/06/10 \$'000 |
|--------------------------------------|-------|--------------------|--------------------|
| CURRENT ASSETS | | | |
| Cash and Cash Equivalents | 7 | 155,340 | 135,127 |
| Trade and Other Receivables | 8 | 443,231 | 388,822 |
| Intangible Assets | 9 | 45,665 | 26,891 |
| Inventories | | 22,553 | 25,015 |
| Financial Assets | 10 | 31,484 | 17,985 |
| Other Assets | 11 | 1,736 | 1,355 |
| Total Current Assets | | 700,009 | 595,195 |
| NON-CURRENT ASSETS | | | |
| Property, Plant and Equipment | 12 | 7,654 | 8,167 |
| Intangible Assets | 13 | 45,837 | 44,673 |
| Financial Assets | 10 | 17,354 | 30,834 |
| Other Assets | 11 | 20,477 | 20,477 |
| Deferred Tax Assets | 14 | 35,979 | 12,082 |
| Total Non-Current Assets | | 127,301 | 116,233 |
| Total Assets | | 827,310 | 711,428 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and Other Payables | 15 | 461,896 | 357,887 |
| Current Tax Liabilities | 14 | 10,260 | 14,515 |
| Short-Term Provisions | 16 | 77,852 | 4,073 |
| Total Current Liabilities | | 550,008 | 376,475 |
| NON-CURRENT LIABILITIES | | | |
| Deferred Tax Liabilities | 14 | 245 | 214 |
| Long-Term Provisions | 16 | 24,181 | 6,567 |
| Total Non-Current Liabilities | | 24,426 | 6,781 |
| Total Liabilities | | 574,434 | 383,256 |
| NET ASSETS | | 252,876 | 328,172 |
| EQUITY | | | |
| Contributed Equity | 17 | 136,560 | 136,560 |
| Retained Earnings | 17 | 116,316 | 191,612 |
| TOTAL EQUITY | | 252,876 | 328,172 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the Period Ended 31 December 2010

| | NOTES | 31/12/10 \$'000 | 31/12/09 \$'000 |
|---|-----------|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from Customers | | 1,232,506 | 815,781 |
| Interest Received | | 4,431 | 3,829 |
| Other Operating Receipts | | 152,290 | 13,758 |
| Energy Purchases and Network Access Costs | | (1,158,579) | (796,429) |
| Payments to Employees and Suppliers | | (179,059) | (4,683) |
| Lease Expenses | | (1,507) | (1,710) |
| Income Tax Equivalent Payments | | (28,996) | (26,765) |
| Goods and Services Tax Received / (Paid) | | 3,218 | (2,836) |
| | | <u>24,304</u> | <u>945</u> |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 18 | <u>24,304</u> | <u>945</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from (Payments for) Investments | | - | 2,535 |
| Payment for Intangible Assets | | (3,918) | (4,445) |
| | | <u>(3,918)</u> | <u>(4,445)</u> |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | | <u>(3,918)</u> | <u>(1,910)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends | | - | (44,620) |
| Customer and Contractor Deposits | | (173) | (451) |
| | | <u>(173)</u> | <u>(451)</u> |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | | <u>(173)</u> | <u>(45,071)</u> |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | | 20,213 | (46,036) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | | 135,127 | 141,205 |
| | | <u>135,127</u> | <u>141,205</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 18 | <u>155,340</u> | <u>95,169</u> |

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

Statement of Changes in Equity

For the Period Ended 31 December 2010

| | NOTES | 31/12/10 \$'000 | 31/12/09 \$'000 |
|---|-----------|-----------------------|-----------------------|
| Retained Earnings:- | | | |
| Retained Earnings at beginning of the year | 17 | 191,612 | 138,511 |
| Total Comprehensive Income for the period | 17 | (2,005) | 69,261 |
| Dividends Provided for or Paid | | <u>(73,291)</u> | <u>(44,620)</u> |
| Retained Earnings at end of the period | | <u>116,316</u> | <u>163,152</u> |
| Contributed Equity:- | | | |
| Contributed Equity at beginning of the year | 17 | <u>136,560</u> | <u>136,560</u> |
| Contributed Equity at end of the period | | <u>136,560</u> | <u>136,560</u> |
| <u>EQUITY AT END OF THE PERIOD</u> | | <u><u>252,876</u></u> | <u><u>299,712</u></u> |

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

Notes to the Financial Statements

For the Period Ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

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 constitute general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, the Framework and other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting 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 accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented unless otherwise stated.

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 Amounts

Comparative amounts are for the period 1 July 2009 to 31 December 2009. Statement of Financial position comparatives are for 30 June 2010.

(d) Reporting Period

The reporting period is for the quarter ended 31 December 2010.

Notes to the Financial Statements

For the Period Ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 and interest income on funds invested.

(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:

- Tariff Adjustment Payments
- 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 Statement of Financial Position 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 Statement of Cash Flows, 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 original invoice amount, 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.

Notes to the Financial Statements

For the Period Ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Intangible Assets

i. Software

Research and Development Costs

Research costs are recognised in the Statement of Comprehensive Income 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 |
|----------|--------------|

Work-In-Progress

Work-in-progress is not amortised until the assets are completed.

ii. Renewable Energy Certificates

The *Renewable Energy (Electricity) Act 2000* 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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income when the asset is derecognised.

(l) Prepayments

Prepaid expenses are recognised in the Statement of Comprehensive Income in the reporting period in which the associated benefit is consumed.

Notes to the Financial Statements

For the Period Ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Property, Plant and Equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses.

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 Statement of Comprehensive Income when the asset is derecognised.

iv. Work-In-Progress

Work-in-progress is not depreciated until the assets are completed.

(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 Statement of Comprehensive Income.

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 as at 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.

Notes to the Financial Statements

For the Period Ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 Statement of Financial Position in the reporting periods in which they are incurred.

Leases where the lessee substantially retains 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). 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 Statement of Comprehensive Income 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

Notes to the Financial Statements

For the Period Ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 the Minister in concurrence with the Treasurer accepts the recommendation.

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.

Termination Benefits

Termination benefits are recognised as an expense when Synergy is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for redundancies are recognised by Synergy once a position that has become redundant has been identified and the associated costs can be reliably estimated.

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 Statement of Comprehensive Income as incurred.

Defined Benefit Superannuation Plans

A provision in respect of the defined benefit superannuation plans is recognised in the Statement of Financial Position 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.

Notes to the Financial Statements

For the Period Ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial adjustments are recognised immediately in the Statement of Comprehensive Income.

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.

(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) Financial Instruments

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

Financial Assets

- Cash and Cash equivalents
- Trade and Other Receivables
- Financial Assets

Financial Liabilities

- Trade and Other Payables

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

Notes to the Financial Statements

For the Period Ended 31 December 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) 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) Classification of 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 Statement of Financial Position 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.

At reporting date, the fair value would decrease by \$0.2M with a corresponding entry against equity if the class of Held to Maturity Investments is reclassified as available-for-sale.

At reporting date, the total value of Held to Maturity Investments amounted to \$46.5M.

Notes to the Financial Statements

For the Period Ended 31 December 2010

| | 31/12/10 \$'000 | 31/12/09 \$'000 |
|--------------------------------------|--------------------|--------------------|
| 2 REVENUE | | |
| Sales of Energy | 1,150,203 | 1,011,422 |
| Account Fees | 9,651 | 6,120 |
| Product & Services | 985 | 1,143 |
| | 1,160,839 | 1,018,685 |
| 3 OTHER REVENUE | | |
| Interest | 4,521 | 3,777 |
| Community Service Obligation Revenue | 73,065 | 83,351 |
| Other | 1,307 | 2,252 |
| | 78,893 | 89,380 |
| 4 COST OF SALES | | |
| Energy Purchases | 703,824 | 633,223 |
| Onerous Contract | 16,471 | - |
| Network Access Costs | 435,595 | 292,770 |
| Renewable Energy Certificates | 20,171 | 11,855 |
| | 1,176,061 | 937,848 |

Notes to the Financial Statements

For the Period Ended 31 December 2010

| | 31/12/10 \$'000 | 31/12/09 \$'000 |
|---|--------------------|--------------------|
| 5 EXPENSES | | |
| Profit before Income Tax Equivalent Expense includes the following specific items: | | |
| Employee Benefits Expense | | |
| - Wages and Salaries and Other Related Benefits | 18,113 | 17,349 |
| - Superannuation Costs | 1,884 | 1,695 |
| | <u>19,997</u> | <u>19,044</u> |
| Materials & Services | | |
| - Metering | 3,903 | 2,858 |
| - Administration | 12,769 | 19,417 |
| - Outsourced Services | 12,047 | 1,973 |
| - Communications | 1,804 | 1,758 |
| - Support Services | 629 | 4,381 |
| - Other | 3,835 | 15,863 |
| | <u>34,987</u> | <u>46,250</u> |
| Depreciation & Amortisation | | |
| - Intangible Assets | 2,755 | 1,214 |
| - Plant and Equipment | 311 | 352 |
| - Leasehold Improvements | 202 | 202 |
| | <u>3,268</u> | <u>1,768</u> |
| Other Expenses | | |
| Provision for Impairment of receivables | 4,243 | 2,002 |
| Operating Lease Rentals | 1,359 | 1,414 |
| Audit Services - Office of Auditor General | 81 | 72 |
| Other | 840 | 733 |
| | <u>6,523</u> | <u>4,221</u> |

Notes to the Financial Statements

For the Period Ended 31 December 2010

| | 31/12/10 \$'000 | 31/12/09 \$'000 |
|--|--------------------|--------------------|
| 6 INCOME TAX EQUIVALENT EXPENSE | | |
| Statement of Comprehensive Income | | |
| The Prima Facie Tax on Profit is Reconciled to Income Tax Provided in the Financial Statements as follows: | | |
| Profit Before Income Tax Equivalent Expense | (1,104) | 98,934 |
| Income Tax Calculated at 30% | (331) | 29,680 |
| Tax Effect of Non Assessable Differences | | |
| - Other | 590 | (9) |
| Under Income Tax Provided in Prior Years | 642 | 2 |
| Income Tax Equivalent Expense | <u>901</u> | <u>29,673</u> |
| Income Tax Expense | | |
| Current Income Tax | | |
| - Current Income Tax Expense | 24,125 | 5,315 |
| - Under Income Tax Provided in Prior Years | 642 | 2 |
| Deferred Income Tax | | |
| - Relating to Origination & Reversal of Temporary Differences | <u>(23,866)</u> | <u>24,356</u> |
| | <u>901</u> | <u>29,673</u> |
| Deferred Income Tax Relating to Origination & Reversal of Temporary Differences is as follows: | | |
| - Increase in Deferred Tax Assets | (23,897) | (634) |
| - Increase in Deferred Tax Liabilities | 31 | 24,990 |
| | <u>(23,866)</u> | <u>24,356</u> |
| Deferred Income Tax | | |
| The (increase) in Deferred Tax Assets relates to the following: | | |
| - Intangibles | - | 3 |
| - Property plant and equipment | (46) | (48) |
| - Provisions | (5,430) | 657 |
| - Provision for doubtful debts | (270) | - |
| - CSO Rebate | 693 | (1,440) |
| - Payments in Advance | (18,881) | - |
| - Other | 37 | 194 |
| | <u>(23,897)</u> | <u>(634)</u> |
| The increase in Deferred Tax Liabilities relates to the following: | | |
| - CSO Rebate | - | 25,001 |
| - Interest Receivable | 31 | (11) |
| | <u>31</u> | <u>24,990</u> |

Notes to the Financial Statements

For the Period Ended 31 December 2010

| | 31/12/10 | 30/06/10 |
|--|-----------------|-----------------|
| | \$'000 | \$'000 |
| CURRENT ASSETS | | |
| 7 CASH AND CASH EQUIVALENTS | | |
| Cash at Bank | 740 | 4,727 |
| Money Market Deposits | 75,000 | - |
| Fixed Rate Short Term Investments | 79,600 | 130,400 |
| | <u>155,340</u> | <u>135,127</u> |
| 8 TRADE AND OTHER RECEIVABLES | | |
| Trade Receivables | 155,576 | 155,753 |
| Estimated Value of Unbilled Energy | 260,656 | 232,322 |
| Provision for Impairment of Receivables | (4,488) | (3,586) |
| | <u>411,744</u> | <u>384,489</u> |
| Other Receivables | 31,487 | 4,333 |
| | <u>443,231</u> | <u>388,822</u> |
| The ageing of trade receivables is as follows: | | |
| Not past due | 78,828 | 84,300 |
| Less than 30 days past due ^ | 38,031 | 42,737 |
| 30-60 days past due ^ | 12,248 | 9,702 |
| 60-90 days past due ^ | 8,166 | 4,615 |
| More than 90 days past due | 18,303 | 14,399 |
| | <u>155,576</u> | <u>155,753</u> |
| Movements in the provision for impairment of receivables are as follows: | | |
| Opening Balance | (3,586) | (2,301) |
| Provision for impairment recognised during the year | (4,243) | (6,296) |
| Net Receivables written off during the year | 3,341 | 5,011 |
| | <u>(4,488)</u> | <u>(3,586)</u> |

^ Past due but not impaired

Notes to the Financial Statements

For the Period Ended 31 December 2010

| | 31/12/10 \$'000 | 30/06/10 \$'000 |
|-------------------------------|--------------------|--------------------|
| 9 INTANGIBLE ASSETS | | |
| Renewable Energy Certificates | 45,625 | 26,824 |
| Emission Reduction Units | 40 | 67 |
| | 45,665 | 26,891 |

Reconciliation

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

Renewable Energy Certificates

| | | |
|-----------------|--------|----------|
| Opening Balance | 26,824 | 16,387 |
| Purchased | 18,801 | 32,337 |
| Surrendered | - | (21,900) |
| | 45,625 | 26,824 |

Emission Reduction Units

| | | |
|-----------------|------|------|
| Opening Balance | 67 | 25 |
| Purchased | - | 75 |
| Applied | (27) | (33) |
| | 40 | 67 |

10 FINANCIAL ASSETS

Current Assets

| | | |
|------------------------------|--------|--------|
| Held-to-Maturity Investments | 31,484 | 17,985 |
| | 31,484 | 17,985 |

Non Current Assets

| | | |
|------------------------------|--------|--------|
| Held-to-Maturity Investments | 14,982 | 28,462 |
| Security Deposit | 2,372 | 2,372 |
| | 17,354 | 30,834 |

The fair value of Held-to-Maturity Investments are derived from quoted prices in active markets for identical assets.

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

11 OTHER ASSETS

Current Assets

| | | |
|-------------|-------|-------|
| Prepayments | 1,736 | 1,355 |
| | 1,736 | 1,355 |

Non Current Assets

| | | |
|-------------|--------|--------|
| Prepayments | 20,477 | 20,477 |
| | 20,477 | 20,477 |

Notes to the Financial Statements

For the Period Ended 31 December 2010

| | 31/12/10 | 30/06/10 |
|---|--------------|--------------|
| | \$'000 | \$'000 |
| 12 PROPERTY, PLANT AND EQUIPMENT | | |
| Plant and Equipment | | |
| Plant and Equipment - at Cost | 7,427 | 7,427 |
| Accumulated Depreciation | (2,484) | (2,173) |
| | 4,943 | 5,254 |
| Reconciliation | | |
| Reconciliations of the carrying amounts for plant and equipment are set out below: | | |
| Plant and Equipment | | |
| Opening Balance | 5,254 | 5,929 |
| Additions | - | 16 |
| Depreciation | (311) | (691) |
| | 4,943 | 5,254 |
| Leasehold Improvements | | |
| Leasehold Improvements - at Cost | 4,124 | 4,124 |
| Accumulated Depreciation | (1,413) | (1,211) |
| | 2,711 | 2,913 |
| Reconciliation | | |
| Reconciliations of the carrying amounts for leasehold improvements are set out below: | | |
| Leasehold Improvements | | |
| Opening Balance | 2,913 | 3,317 |
| Depreciation | (202) | (404) |
| | 2,711 | 2,913 |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | 7,654 | 8,167 |

Notes to the Financial Statements

For the Period Ended 31 December 2010

| | 31/12/10 \$'000 | 30/06/10 \$'000 |
|--|--------------------|--------------------|
| 13 INTANGIBLE ASSETS | | |
| Computer Software | 58,202 | 54,283 |
| Accumulated Amortisation | (10,147) | (7,392) |
| Accumulated Impairment | (2,218) | (2,218) |
| | <u>45,837</u> | <u>44,673</u> |
| Reconciliation | | |
| Reconciliations of the carrying amount for non-current intangible assets is set out below: | | |
| <u>Computer Software</u> | | |
| Opening Balance | 36,476 | 2,492 |
| Additions | - | 37,528 |
| Amortisation | (2,755) | (3,544) |
| | <u>33,721</u> | <u>36,476</u> |
| <u>Computer Software - Work In Progress</u> | | |
| Opening Balance | 8,197 | 33,591 |
| Additions | 3,919 | 12,134 |
| Transfer to Computer Software - Assets | - | (37,528) |
| | <u>12,116</u> | <u>8,197</u> |
| TOTAL INTANGIBLE ASSETS | <u>45,837</u> | <u>44,673</u> |

Notes to the Financial Statements

For the Period Ended 31 December 2010

| | 31/12/10 | 30/06/10 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| 14 TAX LIABILITIES / ASSETS | | |
| <u>Current Liabilities</u> | | |
| Income Tax Payable | 10,174 | 14,401 |
| Other | 86 | 114 |
| | <u>10,260</u> | <u>14,515</u> |
| <u>Non-Current Liabilities</u> | | |
| Deferred Tax Assets | 35,979 | 12,082 |
| Deferred Tax Liabilities | (245) | (214) |
| Net Deferred Tax Asset | <u>35,734</u> | <u>11,868</u> |
| <u>Deferred Tax Liabilities</u> | | |
| Deferred Tax Liabilities relate to the following: | | |
| Interest Receivable | 245 | 214 |
| | <u>245</u> | <u>214</u> |
| <u>Deferred Tax Assets</u> | | |
| Deferred Tax Assets relate to the following: | | |
| Intangibles | 21 | 21 |
| Property Plant | 320 | 274 |
| Provision for Impairment of Receivables | 1,346 | 1,076 |
| CSO Rebates | 1,787 | 2,480 |
| Provisions | 8,622 | 3,192 |
| Advanced Payment | 23,069 | 4,188 |
| Other | 814 | 851 |
| | <u>35,979</u> | <u>12,082</u> |

Notes to the Financial Statements

For the Period Ended 31 December 2010

| | 31/12/10 \$'000 | 30/06/10 \$'000 |
|---|--------------------|--------------------|
| 15 TRADE AND OTHER PAYABLES | | |
| Trade Payables | 375,531 | 332,692 |
| Other Payables | 86,365 | 25,195 |
| | <u>461,896</u> | <u>357,887</u> |
| 16 PROVISIONS | | |
| <u>Current Liabilities</u> | | |
| Provision for: | | |
| Dividend | 73,291 | - |
| Employee Benefits | 4,256 | 3,762 |
| Other Provisions | 305 | 311 |
| | <u>77,852</u> | <u>4,073</u> |
| Reconciliations of the carrying amounts for each class of provision is set out below: | | |
| <u>Dividends</u> | | |
| Opening Balance | - | - |
| Provision for final dividend | 73,291 | - |
| Payments | - | - |
| | <u>73,291</u> | <u>-</u> |
| <u>Employee Benefits</u> | | |
| Opening Balance | 3,762 | 9,309 |
| Provisions | 1,972 | 2,524 |
| Payments | (1,478) | (8,071) |
| Closing Balance | <u>4,256</u> | <u>3,762</u> |
| <u>Other</u> | | |
| Opening Balance | 311 | 298 |
| Provisions | (6) | 13 |
| Closing Balance | <u>305</u> | <u>311</u> |

Notes to the Financial Statements

For the Period Ended 31 December 2010

| | 31/12/10 \$'000 | 30/06/10 \$'000 |
|---------------------------------------|--------------------|--------------------|
| 16 PROVISIONS (continued) | | |
| <u>Non-Current Liabilities</u> | | |
| Provision for: | | |
| Employee Benefits | 2,672 | 2,108 |
| Retirement Benefit Obligations | 4,743 | 4,265 |
| Onerous Contracts | 16,471 | - |
| Other Provisions | 295 | 194 |
| | 24,181 | 6,567 |

Reconciliations of the carrying amounts for each class of provision is set out below:
Provision for:

| <u>Employee Benefits</u> | | |
|---------------------------------|-------|-------|
| Opening Balance | 2,108 | 1,709 |
| Provisions | 564 | 399 |
| Closing Balance | 2,672 | 2,108 |

Retirement Benefit Obligations

The amounts included in the balance sheet arising from obligations in respect of defined benefits plans are:

| | 31/12/10 \$'000 | 30/06/10 \$'000 |
|---|--------------------|--------------------|
| Present Value of Unfunded Obligations | 4,743 | 4,265 |
| Expense Adjustments on Plan Liabilities | - | (31) |
| | 4,743 | 4,234 |

Reconciliation of Movement in the Present Value of the Unfunded Obligations Recognised in the balance sheet

| | 31/12/10 \$'000 | 30/06/10 \$'000 |
|---|--------------------|--------------------|
| Opening Balance | 4,265 | 4,406 |
| Current Service Cost | 486 | 102 |
| Interest Cost | - | 230 |
| Actuarial (Gains) / Losses on Liabilities | - | (31) |
| Benefits paid | (8) | (442) |
| Closing Balance | 4,743 | 4,265 |

Onerous Contracts

| | | |
|-----------------|--------|---|
| Opening Balance | - | - |
| Provisions | 16,471 | - |
| Closing Balance | 16,471 | - |

Other Provisions

| | | |
|-----------------|-----|-----|
| Opening Balance | 194 | 116 |
| Provisions | 101 | 78 |
| Closing Balance | 295 | 194 |

Notes to the Financial Statements

For the Period Ended 31 December 2010

| | 31/12/10 \$'000 | 30/06/10 \$'000 |
|--|--------------------|--------------------|
| 17 EQUITY | | |
| <u>Contributed Equity</u> | | |
| Contributions - Beginning of the Year | 136,560 | 136,560 |
| Contributed Equity at the end of the period | 136,560 | 136,560 |
| <u>Retained Earnings</u> | | |
| Retained Earnings-Beginning of the Year | 191,612 | 138,511 |
| Total Comprehensive Income for the Period | (2,005) | 97,721 |
| Dividends | (73,291) | (44,620) |
| Retained Earnings at the end of the period | 116,316 | 191,612 |
| | | |
| TOTAL EQUITY | 252,876 | 328,172 |

Notes to the Financial Statements

For the Period Ended 31 December 2010

18 RECONCILIATION OF PROFIT AFTER INCOME TAX EQUIVALENT EXPENSE TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | 31/12/10 \$'000 | 31/12/09 \$'000 |
|---|--------------------|--------------------|
| Net (Loss) / Profit | (2,005) | 69,261 |
| <i>Add/(less) non-cash items:</i> | | |
| Depreciation | 513 | 554 |
| Amortisation - Intangible Assets | 2,755 | 1,214 |
| Written Down Value of Non Current Assets Sold | - | - |
| Unwinding of Discount - Held to Maturity Investments | (19) | (14) |
| Non-refundable Capital Contributions | 32 | 191 |
| <i>Change in assets and liabilities:</i> | | |
| Increase in Receivables | (46,691) | (112,866) |
| Increase in Prepayments | (381) | (3,876) |
| Increase in Trade and Other Payables | 96,474 | 63,068 |
| Increase / (Decrease) in Employee Provisions | 1,535 | (2,653) |
| Decrease / (Increase) in Inventories | 2,462 | (3,442) |
| Increase in Intangibles | (18,774) | (13,368) |
| Increase / (Decrease) in Other Provisions | 16,566 | (160) |
| (Increase) / Decrease in Accrued Interest Receivable | (70) | 129 |
| (Decrease) / Increase in Income Taxes Payable | (28,093) | 2,907 |
| Net Cash Provided by Operating Activities | 24,304 | 945 |
| Reconciliation of Cash and Cash Equivalents at End of Period | | |
| Cash at Bank | 740 | 14,435 |
| Money Market Deposits | 75,000 | - |
| Fixed Rate Short Term Investments | 79,600 | 78,200 |
| Held-to-Maturity Investments | - | 2,534 |
| Cash and Cash Equivalents at End of Period | 155,340 | 95,169 |

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 \$133 million.